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**PRODUCTION SHARING CONTRACT**

BETWEEN

**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ**

AND

**MARATHON PETROLEUM KDV B.V.**

**(Safen Block)**

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## **PRODUCTION SHARING CONTRACT**

### **BETWEEN**

The **KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (the "**GOVERNMENT**");

### **AND**

**MARATHON PETROLEUM KDV B.V.**, a company established and existing under the laws of The Netherlands, whose registered office is at c/o Equity Corporate Services, Equity Trust Co. N.V., Strawinskylaan 3105, Atrium 7th Floor 1077 ZX Amsterdam, The Netherlands. ("**Marathon**")

### **WHEREAS**

- (A) The **GOVERNMENT** wishes to develop the petroleum wealth of the Kurdistan Region (as defined in this Contract) in a way that achieves the highest benefit to the people of the Kurdistan Region and all of Iraq, using the most advanced techniques of market principles and encouraging investment, consistent with the Constitution of Iraq including Article 112 thereof;
- (B) In accordance with the Constitution of Iraq, the prevailing law of the Kurdistan Region is the Kurdistan Region Law (as defined in this Contract), except with regard to a matter wholly within the exclusive jurisdiction of the Government of Iraq;
- (C) The Parties affirm their ongoing commitment and adherence to the Principles and Criteria of the Extractive Industries Transparency Initiative (EITI).
- (D) The **CONTRACTOR**, together with its parent and ultimate parent, has
  - (i) the financial capability, and the technical knowledge and technical ability, to carry out Petroleum Operations in the Contract Area (as defined in this Contract) under the terms of this Contract;
  - (ii) a record of compliance with the principles of good corporate citizenship; and
  - (iii) a willingness to cooperate with the **GOVERNMENT** by entering into this Contract, thereby assisting the **GOVERNMENT** to develop the Kurdistan Region petroleum industry, thereby promoting the economic development of the Kurdistan Region and Iraq and the social welfare of its people;
- (E) Marathon and Marathon Oil Corporation have provided the **GOVERNMENT** with a Letter of Representations and Warranties dated concurrently herewith (the "**Letter of Representations**") as an inducement for the **GOVERNMENT** to enter into this Contract, and which the **GOVERNMENT** is relying upon in entering into this Contract.
- (F) Concurrently with the signing of this Contract, Marathon Oil Corporation has delivered a guarantee in favour of the **GOVERNMENT** as required by this Contract.

**NOW THEREFORE, THE PARTIES HAVE AGREED AS FOLLOWS**

**ARTICLE 1 – DEFINITIONS**

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

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

**Accounts** is defined in Article 15.1.

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

**Act of Insolvency** means, in respect of any Person, its insolvency, winding-up, dissolution, administration or liquidation, the making by it of any arrangement or composition with its creditors or the taking of possession by an encumbrancer of, or the appointment of a receiver or administrative receiver over, the whole or any substantial part of its property or assets or its ceasing or threatening to cease to carry on business and any equivalent or analogous procedures by whatsoever name known and in whatsoever jurisdiction. The "winding-up" of a Person also includes the amalgamation, reconstruction, reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise), administration, dissolution, liquidation, merger or consolidation of that person and any equivalent or analogous procedure under the law of any jurisdiction in which that Person is incorporated, domiciled, or resident or carries on business or has assets.

**Adjacent Contract Area** is defined in Article 34.

**Adjustment Date** is defined in Article 27.6.

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

- (a) controls a **CONTRACTOR** Entity; or
- (b) is controlled by a **CONTRACTOR** Entity; or
- (c) controls or is controlled by a company or entity which controls a **CONTRACTOR** Entity,

but shall not include the **GOVERNMENT** in respect of a Public Company. For the purpose of this definition, "control" means direct or indirect ownership or control of the majority of the voting rights of the applicable entity at its shareholders' meetings or their equivalent.

**Agreed Terms** is defined in Article 14.10(a).

**Applicable Law** means, as of any time of determination, the laws of the Kurdistan Region of Iraq and federal laws of Iraq recognised by the Government as applicable in the Kurdistan Region.

**Appraisal Area** means the area defined in Article 12.2.

**Appraisal Work Program and Budget** is defined in Article 12.2.

**Appraisal Report** is defined in Article 12.4.

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

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

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

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

**Associated Natural Gas** means (i) any Natural Gas dissolved in Crude Oil under reservoir conditions and (ii) any residue gas remaining after the extraction of Crude Oil from a reservoir.

**Audit Request Period** is defined in Article 15.3(a).

**Available Associated Natural Gas** is defined in Article 25.1.

**Available Crude Oil** is defined in Article 25.1.

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

**Available Petroleum** is defined in Article 25.1.

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

**BOE** means six thousand (6,000) standard cubic feet of Natural Gas to one Barrel of Crude Oil.

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

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

**Capacity Building Account** means a segregated bank account with a reputable bank in the name of, and maintained by, the **GOVERNMENT**, the sole purpose of which is to support and finance infrastructure and capacity building projects in the Kurdistan Region to be identified by the **GOVERNMENT** in its sole discretion.

**Capacity Building Payment** is defined in Article 32.1.

**Chairman** is defined in Article 8.1.

**Change of Control** is defined in Article 39.9.

**Commercial Discovery** means a Discovery which is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out appraisal works or similar operations, including recoverable reserves of Petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with prudent international petroleum industry practice.

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

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

**Contract** means this production sharing contract, including its Annexes A, B and C that are an integral part hereof, as well as any extension, renewal, substitution or amendment of this production sharing contract that may be agreed in writing by the Parties in accordance with Article 43.7.

**Contract Area** means the area described and defined in Annex A attached to this Contract and constituting an integral part of this Contract, and any modifications made to that Annex in accordance with the provisions of this Contract, through amendments, surrender, withdrawal, extension or otherwise.

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

**CONTRACTOR** means, individually and jointly, each **CONTRACTOR Entity**.

**CONTRACTOR Entity** means, as at any time of determination, a Party other than the **GOVERNMENT** and each holder of all or part of the Government Interest (only



to the extent it is a holder of all or part of the Government Interest). At any time when there is only one Party constituting the **CONTRACTOR**, any reference to “the entities constituting the **CONTRACTOR**” or the “**CONTRACTOR** Entities” or similar reference, shall be construed as “the entity constituting the **CONTRACTOR**”.

**Corrupt Practices Laws** means, as applicable:

- (a) the Laws of the Kurdistan Region and of Iraq in respect of bribery, kickbacks, and corrupt business practices;
- (b) the Foreign Corrupt Practices Act of 1977 of the United States of America (Pub. L. No. 95-213 §§ 101-104 *et seq.*), as amended;
- (c) the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed in Paris on 17 December 1997, which entered into force on 15 February 1999, and the Convention’s Commentaries;
- (d) the Bribery Act 2010; and
- (e) any other Law of general applicability relating to bribery, kickbacks, and corrupt business practices.

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

**Cumulative Costs** is defined in Article 26.4.

**Cumulative Revenues** is defined in Article 26.4.

**Decommissioning Costs** means all the costs and expenditures incurred by the **CONTRACTOR** when carrying out Decommissioning Operations, including those defined in the Accounting Procedure.

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

**Decommissioning Plan** is defined in Article 38.7.

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

**Deductible Amount** is defined in Article 35.11.

**Delivery Point** means the point after extraction, specified in the approved Development Plan for a Production Area, at which the Crude Oil, Associated Natural Gas and/or Non-Associated Natural Gas is metered for the purposes of Article 27.5, valued for the purposes of Article 27.1 and ready to be taken and disposed of, consistent with prudent international petroleum industry practice, and at which a Party

may acquire title to its share of Petroleum under this Contract or such other point which may be agreed by the Parties.

**Development Costs** means all the costs and expenditures incurred by the **CONTRACTOR** when carrying out Development Operations, including those defined in the Accounting Procedure.

**Development Plan Tranche** is defined in Article 32.3.

**Development Operations** means all development operations or works conducted in accordance with a Development Plan up to the Delivery Point with a view to developing a Production Area, including: drilling of wells; primary and subsequent recovery projects and pressure maintenance; survey, engineering, building and erecting or laying of production plants and facilities (including: separators; compressors; generators; pumps and tankage; gathering lines; pipelines and all facilities required to be installed for production, pressure maintenance, and treatment, storage and transportation of Petroleum); obtaining of such materials, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the production of Petroleum from the Production Area.

**Development Period** is defined in Article 6.

**Development Plan** means a plan for development defined in Article 12.8.

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

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

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

**Dispute** is defined in Article 42.1.

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

**Effective Date** is defined in Article 46.1.

**Environment Fund** is defined in Article 23.9.

**Equipment and Materials** is defined in Article 19.1.

**Exploration Costs** means all the costs and expenditure incurred by the **CONTRACTOR** when carrying out Exploration Operations, including those defined in the Accounting Procedure.

**Exploration Operations** means any and all operations conducted with a view to discovering Petroleum, including: any activities necessary to commence operations; any topographical, hydrographical, geological, geophysical, aerial and other surveys and activities (including interpretations, analyses and related studies) to investigate the subsurface for the location of Petroleum; drilling of shot holes, core holes and stratigraphic test holes; spud, drilling, testing, coring, logging and equipping of Exploration Wells or Appraisal Wells; procurement of such services, material, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the conduct of the foregoing activities.

**Exploration Period** is defined in Article 6.

**Exploration Rental** is defined in Article 6.3.

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

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

**Export Crude Oil** is defined in Article 24.2.

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

**Export Petroleum** is defined in Article 24.2.

**First Exploration Well** is defined in Article 10.2(d).

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

**First Sub-Period** is defined in Article 6.2(a).

**Force Majeure** is defined in Article 40.2.

**Gas Development** is defined in Article 14.10.

**Gas Marketing Costs** means all costs and expenditure incurred by the **CONTRACTOR** when carrying out Gas Marketing Operations, including those defined in the Accounting Procedure.

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

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

**Government Interest** is defined in Article 4.1.

**Government of Iraq** means the Federal Government of the Republic of Iraq, which holds office under the Constitution of Iraq and any minister, ministry, department, sub-division, agency, authority, council, committee, or other constituent element thereof and shall, without limitation, include any corporation owned and/or controlled by any of the foregoing.

**International Market Price** is defined in Article 27.2.

**Iraq** means the entirety of the Republic of Iraq, including the Kurdistan Region.

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

**Kurdistan Region** means the Federal Region of Kurdistan recognised by the Constitution of Iraq and having the same meaning as 'Region' in the Kurdistan Region Oil and Gas Law.

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

**Kurdistan Region Oil and Gas Law** means the Oil and Gas Law of the Kurdistan Region – Iraq (Law No. 22 of 2007) as the same may be amended.

**Law** means any statutes, rules, codes, regulations, decisions, proclamations, notices, directives, constitutions, instruments, rules of court, guidance, or any other instrument of any governmental, intergovernmental, or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation having the force and effect of a law (including Corrupt Practices Laws).

**LCIA** is defined in Article 42.1(b).

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

**Management Committee** is defined in Article 8.

**Marathon** is defined in the preamble.

**Marathon Exploration Tranche** is defined in Article 32.2.

**Maximum Efficient Rate ("MER")** is defined in Article 16.12.

**Minimum Exploration Obligations** is defined in Article 10.1.

**Minimum Financial Commitment** means:

- (a) in respect of the First Sub-Period, the amount set out in Article 10.2(d); and
- (b) in respect of the Second Sub-Period, the amount set out in Article 10.3(b).

**Month** means a calendar month according to the Gregorian calendar.

**Natural Gas** means all gaseous Petroleum and inerts.

**Non-Associated Natural Gas** means any Natural Gas which is not Associated Natural Gas.

**Notice of Dispute** is defined in Article 42.1.

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

**Parties** means the **GOVERNMENT** and each **CONTRACTOR** Entity, and "**Party**" any of the Parties.

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

**Person** shall include natural and juristic persons (including corporations and governmental agencies).

**Petroleum** means:

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

**Petroleum Costs** means all costs and expenditure incurred by the **CONTRACTOR** for the Petroleum Operations, and which the **CONTRACTOR** is entitled to recover under this Contract and its Accounting Procedure, including Decommissioning Costs, Development Costs, Exploration Costs, Gas Marketing Costs and Production Costs.

**Petroleum Field** means a Reservoir or group of Reservoirs within a common geological structure or stratigraphic unit, which may become part of a Production Area pursuant to a Development Plan.

**Petroleum Operations** means all Exploration Operations, Gas Marketing Operations, Development Operations, Production Operations and Decommissioning Operations, as well as any other activities or operations directly or indirectly related or connected with the said operations (including health, safety and environmental operations and activities) and authorised or contemplated by, or performed in accordance with, this Contract.

**Pipeline Costs** is defined in Article 33.5.

**Prescribed Person** means (i) any public official of any public authority in the Region or Iraq (*i.e.*, any person holding a legislative, administrative or judicial office, including any person employed by or acting on behalf of the Government or any public authority in Iraq, including any legislative body); (ii) any political party or political party official or candidate for office; and (iii) any Person acting on behalf of or for the benefit any of the foregoing.

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

**Production Bonus** means any bonus due pursuant to Article 32.8 or 32.9.

**Production Costs** means all the costs and expenditure incurred by the CONTRACTOR in carrying out the Production Operations, including those defined in the Accounting Procedure.

**Production Operations** means any works, together with all related and auxiliary activities, for the production of Petroleum from the start of Commercial Production, including: extraction, injection, stimulation, pumping, treatment, storage, engineering, operating, servicing, repairing, and maintaining any wells, plants, equipment, pipelines, terminals and any other installations and facilities, and any related operations and auxiliary operations, and storage and transportation of Petroleum from the Production Area to the Delivery Point.

**Production Rental** is defined in Article 13.10.

**Production Tranche** is defined in Article 32.4.

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

**Profit Crude Oil** is defined in Article 26.1.

**Profit Natural Gas** is defined in Article 26.1.

**Profit Petroleum** is defined in Article 26.1.

**Prohibited Act** means, in respect of any Person, any of the following:

- (a) the making, offering, or authorisation (including acquiescence) for the making or offering any payment, revenue or profit participation, gift, promise or other advantage, whether directly or through any other Person, to or for the use or benefit of any Prescribed Person in violation of the Laws of the Kurdistan Region or the standards and principles of any Corrupt Practices Laws other than the Laws of the Kurdistan Region;
- (b) either knowingly, or without conducting reasonable due diligence, entering into any contract with a Prescribed Person in connection with or related to this Contract or Petroleum Operations;
- (c) defrauding or attempting to defraud or conspiring to defraud the **GOVERNMENT** in connection with or related to this Contract or Petroleum Operations; or
- (d) failing to notify the **GOVERNMENT** reasonably promptly when a Prescribed Person solicits any direct or indirect contract or other benefit from the **CONTRACTOR** or a **CONTRACTOR** Entity in connection with or related to this Contract or Petroleum Operations.

**Proposed Contract** is defined in Article 14.10(a).

**Public Company** means: (i) any entity created by the Kurdistan Region Oil and Gas Law, including the Kurdistan Exploration and Production Company ; (ii) a legal entity established by Applicable Law as a separate entity, whether or not fully autonomous and whether or not having independent sources of revenue, to undertake commercial activities on behalf of the **GOVERNMENT**, which legal entity cannot be declared bankrupt under Applicable Law; and (iii) any separate and autonomous company organised under Applicable Law which is controlled, directly or indirectly through a wholly **GOVERNMENT**-owned and controlled entity, by the **GOVERNMENT**, the Parliament or which is under the guidance of the **GOVERNMENT** or the Parliament (whether or not in any such case partially or fully funded by the **GOVERNMENT** or the Parliament). A department, division, or agency of the **GOVERNMENT**, whether or not operating under a separate name, is not a Public Company.

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

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

**Revenues** is defined in Article 26.4.

**“R” Factor** is defined in Article 26.4.

**Royalty** is defined in Article 24.1.

**Second Sub-Period** is defined in Article 6.2(b).

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

**Senior Representatives** is defined in Article 42.1(a).

**Subcontractor** means any entity of any contracting tier providing services and/or undertaking works relating to the Petroleum Operations directly or indirectly on behalf of, the **CONTRACTOR** or any **CONTRACTOR** Entity.

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

**Tax or Taxes** means all current or future levies, duties, payments, charges, impositions, imposts, withholdings, fees, taxes (including value added tax or other sales or transaction based tax, corporation tax, income tax, capital gains tax, stamp duty, land tax, registration tax, capital and wealth tax, profit tax, dividend tax or withholdings, transfer tax, customs duties, branch or permanent establishment tax or withholdings, tax on income from movable capital and fixed tax on transfers) or contributions payable to or imposed by the **GOVERNMENT** or any governmental agencies, authorities or bodies, district, sub-district, or other political subdivisions of or in the Kurdistan Region.

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

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

**Vice-Chairman** is defined in Article 8.1.

- 1.2 Unless the context otherwise requires or is specifically otherwise stated:
- (a) headings are to be ignored;
  - (b) "including" and similar words do not imply any limitations;
  - (c) singular includes plural and vice versa.
- 1.3 a Person has "knowledge" or acts "knowingly" if a the relevant information is actually known or should have been known by an officer, director, manager, site operations manager, or other person with a supervisory or management function.



- 1.4 Reference to:
- (a) an "Article" is to an article of this Contract and to a "Paragraph" is to a paragraph in the Accounting Procedure;
  - (b) "gross negligence" and "grossly negligent" means, in the case of the **CONTRACTOR** or any **CONTRACTOR** Entity, a marked and flagrant departure from the standard of conduct of a reasonable and prudent person acting in the circumstances at the time of the purported misconduct, or such wanton and reckless conduct or omissions as constitutes in effect an utter disregard for harmful, foreseeable, and avoidable consequences.
- 1.5 It is the intent of the Parties that ambiguities be resolved with reference to principles and practices generally accepted in petroleum producing countries and in the international petroleum industry.

## **ARTICLE 2 – SCOPE OF THE CONTRACT**

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

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

By entering into this Contract, the **GOVERNMENT** grants the **CONTRACTOR** the exclusive right and authority to conduct all Petroleum Operations in the Contract Area as detailed in Article 3. The obligations of the **CONTRACTOR** constitute joint and several obligations of the **CONTRACTOR** Entities, except where specifically provided otherwise.

As of the Effective Date, **Marathon** is the only **CONTRACTOR** Entity, owns an eighty percent (80%) undivided interest in the Petroleum Operations in respect of the entire Contract Area, and is the **CONTRACTOR**.

- 2.2 Upon the **CONTRACTOR**'s request, the **GOVERNMENT** shall provide and/or procure all Permits relating to the Petroleum Operations required by the **CONTRACTOR** to fulfil its obligations under this Contract, including those relating to any extension and renewal periods and including those required by the Government of Iraq. The **GOVERNMENT** (i) represents and warrants to the **CONTRACTOR** that, as of the Effective Date, it has not done and has not omitted to do anything that would cause the cancellation or suspension of this Contract or any Permit granted under this Article 2.2 or pursuant to this Contract; and (ii) shall not do, or omit to do, anything that would cause the cancellation or suspension of this Contract or any Permit granted under this Article 2.2 or pursuant to this Contract, except in accordance with this Contract. For the avoidance of doubt, nothing in this Article shall affect the rights and obligations of the Parties pursuant to Article 43.

- 2.3 The **CONTRACTOR** shall conduct all Petroleum Operations within the Contract Area at its sole cost, risk and peril on behalf of the **GOVERNMENT**, pursuant to this Contract, including the following.
- (a) **Technical Services**
- The **CONTRACTOR** shall implement all technical, human and material resources reasonably required for execution of the Petroleum Operations in accordance with prudent international petroleum industry practice.
- (b) **Financial Services**
- The **CONTRACTOR** shall be solely responsible for funding Exploration Operations and, in the event of a Commercial Discovery, Development, Production and Decommissioning Operations, pursuant to this Contract.
- For the funding of Petroleum Operations, the **CONTRACTOR** shall be entitled to have recourse to third party financing.
- (c) **Administrative Services**
- The **CONTRACTOR** shall implement all appropriate management and administration techniques for execution of the Petroleum Operations under this Contract in accordance with prudent international petroleum industry practice.
- 2.4 The **CONTRACTOR** shall be responsible to the **GOVERNMENT** for the conduct of Petroleum Operations within the Contract Area pursuant to the terms of this Contract.
- 2.5 Natural resources other than Petroleum are excluded from the scope of this Contract, even if the **CONTRACTOR** discovers any such resources when executing its obligations pursuant to this Contract.
- 2.6 The **CONTRACTOR** shall only be entitled to recover Petroleum Costs incurred under this Contract in the event of a Commercial Discovery. Recovery of Petroleum Costs shall occur within the limits provided under Article 25.
- 2.7 During the term of this Contract, Profit Crude Oil and Profit Natural Gas produced from Petroleum Operations shall be shared between the Parties in accordance with the provisions of Article 26.
- 2.8 For the execution of Petroleum Operations under this Contract, the **CONTRACTOR** shall have the right to:
- (a) freely access and operate within the Contract Area, as well as any facilities associated with the Petroleum Operations, wherever they may be located;
- (b) freely use access roads located within the Contract Area and outside the Contract Area for the construction, installation, maintenance, operation and

removal of pipelines and other facilities required for the Petroleum Operations;

- (c) freely use sand, water, electricity and any other natural resources located inside or outside the Contract Area for the Petroleum Operations;
- (d) use any qualified foreign and local personnel and/or Subcontractors required for the conduct of Petroleum Operations in accordance with Articles 22 and 23. Any foreign personnel working in the Kurdistan Region shall require prior authorisation of the **GOVERNMENT** (such authorisation not to be unreasonably delayed or withheld) and the **GOVERNMENT** shall obtain any authorisation required by the Government of Iraq;
- (e) import any goods, materials, equipment and/or services required for the Petroleum Operations in accordance with Articles 19, 22 and 30; and
- (f) freely use land or property belonging to the Kurdistan Region, and the **GOVERNMENT** will assist the **CONTRACTOR** with facilitating the use by the **CONTRACTOR** of any private property in the Kurdistan Region.

### ARTICLE 3 – CONTRACT AREA

The initial Contract Area covers the Safen Block and extends over an area of four hundred and twenty-four square kilometres (424 km<sup>2</sup>), as detailed and indicated on the map attached in Annex A and is delimited by the following coordinates:

Code	Easting	Northing	Longitude	Latitude
A	436 930	4032 054	44 17 47	36 25 54
B	444 709	4027 627	44 23 01	36 23 32
C	476 180	4000 454	44 44 07	36 08 55
D	474 803	3997 295	44 43 12	36 07 12
E	463 692	3997 443	44 35 48	36 07 16
F	454 088	4008 427	44 29 21	36 13 11
G	441 059	4019 967	44 20 36	36 19 23
H	431 780	4028 102	44 14 21	36 23 44
I	436 930	4032 054	44 17 47	36 25 54
J	444 709	4027 627	44 23 01	36 23 32
K	476 180	4000 454	44 44 07	36 08 55

<b>L</b>	474 803	3997 295	44 43 12	36 07 12
<b>M</b>	463 692	3997 443	44 35 48	36 07 16
<b>N</b>	454 088	4008 427	44 29 21	36 13 11
<b>O</b>	441 059	4019 967	44 20 36	36 19 23

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

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

#### **ARTICLE 4 – GOVERNMENT INTEREST; JOINT OPERATING AGREEMENT**

- 4.1 The **GOVERNMENT** has a carried interest of twenty per cent (20%) (the “**Government Interest**”) in the **CONTRACTOR**’s entitlement to Profit Petroleum.
- 4.2 The **GOVERNMENT** or any other holder of all or any part of the Government Interest is not, in such capacity, a **CONTRACTOR** Entity. The **GOVERNMENT** or any other holder of the Government Interest, whether in whole or in part, in such capacity has no obligation or liability to the **CONTRACTOR** to contribute any share of Petroleum Costs or any other liability or obligation of a **CONTRACTOR** Entity or to the **CONTRACTOR** or any **CONTRACTOR** Entity.
- 4.3 Subject to Article 4.4, a holder of all or any part of the Government Interest is not, if that is its only capacity under this Contract, entitled to any notices under this Contract or entitled to provide any consents, except as specifically provided otherwise, but has rights and obligations under Article 42.
- 4.4 Any term of this Contract may be waived or amended without the consent of a holder of a Government Interest (in such capacity), unless such waiver or amendment would change any right or obligation of a holder of a Government Interest.
- 4.5 Each Person, other than the **GOVERNMENT** or a Public Company, that is a holder of all or part of the Government Interest is obligated to pay its proportionate share of the Production Bonuses in accordance with Articles 32.8(b) and 32.9(b). If such a holder of all or part of the Government Interest fails to pay all or any part of such Production Bonuses: (i) the failure will not constitute a default by the **CONTRACTOR**, (ii) the **GOVERNMENT** will have no remedies against the **CONTRACTOR** as a consequence thereof, and (iii) the **GOVERNMENT** will not be entitled to terminate this Contract or any **CONTRACTOR** Entity’s interests hereunder.

The capacity of holder of the Government Interest, as it may arise pursuant to the provisions of this Contract, shall in no event impair the rights of the

**CONTRACTOR** to seek to settle a dispute or to refer such dispute to arbitration or expert determination in accordance with the provisions of Article 42.

- 4.6 The provisions of Article 39 do not apply with respect to any assignment by any holder of a Government Interest of all or any part of its Government Interest. The assignment of the Government Interest is governed by this Article 4. A permitted assignee of a holder of the Government Interest will have, in respect of the assigned Government Interest, the same rights and obligations as the holder of the Government Interest prior to the assignment.
- 4.7 The **GOVERNMENT** may at any time designate a Public Company as the holder of all or any part of the Government Interest without the consent of, or prior notice to, any other Party. The Public Company will be deemed a Party to this Contract only in respect of its Government Interest, but will not be required to sign any formal assignment or accession agreement except as required by the **GOVERNMENT**. The **GOVERNMENT** and the Public Company will provide the **CONTRACTOR** with a notice notifying the **CONTRACTOR** of such designation by the **GOVERNMENT** to a Public Company, and the Contractor shall be entitled to rely on such notice for all purposes under this Contract.
- 4.8 Only for the purposes of Article 37 of the Kurdistan Region Oil and Gas Law, whenever and to the extent the Government Interest is held by a Public Company, the Government Interest shall be deemed held by the **GOVERNMENT**. The **GOVERNMENT** incurs no liabilities or obligations (directly, indirectly, or implicitly) to any other Party as a consequence of such deemed ownership. The **GOVERNMENT** will not be deemed to guarantee any obligation of the Public Company or any holder of all any part of the Government Interest.
- 4.9 Subject to Article 4.12, the **GOVERNMENT** may at any time assign all or part of its Government Interest to a Person that is not a Public Company without the consent of any other Party. Such assignee will be deemed a Party to this Contract only in respect of its Government Interest, but will not be required to sign any formal assignment or accession agreement unless otherwise required by the **GOVERNMENT**. The **GOVERNMENT** and the Public Company will provide the **CONTRACTOR** with such a notice, jointly signed by each, notifying the **CONTRACTOR** of such assignment by the **GOVERNMENT**, and the Contractor shall be entitled to rely on such notice for all purposes under this Contract.
- 4.10 Subject to Article 4.12, a Public Company may assign part or all of its Government Interest to another Public Company, to the **GOVERNMENT**, or any other Person without the consent of, or prior notice to, the **CONTRACTOR** or any **CONTRACTOR** Entity, but may not make any assignments without the prior consent of the **GOVERNMENT** and in accordance with any assignment and novation or other agreements and conditions required by the **GOVERNMENT**. Any assignment by a Public Company of all or part of its Government Interest to another Public Company or any other Person without the prior consent of the **GOVERNMENT** or in accordance with the requirements of the **GOVERNMENT** will be void. The Public Company or the **GOVERNMENT** shall promptly notify the **CONTRACTOR** of any assignments of the Government Interest held by such Public

Company, and the Contractor will be entitled to rely on such notice for all purposes under this Contract.

- 4.11 Subject to Article 4.12, a holder of all or part of the Government Interest, which is not the **GOVERNMENT** or a Public Company, may assign part or all of its Government Interest to any other Person without the consent of, or prior notice to, the **CONTRACTOR** or any **CONTRACTOR** Entity. Such holder of all or part of the Government Interest shall not make any assignments without the prior notice to and consent of the **GOVERNMENT** and only in accordance with any assignment and novation or other agreements and conditions required by the **GOVERNMENT**. Any assignment by such holder of all or part of the Government Interest without the prior consent of the **GOVERNMENT** or in accordance with the requirements of the **GOVERNMENT** will be void. The assignor and the assignee shall jointly and promptly notify the **CONTRACTOR** of any assignments of the Government Interest pursuant to this Article 4.11, and the **CONTRACTOR** will be entitled to rely on such notice for all purposes under this Contract.
- 4.12 Nothing under this Contract prohibits a **CONTRACTOR** Entity at any time from offering to acquire and/or acquiring all or any part of the Government Interest from any Person that is a holder of all or any part of the Government Interest. If at any time any holder of all or any part of the Government Interest (including the **GOVERNMENT** and a Public Company) intends to offer to sell all or part of its Government Interest to any Person that is not a Public Company or the **GOVERNMENT**, the applicable holder of the Government Interest shall timely notify the **CONTRACTOR** of the availability of the Government Interest. No **CONTRACTOR** Entity has any preemption or similar priority rights in respect of the Government Interest, and the holder is not required to sell and assign to a **CONTRACTOR** Entity.
- 4.13 The **GOVERNMENT** reserves the right (but is not obligated to any Party with respect thereto) either to cancel or terminate any assignment of all or part of the **GOVERNMENT** Interest to any Person, if the **GOVERNMENT** at any time determines that such transfer constitutes (i) a violation of any Corrupt Practices Laws applicable to the assignee of the Government Interest, (ii) a violation of any Corrupt Practices Laws applicable to the assignor of such Government Interest, (iii) a Prohibited Act, or (iv) would impair the ability of the **CONTRACTOR** or any **CONTRACTOR** Entity to perform any of its material obligations under this Contract as a consequence of the application of Laws applicable to such **CONTRACTOR** Entity.

Upon any exercise by the **GOVERNMENT** of its rights under this Article 4.13, the Government Interest will automatically revert to the **GOVERNMENT**.

The **GOVERNMENT**'s rights under this Article 4.13 are exclusive to the **GOVERNMENT**, are not subject to a claim from any **CONTRACTOR** Entity, and Articles 41 and 42 do not apply with respect to this Article 4.13.

The **GOVERNMENT** expressly reserves all sovereign immunities in respect of any Dispute arising out of or relating to this Article 4.13, and any Dispute with respect to this Article 4 between the **GOVERNMENT** and any holder of a Government Interest

may only be resolved in accordance with the Applicable Laws of the Kurdistan Region.

**Joint Operating Agreement**

4.14 The **CONTRACTOR Entities**, or any of them, shall not enter into any joint operating agreement in respect of this Contract, except if the terms of such Joint Operating Agreement have been approved by the **GOVERNMENT**, are in compliance with Applicable Laws of the Kurdistan Region as of the date of the approval by the **GOVERNMENT**, and do not require the affirmative vote of more than seventy-five per cent (75%) of the participating interests for any decision of any operating committee established under such Joint Operating Agreement. A joint operating agreement must provide for the termination and release of any and all encumbrances, preemption rights, and similar claims on the participating interest of a **CONTRACTOR Entity** in the event of any termination of a **CONTRACTOR Entity** by the **GOVERNMENT** pursuant to this Contract.

In the event of a proposed transfer by any **CONTRACTOR Entity** of part of a participating interest under such Joint Operating Agreement:

- (a) no transfer may be made: (i) which would result in the transferor or transferee holding less than a five per cent (5%) participating interest, and (ii) without the consent of the **GOVERNMENT** in accordance with this Contract;
- (b) the proposed third party assignee must demonstrate to the reasonable satisfaction of each of the extant **CONTRACTOR Entities** that it has the financial capability to perform its payment obligations under the Contract and under the Joint Operating Agreement; and
- (c) the proposed third party assignee shall enter into an instrument satisfactory to each of the **CONTRACTOR Entities** and the **GOVERNMENT** so as to assume and to perform the obligations of the transferor.

## ARTICLE 5 – OPERATOR

- 5.1 The **CONTRACTOR** designates **Marathon** to act as the Operator on behalf of the **CONTRACTOR** for the execution of the Petroleum Operations. The **CONTRACTOR** shall at any time have the right to appoint another entity as the Operator, upon giving the **GOVERNMENT** not less than thirty (30) days prior written notice of such appointment.
- 5.2 The **CONTRACTOR** shall submit to the **GOVERNMENT** for approval any agreement to amend any Joint Operating Agreement regarding or regulating the Operator's appointment and its conduct of Petroleum Operations on behalf of the **CONTRACTOR** pursuant to this Contract prior to execution of such agreement.
- 5.3 Without limiting the **GOVERNMENT**'s rights under Article 45, if either of the following occur and on not less than 30 days' prior notice from the **GOVERNMENT**, the **CONTRACTOR** shall appoint a replacement Operator as soon as is reasonably practicable:
- (a) an Act of Insolvency has occurred in respect of the Operator and, within such 30-day notice period, the **CONTRACTOR** has demonstrated to the satisfaction of the **GOVERNMENT** that the Act of Insolvency (i) does not apply or (ii) will not have any adverse effect on Petroleum Operations, and in either case, the **GOVERNMENT** cancels its notice; or
  - (b) the **CONTRACTOR** is not fulfilling its obligations under this Contract as a consequence of the acts or omissions of the Operator.

## ARTICLE 6 – TERM OF THE CONTRACT

- 6.1 This Contract comprises an Exploration Period and a Development Period, as provided in this Article 6.

### Exploration Period

- 6.2 The Exploration Period shall be for a base term of five (5) Contract Years from the Effective Date (the "**Base Exploration Term**"). The Base Exploration Term is extendable on a yearly basis in accordance with Article 6.5 up to a maximum term of seven (7) Contract Years (the Base Exploration Term as so extended, the "**Extended Exploration Term**"). The Exploration Period is subject to further extension beyond the Extended Exploration Term as provided in Articles 6.6 and 6.7. The Exploration Period is subject to early termination as provided in Article 6.4.

The Exploration Period consists of two (2) sub-periods, each of which is extendable pursuant to Articles 6.5 and 6.6, provided the Exploration Period may not exceed the Extended Exploration Term except as provided in Articles 6.6 and 6.7 (each such sub-period, as it may be extended, a "**Sub-Period**");

- (a) a first Sub-Period of three (3) Contract Years ("**First Sub-Period**"); and
- (b) a second Sub-Period of two (2) Contract Years ("**Second Sub-Period**").



The **CONTRACTOR** will not be entitled to an extension of a Sub-Period under Articles 6.5 and Article 6.6, as applicable, unless the **CONTRACTOR** has fulfilled: (i) its Minimum Exploration Obligations applicable to such Sub-Period, or, (ii) in the case of any further extensions of a Sub-Period pursuant to Article 6.6, its additional minimum work obligations applicable to the preceding extension in accordance with Article 6.6.

- 6.3 During the Exploration Period, the **CONTRACTOR** shall pay to the **GOVERNMENT** an annual surface rental for the Contract Area, as the Contract Area may be reduced by relinquishment pursuant to Article 7, of ten Dollars (US\$10) per square kilometre per Contract Year ("**Exploration Rental**"). The Exploration Rental is due and payable in arrears on or before each anniversary of the Effective Date and on the last day of the Exploration Period or termination of this Contract (whichever is earlier), and is prorated in any Contract Year during which there has been a relinquishment or expiry of the Exploration Period, based on actual number of days in such Contract Year. Exploration Rental shall be considered as a Petroleum Cost and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 6.4 The Exploration Period will expire at the end of the First Sub-Period (as it may be extended pursuant to Articles 6.5 and 6.6), and this Contract will automatically terminate without further notice to the **CONTRACTOR**, unless any of the following is applicable: (i) the **CONTRACTOR** has notified the **GOVERNMENT** at least thirty (30) days prior to the expiry of the First Sub-Period of the **CONTRACTOR**'s intention to enter into the Second Sub-Period, (ii) Article 6.7 is applicable, or (iii) the Development Period has commenced.

The Exploration Period will terminate at the end of the Second Sub-Period (as it may be extended pursuant to Articles 6.5 and 6.6), and this Contract will automatically terminate without further notice to the **CONTRACTOR**, unless: (ii) Article 6.7 is applicable, or (iii) the Development Period has commenced.

The **CONTRACTOR** shall have the right to withdraw from this Contract at any time during the Exploration Period upon thirty (30) days prior notice to the **GOVERNMENT**, provided either that: (i) the **CONTRACTOR** has completed the Minimum Exploration Obligations relating to the then current Sub-Period, including additional minimum work obligations in respect of any applicable extensions of the applicable Sub-Period, or (ii) on or before the final day of such 30-day notice period, the **CONTRACTOR** has paid to the **GOVERNMENT** the amounts specified in Article 10.2 or Article 10.3, whichever is applicable, to the then current Sub-Period.

This Contract will terminate upon satisfaction of the withdrawal requirements in the preceding paragraph.

If no Commercial Discovery has been made at the end of the Exploration Period (including any extension as provided in Articles 6.6 and 6.7), this Contract will automatically terminate without further notice to the **CONTRACTOR**.

The Exploration Period and the Contract shall terminate if and as of the date the **CONTRACTOR** surrenders the entire Contract Area in accordance with Article 7.4.

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

then the **CONTRACTOR** will be entitled to extensions, each of no more than one (1) Contract Year, of such Sub-Period. The Sub-Period plus the extensions provided in accordance with this Article 6.5 may not exceed the Extended Exploration Term. To exercise its right to an extension pursuant to this Article 6.5, the **CONTRACTOR** must notify the **GOVERNMENT** of its intention to exercise such right of extension and of the necessary duration of such extension at least thirty (30) days before the end of the Sub-Period or the relevant extension.

- 6.6 Except as provided in the last sentence of this Article 6.6, if the **CONTRACTOR** considers it has not completed its exploration evaluation of the Contract Area, the **CONTRACTOR** will be entitled to an extension of the Exploration Period beyond the Extended Exploration Term, provided: (i) the **CONTRACTOR** has notified the **GOVERNMENT**, at least thirty (30) days prior to the end of the applicable Sub-Period (as it may have been extended pursuant to Article 6.5), of the **CONTRACTOR**'s exercise of such entitlement; and (ii) the **CONTRACTOR**'s proposal for a minimum work obligation is acceptable to the **GOVERNMENT** for such extension.

Any such extension shall not exceed one (1) Contract Year. Upon the expiry of such extension and except as provided in the last paragraph of this Article 6.6, if the **CONTRACTOR** considers it has still not completed its evaluation of the Contract Area, the **CONTRACTOR** will be entitled to a further extension of one (1) Contract Year, provided: (i) that the **CONTRACTOR** has notified the **GOVERNMENT** thereof at least thirty (30) days prior to the end of the first extension, and (ii) the **CONTRACTOR**'s proposal for a minimum work obligation is acceptable to the **GOVERNMENT** for such extension.

The right of the **CONTRACTOR** to receive each extension as provided in this Article 6.6 will be subject to the **GOVERNMENT**'s determination that the **CONTRACTOR** has satisfied its minimum work obligations with respect to the preceding period and the **GOVERNMENT**'s approval of the proposed additional minimum work obligation with respect thereto.

- 6.7 If a Discovery is made within the Exploration Period (including any extensions), and if the **CONTRACTOR** considers it has not had time to complete sufficient Gas Marketing Operations to declare the Discovery a Commercial Discovery pursuant to Article 12.6(a) or 14.5(a), the **CONTRACTOR** will be entitled to request an extension of the Exploration Period (including any extensions) beyond the Exploration Term, provided, not less than thirty (30) days prior to the end of the

Exploration Period (including any extensions), the **CONTRACTOR**: (i) so notifies the **GOVERNMENT** and (ii) provides a proposal for Gas Marketing Operations to be undertaken during such extension acceptable to the **GOVERNMENT**.

Subject to approval of the Gas Marketing Operations by the **GOVERNMENT**, any such extension shall not exceed two (2) Contract Years.

Upon the expiry of such extension, if the **CONTRACTOR** considers it has not completed its Gas Marketing Operations, the **CONTRACTOR** will be entitled to request a second extension of up to two (2) Contract Years, provided that, not less than thirty (30) days prior to the end of the original extension, the **CONTRACTOR**: so notifies the **GOVERNMENT** and (ii) provides a proposal for Gas Marketing Operations to be undertaken during such extension which is acceptable to the **GOVERNMENT**.

### **Development Period**

- 6.8 If the **CONTRACTOR** considers that a Discovery of Crude Oil and any Associated Natural Gas is a Commercial Discovery, the **CONTRACTOR** shall have the exclusive right to develop and produce such Commercial Discovery, pursuant to the terms of this Contract. The Development Period for a Commercial Discovery of Crude Oil and any Associated Natural Gas shall be twenty (20) years commencing on the declaration of such Commercial Discovery by **CONTRACTOR**, in accordance with Article 12.6(a), with an automatic right to a five (5) year extension.
- 6.9 If the **CONTRACTOR** considers that a Discovery of Non-Associated Natural Gas is a Commercial Discovery, the **CONTRACTOR** shall have the exclusive right to develop and produce such Commercial Discovery, pursuant to the terms of this Contract. The Development Period for a Commercial Discovery of Non-Associated Natural Gas shall be twenty (20) years, commencing on the declaration of such Commercial Discovery by **CONTRACTOR**, in accordance with Article 12.6(a) or Article 14.5(a), with an automatic right to a five (5) year extension.
- 6.10 If Commercial Production from a Production Area is still possible at the end of its Development Period as defined in Articles 6.8 or 6.9 then, upon the request of the **CONTRACTOR**, the **CONTRACTOR** shall be entitled to an extension of such Development Period under the same terms as those provided in this Contract. Such request shall be made in writing by the **CONTRACTOR** at least six (6) Months before the end of the Development Period.

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

- (a) five (5) Years for Crude Oil and any Associated Natural Gas, and
  - (b) five (5) Years for Non-Associated Natural Gas.
- 6.11 The **CONTRACTOR** shall have the right to terminate Production Operations for any Production Area at any time during the term of this Contract, subject to giving notice to the **GOVERNMENT** of at least ninety (90) days. This Contract shall

terminate on the expiry date of the last Production Area or when Production Operations for all Production Areas have terminated.

#### **ARTICLE 7 – RELINQUISHMENTS**

- 7.1 Subject to the provisions of Articles 7.2 and 7.3, the **CONTRACTOR** shall surrender portions of the Contract Area as follows:
- (a) at the end of the Base Exploration Term (without any extensions), twenty five per cent (25%) of the net area determined by subtracting the Production Areas from the initial Contract Area;
  - (b) at the end of the first one-year extension to the Base Exploration Term granted pursuant to Article 6.5 or Article 6.6, an additional twenty five per cent (25%) of the net area determined by subtracting the Production Areas from the remaining part of the Contract Area; and
  - (c) at the end of the Exploration Period (including all extensions thereof), all of the remaining area that is not in a Production Area.
- 7.2 For the application of Article 7.1:
- (a) any areas already relinquished pursuant to Article 7.4 shall be deducted from areas to be surrendered; and
  - (b) the **CONTRACTOR** shall have the right to determine the area, shape and location of the Contract Area to be kept, provided that such surrendered portions of the Contract Area shall be in contiguous blocks.
- 7.3 If the relinquishment referred to in Article 7.1 can only be achieved by including part of an Appraisal Area, then these percentages shall be reduced to exclude such Appraisal Area.
- 7.4 During the Exploration Period, the **CONTRACTOR** may at the end of each Contract Year surrender all or any part of the Contract Area by written notice sent to the **GOVERNMENT** at least thirty (30) days in advance of the proposed date of surrender, subject to the provisions of this Article 7.4. Such voluntary surrenders during the Exploration Period shall be deemed equal to the obligatory relinquishments referred to under Article 7.1. This Contract shall terminate in the event of the surrender of the entire Contract Area.
- 7.5 No surrender provided under Article 7.4 shall exempt the **CONTRACTOR** from its outstanding obligations under this Contract. In the event the **CONTRACTOR** elects to surrender the entire Contract Area without having fulfilled the Minimum Exploration Obligations relating to the then current Sub-Period as provided in Article 10.2 or Article 10.3, the **CONTRACTOR** shall pay to the **GOVERNMENT** the relevant outstanding amount as detailed in Article 10.2 or Article 10.3, as the case may be.

- 7.6 The **CONTRACTOR** shall notify the **GOVERNMENT** of the boundaries of the portion of the Contract Area to be relinquished by the **CONTRACTOR** at least thirty (30) days in advance of the relevant date for relinquishment pursuant to Article 7.1.

#### **ARTICLE 8 – MANAGEMENT COMMITTEE**

- 8.1 A Management Committee shall be established within thirty (30) days following the Effective Date for the purpose of providing orderly direction of all matters pertaining to the Petroleum Operations and the Work Programs. Within such period, each of the **GOVERNMENT** and the **CONTRACTOR** shall by written notice nominate its respective members of the Management Committee and their deputies.

The Management Committee shall comprise two (2) members designated by the **GOVERNMENT** and two (2) members designated by the **CONTRACTOR**.

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

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

- 8.2 The Management Committee shall review, deliberate, decide and give advice, suggestions and recommendations to the Parties regarding the following subject matters:
- (a) Work Programs and Budgets;
  - (b) the **CONTRACTOR**'s activity reports;
  - (c) production levels submitted by the **CONTRACTOR**, based on prudent international petroleum industry practice;
  - (d) Accounts of Petroleum Costs;
  - (e) procurement procedures for potential Subcontractors, with an estimated sub-contract value in excess of one million Dollars (\$1,000,000), submitted by the **CONTRACTOR** in accordance with Article 19.3;
  - (f) Development Plan and Budget for each Production Area;
  - (g) any matter having a material adverse affect on Petroleum Operations;
  - (h) any other subject matter of a material nature that the Parties are willing to consider.

- 8.3 Each of the **GOVERNMENT** and the **CONTRACTOR** shall have one (1) vote in the Management Committee. The Management Committee cannot validly deliberate unless each of the **GOVERNMENT** and the **CONTRACTOR** is represented by at least one (1) of its members or its deputy.

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

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

- 8.4 In the event that, during the Exploration Period, no agreement is reached at the second meeting of the Management Committee, as provided for in Article 8.3, or unanimous approval is not obtained, as required pursuant to Article 8.5; then the proposal made by the **CONTRACTOR** shall be deemed adopted by the Management Committee.
- 8.5 Notwithstanding the provisions of Article 8.3, and subject to Article 8.4, unanimous approval of the Management Committee shall be required for:
- (a) approval of, and any material revision to, any Exploration Work Program and Budget prepared after the first Commercial Discovery in the Production Area relating to such Commercial Discovery;
  - (b) approval of, and any material revision to, the Development Plan, the production schedule, lifting schedule and Development and Production Work Programs and Budgets;
  - (c) establishment of rules of procedure for the Management Committee;
  - (d) any insurance issues over which the Management Committee has authority;
  - (e) approval of, and any material revision to, procurement procedures for goods and/or services, submitted by the **CONTRACTOR** in accordance with Article 19.3 (unless such procedures have been deemed approved by the Management Committee in accordance with Article 19.3);
  - (f) approval of, and any material revision to, any proposed pipeline project, submitted by **CONTRACTOR** in accordance with Article 33.3;
  - (g) approval of a first rate bank in which to place the Decommissioning Reserve Fund, in accordance with Article 38.1;
  - (h) approval of, and any material revision to, any proposed Decommissioning Plan submitted pursuant to Article 38.7 on any Decommissioning Work Program and Budget or Gas Marketing Work Program and Budget;
  - (i) any Terms of Reference which are required to be prepared and agreed for the purposes of expert determination, pursuant to Article 42.2;

- (j) approval of any costs in excess of ten per cent (10%) above any Budget;
  - (k) any matter having a material adverse effect on Petroleum Operations; and
  - (l) approval of **CONTRACTOR**'s plans for the recruitment, integration and training of **CONTRACTOR** Entity and **GOVERNMENT** personnel, in accordance with Article 23.6.
- 8.6 Ordinary meetings of the Management Committee shall take place in the Kurdistan Region, alternately at the offices of the **GOVERNMENT** and those of the **CONTRACTOR**, or at any other location agreed between Parties, at least twice a Contract Year prior to the date of the first Commercial Discovery and three times a Contract Year thereafter.
- 8.7 Either the **GOVERNMENT** or the **CONTRACTOR** may call an extraordinary meeting of the Management Committee to discuss important issues or developments related to Petroleum Operations, subject to giving reasonable prior notice, specifying the matters to be discussed at the meeting, to the other Party. The Management Committee may from time to time make decisions by correspondence provided all the members have indicated their approval of such decisions in such correspondence.
- 8.8 Unless at least one (1) member or its deputy of each of the **GOVERNMENT** and the **CONTRACTOR** is present, the Management Committee shall be adjourned for a period not to exceed eight (8) days. The Party being present shall then notify the other Party of the new date, time and location for the meeting.
- 8.9 The agenda for meetings of the Management Committee shall be prepared by the **CONTRACTOR** in accordance with instructions of the Chairman and communicated to the Parties at least fifteen (15) days prior to the date of the meeting. The agenda shall include any subject matter proposed by either the **GOVERNMENT** or the **CONTRACTOR**. Decisions of the Management Committee will be made at the meetings. The **CONTRACTOR** shall be responsible for preparing and keeping minutes of the decisions made at the meetings. Copies of such minutes shall be forwarded to each Party for review and approval. Each Party shall review and approve such minutes within ten (10) days of receipt of the draft minutes. A Party who fails to notify in writing its approval or disapproval of such minutes within such ten (10) days shall be deemed to have approved the minutes.
- 8.10 If required, the Management Committee may request the creation of a technical sub-committee or any other sub-committee to assist it. Any such sub-committee shall be composed of a reasonable number of experts from the **GOVERNMENT** and the **CONTRACTOR**. After each meeting, the technical sub-committee or any other sub-committee shall deliver a written report to the Management Committee.
- 8.11 Any costs and expenditure incurred by the **CONTRACTOR** for meetings of the Management Committee or any technical sub-committee or any other sub-committee shall be considered as Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

## **ARTICLE 9 – GUARANTEES**

- 9.1 Concurrently with the signing of this Contract, **Marathon** shall deliver to the **GOVERNMENT** a payment guarantee of a parent company or ultimate parent company, in form and content acceptable to the **GOVERNMENT**, in respect of **Marathon's** payment obligations with respect to the First Sub-Period pursuant to Article 7.5 and the Marathon Exploration Tranche pursuant to Article 32.
- 9.2 Not later than sixty (60) days after the commencement of the Second Sub-Period, the **CONTRACTOR** Entities shall provide the **GOVERNMENT**, if so required by the **GOVERNMENT** pursuant to written notice received by each **CONTRACTOR** Entity within thirty (30) days following commencement of the Second Sub-Period, with a joint and several guarantee of such parent company or ultimate parent company of each **CONTRACTOR** Entity in form and content acceptable to the **GOVERNMENT** with respect to the obligations of the **CONTRACTOR** under Article 7.5. Such guarantee shall be in the form and content as set forth in Annex C, but only in respect of the stated payment obligations under Article 7.5.
- 9.3 In the event of an assignment by a **CONTRACTOR** Entity to a third party in accordance with Article 39, a parent company or ultimate parent company of such third party assignee acceptable to the **GOVERNMENT** must accede to the applicable guarantee, effective as of the effective date of the assignment, as a condition precedent to the approval of the assignment by the **GOVERNMENT**.

## **ARTICLE 10 – MINIMUM EXPLORATION WORK OBLIGATIONS**

- 10.1 The **CONTRACTOR** shall start Exploration Operations within thirty (30) days of the Management Committee's approval of the Exploration Work Program and Budget in accordance with Article 8. The **CONTRACTOR** shall perform geological, geophysical and/or drilling works as provided under Articles 10.2 to 10.3 (the "**Minimum Exploration Obligations**"). The Minimum Exploration Obligations shall be performed during each Sub-Period in accordance with prudent international petroleum industry practice.
- 10.2 During the First Sub-Period, the **CONTRACTOR** shall:
- (a) carry out geological and geophysical studies, comprising the following:
    - (i) the compilation of a technical database;
    - (ii) the performance of a remote sensing study;
    - (iii) a field visit to verify initial geological and geophysical work and remote sensing results and plan for two dimensional seismic acquisition; and
  - (b) perform field work comprising structural, stratigraphic and lithologic mapping and sampling;



- (c) acquire, process and interpret one hundred and fifty (150) line kilometres of two dimensional seismic data, or a three dimensional seismic data program by agreement between the Parties:
  - (i) committing for this purpose a minimum financial amount consistent with prudent international petroleum industry practice and commensurate with market conditions in the Kurdistan Region for seismic services; and
  - (ii) subject to completion of the related geological survey works, interpretation of any offset data and preparation for the tendering of the seismic exploration activities, commencing seismic exploration activities within six (6) months of the Effective Date or as soon as practicable thereafter;and
- (d) drill one (1) Exploration Well (the "**First Exploration Well**"), including testing and coring as appropriate, committing for this purpose a minimum financial amount of ten million Dollars (US\$10,000,000) for such well.

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

- (a) acquire, process and interpret further seismic data (being either two dimensional or three dimensional), if the **CONTRACTOR** considers that the results from the First Exploration Well justify the acquisition of further seismic data; and
- (b) drill one (1) Exploration Well (the "**Second Exploration Well**"), including testing and coring as appropriate, committing for this purpose a minimum financial amount of ten million Dollars (US\$10,000,000), unless the data from the First Exploration Well demonstrates that there is no reasonable technical case for drilling the Second Exploration Well in the Contract Area.

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

- (a) Minimum Exploration Obligations in the Second Sub-Period shall only apply in the event the **CONTRACTOR** has elected to notify the **GOVERNMENT** that it will enter into the Second Sub-Period, in accordance with Article 6.4.
- (b) Subject to Article 10.4(a), the **CONTRACTOR** shall be required to meet its Minimum Exploration Obligations for the applicable Sub-Period, even if this entails exceeding the Minimum Financial Commitment for such Sub-Period. If the **CONTRACTOR** has satisfied its Minimum Exploration Obligations without having spent the total Minimum Financial Commitment for such Sub-Period, it shall be deemed to have satisfied its Minimum Exploration Obligations for such Sub-Period.
- (c) Each Exploration Well shall be drilled to the depth agreed by the Management Committee unless:

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

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

- (d) Any geological or geophysical work carried out or any seismic data acquired, processed or interpreted or any Exploration Well drilled or any other work performed in excess of the Minimum Exploration Obligations and/or any amounts spent in excess of the total Minimum Financial Commitment in any given Sub-Period, shall be carried forward to the next Sub-Period or any extension period and shall be taken into account to satisfy the Minimum Exploration Obligations and/or the total Minimum Financial Commitment for such subsequent Sub-Period or extension period.
- (e) For the avoidance of doubt, if: (i) in the First Sub-Period, the **CONTRACTOR** performs any of the Minimum Exploration Obligations prescribed for the Second Sub-Period in Article 10.3; and (ii) the **CONTRACTOR** has elected to notify the **GOVERNMENT** that it will enter into the Second Sub-Period (in accordance with and subject to Article 6.4), the performance of such Minimum Exploration Obligations shall be deemed to satisfy the same Minimum Exploration Obligations for the Second Sub-Period.

#### **ARTICLE 11 – EXPLORATION WORK PROGRAMS AND BUDGETS**

- 11.1 Within ninety (90) days following the Effective Date, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget relating to Exploration Operations (the "**Exploration Work Program and Budget**") for the remainder of the Calendar Year. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit a proposed Exploration Work Program and Budget to the Management Committee for the following Calendar Year.

- 11.2 Each Exploration Work Program and Budget shall include details of, but not be limited to, the following:
- (a) work to be undertaken;
  - (b) materials, goods and equipment to be acquired;
  - (c) cost estimate of services to be provided, including services by third parties and/or Affiliated Companies of any **CONTRACTOR** Entity; and
  - (d) estimated expenditures, broken down by cost centre in accordance with the Accounting Procedure.
- 11.3 The Management Committee shall meet within sixty (60) days following its receipt of **CONTRACTOR**'s proposal to examine and approve the Exploration Work Program and Budget.
- 11.4 If the **GOVERNMENT** requests any modification to the Exploration Work Program and Budget, the Management Committee shall meet to discuss the Exploration Work Program and Budget and proposed modifications thereto within the sixty (60) day period referred to in Article 11.3. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 11.5 The **CONTRACTOR** shall be authorised to make expenditures not budgeted in an approved Exploration Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten per cent (10%) of the approved Exploration Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt all excess expenditures shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditures above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.
- 11.6 In cases of emergency, the **CONTRACTOR** may incur such additional expenditures as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

## **ARTICLE 12 – DISCOVERY AND DEVELOPMENT**

- 12.1 If the drilling of an Exploration Well results in a Discovery, the **CONTRACTOR** shall notify the **GOVERNMENT** within forty-eight (48) hours of completing tests confirming the presumed existence of such Discovery or within such longer period as the **CONTRACTOR** reasonably requires to determine whether or not there is a Discovery. Within thirty (30) days following notification of the said Discovery, the

**CONTRACTOR** shall present to the Management Committee all technical data then available together with its opinion on the commercial potential of the said Discovery (the "**Discovery Report**"). The **CONTRACTOR** shall provide in a timely manner such other information relating to the Discovery as the **GOVERNMENT** may reasonably request.

#### **Appraisal Work Program and Budget**

- 12.2 If, pursuant to Article 12.1, the **CONTRACTOR** considers that the Discovery has commercial potential it shall, within ninety (90) days following notification to the **GOVERNMENT** of the Discovery, submit an appraisal program in respect of the Discovery (the "**Appraisal Work Program and Budget**") to the Management Committee. The Management Committee shall examine the Appraisal Work Program and Budget within thirty (30) days of its receipt. If the **GOVERNMENT** requests any modification to the Appraisal Work Program and Budget, the Management Committee shall meet to discuss the Appraisal Work Program and Budget and the requested modifications thereto within sixty (60) days from its receipt of the proposed Appraisal Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

The Appraisal Work Program and Budget shall include the following:

- (a) an appraisal works program and budget, in accordance with prudent international petroleum industry practice;
  - (b) an estimated time-frame for completion of appraisal works; and
  - (c) the delimitation of the area to be evaluated, the surface of which shall not exceed twice (2 x) the surface of the geological structure or prospect to be appraised (the "**Appraisal Area**").
- 12.3 If, following a Discovery, a rig acceptable to the **CONTRACTOR** is available to drill a well, the **CONTRACTOR** may drill any additional Exploration Well or any Appraisal Well deemed necessary by the **CONTRACTOR** before or during the Management Committee's review of the Discovery Report provided in accordance with Article 12.1 or its review of the Appraisal Work Program and Budget.

The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Appraisal Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten per cent (10%) of the approved Appraisal Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt, all excess expenditures shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditure above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.

In cases of emergency, the **CONTRACTOR** may incur such additional expenditures as it deems necessary to protect life, environment or property. The **CONTRACTOR**

shall immediately report such additional expenditures to the Management Committee. Such additional expenditure shall be considered Petroleum Costs and will be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

### **Appraisal Report**

12.4 The **CONTRACTOR** shall submit a detailed report relating to the Discovery (the "**Appraisal Report**") to the Management Committee within ninety (90) days following completion of the Appraisal Work Program and Budget.

12.5 The Appraisal Report shall include the following:

- (a) geological conditions;
- (b) physical properties of any liquids;
- (c) sulphur, sediment and water content;
- (d) type of substances obtained;
- (e) Natural Gas composition;
- (f) production forecast per well; and
- (g) a preliminary estimate of recoverable reserves.

### **Declaration of Commercial Discovery**

12.6 Together with its Appraisal Report, the **CONTRACTOR** shall submit a written statement to the Management Committee specifying that:

- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery;
- (b) the **CONTRACTOR** has determined that the Discovery is not a Commercial Discovery;
- (c) the **CONTRACTOR** has determined that the Discovery is a significant Discovery, which may become a Commercial Discovery subject to additional exploration and/or appraisal works within or outside of the Appraisal Area; or
- (d) the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may become a Commercial Discovery subject to Gas Marketing Operations, in accordance with Article 14.5.

12.7 In case the statement of the **CONTRACTOR** corresponds to Article 12.6(c), the **CONTRACTOR** shall submit a Work Program and Budget to the Management Committee within thirty (30) days following such statement. Any well drilled to evaluate the said significant Discovery shall be considered an Exploration Well.

### **Development Plan**

- 12.8 If the Discovery has been declared a Commercial Discovery by the **CONTRACTOR** pursuant to Article 12.6(a) or Article 14.5(a), the **CONTRACTOR** shall submit a proposed Development Plan to the Management Committee within one hundred eighty (180) days following such declaration. The Development Plan shall be in accordance with prudent international petroleum industry practice. Except with the consent of the **GOVERNMENT**, such Development Plan shall include details of the following as applicable:
- (a) the delimitation of the Production Area, taking into account the results of the Appraisal Report regarding the importance of the Petroleum Field within the Appraisal Area;
  - (b) drilling and completion of Development Wells;
  - (c) drilling and completion of water or Natural Gas injection wells;
  - (d) laying of gathering pipelines;
  - (e) installation of separators, tanks, pumps and any other associated production and injection facilities for the production;
  - (f) treatment and transportation of Petroleum to the processing and storage facilities onshore or offshore;
  - (g) laying of export pipelines inside or outside the Contract Area to the storage facility or Delivery Point;
  - (h) construction of storage facilities for Petroleum;
  - (i) plan for the utilisation of Associated Natural Gas;
  - (j) training commitment in accordance with Article 23;
  - (k) a preliminary decommissioning and site restoration plan;
  - (l) all contracts and arrangements made or to be made by the **CONTRACTOR** for the sale of Natural Gas;
  - (m) to the extent available, all contracts and arrangements made or to be made by Persons in respect of that Natural Gas downstream of the point at which it is to be sold by the **CONTRACTOR** and which are relevant to the price at which (and other terms on which) it is to be sold by the **CONTRACTOR** or are otherwise relevant to the determination of the value of it for the purposes of this Contract, but not beyond the point at which it is first disposed of in an Arm's Length Sale;
  - (n) each **CONTRACTOR** Entity's plans for financing its interest, if any; and

- (o) any other operations not expressly provided for in this Contract but reasonably necessary for Development Operations, Production Operations and delivery of Petroleum produced, in accordance with prudent international petroleum industry practice.
- 12.9 The Management Committee shall use its best efforts to approve the Development Plan within sixty (60) days after its receipt of such plan. The Development Period for each Commercial Discovery within a Development Plan shall be extended for the number of days in excess of such sixty (60) day period that it takes for the Management Committee to approve the Development Plan. The Development Plan shall be considered approved by the **GOVERNMENT** if the **GOVERNMENT**, through its representatives on the Management Committee, indicates its approval in writing.
- 12.10 If the **GOVERNMENT** requests any modifications to the Development Plan, then the Management Committee shall meet within sixty (60) days of receipt by the **CONTRACTOR** of the **GOVERNMENT**'s written notification of requested modifications accompanied by all the documents justifying such request, and shall discuss such request. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at such meeting or in writing prior to such meeting. Any modification approved by the Management Committee at such meeting or within a further period of thirty (30) days from the date of such meeting shall be incorporated into the Development Plan which shall then be deemed approved and adopted.
- 12.11 If the **CONTRACTOR** makes several Commercial Discoveries within the Contract Area each such Commercial Discovery will have a separate Production Area. The **CONTRACTOR** shall be entitled to develop and to produce each Commercial Discovery and the **GOVERNMENT** shall provide the appropriate Permits covering each Production Area..

#### **ARTICLE 13 - DEVELOPMENT AND PRODUCTION WORK PROGRAMS AND BUDGET**

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

##### **Approval of Development Works Program and Budget**

- 13.2 Within ninety (90) days following approval of the Development Plan by the Management Committee, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget for Development Operations (the "**Development Work Program and Budget**") to be carried out in the Production Area for the duration of the Development Operations. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit to the Management Committee updates in respect of its Development Work Program and

Budget. To enable the Management Committee to forecast expenditures, each Development Work Program and Budget shall include details of the following:

- (a) works to be carried out;
  - (b) material and equipment to be acquired by main categories;
  - (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any **CONTRACTOR** Entity; and
  - (d) categories of general and administrative expenditure.
- 13.3 If any modification to the Development Work Program and Budget is requested by the **GOVERNMENT**, the Management Committee shall meet to discuss the Development Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Development Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 13.4 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Development Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten per cent (10%) of the approved Development Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt, all excess expenditures shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditure above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.
- 13.5 In cases of emergency, the **CONTRACTOR** may incur such additional expenditures as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

#### **Approval of Annual Production Works Programs and Budget**

- 13.6 No later than 1 October of the Calendar Year preceding the estimated commencement of production pursuant to an approved Development Plan and thereafter no later than 1 October in each Calendar Year, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget for Production Operations (the "**Production Work Program and Budget**") for the following Calendar Year. To enable the Management Committee to forecast expenditures, the Production Work Program and Budget shall include details of the following:
- (a) works to be carried out;



- (b) material and equipment to be acquired by main categories;
  - (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any **CONTRACTOR** Entity; and
  - (d) categories of general and administrative expenditure.
- 13.7 If any modification to the Production Work Program and Budget is requested by the **GOVERNMENT**, the Management Committee shall meet to discuss the Production Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Production Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 13.8 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Production Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten per cent (10%) of the approved Production Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, all excess expenditures shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditure above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.
- 13.9 In cases of emergency, the **CONTRACTOR** may incur such additional expenditure as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 13.10 After the commencement of Commercial Production the **CONTRACTOR** shall pay to the **GOVERNMENT**, in arrears, an annual surface rental for the Production Area, of one hundred Dollars (US\$100) per square kilometre per Contract Year ("**Production Rental**"). Such Production Rental shall be considered as a Petroleum Cost and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

## ARTICLE 14 – NATURAL GAS

### Use for the Petroleum Operations

- 14.1 To take account of specific conditions relating to Natural Gas and to promote its development in the Kurdistan Region, the **GOVERNMENT** will grant specific benefits to the **CONTRACTOR** on principles materially similar to those contained in this Contract, including, consistent with the Kurdistan Region Oil and Gas Law, more generous provisions in respect of the recovery of Petroleum Costs and the sharing of Profit Petroleum than in respect of Crude Oil.

- 14.2 The **CONTRACTOR** may freely use any Natural Gas required for the Petroleum Operations. If technically and economically justified and in line with international oil and gas industry practice, the **CONTRACTOR** shall in priority use any Natural Gas for the purpose of enhancing recovery of Crude Oil in accordance with prudent international petroleum industry practice as follows.

**Associated Natural Gas**

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

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

**Non Associated Natural Gas**

- 14.4 Until an approved Natural Gas sales contract is executed in respect of all volumes of Natural Gas expected to be produced, the **CONTRACTOR** shall be entitled during the Exploration Period and the Development Period to carry out Gas Marketing Operations, which may be conducted in stages.
- 14.5 If, pursuant to Article 12.6(d), the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may become a Commercial Discovery subject to Gas Marketing Operations, it shall carry out Gas Marketing Operations, at the end of which it shall submit a written statement to the Management Committee specifying that:
- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery; or

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

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

- 14.9 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Gas Marketing Work Program and Budget provided that the aggregate amount of such expenditure shall not exceed ten per cent (10%) of the approved Gas Marketing Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, all excess expenditures shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditure above the ten per cent (10%) limit shall only be recoverable with the unanimous approval of the Management Committee.

- 14.10 If any Non-Associated Natural Gas is discovered within the Contract Area, and the **CONTRACTOR** reasonably considers that the Non-Associated Natural Gas Discovery will only be a Commercial Discovery if certain terms of this Contract are amended, it shall be entitled to request amendments to this Contract, with its reasons. The **GOVERNMENT** shall in good faith give reasonable consideration to the **CONTRACTOR**'s proposed amendment and reasons and the Parties shall in good faith attempt to agree on the necessary amendments to the Contract. If the Parties are unable to agree on such amendments, and the Exploration Period expires without the **CONTRACTOR** having declared such Discovery to be a Commercial Discovery in accordance with Article 12.6(a) or Article 14.5(a), and subsequently within a period of eight (8) years from the end of such Exploration Period, the **GOVERNMENT** reaches agreement with any third party to develop such Discovery (the "**Gas Development**"), then the following provisions shall apply:
- (a) either before or upon agreement in relation to the Gas Development having been reached (and whether or not such agreement is recorded in a fully termed production sharing and/or operating or other like agreement), but before such agreement is signed (the "**Proposed Contract**") (subject only to the rights of each **CONTRACTOR** Entity to pre-empt such Proposed Contract pursuant to Article 14.10(b) and such conditions as may be applicable), the **GOVERNMENT** shall, as soon as reasonably practicable after the occurrence of such circumstances, serve on each of the **CONTRACTOR** Entities, a notice to that effect and shall with such notice provide such information and main terms of such agreement as the **CONTRACTOR** Entities may reasonably request to determine if they will exercise their rights (the "**Agreed Terms**"), including:
    - (i) the identity of such third party;
    - (ii) the effective date of the Proposed Contract;
    - (iii) the applicable commercial terms, including bonuses, royalties, cost recovery, profit sharing, taxation and any other similar terms; and
    - (iv) all and any material conditions to which the Proposed Contract is subject.
  - (b) Upon a request from any **CONTRACTOR** Entity, the **GOVERNMENT** will provide all the **CONTRACTOR** Entities with such further information and terms as may be reasonably requested by any **CONTRACTOR** Entity. Within one hundred and eighty days (180) days after receipt of a notice and any further information under Article 14.10(a) in relation to a Proposed Contract each of the **CONTRACTOR** Entities shall elect either:
    - (i) to enter into the Proposed Contract on the same or substantially similar terms to the Agreed Terms, with the right to cost recover all Petroleum Costs incurred under this Contract against all Petroleum revenues received under the Proposed Contract, up to any cost recovery limits set out therein; or

- (ii) to waive the aforesaid right of pre-emption in relation to the Proposed Contract;

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

- (c) In the event that more than one of the **CONTRACTOR** Entities exercises its rights under Article 14.10(b)(i) in relation to the Proposed Contract, then the **GOVERNMENT** shall transfer or grant each such **CONTRACTOR** Entity an interest in the Proposed Contract upon the Agreed Terms (in accordance with Article 14.10(b)(i)) in the proportions in which their respective percentage interests bear to the aggregate of their respective percentage interests under the relevant Joint Operating Agreement (as it applied at the end of the Exploration Period) or in such other proportions as such **CONTRACTOR** Entities shall agree between them.
- (d) In the event that one of the **CONTRACTOR** Entities exercises its rights under Article 14.10(b)(i) in relation to the Proposed Contract then the **GOVERNMENT** shall transfer or grant the whole of the interest in the Proposed Contract upon the Agreed Terms (in accordance with 14.10(b)(i)) to such **CONTRACTOR** Entity.
- (e) In the event that none of the **CONTRACTOR** Entities exercises its rights under Article 14.10(b)(i) then the **GOVERNMENT** may enter into the Proposed Contract on terms no more favourable to its counterparty than the Agreed Terms and, in such case, the aforesaid rights of pre-emption shall thereupon cease to apply in relation to the Proposed Contract.

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

### **Flaring**

14.12 Flaring of Natural Gas in the course of activities provided for under this Contract, is prohibited except (i) short-term flaring up to twelve (12) Months necessary for testing or other operational reasons in accordance with prudent international petroleum industry practice (which shall include the flaring of Associated Natural Gas to the extent the **CONTRACTOR** considers that re-injecting Associated Natural Gas is not justified technically and economically and provided the **GOVERNMENT** decides not to take such Associated Natural Gas), or (ii) with the prior authorisation of the **GOVERNMENT**, such authorisation not to be unreasonably withheld or delayed. The **CONTRACTOR** shall submit such request to the **GOVERNMENT**, which shall include an evaluation of reasonable alternatives to flaring that have been considered

along with information on the amount and quality of Natural Gas involved and the duration of the requested flaring.

#### **ARTICLE 15 – ACCOUNTING AND AUDITS**

- 15.1 The **CONTRACTOR** shall keep in its offices in the Kurdistan Region copies of all books and accounts of all revenues relating to the Petroleum Operations and all Petroleum Costs (the “**Accounts**”), except during the Exploration Period, when the **CONTRACTOR** shall be entitled to keep the Accounts at its headquarters Abroad. The Accounts shall reflect in detail expenditure incurred as a function of the quantities and value of Petroleum produced, and shall be kept for a period of five (5) years. All Accounts which are made available to the **GOVERNMENT** in accordance with the provisions of this Contract shall be prepared in the English language. The Accounts shall be kept in accordance with prudent international petroleum industry practice and in accordance with the provisions of the Accounting Procedure. The Accounts shall be kept in Dollars, which shall be the reference currency for the purposes of this Contract.
- 15.2 Within ninety (90) days following the end of each Calendar Year, the **CONTRACTOR** shall submit to the **GOVERNMENT** a summary statement of all Petroleum Costs incurred during the said Calendar Year. The summary statement shall also include a profit calculation pursuant to the provisions of Article 26.
- 15.3 The **GOVERNMENT** shall have the right:
- (a) to request an audit of the Accounts with respect to each Calendar Year within a period of five (5) Calendar Years following the end of such Calendar Year (the “**Audit Request Period**”); and
  - (b) to retain an auditor of international standing familiar with international petroleum industry accounting practice to undertake or assist the **GOVERNMENT** to undertake the audit.
- Notwithstanding paragraphs (a) and (b) of this Article 15.3, the **GOVERNMENT** shall have the right to audit the Accounts with respect to each Calendar Year at any time in the case of manifest error or fraud.
- 15.4 The reasonable cost of retaining an auditor pursuant to Article 15.3 shall be borne by the **CONTRACTOR** and treated as a Petroleum Cost for the purpose of cost recovery under Articles 1 and 25.
- 15.5 During the Audit Request Period for any Calendar Year but not thereafter, the **GOVERNMENT**, acting reasonably and in accordance with prudent international petroleum industry practice, may request in writing all reasonably available information and justifications for its audit of Petroleum Costs.
- 15.6 Should the **GOVERNMENT** consider, on the basis of data and information available, that the **CONTRACTOR** made a material mistake or there is any irregularity in respect of the Accounts and considers that any corrections, adjustments or

amendments should be made, the **GOVERNMENT** shall make any audit exceptions in writing and notified to the **CONTRACTOR** within six (6) Months of the date of request referred to in Article 15.3, and failure to give such written exception within such time shall be deemed to be an acknowledgement of the correctness of the **CONTRACTOR**'s Accounts.

- 15.7 In respect of any audit exception made by the **GOVERNMENT** in accordance with Article 15.6, the **CONTRACTOR** shall then have sixty (60) days to make necessary corrections, adjustments or amendments or to present its comments in writing or request a meeting with the **GOVERNMENT**. The **GOVERNMENT** shall within thirty (30) days of the **CONTRACTOR**'s response, notify the **CONTRACTOR** in writing of its position on the corrections, adjustments, amendments or comments. If thereafter there still exists a disagreement between the **GOVERNMENT** and the **CONTRACTOR**, the dispute will be settled in accordance with Article 15.9.
- 15.8 In addition to the annual statements of Petroleum Costs as provided in Article 15.2, the **CONTRACTOR** shall provide the **GOVERNMENT** with such production statements and reports, as required pursuant to Article 16.3.
- 15.9 Any dispute between the Parties under this Article 15 that cannot be settled amicably within sixty (60) days of the **GOVERNMENT**'s final notice under Article 15.7, may be submitted to an expert on the request of either the **GOVERNMENT** or the **CONTRACTOR** in accordance with the provisions of Article 42.2. Notwithstanding the provisions of Article 42, in this specific instance the decision of the expert shall not necessarily be final and either Party may decide to submit the matter to arbitration in accordance with the provisions of Article 42.1.

## **ARTICLE 16 – CONTRACTOR’S RIGHTS AND OBLIGATIONS**

### **Permanent Representative**

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

### **Conduct of Petroleum Operations**

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

The **CONTRACTOR** shall be responsible for the conduct, management, control and administration of Petroleum Operations and shall be entitled to conduct Petroleum Operations in accordance with the provisions of this Contract. In conducting its Petroleum Operations, the **CONTRACTOR** shall have the right to use any Affiliate of each **CONTRACTOR** Entity, its and their Subcontractors, and the employees, consultants, and agents of each of the foregoing. The **CONTRACTOR** and all such

Persons shall at all times have free access to the Contract Area and any Production Areas for the purpose of carrying out Petroleum Operations.

#### **Information and Reports**

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

#### **Requirement for Petroleum Operations**

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

#### **Supervision by the GOVERNMENT**

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

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

#### **Access to Facilities**

- 16.6 For the performance of the Petroleum Operations, the **CONTRACTOR**, any Affiliate of each **CONTRACTOR** Entity, its and their Subcontractors and the employees, consultants and agents of each of the foregoing shall at all times be granted free access to the Contract Area and to any facilities for the Petroleum Operations located



within or outside of the Contract Area or within or outside the Production Area, for the purpose of carrying out the Petroleum Operations.

#### **Use of Facilities**

- 16.7 Upon notice from the **GOVERNMENT**, the **CONTRACTOR** shall make available to a reasonable number of representatives of the **GOVERNMENT** those of the **CONTRACTOR**'s facilities which are necessary to enable such representatives to perform their tasks related to this Contract and the Kurdistan Region Oil and Gas Law including, in case of works to be performed on work sites, transportation, accommodation and board, under the same conditions as those provided by the **CONTRACTOR** for its own personnel.

Notwithstanding Article 16.8, the **GOVERNMENT** shall indemnify and hold harmless each **CONTRACTOR** Entity against all losses, damages and liability arising under any claim, demand, action or proceeding brought or initiated against any **CONTRACTOR** Entity by any representative of the **GOVERNMENT** in connection with the access to or use of the facilities by such representatives.

#### **Loss or Damage**

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

#### **Intellectual Property Rights**

- 16.9 In its Petroleum Operations, the **CONTRACTOR** shall respect any intellectual property rights belonging to third parties.

#### **Litigation**

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

#### **Safety**

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

Said measures shall include the following:

- (a) supplying first aid and safety equipment for each work area and maintaining a healthy environment for personnel;
- (b) reporting to the **GOVERNMENT** within seventy-two (72) hours of such accident, any accident where personnel has been injured while engaged in Petroleum Operations and resulting in such personnel being unable to return to work;

- (c) implementing a permit-to-work procedure around hazardous equipment and installations;
- (d) providing safe storage areas for explosives, detonators and any other dangerous products used in the operations;
- (e) supplying fire-extinguishing equipment in each work area;
- (f) for the purpose of taking control of any blow out or fire which could damage the environment or Petroleum Field, in accordance with prudent international petroleum industry practice; and
- (g) for the purpose of preventing any involuntary injection of fluids in petroleum formations and production of Crude Oil and Natural Gas at rates that do not conform to prudent international petroleum industry practice.

### **Production Rates**

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

### **Legal Status**

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

### **Lifting**

16.14 The **GOVERNMENT** and each **CONTRACTOR** Entity shall have the right and the obligation to take in kind and separately sell or otherwise dispose of their respective shares of Petroleum in accordance with Articles 25, 26 and 27. Upon approval of the Development Plan, the Parties shall meet as soon as practicable to reach a detailed agreement governing the lifting of Petroleum by each such **CONTRACTOR** Entity. Such lifting agreement shall include the following:

- (a) the obligation of the **GOVERNMENT** and each **CONTRACTOR** Entity to lift, regularly throughout each Calendar Year, their share of Petroleum produced from the Production Area;

- (b) notification procedures by the Operator to the **GOVERNMENT** and each **CONTRACTOR** Entity regarding entitlements and availability of Petroleum for lifting by each Party during each lifting period and nominations by each Party; and
- (c) the right of the Parties to lift any Available Petroleum not scheduled for lifting and/or not lifted by the other Party during each such lifting period.

#### **Kurdistan Region Consumption Requirements**

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

Payments shall be made in Dollars and otherwise on terms consistent with prudent international petroleum industry practice. The **CONTRACTOR** Entities' obligation to sell Crude Oil to the **GOVERNMENT** shall be, with the other operators (including the **GOVERNMENT**) then producing in the Kurdistan Region, pro rata to their respective production rates.

#### **ARTICLE 17 – USE OF LAND AND EXISTING INFRASTRUCTURE**

- 17.1 The **GOVERNMENT** shall make available to the **CONTRACTOR** any land or property in the Kurdistan Region required for the Petroleum Operations; provided, however, the **CONTRACTOR** shall not request to use any such land unless there is a real need for it. The **CONTRACTOR** shall have the right to build and maintain, above and below ground, any facilities required for the Petroleum Operations.
- 17.2 If it becomes necessary for conduct of the Petroleum Operations to occupy and use any land or property in the Kurdistan Region belonging to third parties, the **CONTRACTOR** shall endeavour to reach amicable agreement with the owners of such land. If such amicable agreement cannot be reached, the **CONTRACTOR** shall notify the **GOVERNMENT**. On receipt of such notification:
- (a) the **GOVERNMENT** shall determine the amount of compensation to be paid by the **CONTRACTOR** to the owner, if occupation will be for a short duration; or
  - (b) the **GOVERNMENT** shall expropriate the land or property in accordance with applicable Kurdistan Region Law, if such occupation will be long lasting or makes it henceforth impossible to resume original usage of such land or property. Any property rights shall be acquired by and recorded in the name of the **GOVERNMENT**, but the **CONTRACTOR** shall be entitled free use of the land or property for the Petroleum Operations for the entire duration of this Contract.

The amount of the compensation in Article 17.2(a) shall be fair and reasonable, in accordance with Article 29 of the Kurdistan Region Oil and Gas Law, and shall take into account the rights of the owner and any effective use of the land or property by its owner at the time of occupation by the **CONTRACTOR**. All reasonable costs, expenditures and fair and reasonable compensation (as required pursuant to Article 29 of the Kurdistan Region Oil and Gas Law) which results from such expropriation shall be borne by the **CONTRACTOR**. For the avoidance of doubt, such costs, expenses and compensation incurred by the **CONTRACTOR** shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

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

The **CONTRACTOR** shall have the right in the Kurdistan Region to take or use any water necessary for the Petroleum Operations provided it does not damage any

existing irrigation or navigation systems and that land, houses or watering points belonging to third parties are not deprived of their use.

- 17.7 The **GOVERNMENT** shall have the right in the Kurdistan Region to build, operate and maintain roads, railways, airports, landing strips, canals, bridges, protection dams, police stations, military installations, pipelines and telecommunications networks in the Contract Area, provided this does not increase the costs, or compromise or have a material adverse effect on the performance of the Petroleum Operations. If the construction, operation and maintenance of such facilities by the **GOVERNMENT** results in increased cost or expense for the **CONTRACTOR** then, for the avoidance of doubt, such cost and expense shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 17.8 Upon request of the **CONTRACTOR**, the **GOVERNMENT** shall prohibit the construction of residential or commercial buildings in the vicinity of facilities used for the Petroleum Operations that may be declared dangerous due to the Petroleum Operations and to prohibit any interference with the use of any facilities required for the Petroleum Operations.
- 17.9 Access to the Contract Area may be granted pursuant to an access authorisation, as shall be defined in, and consistent with, the Kurdistan Region Oil and Gas Law to authorised third parties on reasonable terms and conditions (including coordination), including Persons authorised to construct, install and operate structures, facilities and installations, and to carry out other works, provided that nothing in such access authorisation or in this Article 17.9 authorises the holder of an access authorisation to drill a Well or to perform any Petroleum Operations in Contract Area.

The **GOVERNMENT** shall give the **CONTRACTOR** adequate advance notice of any access authorisation in respect of the Contract Area and shall not grant any access authorisation in respect of the Contract Area until it has taken into account any submissions made by the **CONTRACTOR** nor in such a way that there is undue interference with or hindrance of the rights and activities of the **CONTRACTOR**.

#### **ARTICLE 18 – ASSISTANCE FROM THE GOVERNMENT**

- 18.1 To the extent allowed by Kurdistan Region Law and Iraqi law and at the specific request of the **CONTRACTOR**, the **GOVERNMENT** shall take all necessary steps to assist the **CONTRACTOR** Entities in, but not limited to, the following areas:
- (a) securing any necessary Permits for the use and installation of means of transportation and communications;
  - (b) securing regulatory Permits in matters of customs or import/export;
  - (c) securing entry and exit visas, work and residence permits as well as any other administrative Permits for each **CONTRACTOR** Entity's, its Affiliate's and its Subcontractors' foreign personnel (including their family members)

- working in the Kurdistan Region and any other part of Iraq during the implementation of this Contract;
- (d) securing any necessary Permits to send Abroad documents, data or samples for analysis or processing for the Petroleum Operations;
  - (e) relations with federal and local authorities and administrations, including for the purposes of the remainder of this Article 18.1;
  - (f) securing any necessary environmental Permits;
  - (g) obtaining any other Permits requested by any **CONTRACTOR** Entity for the Petroleum Operations;
  - (h) access to any existing data and information, including data and information relating to the Contract Area held by previous operators or contractors; and
  - (i) providing all necessary security for Petroleum Operations.
- 18.2 Within the scope of services to be provided under this Article 18, reasonable and duly justified expenses incurred by the **GOVERNMENT** or paid to third parties shall be charged to the **CONTRACTOR** and shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** as Petroleum Costs in accordance with the provisions of Articles 1 and 25.

#### **ARTICLE 19 – EQUIPMENT AND MATERIALS**

- 19.1 The **CONTRACTOR** shall supply, or procure the supply of, all materials, equipment, machinery, tools, spare parts and any other items or goods required for the Petroleum Operations (“**Equipment and Materials**”).
- 19.2 Said Equipment and Materials shall be provided by the **CONTRACTOR** in accordance with the relevant Work Programs and Budgets.
- 19.3 As soon as possible after the Effective Date, the **CONTRACTOR** shall provide the Management Committee with a copy of its procedures for procurement of Equipment and Materials and/or services for the Petroleum Operations as required by the provisions of Article 8.2 (e), including the criteria for tender evaluation, which procedures and criteria shall provide for fair and transparent tender evaluation and be in accordance with prudent international petroleum industry practice, Applicable Law, and to assure no such contract will constitute a Prohibited Act. If the Management Committee does not request any modifications to the procurement procedures within thirty (30) days after receiving such procedures, the procedures shall be deemed approved by the Management Committee.
- 19.4 The **CONTRACTOR** shall give priority to Equipment and Materials that are readily available in the Kurdistan Region and other parts of Iraq to the extent their price, grade, quality, quantity, specifications, purchase, delivery and other commercial and technical terms are comparable in all material respects with those generally available in the international petroleum industry and to the extent that the procurement of such

Equipment and Materials will not cause any **CONTRACTOR** Entity or its Affiliates to violate any Law applicable to it or constitute a Prohibited Act.

#### **ARTICLE 20 – TITLE TO ASSETS**

- 20.1 During the Exploration Period, any Assets acquired by the **CONTRACTOR** for the Petroleum Operations shall remain the property of the **CONTRACTOR**, the **CONTRACTOR** Entities, their Affiliates or their Subcontractors, as the case may be.
- 20.2 During the Development Period, subject to Article 21, all Assets acquired by the **CONTRACTOR** for the Petroleum Operations shall become the property of the **GOVERNMENT** upon the completion of the recovery of the costs of all such assets by the **CONTRACTOR**, or the end of the Contract, whichever is the earlier.
- 20.3 The provisions of Article 20.2 shall not apply to any Assets leased by the **CONTRACTOR** or belonging to an Affiliated Company of a **CONTRACTOR** Entity or belonging to its or their Subcontractors or its or their employees.

#### **ARTICLE 21 – USE OF THE ASSETS**

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

#### **ARTICLE 22 – SUBCONTRACTING**

- 22.1 The **CONTRACTOR** shall ensure that any Subcontractors it engages have all the requisite experience and qualifications.
- 22.2 The **CONTRACTOR** shall give priority to Subcontractors from the Kurdistan Region and other parts of Iraq to the extent their competence, rates, experience, reputation, qualifications, specialties, credit rating and terms of availability, delivery and other commercial terms are, in the **CONTRACTOR**'s sole opinion, comparable in all material respects with those provided by foreign companies operating in the international petroleum industry, and will not cause any **CONTRACTOR** Entity or its Affiliates to violate any Law applicable to it, including Corrupt Practices Laws, or constitute a Prohibited Act. Such Subcontractors must be bona fide Kurdistan Region companies (i.e., organised and in good standing under Applicable Law, domiciled in the Kurdistan Region, and majority-owned and controlled by citizens of the Kurdistan Region or Iraq) and having all necessary resources and capacity.

- 22.3 Selection of Subcontractors shall take place in accordance with the procurement procedures submitted by the **CONTRACTOR** to the Management Committee in accordance with Article 19.3 and approved by the Management Committee. Such procurement procedures will include the requirement that contracts with Subcontractors include a provision which obligates such Subcontractors to comply with applicable Corrupt Practices Laws in connection with such contracts.
- 22.4 The **CONTRACTOR** shall provide the **GOVERNMENT** with copies of agreements entered into with Subcontractors, where their amount exceeds the limit set by the Management Committee from time to time.
- 22.5 If the **CONTRACTOR** is determined pursuant to Article 42 to have knowingly entered into a contract with a Prescribed Person (whether a Subcontractor or otherwise) in connection with this Contract or Petroleum Operations without following the procurement procedures adopted pursuant to the Contract or obtaining the approval of the Management Committee, the **GOVERNMENT** may require the **CONTRACTOR** to cancel the contract and, if the **GOVERNMENT** requires such cancellation, the value of the contract will be deducted from Petroleum Costs.
- 22.6 If a **CONTRACTOR** Entity is determined pursuant to Article 42 to have knowingly entered into a contract with a Prescribed Person other than in connection with this Contract or Petroleum Operations without following procurement procedures substantially the same as those adopted pursuant to the Contract or obtaining the approval of the Minister of Natural Resources (such approval shall be deemed rejected unless approved within thirty (30) days), the **GOVERNMENT** may require such **CONTRACTOR** Entity to cancel the contract and, if the **GOVERNMENT** requires such cancellation, the value of the contract will be deducted from such **CONTRACTOR** Entity's share of Petroleum Costs and such **CONTRACTOR** Entity's share of Available Petroleum will be reduced accordingly. However, the reduction in Petroleum Costs of a **CONTRACTOR** Entity pursuant to the preceding sentence may only be made with respect to one production sharing contract in which such **CONTRACTOR** Entity is involved, as selected by the **GOVERNMENT**.

## **ARTICLE 23 – PERSONNEL, TRAINING, AND TECHNOLOGICAL ASSISTANCE**

### **Personnel**

- 23.1 For the Petroleum Operations, the **CONTRACTOR** shall give, and shall require its Subcontractors to give, preference to citizens of the Kurdistan Region and other parts of Iraq to the extent such citizens have the technical capability, qualifications, competence and experience required to perform the work, are available at competitive compensation rates, and their employment would not cause any **CONTRACTOR** Entity, any of its Affiliates, or any of its Subcontractors to violate any Law applicable to it.
- 23.2 The **CONTRACTOR** shall give due consideration to the secondment of **GOVERNMENT** personnel to the **CONTRACTOR** and of the **CONTRACTOR**'s



personnel to the **GOVERNMENT** during the various phases of the Petroleum Operations. Terms and conditions for such secondment shall be mutually agreed by the Parties, and any costs associated therewith shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

- 23.3 Each **CONTRACTOR** Entity and its Affiliates and Subcontractors shall have the right to hire foreign personnel whenever the personnel from the Kurdistan Region and other parts of Iraq do not have the requisite technical capability, qualifications or experience for positions to be filled as required pursuant to Article 23.1. In the event any such foreign personnel and/or a member of their family engage in activities or commit acts which breach Kurdistan Region Law, the **CONTRACTOR** shall, at the request of the Management Committee, take the necessary steps to repatriate such individual(s).
- 23.4 For the first five (5) Contract Years, the **CONTRACTOR** shall pay to the **GOVERNMENT** two hundred and fifty thousand Dollars (US\$250,000) in advance each Contract Year for the recruitment or secondment of personnel, whether from the Kurdistan Region other parts of Iraq or Abroad, to the Ministry of Natural Resources. The selection of such personnel shall be at the discretion of the Minister of Natural Resources. Such costs shall be considered as Petroleum Costs and shall be recoverable in accordance with the provisions of Articles 1 and 25.

### **Training**

- 23.5 In a planned way, in accordance with the provisions of this Article 23.5 and Articles 23.6 and 23.7, the **CONTRACTOR** shall train all its personnel from the Kurdistan Region and other parts of Iraq directly or indirectly involved in the Petroleum Operations for the purpose of improving their knowledge and professional qualifications in order that such personnel gradually reach the level of knowledge and professional qualification held by the **CONTRACTOR** Entities' foreign workers with an equivalent résumé. Such training shall also include the transfer of knowledge of petroleum technology and the necessary management experience so as to enable the personnel from the Kurdistan Region and other parts of Iraq to apply advanced and appropriate technology in the Petroleum Operations, to the extent permitted by Applicable Law and agreements with third parties, and subject to appropriate confidentiality agreements.
- 23.6 In addition to the requirements of Article 23.1, the recruitment, integration and training of the **CONTRACTOR** Entities' personnel from the Kurdistan Region and other parts of Iraq shall be planned, which plans shall be submitted to the Management Committee for its approval. The training plan shall take into consideration the requirements of Article 23.5 and may include training for the **GOVERNMENT's** personnel, depending on the extent to which the amount allocated to the training plan, as prescribed by Article 23.7, is available after taking into consideration the training of the **CONTRACTOR** Entities' Kurdistan Region and other Iraqi personnel.

Within ninety (90) days of the Effective Date, the **CONTRACTOR** shall submit to the Management Committee a proposed training plan for the remainder of the

Calendar Year. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit a proposed training plan to the Management Committee for the following Calendar Year.

- 23.7 The training plan referred to in Article 23.6 shall provide for the allocation to the **GOVERNMENT** of the amount of one hundred and fifty thousand Dollars (US\$150,000) in advance for each Contract Year during the Exploration Period and three hundred thousand Dollars (US\$300,000) in advance for each Contract Year during the Development Period. To the extent any amount allocated for a Contract Year is not utilised in such Contract Year, the unutilised allocation shall be carried forward and added to the allocation for the following Contract Year indefinitely.
- 23.8 Each **CONTRACTOR** Entity shall be responsible for the training costs which such **CONTRACTOR** Entity may incur in respect of the personnel it employs from the Kurdistan Region and other parts of Iraq. All such reasonable costs shall be considered as Petroleum Costs and shall be recoverable in accordance with the provisions of Articles 1 and 25. Costs incurred by the **CONTRACTOR** for training programs for the **GOVERNMENT's** personnel shall be borne by the **CONTRACTOR** only to the extent that they are included in the **CONTRACTOR's** training plan, pursuant to Article 23.6 and shall also be considered as Petroleum Costs and shall be recoverable in accordance with the provisions of Articles 1 and 25. The cost of all other training programs for the **GOVERNMENT's** personnel shall be the **GOVERNMENT's** responsibility.

#### **The Environment Fund**

- 23.9 The **CONTRACTOR** shall pay to the **GOVERNMENT** the amount of one hundred and fifty thousand Dollars (US\$150,000) in advance each Contract Year during the Exploration Period and three hundred thousand Dollars (US\$300,000) in advance for each Contract Year during the Development Period solely for application by the **GOVERNMENT** to the environment fund to be established by the **GOVERNMENT** for the benefit of the natural environment of the Kurdistan Region, pursuant to the Kurdistan Region Oil and Gas Law (the "**Environment Fund**"). Such payments by the **CONTRACTOR** shall be deemed to be Petroleum Costs and shall be recoverable in accordance with Articles 1 and 25.
- 23.10 Payments by the **CONTRACTOR** under this Article 23 shall be considered Petroleum Costs and shall be recoverable in accordance with Articles 1 and 25.

#### **Technological and logistical assistance**

- 23.11 Before the end of the first Contract Year, the **CONTRACTOR** shall provide to the **GOVERNMENT** technological and logistical assistance to the Kurdistan Region petroleum sector, including geological computing hardware and software and such other equipment as the Minister of Natural Resources may require, up to the value of one million Dollars (US\$1,000,000). The form of such assistance shall be mutually agreed by the Parties, and any costs of the **CONTRACTOR** associated therewith shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

## ARTICLE 24 – ROYALTY

- 24.1 The **CONTRACTOR** shall pay to the **GOVERNMENT** a portion of Petroleum produced and saved from the Contract Area, as provided in this Article 24 (the “**Royalty**”).
- 24.2 The Royalty shall be applied on all Petroleum produced and saved from the Contract Area which is Crude Oil or Non-Associated Natural Gas, except for Petroleum used in Petroleum Operations, re-injected in a Petroleum Field, lost, flared or for Petroleum that cannot be used or sold and such Crude Oil and Non-Associated Natural Gas (excluding the excepted Petroleum) shall be referred to collectively as “**Export Petroleum**” and separately and respectively as “**Export Crude Oil**” and “**Export Non-Associated Natural Gas**”.
- 24.3 If payable in cash, the amount of the Royalty calculated by applying the Royalty rates provided under Article 24.4 shall be paid by the **CONTRACTOR** as directed by the **GOVERNMENT**, in accordance with Article 24.7.

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

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

- 24.4 The Royalty due on any Export Petroleum produced and saved in the Contract Area shall be determined daily by applying the following relevant Royalty rate to the Export Crude Oil or to the Export Non-Associated Natural Gas (as the case may be) produced and saved on that day:
- (a) **For Export Crude Oil:**
- the Royalty rate for Export Crude Oil shall be ten per cent (10%), which, for the avoidance of doubt, shall apply regardless of the gravity of the oil; and
- (b) **For Export Non-Associated Natural Gas:**
- the Royalty rate for Export Non-Associated Natural Gas shall be ten per cent (10%).
- 24.5 Associated Natural Gas and any other Petroleum shall be exempt from any Royalty.
- 24.6 If, pursuant to Article 24.3, the **GOVERNMENT** receives the Royalty in kind, and pursuant to Article 28, the **GOVERNMENT** requests assistance for the sale of all or part of the Royalty received in kind, each **CONTRACTOR** Entity shall assist the **GOVERNMENT** in selling all or part of such Royalty received in kind (belonging to

the **GOVERNMENT**) in consideration of a commission per Barrel payable to such **CONTRACTOR** Entity, in accordance with Article 28.

- 24.7 If, pursuant to Article 24.3, the **GOVERNMENT** receives the Royalty in cash:
- (a) any Export Crude Oil shall be valued at the International Market Price obtained at the Delivery Point, as defined in Article 27.2;
  - (b) any Export Non-Associated Natural Gas shall be valued at the actual price obtained at the Delivery Point under an approved contract, as provided in Article 27.3;
  - (c) the **CONTRACTOR** shall pay such Royalty each Quarter, in arrears, within thirty (30) days of the end of each Quarter, and shall calculate the payment due for the relevant Quarter by reference to the price for the Export Petroleum at the Delivery Point, determined in accordance with paragraphs (a) and (b) above, and the Royalty due on the Export Petroleum, determined in accordance with Article 24.4, for the said Quarter; and
  - (d) the **CONTRACTOR** Entities shall be entitled to export freely the volume of Export Petroleum corresponding to the Royalty determined in accordance with Article 24.4 for the purpose of paying the Royalty in cash.

#### **ARTICLE 25 – RECOVERY OF PETROLEUM COSTS**

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

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

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

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

- 25.2 For the purpose of this Article 25:
- (a) any Available Crude Oil shall be valued at the International Market Price obtained at the Delivery Point, as defined in Article 27.2; and
  - (b) any Available Associated Natural Gas and any Available Non-Associated Natural Gas shall be valued at the actual price obtained at the Delivery Point under an approved contract, as provided in Article 27.3.

- 25.3 Subject to the provisions of this Contract, from the First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract, of up to forty per cent (40%) of Available Crude Oil (which will apply regardless of the gravity of the oil) and Available Associated Natural Gas, in each case produced and saved within any Calendar Year. Available Crude Oil above forty per cent (40%) and Available Associated Natural Gas above forty per cent (40%) otherwise not used for the recovery of Petroleum Costs shall be Profit Crude Oil.
- 25.4 Subject to the provisions of this Contract, from First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract of up to fifty per cent (50%) of Available Non-Associated Natural Gas produced and saved within any Calendar Year. Available Non-Associated Natural Gas above this percentage or otherwise not used for the recovery of Petroleum Costs shall be Profit Natural Gas.
- 25.5 For the application of Article 25.3 and 25.4, the **CONTRACTOR** shall keep a detailed account of Petroleum Costs in accordance with the provisions detailed in the Accounting Procedure. Recovery of Petroleum Costs shall occur in the following order:
- (1) Production Costs;
  - (2) Exploration Costs (including appraisal costs and further exploration within the Contract Area);
  - (3) Gas Marketing Costs;
  - (4) Development Costs; and lastly
  - (5) Decommissioning Costs.
- 25.6 Total recovery of Petroleum Costs during any Calendar Year, expressed in quantities of Petroleum, shall not exceed the relevant percentages indicated in Articles 25.3 and 25.4. If in any Calendar Year, the Available Crude Oil and/or Available Non-Associated Natural Gas do not allow the **CONTRACTOR** to recover all its Petroleum Costs pursuant to this Article 25, the amount of un-recovered Petroleum Costs in such Calendar Year shall be carried forward indefinitely to the subsequent Calendar Years until all Petroleum Costs are fully recovered, but, save as provided in Articles 14.10 and 38.4, in no other case after the termination of the Contract.
- 25.7 The provisions of Articles 27.5 and 27.6 shall be applied to determine the quantities of Available Crude Oil and/or Available Non-Associated Natural Gas due to the **CONTRACTOR** for the recovery of its Petroleum Costs.
- 25.8 The quantities of Petroleum corresponding to the share of Available Petroleum due to the **CONTRACTOR** for the recovery of its Petroleum Costs shall be delivered to the **CONTRACTOR** at the Delivery Point. Title and risk of loss of such Available Petroleum shall be transferred at the Delivery Point.

- 25.9 Each **CONTRACTOR** Entity shall be entitled to receive, take in kind and to export freely all Available Petroleum to which it is entitled for recovery of its Petroleum Costs in accordance with the provisions of this Contract and to retain Abroad any proceeds from the sale of all such Available Petroleum. Petroleum Costs in each Production Area shall be recoverable from Available Petroleum from the Contract Area.
- 25.10 Subject to Article 38.4, for the avoidance of doubt, Petroleum Costs under this Contract are not recoverable against other contract areas held by the **CONTRACTOR**.

#### **ARTICLE 26 – SHARING OF PROFIT PETROLEUM**

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

$$R = X/Y$$

where:

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

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

For the purpose of this Article 26.4:

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

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

“**Cumulative Costs**” means all Petroleum Costs actually incurred pursuant to this Contract by the **CONTRACTOR** until the end of the relevant Semester, determined in accordance with Article 26.7.

Notwithstanding the foregoing provisions of this Article 26.4, for the period from First Production until the end of the Calendar Year in which First Production occurs, the “R” Factor shall be deemed to be less than one (1).

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

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

**“R” Factor    CONTRACTOR’s % Share of Profit Crude Oil**

R < or = 1	32%
1 < R < or = 2.25	$32 - [(32 - 16) \times (R - 1) / (2.25 - 1)]\%$
R > 2.25	16%

and

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

**“R” Factor    CONTRACTOR’s % Share of Profit Natural Gas**

R < or = 1	38%
1 < R < or = 2.75	$38 - [(38 - 19) \times (R - 1) / (2.75 - 1)]\%$
R > 2.75	19%

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

- 26.7 For each Semester, starting from the 1<sup>st</sup> of January of the Calendar Year following the Calendar Year in which First Production occurs, the **CONTRACTOR** shall calculate the "R" Factor applicable to the relevant Semester within thirty (30) days of the beginning of such Semester. The "R" Factor to be applied during a Semester shall be that determined by applying the Cumulative Revenues actually received and the Cumulative Costs actually incurred up to and including the last day of the preceding Semester.

If the **CONTRACTOR** is unable to calculate the "R" Factor for the relevant Semester before an allocation of Profit Petroleum for such Semester must be made, then the allocation of Profit Petroleum for the previous Semester shall be used for the relevant Semester. Upon the calculation of the "R" Factor for the relevant Semester:

- (a) if the allocation of Profit Petroleum in the previous Semester and the relevant Semester is the same, then no adjustment shall be made; and
  - (b) if the allocation of the Profit Petroleum in the two Semesters is different, then the **CONTRACTOR** shall make any adjustments to the Parties' respective shares of Profit Petroleum to restore them to the position that they would have been in had the "R" Factor for the relevant Semester been available from the start of such Semester.
- 26.8 If at any time an error occurs in the calculation of the "R" Factor, resulting in a change in the **CONTRACTOR**'s percentage share of Profit Crude Oil and/or Profit Natural Gas, the necessary correction shall be made and any adjustments shall apply from the Semester in which the error occurred. The Party having benefited from a surplus of Profit Petroleum shall surrender such surplus to the other Party, beginning from the first day of the Semester following the Semester in which the error was recognised. However, each lifting of Petroleum relating to such error by the Party receiving the surplus shall not exceed twenty-five per cent (25%) of the share of Profit Petroleum to which such surrendering Party is entitled. For the avoidance of doubt, if at any time an error occurs in the calculation of the "R" Factor, which does not result in a change in the **CONTRACTOR**'s percentage share of Profit Crude Oil and/or Profit Natural Gas, no correction shall be made.

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

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

- 26.10 The share of the Profit Petroleum to which the **GOVERNMENT** is entitled in any Calendar Year in accordance with Article 26.5 shall be deemed to include a portion representing the corporate income tax imposed upon and due by each **CONTRACTOR** Entity, and which will be paid directly by the **GOVERNMENT** on behalf of each such entity representing the **CONTRACTOR** to the appropriate tax authorities in accordance with Article 31.2. The **GOVERNMENT** shall provide the



**CONTRACTOR** Entities with all written documentation and evidence reasonably required by the **CONTRACTOR** Entities to confirm that such corporate income tax has been paid by the **GOVERNMENT**.

- 26.11 The quantities of Profit Petroleum due to the **GOVERNMENT** shall be delivered to the **GOVERNMENT** at the Delivery Point. Title and risk of loss of such Profit Petroleum shall be transferred at the Delivery Point.
- 26.12 At least twenty-one (21) days prior to **CONTRACTOR**'s estimated date of First Production and, subsequently, thirty (30) days prior to the beginning of each Semester, the **CONTRACTOR** shall prepare and deliver to the **GOVERNMENT** a production program comprising the production forecast for the next Semester and the forecast of the quantities of Crude Oil and Natural Gas to which each Party shall be entitled during the said Semester.
- 26.13 Within ninety (90) days following the end of each Calendar Year, the **CONTRACTOR** shall prepare and deliver an annual production report to the **GOVERNMENT**, stating the quantities of Crude Oil and Natural Gas to which each Party is entitled, the quantities of Crude Oil and Natural Gas lifted by each Party and the resulting over-lift or under-lift position of each Party, pursuant to the lifting agreement entered into pursuant to Article 16.14.
- 26.14 Any costs or expenditure incurred by the **CONTRACTOR**, its Subcontractors or suppliers relating to the lifting of the **GOVERNMENT**'s share of Petroleum by the **CONTRACTOR** shall not be considered Petroleum Costs and shall be charged to the **GOVERNMENT** according to terms to be mutually agreed between the **CONTRACTOR** and the **GOVERNMENT**.

## **ARTICLE 27 – VALUATION AND METERING OF CRUDE OIL AND NATURAL GAS**

### **Valuation**

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

The **CONTRACTOR** shall provide evidence to the **GOVERNMENT** that the sales of Crude Oil referred to in Article 27.2 are Arm's Length Sales. If the **GOVERNMENT** considers that any such sale of Crude Oil is not on the basis of an Arm's Length Sale then the **GOVERNMENT** has the right to refer the matter to an expert pursuant to Article 42.2.

In the event that there is no lifting of Crude Oil in the relevant Quarter or no Arm's Length Sales, the applicable "**International Market Price**" for such Quarter shall be the weighted average price per Barrel obtained during that Quarter from Arm's Length Sales of Crude Oil of the same or similar gravity and quality from other production areas sold in markets competing with Crude Oil produced from the Contract Area, taking into account gravity and quality differences and transportation and other post Delivery Point costs.

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

- 27.3 The price of Natural Gas shall be the actual price obtained at the Delivery Point, (which may take into account quantities to be sold, quality, geographic location of markets to be supplied as well as costs of production, transportation and distribution of Natural Gas from the Delivery Point to the relevant market, in accordance with standard international petroleum industry practice). The **GOVERNMENT** shall have the right to review and approve Natural Gas sales contracts.

#### **Accounting Statement**

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

#### **Metering**

- 27.5 All Export Petroleum shall be metered at the Delivery Point in accordance with prudent international petroleum industry practice and such meters shall be to fiscal meter standards. All metering equipment shall be installed and operated by the **CONTRACTOR**. The **GOVERNMENT** shall, on receipt by the **CONTRACTOR** of reasonable prior written notice, have the right to inspect any such metering

equipment installed by the **CONTRACTOR**, as well as all relevant documents and supporting information reasonably necessary to validate the accuracy of such metering. All metering equipment shall be subject to periodic technical inspections in accordance with prudent international petroleum industry practice.

- 27.6 If any metering equipment is defective, the **CONTRACTOR** shall use all reasonable endeavours to repair it within fifteen (15) days or, if deemed necessary by the **CONTRACTOR**, replace it as soon as reasonably practicable from the date the defect became known. The "**Adjustment Date**" shall be the last date that the metering equipment was known or agreed to have been measuring correctly, or if not known or agreed, the date that is midway between the date the defect was discovered and the last date the equipment was known to have measured correctly. The results from the defective equipment shall be disregarded for the period from the Adjustment Date until the date the defective equipment is repaired or replaced and the measurement for such period shall be estimated:
- (a) if check measuring equipment is installed and registering accurately, then by using the measurements recorded by such check measuring equipment;
  - (b) if check measuring equipment is not installed or not registering accurately, then by correcting the error if the percentage of error is ascertainable by verification, calibration or mathematical calculation; or
  - (c) if neither method is feasible, then by estimating the volume and/or quantity delivered based on deliveries during the preceding comparable period of time when the metering equipment was registered accurately.
- 27.7 Any disputes arising under this Article 27 shall be settled by expert determination in accordance with the provisions of Article 42.2.

#### **ARTICLE 28 – SALE OF GOVERNMENT SHARE**

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

#### **ARTICLE 29 – FINANCIAL PROVISIONS**

- 29.1 Each Party making a payment to the **GOVERNMENT**: shall (i) shall make such payment: (i) in Dollars in cleared funds by wire transfer from a reputable bank in accordance with wire instructions provided by the **GOVERNMENT**, on the date when due; and (ii) not offset against such payment any outstanding and undisputed payments due from the **GOVERNMENT** to such Party, except with the prior written consent of the **GOVERNMENT**.

If a Party fails to make any payment to the **GOVERNMENT** when due, such Party shall pay interest on such unpaid amount, compounded monthly, at the rate of LIBOR (determined as of the first day on or following the due date with respect to which LIBOR can first be determined) plus two (2) percentage points.

29.2 The **GOVERNMENT** may, at its sole discretion, direct the **CONTRACTOR** Entities to pay:

- (a) any Royalty in cash due to the **GOVERNMENT** pursuant to the provisions of Article 24; and/or
- (b) any proceeds from the sale undertaken by a **CONTRACTOR** Entity on behalf of the **GOVERNMENT** pursuant to Article 28 of any Crude Oil to which the **GOVERNMENT** is entitled pursuant to Article 25; and
- (c) any Production Bonus,

to a fund for revenue sharing, which may in due course be established by legislation consistent with the Constitution of Iraq, between the Government of Iraq and other regions (including the Kurdistan Region) and governorates of Iraq. Nothing in this Article 29.2 shall be understood as implying any contractual relationship or other relationship between the **CONTRACTOR** and/or any **CONTRACTOR** Entity and the Government of Iraq and/or the regions of Iraq (other than the Kurdistan Region) and/or and governorates of Iraq.

29.3 The **GOVERNMENT**: (i) shall make any payment to the **CONTRACTOR** in Dollars in cleared funds by wire transfer from a reputable bank in accordance with wire instructions provided by the **CONTRACTOR**; and (ii) may, with notice to and the prior written consent the **CONTRACTOR**, offset against such payment any outstanding payments due by the **CONTRACTOR** to the **GOVERNMENT**.

If the **GOVERNMENT** fails to make any payment to the **CONTRACTOR** when due, the **GOVERNMENT** shall pay interest on such unpaid amount, compounded monthly, at the rate of LIBOR (determined as of the first day on or following the due date with respect to which LIBOR can first be determined) plus two (2) percentage points.

29.4 Any currency conversion to be made under this Contract shall be at the exchange rate of the Central Bank of Iraq, provided such exchange rate applied to the **CONTRACTOR** Entities shall not be less favourable than the rate offered by other private, commercial or industrial banks in the international market. In the absence of the Central Bank of Iraq or in the event that the Central Bank of Iraq is unable to provide the relevant exchange rate, any currency conversion to be made under this Contract shall be at the exchange rate of a reputable commercial bank carrying on business in the international market and approved by the Parties.

29.5 The **CONTRACTOR** shall not realise any gain or loss due to exchange rate fluctuations and, consequently, any gain or loss resulting from the exchange of currency shall be either considered as revenue and credited to the Accounts or shall be

- considered as a Petroleum Cost and shall be recoverable by the **CONTRACTOR** in accordance with Articles 1 and 25, as the case may be.
- 29.6 Each **CONTRACTOR** Entity shall at all times be entitled to freely convert into Dollars or any other foreign currency any Iraqi dinars received in the framework of the Petroleum Operations and to freely transfer the same Abroad. The conversion rate shall be as provided under Article 29.4.
- 29.7 Each **CONTRACTOR** Entity shall have the right to be paid, receive, keep, transfer and use Abroad, without any restrictions, all proceeds of its share of Petroleum.
- 29.8 Each **CONTRACTOR** Entity and its Subcontractors shall have the right to freely open and maintain bank accounts for Petroleum Operations within or outside the Kurdistan Region and other parts of Iraq.
- 29.9 Each **CONTRACTOR** Entity shall have the right to pay in any freely convertible currency all its financial requirements for the Petroleum Operations and to convert these currencies to Iraqi dinars in any bank in the Kurdistan Region or other parts of Iraq, at the same exchange rate as provided under Article 29.4.
- 29.10 Each **CONTRACTOR** Entity shall have the right, without any restrictions, to freely repatriate Abroad and to freely dispose of:
- (a) any proceeds received in the Kurdistan Region or other parts of Iraq from the sale of Petroleum;
  - (b) any proceeds received from other operations and activities carried out under this Contract in the Kurdistan Region or other parts of Iraq.
- 29.11 Each **CONTRACTOR** Entity shall have the right to pay in any foreign currency its Subcontractors and its expatriate personnel, either in the Kurdistan Region, other parts of Iraq, or Abroad. Said Subcontractors and expatriate personnel shall be obliged to transfer to the Kurdistan Region the amount of foreign currency required for their local needs and they shall have the right to repatriate the proceeds of the sale of their belongings in accordance with the regulations in force in the Kurdistan Region.
- 29.12 Each **CONTRACTOR** Entity's Affiliates, Subcontractors and their personnel shall equally benefit from the same rights as such **CONTRACTOR** Entity and its personnel as regards this Article 29.
- 29.13 For the financing of Petroleum Operations, each **CONTRACTOR** Entity shall have the right to have recourse to external financing from third parties or from its Affiliated Companies on an arm's length basis.
- 29.14 Each Party receiving a payment from another Party under this Contract shall, upon receipt of a notice requesting a receipt therefore, endeavour to provide the other Party with a notice of receipt of such payment.

### **ARTICLE 30 – CUSTOMS PROVISIONS**

- 30.1 All services, materials, equipment, goods, machinery, vehicles, tools, spare parts, consumables, products, and other items imported into the Kurdistan Region by the **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing, for use or consumption in the Petroleum Operations shall be admitted free and exempt from any and all Taxes on import. The **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing shall have the right to re-export from the Kurdistan Region free from all Taxes on export any materials, equipment, goods, machinery, vehicles, tools, spare parts, consumables, products, and other items that are no longer required for the Petroleum Operations, except where title has passed to the **GOVERNMENT** in accordance with Article 20, in which case re-export shall be approved by the Management Committee.
- 30.2 The **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing, and their personnel (including their family members) shall have the right to freely import into the Kurdistan Region and other parts of Iraq and re-export from the Kurdistan Region and other parts of Iraq any personal belongings and furniture free and exempt from any Taxes on import or export. The sale in the Kurdistan Region and other parts of Iraq of personal belongings and furniture of expatriate personnel shall comply with Kurdistan Region Law.
- 30.3 Each **CONTRACTOR** Entity and its Affiliates shall be entitled to freely export from the Kurdistan Region and other parts of Iraq, free of any Taxes, any Petroleum to which it is entitled pursuant to the provisions of this Contract.
- 30.4 The **GOVERNMENT** shall indemnify the **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing, and their personnel (including their family members) for any import or export Taxes referred to in Articles 30.1, 30.2 or 30.3.

### **ARTICLE 31 – TAX PROVISIONS**

- 31.1 Except as expressly provided in this Article 31, and without prejudice to the exemptions expressly provided for in Article 30 and in this Article 31, each **CONTRACTOR** Entity, its Affiliates and any Subcontractor shall, for the entire duration of this Contract, be exempt from all Taxes as a result of its income, assets and activities under this Contract. The **GOVERNMENT** shall indemnify each **CONTRACTOR** Entity upon demand against any liability to pay any Taxes assessed or imposed upon such entity which relate to any of the exemptions granted by the **GOVERNMENT** under this Article 31.1 and under Articles 31.4 to 31.10.
- 31.2 Each **CONTRACTOR** Entity shall be subject to corporate income tax on its income from Petroleum Operations as provided in Article 31.3, which shall be deemed to be inclusive and in full and total discharge of any Tax on income, receipts, revenues, gains or profits of each such entity. Payment of such corporate income tax shall be made for the entire duration of this Contract directly to the official Kurdistan Region

tax authorities by the **GOVERNMENT**, for the account of each **CONTRACTOR** Entity, from the **GOVERNMENT**'s share of the Profit Petroleum received pursuant to Article 26.

Each **CONTRACTOR** Entity shall, within sixty (60) days after the end of each tax year, provide a statement to the appropriate Kurdistan Region tax authorities of its profits which are subject to corporate income tax, together with a calculation of the amount of corporate income tax due on those profits.

The **GOVERNMENT** shall, within ninety (90) days after the end of each tax year, provide to each **CONTRACTOR** Entity (i) the appropriate official tax receipts from the appropriate Kurdistan Region tax authorities or other relevant authority certifying the payment of its corporate income tax, as determined in the said statement, and that such entity has met all its Tax obligations in the preceding tax year, and (ii) a copy of any return or other filing made by the **GOVERNMENT** in respect of its payment of corporate income tax on behalf of such **CONTRACTOR** Entity.

31.3 For the purposes of Article 31.2:

- (a) The rate of corporate income tax to be applied to each **CONTRACTOR** Entity shall be the generally applicable rate prescribed in the Law of Taxation (Law No. 5 of 1999), passed by the National Assembly of the Kurdistan Region, as has been amended by Law No. 26 of 2007, and as may be amended from time to time or substituted in respect of Petroleum Operations (as defined under the Kurdistan Region Oil and Gas Law) by a petroleum operations taxation law for the Kurdistan Region, but in no event in excess of forty per cent (40%). The Parties acknowledge and agree that at the Effective Date of this Contract, the corporate income tax rate is fifteen per cent (15%) for all net taxable profits.
- (b) The **GOVERNMENT** and the **CONTRACTOR** agree that corporate income tax shall be calculated for each **CONTRACTOR** Entity on its net taxable profits under the Contract, as calculated in accordance with the provisions relating thereto in the Accounting Procedure.

31.4 Each **CONTRACTOR** Entity, its Affiliates and any Subcontractors shall be exempt from any withholding tax applicable on any payments made to them or by them to or from Affiliates or third parties, whether inside or outside the Kurdistan Region and/or Iraq, for the entire duration of this Contract.

31.5 Each **CONTRACTOR** Entity and its Affiliates shall be exempt from Additional Profits Tax, as referred to in Article 40 of the Kurdistan Region Oil and Gas Law or any successor Tax.

31.6 Each **CONTRACTOR** Entity and its Affiliates shall be exempt from Surface Tax, as referred to in Article 40 of the Kurdistan Region Oil and Gas Law or any successor Tax.

- 31.7 Each **CONTRACTOR** Entity and its Affiliates shall be exempt from Windfall Profits Taxes, as referred to in Article 40 of the Kurdistan Region Oil and Gas Law or any successor Tax.
- 31.8 Each **CONTRACTOR** Entity and any Subcontractor shall be subject to the payment or withholding of the personal income tax and social security contributions for which such entity or Subcontractor is liable to pay or withhold in respect of its employees who are Iraqi nationals, pursuant to the Law of Taxation (Law No. 5 of 1999) passed by the National Assembly of the Kurdistan Region, as may be amended from time to time, in the same manner as the same shall be generally applied to all other industries, except that a **CONTRACTOR** Entity or Subcontractor shall not be liable for such taxes or contributions with respect to employees of another Person.
- 31.9 It is acknowledged that double tax treaties will have effect to give relief from taxes to, but not limited to, the **CONTRACTOR**, **CONTRACTOR** Entities, Subcontractors and employees and other Persons in accordance with the provisions of such double tax treaties, but shall not impose an additional burden of taxation.
- 31.10 Any Tax that is a value added, or similar type of Tax ("VAT") shall be considered as a Petroleum Cost and shall be cost recoverable, if not otherwise recovered under Applicable Law, in accordance with the provisions of Articles 1 and 25.
- 31.11 Notwithstanding any other provision to the contrary in this Contract, the Parties acknowledge and agree that the provisions of this Article 31 shall apply individually and separately to all **CONTRACTOR** Entities under this Contract and that there shall be no joint and several liability in respect of any liability, duty or obligation referred to in this Article 31.

## ARTICLE 32

### CAPACITY BUILDING PAYMENTS; PRODUCTION BONUSES

#### Capacity Building Payments

- 32.1 **Marathon** and the **CONTRACTOR** shall pay to the **GOVERNMENT** capacity building payments (each such payment a "**Capacity Building Payment**" and collectively, the "**Capacity Building Payments**") as provided in Articles 32.2 through 32.7.
- 32.2 **Marathon** shall pay (the following collectively constituting the "**Marathon Exploration Tranche**") sixty million Dollars (US\$60,000,000) in three instalments:
- (1) thirty million Dollars (US\$30,000,000) within thirty (30) days of the Effective Date;
  - (2) fifteen million Dollars (US\$15,000,000) on or before 31 December 2011; and
  - (3) fifteen million Dollars (US\$15,000,000) within 30 days after completion of site preparation for the first well.



- 32.3 The **CONTRACTOR** shall pay twenty-five million Dollars (US\$25,000,000) (such payment, the "**Development Plan Tranche**") to the **GOVERNMENT** within thirty (30) days of the approval of the Development Plan by the Management Committee.
- 32.4 The **CONTRACTOR** shall pay seventeen million Dollars (US\$17,000,000) (the following constituting the "**Production Tranche**") to the **GOVERNMENT** within 30 days after production of Crude Oil and Natural Gas reaches a cumulative amount of ten million barrels of Crude Oil and Natural Gas BOE and multiples of ten million (10,000,000) thereof, so that, for the duration of this Contract, the **CONTRACTOR** is obliged to pay to the **GOVERNMENT** seventeen million Dollars (US\$17,000,000) within thirty (30) days of the day on which production of Crude Oil and Natural Gas from the Contract Area equals a cumulative amount of:
- (a) ten million (10,000,000) Barrels of Crude Oil and Natural Gas BOE;
  - (b) twenty million (20,000,000) Barrels of Crude Oil and Natural Gas BOE;
  - (c) thirty million (30,000,000) Barrels of Crude Oil and Natural Gas BOE;

and so on.

For purposes of calculating the Production Tranche pursuant to this Article 32.4, Natural Gas BOE shall not include Natural Gas used for Petroleum Operations (including re-injection) or, to the extent permitted by this Contract, the Laws of the Kurdistan Region, and authorised by the Management Committee, for flaring.

- 32.5 To the extent permitted by Laws of the Kurdistan Region or as otherwise agreed with the Government of Iraq, the **GOVERNMENT** will:
- (a) open and maintain the Capacity Building Account;
  - (b) instruct **Marathon** and the **CONTRACTOR** to make all Capacity Building Payments to the Capacity Building Account (in accordance with wire instructions provided by the **GOVERNMENT** to **Marathon** and the **CONTRACTOR**, as applicable);
  - (c) apply funds from the Capacity Building Account as set forth in the definition of Capacity Building Account; and
  - (d) periodically publish reports of the **GOVERNMENT**'s application of funds from the Capacity Building Account in sufficient detail to identify the projects to which the **GOVERNMENT** has applied the Capacity Building Payments.
- 32.6 The obligation of **Marathon** and the **CONTRACTOR**, as applicable, to pay the Capacity Building Payments is, except as specifically provided otherwise in Articles 32.2 through 32.4, absolute and unconditional. No Capacity Building Payment will be refundable to **Marathon** or the **CONTRACTOR**, whether in whole or in part, under any circumstance, including if the Contract is terminated pursuant to Article 45.

- 32.7 **Marathon** and the **CONTRACTOR** each acknowledge and accept that a fundamental principle of Articles 32.1 through 32.6 is that, except as specifically provided in Articles 32.2 through 32.4, **Marathon** and the **CONTRACTOR**, as applicable, must absolutely and unconditionally make the Capacity Building Payments required by Articles 32.1 through 32.6. Accordingly, in respect of their respective obligations under Articles 32.1 through 32.6, and notwithstanding any provision in the Contract to the contrary, **Marathon** (on behalf of itself and each of its successors and assigns) and the **CONTRACTOR** each waives any right to raise by way of set off or invoke as a defence to its obligations to make any of the payments required by Articles 32.1 through 32.6, whether in law or equity, any failure by the **GOVERNMENT** or any **CONTRACTOR** Entity to pay amounts due and owing under the Contract or any alleged claim that **Marathon** (or its successors and assigns) or the **CONTRACTOR** may have against the **GOVERNMENT**, any other **CONTRACTOR** Entity, or any other Person, whether such claim arises under or relates to this Contract or otherwise.

#### **Production Bonuses**

- 32.8 In the event of a Crude Oil Commercial Discovery:

- (a) the **CONTRACTOR** shall pay the following relevant Crude Oil Production Bonus to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:
- (1) two million five hundred thousand Dollars (US\$2,500,000) when First Production of Crude Oil from the Contract Area commences;
  - (2) five million Dollars (US\$5,000,000) when production of Crude Oil and Natural Gas from the Contract Area reaches a cumulative amount of ten million (10,000,000) Barrels of Crude Oil and Natural Gas BOE;
  - (3) ten million Dollars (US\$10,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of twenty five million Barrels of Crude Oil and Natural Gas BOE; and
  - (4) twenty million Dollars (US\$20,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of fifty million (50,000,000) Barrels of Crude Oil and Natural Gas BOE;

For purposes of calculating the Production Bonus pursuant to this Article 32.8(a), Natural Gas BOE shall not include Natural Gas used for Petroleum Operations (including re-injection) or, to the extent permitted by this Contract, the Laws of the Kurdistan Region, and authorised by the Management Committee, for flaring.

- (b) each holder of a Government Interest, other than the **GOVERNMENT** or a Public Company, shall pay, pro rata the percentage of the Government Interest held such holder to the the total Government Interest held by Persons other than the **GOVERNMENT** or a Public Company, the following Crude Oil

Production Bonuses to the **GOVERNMENT** within thirty (30) days of the following relevant occurrences:

- (1) five hundred thousand Dollars (US\$500,000) when First Production of Crude Oil from the Contract Area commences;
- (2) one million Dollars (US\$1,000,000) when production of Crude Oil and Natural Gas from the Contract Area reaches a cumulative amount of ten million (10,000,000) Barrels of Crude Oil and Natural Gas BOE;
- (3) two million Dollars (US\$2,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of twenty five million (25,000,000) Barrels of Crude Oil and Natural Gas BOE; and
- (4) four million Dollars (US\$4,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of fifty million (50,000,000) Barrels of Crude Oil and Natural Gas BOE. For purposes of calculating the Production Bonus pursuant to this Article 32.8(b), Natural Gas BOE shall not include Natural Gas used for Petroleum Operations (including re-injection) or, to the extent permitted by this Contract, the Laws of the Kurdistan Region, and authorised by the Management Committee, for flaring.

32.9 In the event of a Non-Associated Natural Gas Commercial Discovery:

- (a) the **CONTRACTOR** shall pay the following Non-Associated Natural Gas Production Bonuses to the **GOVERNMENT** within thirty (30) days of the following occurrences:
  - (1) two million five hundred thousand Dollars (US\$2,500,000) when First Production of Non-Associated Natural Gas from the Contract Area commences;
  - (2) five million Dollars (US\$5,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of ten million (10,000,000) Natural Gas BOE;
  - (3) ten million Dollars (US\$10,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of twenty five million (20,000,000) Natural Gas BOE; and
  - (4) twenty million Dollars (US\$20,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of fifty million (50,000,000) Natural Gas BOE; For purposes of calculating the Production Bonus pursuant to this Article 32.9(a), Natural Gas BOE shall not include Natural Gas used for Petroleum Operations (including re-injection) or, to the extent permitted by this Contract, the Laws of the Kurdistan Region, and authorised by the Management Committee, for flaring.

- (b) Each holder of a Government Interest, other than the **GOVERNMENT** or a Public Company, shall pay, pro rata the percentage of the Government Interest held such holder to the the total Government Interest held by Persons other than the **GOVERNMENT** or a Public Company, the following Natural Gas Production Bonuses to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:
- (1) five hundred thousand Dollars (US\$500,000) when First Production of Non-Associated Natural Gas from the Contract Area commences;
  - (2) one million Dollars (US\$1,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of ten million (10,000,000) Natural Gas BOE;
  - (3) two million Dollars (US\$2,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of twenty five million (25,000,000) Natural Gas BOE; and
  - (4) four million Dollars (US\$4,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of fifty million (50,000,000) Natural Gas BOE.

For purposes of calculating the Production Bonus pursuant to this Article 32.9(b), Natural Gas BOE shall not include Natural Gas used for Petroleum Operations (including re-injection) or, to the extent permitted by this Contract, the Laws of the Kurdistan Region, and authorised by the Management Committee, for flaring.

- 32.10 The **CONTRACTOR** shall declare a Commercial Discovery to be either a Crude Oil Commercial Discovery or a Non-Associated Gas Commercial Discovery. Under no circumstances shall a Production Bonus be due in respect of both Crude Oil and Non-Associated Natural Gas for the same Commercial Discovery.

**No Recovery as Petroleum Cost**

- 32.11 No bonus or Capacity Building Payment due pursuant to this Article 32 shall be deemed to be a Petroleum Cost.

**ARTICLE 33 – PIPELINES**

- 33.1 The **GOVERNMENT** shall obtain any required Permits for the transportation of Petroleum in the Kurdistan Region and in Iraq, as well as any necessary Permits and easement rights for the construction of any pipelines and related facilities required for the Petroleum Operations, as provided in Article 33.2.
- 33.2 The **GOVERNMENT** undertakes to transfer to the **CONTRACTOR** its rights for transportation of Petroleum by pipeline. The **CONTRACTOR** shall have the right to design, construct, operate and maintain pipelines and any related facilities for the transportation of Petroleum produced under this Contract.

- 33.3 Prior to the construction of any pipeline and related facilities as provided in Article 33.2, the **CONTRACTOR** shall submit following information to the Management Committee:
- (a) proposed pipeline route and related facilities;
  - (b) forecasted pipeline flow rate and capacity;
  - (c) estimate of financial investment and operating costs of the pipeline and related facilities;
  - (d) proposed financing schedule;
  - (e) construction schedule;
  - (f) general technical description of the pipeline and related facilities;
  - (g) construction plans and tests;
  - (h) preventive measures for damage to the environment and third parties; and
  - (i) any other information relating to the pipeline project.

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

- 33.4 Subject to spare capacity being available and to their Petroleum being compatible, third parties shall be entitled to transport their Petroleum through any pipeline constructed by the **CONTRACTOR** in accordance with this Article 33 on terms to be agreed between the **CONTRACTOR** and such third party. Those terms shall be reasonable commercial terms and shall not discriminate among third party users. The **CONTRACTOR** shall always have priority of access to such pipelines.
- 33.5 To the extent that they are incurred upstream of the Delivery Point, any costs associated with the design, construction, operation and maintenance of the pipelines and related facilities by **CONTRACTOR** under this Article 33 ("**Pipeline Costs**") shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.6 The **CONTRACTOR** shall have the absolute right, without any exceptions and for the entire duration of this Contract, to use, free of charge, any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 and to transport Petroleum produced from any Production Area and to operate and maintain any pipeline and its related facilities, freely and without any additional costs.
- 33.7 To the extent related to transportation upstream of the Delivery Point, any tariffs received from third parties for use of any pipeline and related facilities by **CONTRACTOR** under this Article 33 shall be applied to the recovery of Petroleum Costs until all Pipeline Costs have been fully recovered by the **CONTRACTOR** pursuant to the provisions of Articles 1 and 25 and shall not be included in income for

corporate income tax purposes. The **GOVERNMENT** shall be entitled to receive any such tariffs from third parties for their use of such pipeline and related facilities when the said Pipeline Costs have been fully recovered by the **CONTRACTOR**. The costs associated with providing such transportation services for third parties up to the Delivery Point shall be considered Pipeline Costs and therefore Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

- 33.8 Upon recovery by the **CONTRACTOR** of all the Pipeline Costs, the operating and maintenance costs of any pipeline and its related facilities shall be borne by the **CONTRACTOR** and shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.9 The **GOVERNMENT** shall have the same rights as the **CONTRACTOR** for use, free of charge, of any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 for the transportation of the share of Petroleum to which the **GOVERNMENT** is entitled under this Contract up to the Delivery.
- 33.10 The **CONTRACTOR** shall bear the cost of operation and maintenance of any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 and all risks of accidental loss or damage to such pipeline and related facilities while they are required for Petroleum Operations.

#### **ARTICLE 34 – UNITISATION**

In the event a Reservoir extends beyond the Contract Area into an adjacent area which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Oil and Gas Law) (an “**Adjacent Contract Area**”), or in the event a Reservoir of an Adjacent Contract Area extends into the Contract Area, the provisions of Article 47, Paragraph Second of the Kurdistan Region Oil and Gas Law shall apply and the **GOVERNMENT** shall require the **CONTRACTOR** and the contractor of the Adjacent Contract Area to agree upon a schedule for reaching agreement of the terms of the unitisation of the Reservoir, which terms shall be based on reliable technical, operational and economical parameters, all in accordance with prudent international petroleum industry practice. In the event that the Minister of Natural Resources decides the unitisation pursuant to Article 47, Paragraph Third of the Kurdistan Region Oil and Gas Law, and if the **CONTRACTOR** does not agree with the decision of the Minister of Natural Resources, the **CONTRACTOR** shall be entitled to arbitration pursuant to the provisions of Article 42.1.

#### **ARTICLE 35 – LIABILITY AND INSURANCE**

##### **Liability**

- 35.1 Subject to the other provisions of this Contract, the **CONTRACTOR**, in its capacity as the entity responsible for the execution of the Petroleum Operations within the Contract Area, shall be liable to third parties to the extent provided under Applicable

Law for any losses and damage it may cause to them in conducting the Petroleum Operations.

- 35.2 Notwithstanding the other provisions of this Contract, the **CONTRACTOR** will not be liable to the **GOVERNMENT** or the Public Company or other government agencies, authorities or bodies, courts or political subdivisions for any damage or loss or claims of any kind resulting from the **CONTRACTOR**'s conduct of the Petroleum Operations (other than personal injuries, industrial illness, or death), unless such damage or loss is the result of wilful misconduct or a material failure to conduct Petroleum Operations in accordance with the terms of this Contract.
- 35.3 The **CONTRACTOR** shall indemnify the **GOVERNMENT** against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the **GOVERNMENT** by any:
- (i) employee of the **CONTRACTOR** or of any Subcontractor or by any dependent thereof, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non-performance of this Contract regardless of the fault or negligence in whole or in part of any entity or individual other than the **GOVERNMENT**; and
  - (ii) a with respect to all claims for loss or damage made by third parties arising out of or related to Petroleum Operations.

The **GOVERNMENT** will retain control over the defence of, and any resolution or settlement relating to, such loss or damage. The **CONTRACTOR** shall cooperate with the **GOVERNMENT** and provide reasonable assistance in defending any claims against the **GOVERNMENT**. The **CONTRACTOR** may participate in such defence at its cost and expense and will be entitled to be consulted prior to any settlement. A claim set forth in a notice from the **GOVERNMENT** to the **CONTRACTOR** will be conclusively deemed an indemnifiable loss, damage, or expense if: (i) the **CONTRACTOR** consents thereto, or (ii) the **CONTRACTOR** fails to dispute the **GOVERNMENT**'s liability, in whole or in part, by the end of a thirty (30) day period following receipt of the notice from the **GOVERNMENT** the **CONTRACTOR** shall promptly pay the deemed loss or expense on demand.

- 35.4 The **CONTRACTOR** shall take all necessary steps to respond to, and shall promptly notify the **GOVERNMENT** of, all emergency and other events (including personal injuries, explosions, leaks and spills), occurring in relation to the Petroleum Operations which are causing or likely to cause material environmental damage or material risk to health and safety. Such notice shall include a summary description of the circumstances and steps taken and planned by the **CONTRACTOR** to control and remedy the situation. The **CONTRACTOR** shall provide such additional reports to the **GOVERNMENT** as are reasonably necessary in respect of the effects of such events and the course of all actions taken to prevent further loss and to mitigate deleterious effects.
- 35.5 In the event of emergency situations as set out in Article 35.4, at the request of the **CONTRACTOR**, the **GOVERNMENT**, without prejudice and in addition to any

indemnification obligations the **GOVERNMENT** may have, shall assist the **CONTRACTOR**, to the extent possible, in any emergency response, remedial or repair effort by making available any labour, materials and equipment in reasonable quantities requested by the **CONTRACTOR** which are not otherwise readily available to the **CONTRACTOR** and by facilitating the measures taken by the **CONTRACTOR** to bring into the Kurdistan Region personnel, materials and equipment to be used in any such emergency response or remedial or repair effort. The **CONTRACTOR** shall reimburse the **GOVERNMENT**'s reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

- 35.6 Except as expressly provided in the Contract, neither Party shall be liable to the other Party under the Contract for or in respect of any indirect, incidental, consequential or exemplary loss or damages, including without limitation and with respect to the **CONTRACTOR**, any liability or damages with respect to actual or alleged damage to any Petroleum reservoir falling within the Contract Area (and any extension of such reservoir outside of the Contract Area), and any associated loss of Petroleum production from such reservoir by the **CONTRACTOR**, unless caused by the wilful misconduct or gross negligence of the **CONTRACTOR**.

#### **Insurance**

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

Such insurance policies may cover:

- (a) loss of and damage to material and equipment used in the Petroleum Operations; and
  - (b) personal injury, damage to third parties and risks of pollution associated with Petroleum Operations for reasonable amounts, within the limits approved by the Management Committee.
- 35.8 Any insurance policy relating to this Contract shall name the **GOVERNMENT** as an additional insured party and shall include a waiver of subrogation protecting the **GOVERNMENT** against any claim, loss and damage resulting from any Petroleum Operation conducted by or on behalf of the **CONTRACTOR** under this Contract, to the extent that the **CONTRACTOR** is liable for such claim, loss or damage under this Contract. The **CONTRACTOR** shall not be liable for and shall not purchase insurance cover for any claims arising from negligence or wilful misconduct of the **GOVERNMENT** or of any Public Company or of any of their respective subcontractors or personnel.
- 35.9 Upon its written request, the **GOVERNMENT** shall be provided with insurance certificates, including necessary details, for any insurance policy maintained by the **CONTRACTOR** which relates to this Contract.



- 35.10 Each **CONTRACTOR** Entity shall be responsible for the filing of all claims made under any insurance policy maintained by such **CONTRACTOR** Entity which relates to this Contract. Any premiums and payments relating to such insurance policies (other than political risk insurance) shall be considered Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 35.11 In any insurance policy maintained by a **CONTRACTOR** Entity which relates to this Contract, the amount for which the **CONTRACTOR** itself is liable (the "**Deductible Amount**") shall be reasonably determined between the **CONTRACTOR** Entity and the insurer and such Deductible Amount shall in the event of any insurance claim be considered a Petroleum Cost and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

#### **ARTICLE 36 – INFORMATION AND CONFIDENTIALITY**

- 36.1 The **CONTRACTOR** shall keep all records, data and information relating to the Petroleum Operations in accordance with the Kurdistan Region Oil and Gas Law and prudent international petroleum industry practice. In addition, it shall provide the **GOVERNMENT** with such information and data as it is obliged to provide under this Contract.
- 36.2 Upon the **GOVERNMENT**'s written request, the **CONTRACTOR** shall provide the **GOVERNMENT** with samples of any rocks or any other items extracted during the Petroleum Operations.
- 36.3 The **GOVERNMENT** shall have title to all data and information, whether raw, derived, processed, interpreted or analysed, obtained pursuant to this Contract.
- 36.4 Each **CONTRACTOR** Entity shall have the right, without any limitation, to send Abroad copies of all reports and technical data, magnetic tapes and other data relating to the Petroleum Operations. Magnetic tapes or other data, the original of which must be analysed and processed Abroad, may be transported out of the Kurdistan Region.
- 36.5 Any representatives authorised by the **GOVERNMENT** and notified to the **CONTRACTOR** shall, upon reasonable prior written notice, have reasonable access to any information and data relating to the Contract Area in the possession of the **CONTRACTOR** which the **CONTRACTOR** is obliged to provide to the **GOVERNMENT** pursuant to this Contract. It is understood that, when exercising such right, the **GOVERNMENT** shall ensure it does not unduly interfere with or hinder the **CONTRACTOR**'s rights and activities.
- 36.6 The **CONTRACTOR** shall provide the **GOVERNMENT** upon the **GOVERNMENT**'s written request any analysis information, reports, tapes or other data (geological, geophysical, logs, interpretations, drilling reports, etc.) related to the Petroleum Operations in the possession of the **CONTRACTOR**. All available originals of such data shall be transferred to the **GOVERNMENT** at the end of this Contract.

- 36.7 Apart from the exceptions stated in this Article 36, the Parties undertake to keep all data and information relating to this Contract and the Petroleum Operations confidential during the entire term of this Contract and not to divulge or disclose such data or information to third parties without the specific consent of the other Parties, such consent not to be unreasonably withheld or delayed. The foregoing confidentiality obligation shall not apply to information or data which:
- (a) is or, through no fault of any Party, becomes part of the public domain;
  - (b) is known to the recipient at the date of disclosure;
  - (c) is required to be furnished in compliance with any Law applicable to it, by a government agency having jurisdiction over such Party or its Affiliates, by a court order or any other legal proceedings with jurisdiction over such Party or its Affiliates; or
  - (d) is required to be disclosed pursuant to the rules or regulations of any government or recognised stock exchange having jurisdiction over a **CONTRACTOR** Entity or its Affiliates.
- 36.8 Notwithstanding the foregoing in Article 36.7, in accordance with prudent international petroleum industry practice, such data and information may be disclosed to:
- (a) Affiliates of each **CONTRACTOR** Entity;
  - (b) employees, officers and directors of each **CONTRACTOR** Entity and their respective Affiliated Companies for the purpose of the Petroleum Operations, subject to each such entity taking customary precautions to ensure such information is kept confidential;
  - (c) consultants or agents retained by any **CONTRACTOR** Entity or its Affiliates for the purpose of analysing or evaluating information or data;
  - (d) banks or financial institutions retained by any **CONTRACTOR** Entity or its Affiliates with a view to financing Petroleum Operations, including any professional consultants retained by such bank or financial institution;
  - (e) *bona fide* prospective assignees of a participating interest under this Contract (including any entity with whom a **CONTRACTOR** Entity and/or its Affiliates are conducting *bona fide* negotiations directed towards a merger, consolidation or the sale of a material portion of its or an Affiliates shares);
  - (f) prospective or actual Subcontractors and suppliers engaged by a Party where disclosure of such information is essential to such Subcontractor's or supplier's work for such Party; and
  - (g) any other Person or entity, upon the prior written approval of the non-disclosing Parties,

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

- 36.9 Any data and information relating to relinquished or surrendered areas under this Contract shall become the exclusive property of the **GOVERNMENT**, who shall have the right to use same for any purpose, in particular for the purpose of promoting said areas. Each **CONTRACTOR** Entity shall be entitled to keep copies of such data and information and to use such data and information for any purpose.
- 36.10 Subject to the provisions of this Article 36, the **CONTRACTOR** may not sell nor exchange any data related to the Petroleum Operations without the approval of the **GOVERNMENT**, which approval shall not be unreasonably withheld or delayed where, in the **CONTRACTOR**'s reasonable opinion, such sale or exchange would benefit the Petroleum Operations.

#### **ARTICLE 37 – ENVIRONMENTAL PROVISIONS**

- 37.1 During the performance of the Petroleum Operations, the **CONTRACTOR** shall take reasonable measures to ensure that it, the Operator, its Subcontractors and agents attend to the protection of the environment and prevention of pollution, in accordance with prudent international petroleum industry practice in similar physical and ecological environments and any then applicable Kurdistan Region Law.
- 37.2 Prior to surrendering a portion of the Contract Area, the **CONTRACTOR** shall take reasonable measures to abandon the area to be surrendered in accordance with prudent international petroleum industry practice in similar physical and ecological environments. Such measures shall include removal or closure in place of facilities, material and equipment together with reasonable measures necessary for the preservation of fauna, flora and ecosystems, all in accordance with prudent international petroleum industry practice in similar physical and ecological environments. The **CONTRACTOR** shall only be responsible for site restoration or environmental damage to the extent the same pertains solely and directly to Petroleum Operations conducted pursuant to this Contract.
- 37.3 The **CONTRACTOR** shall take reasonable precautions and measures in accordance with prudent international petroleum industry practice in similar physical and ecological environments to prevent any pollution which may arise directly as a result of the Petroleum Operations and to protect the environment (fauna and flora), water sources and any other natural resources when carrying out Petroleum Operations.
- 37.4 The **CONTRACTOR** shall, in accordance with prudent international petroleum industry practice in similar physical and ecological environments, respect the preservation of property, agricultural areas, and fisheries, when carrying out Petroleum Operations.
- 37.5 The **CONTRACTOR** shall conduct and submit an environmental impact assessment to the **GOVERNMENT** within twelve (12) months after the Effective Date.

**National Parks and Nature Reserve Areas**

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

**Expenditures**

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

**Pre-existing Conditions**

- 37.9 The **CONTRACTOR** is not responsible for any pre-existing environmental conditions or any acts of unrelated third parties.

**ARTICLE 38 – DECOMMISSIONING**

- 38.1 To enable the **CONTRACTOR** to recover the costs associated with future Contract Area Decommissioning Operations under this Contract, the **CONTRACTOR** shall have the right to establish a reserve fund for future decommissioning and site restoration (a "**Decommissioning Reserve Fund**"). The Decommissioning Reserve Fund may be established at any time during the final ten (10) Calendar Years of the term of the Production Operations of a Production Area but, upon the reasonable request by the **CONTRACTOR**, the **GOVERNMENT** shall allow the **CONTRACTOR** to establish such fund over a longer period. Once established, the **CONTRACTOR** shall make regular contributions to the Decommissioning Reserve Fund based upon estimated Petroleum Field decommissioning and site restoration costs in accordance with prudent international petroleum industry practice, and taking into account interest received and future interest expected to be earned on the Decommissioning Reserve Fund. Any contributions by the **CONTRACTOR** to the Decommissioning Reserve Fund shall be made in Dollars and shall be deemed Petroleum Costs when paid into the reserve fund, and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25. Contributions to the Decommissioning Reserve Fund shall be placed with a first rate bank approved by the Management Committee in accordance with Article 8.5.

- 38.2 If, at the end of the term of the Production Operations of the Production Area, the **GOVERNMENT** decides to take over production operations in the Production Area:
- (a) the **GOVERNMENT** shall become liable for its future Decommissioning Operations;
  - (b) the contributions and any interest accumulated in the Decommissioning Reserve Fund, to the extent that such contributions have been recovered as Petroleum Costs, shall be paid to the **GOVERNMENT**; and
  - (c) the **GOVERNMENT** shall release the **CONTRACTOR** and the **CONTRACTOR** Entities from any obligations relating to Decommissioning Operations and shall indemnify the **CONTRACTOR** and the **CONTRACTOR** Entities for any costs, liabilities, expenses, claims or obligations associated therewith.
- 38.3 If the **CONTRACTOR** undertakes the Production Area Decommissioning Operations, the contributions and any interest accumulated in the Decommissioning Reserve Fund shall be paid to the **CONTRACTOR** and shall be used for the Decommissioning Operations. The **CONTRACTOR** shall undertake any such Decommissioning Operations in accordance with prudent international petroleum industry practice in similar physical and ecological environments.
- 38.4 If the Decommissioning Reserve Fund is paid to the **CONTRACTOR** and the Decommissioning Reserve Fund is not sufficient to cover all Decommissioning Costs for the Contract Area, the balance shall be paid by the **CONTRACTOR** and may be recovered, if applicable, by the **CONTRACTOR** Entities or any of their Affiliates from any other area which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Oil and Gas Law) anywhere in the Kurdistan Region and, to the extent the balance is not recoverable as aforesaid, such remaining balance shall be paid by the **GOVERNMENT** to the **CONTRACTOR**.
- 38.5 If the Decommissioning Reserve Fund is paid to the **CONTRACTOR** and the Decommissioning Reserve Fund exceeds all Decommissioning Costs for the Contract Area, the balance shall be transferred to the **GOVERNMENT**.
- 38.6 Any expenditure incurred by the **CONTRACTOR** in relation with this Article 38, including any contributions to the Decommissioning Reserve Fund, shall be deemed Petroleum Costs and shall be recoverable by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 38.7 The **CONTRACTOR** shall submit to the Management Committee for approval in accordance with Article 8.5 a detailed plan for decommissioning the Contract Area facilities and site restoration (the "**Decommissioning Plan**"), such Decommissioning Plan to be submitted no later than twenty four (24) Months prior to the date estimated by the **CONTRACTOR** for the end of Commercial Production from the Contract Area. The Management Committee shall provide comments, if any, on the Decommissioning Plan within ninety (90) days after receipt. The **CONTRACTOR**'s completion of the Decommissioning Operations in accordance, in all material respects, with the Decommissioning Plan for a Production Area approved by the

Management Committee shall satisfy all of the **CONTRACTOR**'s obligations with respect to the performance of Decommissioning Operations for such Production Area. In the event the **GOVERNMENT** does not agree that Decommissioning Operations for a Production Area were carried out in accordance with the approved Decommissioning Plan, it must advise the **CONTRACTOR** within six (6) months of **CONTRACTOR**'s completion of such operations.

## **ARTICLE 39 – ASSIGNMENT AND CHANGE OF CONTROL**

### **Assignment to Affiliates**

- 39.1 Each **CONTRACTOR** Entity shall be free to sell, assign, transfer or otherwise dispose of all or part of its rights, obligations and interests under this Contract to an Affiliated Company or to another **CONTRACTOR** Entity with the prior consent of the **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld.

### **Assignments by CONTRACTOR Entities**

- 39.2 Articles 39.2 through 39.6 do not apply to holders of the Government Interest in respect of the Government Interest. The consent of any holder of the Government Interest, in its capacity as holder of all or part of the Government Interest, is not required for any sale, assignment, transfer, or other disposal of all or part of its rights and interests under this Contract.
- 39.3 Without prejudice to Article 39.1, each **CONTRACTOR** Entity shall have the right to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract (directly or indirectly) to any Person which is not an Affiliated Company (an “**assignee**”) only with the prior consent of **GOVERNMENT** and each other **CONTRACTOR** Entity. The **GOVERNMENT** and the other Contractor Entities shall not unreasonably delay or refuse to provide such consent. The **GOVERNMENT** consents to any transfers (direct or indirect) by Marathon to any wholly owned (directly or indirectly) subsidiary of the ultimate parent company of Marathon, subject to the signing of applicable assignment and novation documentation.
- 39.4 No **CONTRACTOR** Entity is entitled to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract (directly or indirectly) if such assignment will, to such Contractor Entity's knowledge based on reasonable due diligence, constitute or be a part of a Prohibited Act.
- 39.5 Any **CONTRACTOR** Entity proposing to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract shall request consent from the **GOVERNMENT** and, together with such request for a consent, provide the **GOVERNMENT** with:
- (a) evidence of the technical and financial capability of the proposed assignee and its controlling (directly or indirectly) shareholders;

- (b) a letter of representations and warranties from the proposed assignee in form and content acceptable to the **GOVERNMENT**; and
- (c) a letter of representations from the assignor in form and content satisfactory to the Government, including a representation that the proposed assignment will not (i) to the knowledge of such **CONTRACTOR** Entity after reasonably diligent investigation, constitute or be a part of a Prohibited Act or (ii) violate any Corrupt Practices Laws applicable to the **CONTRACTOR** Entity.

An assignee of any **CONTRACTOR** Entity will have the rights, obligations, and liabilities of the **CONTRACTOR** under, and be subject to, this Contract.

- 39.6 In order for any deed of sale, direct assignment, direct transfer or other direct disposal as provided under Articles 39.1 or 39.3 to be effective, the Parties and the relevant third party, if any, shall enter into a binding and enforceable instrument of assignment and novation, which shall include an undertaking by the transferee or assignee to fulfil the obligations under this Contract which correspond to the interest transferred or assigned.
- 39.7 In the event a **CONTRACTOR** Entity assigns or in any other way transfers its rights and interests under this Contract, whether in whole or in part, such assignment or transfer shall not give rise to any Tax, including on the consideration paid or received or on the income or gain therefrom.

#### **GOVERNMENT**

- 39.8 Except as provided in Article 4 in respect of the Government Interest, the **GOVERNMENT** may not at any time transfer any or all of its rights and obligations under this Contract to any Person, including to a Public Company or any other company or entity.

#### **Change of Control**

- 39.9 “**Change of Control**” means any direct or indirect change of the identity to the Person who Controls a **CONTRACTOR** Entity (whether through merger, sale of shares or of other equity interests, or otherwise) through a single transaction or series of transactions, from one or more transferors to one or more transferees, in which the market value of such **CONTRACTOR** Entity’s participating interest (which shall be as specified in the Joint Operating Agreement relating to this Contract) or where there is only one **CONTRACTOR** Entity, one hundred percent (100%) in this Contract represents more than seventy five per cent (75%) of the aggregate market value of the assets of such entity and its Affiliates that are subject to the Change in Control. For the purpose of this definition: “**Control**” means the direct or indirect ownership or control of the majority of the voting rights of the applicable entity at its shareholders’ meetings or their equivalent; and “**market value**” shall be determined based upon the amount in cash a willing buyer would pay a willing seller in an Arm’s Length transaction.

Each **CONTRACTOR** Entity which is or anticipates with a reasonable degree of certainty that it will be subject to a Change in Control, other than to an Affiliated

Company or a **CONTRACTOR** Entity, shall notify the **GOVERNMENT** as soon as practicable after it becomes aware of the Change in Control or anticipated Change in Control and request the consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld.

A Change in Control shall not give rise to any Tax, including on the consideration paid or received or on the income or gain therefrom.

#### **ARTICLE 40 – FORCE MAJEURE**

- 40.1 No delay, default, breach or omission of the **CONTRACTOR** in the execution of any of its obligations under this Contract shall be considered a failure to perform this Contract or be the subject of a dispute if such delay, default, breach or omission is due to a case of Force Majeure. In such event the **CONTRACTOR** shall promptly notify the **GOVERNMENT** in writing and take all reasonably appropriate measures to perform its obligations under this Contract to the extent possible. The time resulting from any such delay or curtailment in the execution of such obligations, increased by the time necessary to repair any damage resulting from or occurred during such delay or curtailment, shall be added to any time period provided under this Contract (including the Exploration Period and any extension thereto, any Sub-Period and any extension thereto and any Development Period and any extension thereto). The Parties shall meet as soon as possible after the notification of Force Majeure with a view to using reasonable endeavours to mitigate the effects thereof.
- 40.2 For the purpose of this Contract, "**Force Majeure**" means any event that is unforeseeable, insurmountable and irresistible, not due to any error or omission by the **CONTRACTOR** but due to circumstances beyond its control, which prevents or impedes execution of all or part of its obligations under this Contract. Such events shall include the following:
- (a) war, whether declared or not, civil war, insurrection, riots, civil commotion, terrorism, any other hostile acts, whether internal or external;
  - (b) strikes or other labour conflicts;
  - (c) accidents or blowouts;
  - (d) quarantine restrictions or epidemics;
  - (e) any act, event, happening or occurrence due to natural causes, in particular, but without limitation, floods, storms, cyclones, fires, lightning, earthquakes, or lack of water necessary for Petroleum Operations;;
  - (f) environmental restrictions, which the **GOVERNMENT** has not notified to the **CONTRACTOR**;
  - (g) except in respect of the **GOVERNMENT** and any Public Company, any acts or orders of the **GOVERNMENT**, any minister, ministry, department, sub-



division, agency, authority, council, committee, or other constituent element thereof, or any corporation controlled by the any of the foregoing; and

- (h) any acts or orders of any other government claiming or asserting jurisdiction over the subject matter of this Contract, any minister, ministry, department, sub-division, agency, authority, council, committee, or other constituent element thereof, or any corporation controlled by any of the foregoing.

40.3 The intention of the Parties is that Force Majeure shall receive the interpretation that complies most with prudent international petroleum industry practice. Force Majeure affecting a **CONTRACTOR** Entity or an Affiliated Company of a **CONTRACTOR** Entity shall be deemed Force Majeure affecting the **CONTRACTOR** if the consequence of such Force Majeure prevents the performance of any of the **CONTRACTOR**'s obligations under this Contract. The application or potential application of any Law applicable to a **CONTRACTOR** Entity or any of its Affiliates, other than Laws of the Kurdistan Region or other Laws of the Republic of Iraq, which could result in a criminal or civil penalty or sanction is not Force Majeure.

#### **ARTICLE 41 – WAIVER OF SOVEREIGN IMMUNITY**

Except in respect of any Dispute (i) arising out of or related to Article 4.13 or (ii) with respect to Article 4 between the **GOVERNMENT** and any holder of a Government Interest, the **GOVERNMENT** hereby fully and irrevocably waives any claim to immunity for itself or any of its assets.

This waiver includes any claim to immunity from:

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

#### **ARTICLE 42 – ARBITRATION AND EXPERT DETERMINATION**

##### **Negotiation, Mediation and Arbitration**

42.1 For the purpose of this Article 42.1, "**Dispute**" shall mean any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation or otherwise) arising out of, relating to, or connected with this Contract or the operations carried out under this Contract, including any dispute as the construction, existence, validity, interpretation, enforceability, breach or termination

of this Contract, which arises between any of the Parties (or between any one or more Parties and the **GOVERNMENT**).

In the event of a Dispute, the parties to the Dispute shall use their reasonable endeavours to negotiate promptly in good faith a mutually acceptable resolution of such Dispute.

Subject to the provisions of Article 42.2, a Party who desires to submit a Dispute for resolution which has not been promptly resolved as aforesaid shall commence the dispute resolution process by providing each other Party that is a party to the Dispute with a written notice of the Dispute (a "**Notice of Dispute**"). The Notice of Dispute shall identify the parties to the Dispute, contain a brief statement of the nature of the Dispute and the relief requested and request negotiations among the Senior Representatives of the parties to the Dispute.

- (a) In the event that any Notice of Dispute is given in accordance with this Article 42.1, the parties to the Dispute shall first seek settlement of the dispute by negotiation between Senior Representatives. "**Senior Representative**" means any individual who has authority to negotiate the settlement of the Dispute for a party to the Dispute, which for the **GOVERNMENT** shall mean the Minister of Natural Resources. Within thirty (30) days after the date of delivery of the Notice of Dispute, the Senior Representatives representing the parties to the Dispute shall meet at a mutually acceptable date, time and place to exchange relevant information in an attempt to resolve the Dispute. If a Senior Representative intends to be accompanied at the meeting by a legal adviser, each other party shall be given written notice of such intention and its Senior Representative may also be accompanied at the meeting by a legal adviser.
- (b) If the Dispute cannot be resolved by negotiation in accordance with Article 42.1 (a) within sixty (60) days after the date of the receipt by each party to the Dispute of the Notice of Dispute or such further period as the parties to the Dispute may agree in writing, any party to the Dispute may seek settlement of the dispute by mediation in accordance with the London Court of International Arbitration ("**LCIA**") Mediation Procedure, which Procedure shall be deemed to be incorporated by reference into this Article, and the parties to such Dispute shall submit to such mediation procedure.
- (c) If the Dispute is not settled within the earlier of (A) sixty (60) days of the appointment of the mediator, or such further period as the parties to the Dispute may otherwise agree in writing under the mediation procedure under Article 42.1 (b), and (B) one hundred and twenty (120) days after the delivery of the Notice of Dispute, any party to the Dispute may refer the Dispute to, and seek final resolution by, arbitration under the LCIA Rules, which Rules shall be deemed to be incorporated by reference into this Article.
  - (i) Any arbitration shall be conducted by three (3) arbitrators.
  - (ii) If the parties to the Dispute are the **GOVERNMENT** and all the **CONTRACTOR** Entities, the **GOVERNMENT** and the

**CONTRACTOR** shall each appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT** and more than one, but not all the **CONTRACTOR** Entities, the **GOVERNMENT** shall appoint one (1) arbitrator and such **CONTRACTOR** Entities shall appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT** and one **CONTRACTOR** Entity, the **GOVERNMENT** and such **CONTRACTOR** Entity shall each appoint one (1) arbitrator.

- (iii) In any event, the two arbitrators so appointed shall, in good faith, use all reasonable endeavours to agree on the appointment of the third arbitrator, who will chair the arbitral tribunal. In case of failure to appoint an arbitrator or to agree on the appointment of the third arbitrator, Rules of the LCIA shall apply.
- (iv) The seat, or legal place, of arbitration shall be London, England. The language to be used in any prior negotiation, mediation and in the arbitration shall be English. During the arbitration procedure and until the arbitral decision, the Parties shall continue to perform their obligations and take no actions that would impair the Contract. The arbitral award may be enforced by any court of competent jurisdiction, including in the Kurdistan Region. Any award shall be expressed in Dollars.
- (v) The Parties agree that the arbitral award shall be final and not subject to any appeal, including to the Courts of England on issues of Law.

#### **Expert Determination**

42.2 Any disagreement between the Parties relating to Articles 15.9, 27.2 and 27.7, as well as any disagreement the Parties agree to refer to an expert, shall be submitted to an expert. The Management Committee shall prepare and agree appropriate terms of reference relating to a disagreement to be submitted to the expert, in accordance with Article 8.5 (“**Terms of Reference**”), as soon as possible after the Effective Date.

- (a) The disagreement shall be submitted to an expert appointed by mutual agreement of the Parties within thirty (30) days following the date of preparation and agreement of the Terms of Reference by the Management Committee. If the Parties cannot agree on the choice of the expert within such thirty (30) day period, at the request of either Party, the expert shall be appointed by the President of the Energy Institute in London, England. Any expert appointed must have the necessary qualifications for reviewing and deciding on the subject matter of the disagreement.
- (b) The duties of the expert shall be stated in the Terms of Reference prepared and agreed by the Management Committee. The Management Committee shall promptly provide the expert with the agreed Terms of Reference relating to the disagreement. Each Party shall have the right to give to the expert in writing any information which it considers useful, provided it does so within forty-five (45) days after the expert’s appointment. Such information shall be provided to the other Party at the same time and such other Party shall be entitled to

provide comments on such information to the first Party and the expert within thirty (30) days after receiving such information. The expert shall have the right to review and verify any information he deems useful to assist him in his review of the disagreement.

- (c) The expert shall render his decision within forty-five (45) days of his receipt of the Terms of Reference and the information referred to in Article 42.2. Subject to the provisions of Article 15.9, any decision of the expert shall be final and shall not be subject to any appeal, except in the case of manifest error, fraud or malpractice. Any costs and expenses associated with the expert determination shall be shared equally between the Parties.

### **General**

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

## **ARTICLE 43 – GOVERNING LAW, FISCAL STABILITY, AMENDMENTS AND VALIDITY**

### **Governing Law**

- 43.1 This Contract, including any dispute arising therefrom, thereunder or in relation thereto and the agreement to arbitrate in Article 42, shall be governed by English law.

### **Fiscal Stability**

- 43.2 The obligations of the **CONTRACTOR** in respect of this Contract shall not be changed by the **GOVERNMENT** and the general and overall equilibrium between the Parties under this Contract shall not be affected in a substantial and lasting manner.
- 43.3 The **GOVERNMENT** guarantees to the **CONTRACTOR**, for the entire duration of this Contract, that it will maintain the stability of the legal, fiscal and economic conditions of this Contract, as they result from this Contract and as they result from the Laws of the Kurdistan Region in force on the date of signature of this Contract. The **CONTRACTOR** has entered into this Contract on the basis of the legal, fiscal and economic framework prevailing at the Effective Date. If, at any time after the Effective Date, there is any change in the legal, fiscal and/or economic framework under the Laws of the Kurdistan Region or other Laws of the Republic of Iraq applicable in or to the Kurdistan Region which detrimentally affects the **CONTRACTOR**, the **CONTRACTOR** Entities or any other Person entitled to benefits under this Contract, the terms and conditions of the Contract shall be altered so as to restore the **CONTRACTOR**, the **CONTRACTOR** Entities and any other Person entitled to benefits under this Contract to the same overall economic position (taking into account home country taxes) as that which such Person would have been in, had no such change in the legal, fiscal and/or economic framework occurred.

- 43.4 If the **CONTRACTOR** believes that its economic position, or the economic position of a **CONTRACTOR** Entity or any other Person entitled to benefits under this Contract, has been detrimentally affected as provided in Article 43.3, upon the **CONTRACTOR**'s written request, the Parties shall meet to agree on any necessary measures or making any appropriate amendments to the terms of this Contract to re-establishing the equilibrium between the Parties and restoring the **CONTRACTOR**, the **CONTRACTOR** Entities or any other Person entitled to benefits under this Contract to the position (taking into account home country taxes) it was in prior to the occurrence of the change having such detrimental effect. Should the Parties be unable to agree on the merit of amending this Contract and/or on any amendments to be made to this Contract within ninety (90) days of the **CONTRACTOR**'s request (or such other period as may be agreed by the Parties), the **CONTRACTOR** may refer the matter in dispute to arbitration as provided in Article 42.1, without the necessity of first referring the matter to negotiation and mediation.
- 43.5 Without prejudice to the generality of the foregoing, the **CONTRACTOR** shall be entitled to the benefit of any future changes to the petroleum legislation or any other legislation complementing, amending or replacing it.
- 43.6 The Parties agree to cooperate in all possible ways with a view to fully achieving the objectives of this Contract. The **GOVERNMENT** shall facilitate the performance of the Petroleum Operations by promptly granting to the **CONTRACTOR**, on application therefor in accordance with Applicable Law and within the scope of Applicable Law, any necessary authorisation, permit, licence or access right and making available any existing facilities and services with a view to the Parties obtaining maximum mutual benefit from the Contract.

#### **Amendments**

- 43.7 The **GOVERNMENT** and the **CONTRACTOR** may amend this Contract only by an agreement of the **GOVERNMENT** and the **CONTRACTOR** that identifies itself as an amendment to this Contract. A holder of a Government Interest is not entitled to be a party to any agreement amending this Contract, unless the terms of such amendment affect any right or obligation of such Party as a holder of all or part of the Government Interest. The **GOVERNMENT** shall notify holders of the **GOVERNMENT** Interest of any proposed amendments and signed amendments, and the **CONTRACTOR** will have no obligation to notify holders of the **GOVERNMENT** Interest of any proposed amendments and signed amendments.
- 43.8 A Party may waive any condition or obligation of such Party in this Contract only by a writing executed by such Party. A waiver made in writing on one occasion will be effective only in that instance and only for the purpose stated. A waiver once given is not to be construed as a waiver on any future occasion. No waiver or amendment in respect of this Contract will constitute a waiver or amendment of any other agreement or contract, except as expressly set forth in such waiver or amendment.

No failure or delay by a Party in exercising any right hereunder, or in requiring the satisfaction of any condition under, this Contract, and no act, omission, or course of dealing between the Parties (or any other them), will operate as a waiver or estoppel of any right or condition or any provision, right, or condition of this Contract.

Any single or partial exercise of any right, power or remedy by a Party will not preclude any other or future exercise thereof by such Party or the exercise by such Party of any other right, power or remedy.

**Validity**

- 43.9 As signatories to this Contract for and on behalf of the **GOVERNMENT**, the Ministry of Natural Resources in the Kurdistan Region and the Regional Council for the Oil and Gas Affairs of the Kurdistan Region - Iraq represent that this Contract is approved for the purposes of the Kurdistan Region Oil and Gas Law.

**ARTICLE 44 – NOTICES**

- 44.1 All notices, demands, instructions, waivers, consents or other communications to be provided pursuant to this Contract 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 Kurdistan Region) to the following addresses:

To the **GOVERNMENT**:

**Attention:**

His Excellency the Minister of Natural Resources

**Address:**

Ministry of Natural Resources  
Kurdistan Regional Government  
Erbil, Kurdistan, Iraq  
**Email:** [mnr@krgoil.com](mailto:mnr@krgoil.com)

To each **CONTRACTOR** Entity:

**MARATHON PETROLEUM KDV B.V.**

**Attention:** Team Manager Legal

**Address:**

c/o Equity Corporate Services  
Equity Trust Co. N.V.  
Strawinskylaan 3105  
Atrium 7th Floor 1077 ZX Amsterdam  
The Netherlands

**Email:** [rivhedel@nl.equitytrust.com](mailto:rivhedel@nl.equitytrust.com)

**With a Copy to:**

Marathon Oil Company  
5555 San Felipe Road  
Houston, Texas 77056, USA

**Attention:** Senior Vice President, Worldwide Exploration

**Email:** [arbay@marathonoil.com](mailto:arbay@marathonoil.com)

and

[spguidry@marathonoil.com](mailto:spguidry@marathonoil.com)

- 44.2 The above address and designated representative of any of the Parties may be changed on giving ten (10) days prior notice to the other Party delivered pursuant to Article 44.1.

#### **ARTICLE 45 – TERMINATION**

- 45.1 The **GOVERNMENT** undertakes to exercise its termination rights under this Article 45 in a reasonable and proportionate manner, having regard for the nature and severity of the triggering act or event, the identity of the Person at fault, and the relative significance of any adverse consequences to the **CONTRACTOR** or a **CONTRACTOR** Entity that may arise from the **GOVERNMENT**'s exercise of its rights under this Article 45.
- 45.2 In any notice of termination given by the **GOVERNMENT** under this Article 45, the **GOVERNMENT** must specify the grounds for exercising the termination right and the date on which the Contract or the rights and interests of a **CONTRACTOR** Entity, as applicable, will terminate.
- 45.3 If a competent authority has reasonably determined (in a proceeding applying due process) that this Contract has been obtained by the **CONTRACTOR**, or any Person acting on behalf of the **CONTRACTOR**, in violation of Corrupt Practices Laws, then, on not less than thirty (30) days' prior notice to the **CONTRACTOR**, the **GOVERNMENT** may terminate this Contract. Any final determination, judgment, sanction, or conviction (not subject to further appeal on the issue), including under a consent order in which there is a finding or admission of guilt, of a judicial or regulatory authority in the United States of America, England, or The Netherlands with jurisdiction over a **CONTRACTOR** Entity or an Affiliate of such **CONTRACTOR** Entity, will be conclusively determinative. If such determination has been made by an authority within Iraq, and the **CONTRACTOR** disputes such determination by referring such Dispute to arbitration within the 30-day notice period (without regard to any negotiation period in Article 42), the termination will be suspended until there is an award under Article 42 in favour of the **GOVERNMENT** affirming the determination of an authority within Iraq of a violation of Corrupt

Practices Laws. Unless the **GOVERNMENT** has cancelled a notice of termination or, in the case of the preceding sentence, a Dispute has been referred to arbitration in accordance with Article 42, this Contract will be terminated as of the end of such thirty (30) day notice period.

45.4 If a competent authority has reasonably determined (in a proceeding applying due process) that a permit, approval, consent or waiver in connection with this Contract or Petroleum Operations has been obtained by the **CONTRACTOR**, or any Person acting on behalf of the **CONTRACTOR**, in violation of Corrupt Practices Laws, then, on not less than thirty (30) days' prior notice to the **CONTRACTOR**, the **GOVERNMENT** may terminate the permit, approval, consent or waiver. Any final determination, judgment, sanction, or conviction (not subject to further appeal on the issue), including under a consent order in which there is a finding or admission of guilt, of a judicial or regulatory authority in the United States of America, England, or The Netherlands with jurisdiction over a **CONTRACTOR** Entity or an Affiliate of such **CONTRACTOR** Entity, will be conclusively determinative.

45.5

45.5.1 The **GOVERNMENT** may terminate this Contract, on not less than ninety (90) days' prior notice, if the **CONTRACTOR**:

- (a) fails to meet a material financial obligation expressly stated in this Contract;
- (b) during the First Sub-Period does not carry out drilling and seismic acquisition, as detailed in Article 10.2 or, during the Second Sub-Period (or earlier), does not carry out drilling and seismic acquisition, as detailed in Article 10.3;
- (c) interrupts Production for a period of more than ninety (90) consecutive days with no cause or justification acceptable in accordance with this Contract or under prudent international petroleum industry practice, it being recognised that Force Majeure is an acceptable justification for such interruptions;
- (d) unless such extraction or production is expressly authorised or unavoidable as a result of operations carried out in accordance with prudent international petroleum industry practice, extracts or produces any mineral or object which is not covered by this Contract and does so wilfully or in a manner that constitutes gross negligence or persistently after receiving notice thereof; or
- (e) refuses to abide by any negotiation, mediation, arbitration or expert decision under Article 42.

45.5.2 If, within the ninety (90)-day notice period, the **CONTRACTOR** has either remedied the default identified in such notice to the satisfaction of the **GOVERNMENT**, or the **GOVERNMENT** has agreed another remedy with the **CONTRACTOR**, including compensation, the **GOVERNMENT** shall cancel such notice of termination.



- 45.5.3 If, within such ninety (90)-day notice period, the conditions set forth in Article 45.5.2 have not been satisfied, the **GOVERNMENT** may, on not less than thirty (30) days' notice, terminate the Contract, and, unless such notice is cancelled by the **GOVERNMENT** before the end of such thirty (30)-day period, this Contract will be terminated as of the termination date set forth in the notice from the **GOVERNMENT**.
- 45.6 Where the **CONTRACTOR** comprises only one **CONTRACTOR** Entity, the **GOVERNMENT** may terminate the Contract on not less than forty five (45) days' notice to such **CONTRACTOR** Entity following the occurrence of an Act of Insolvency, unless, within such forty-five (45)-day period, either the **GOVERNMENT** cancels its notice or the **CONTRACTOR** Entity has notified the **GOVERNMENT** that the **CONTRACTOR** Entity has cured relevant Act of Insolvency.
- 45.7 The rights and interests of an individual **CONTRACTOR** Entity will be automatically terminated, without prior notice from the **GOVERNMENT**, if such **CONTRACTOR** Entity:
- (i) is subject to a Change of Control for which the **GOVERNMENT** has not given its authorisation in accordance with Article 39.9; or
  - (ii) has made an assignment of all or part of its interests hereunder without the prior consent of the **GOVERNMENT** in accordance with Article 39 (including under any provision of a joint operating agreement).
- 45.8 This Contract will terminate as provided in Article 6 and Article 7.
- 45.9 Upon termination or expiration of this Contract:
- (a) the **CONTRACTOR** (and each **CONTRACTOR** Entity) will no longer have, as of the effective date of such termination, any further rights and interests under this Contract;
  - (b) all accrued rights and liabilities of the **CONTRACTOR** and of each **CONTRACTOR** Entity will survive.
  - (c) the provisions of Articles 14.10, 16.7, 30, 31, 35.1, 35.3, 35.4, 35.7, 36, 38.2(c), 41, 42, 43.1 to 43.6 will survive the termination or expiry of this Contract.
- 45.10 If the **GOVERNMENT** terminates the undivided interests of a **CONTRACTOR** Entity, but not the Contract, and there are remaining **CONTRACTOR** Entities:
- (a) such terminated **CONTRACTOR** Entity will no longer have, as of the effective date of such termination, any further rights and interests under this Contract;
  - (b) all accrued rights and liabilities of such terminated **CONTRACTOR** Entity will survive.

- (c) as to and in respect of such terminated **CONTRACTOR** Entity, the provisions of Articles 14.10, 16.7, 30, 31, 35.1, 35.3, 35.4, 35.7, 36, 38.2(c), 41, 42, 43.1 to 43.6 will survive the termination or expiry of this Contract.
- 45.11 If the undivided interests of a **CONTRACTOR** Entity (or of **CONTRACTOR** Entities) are terminated, but the Contract is not terminated and there are remaining **CONTRACTOR** Entities, the **GOVERNMENT** may offer, on not less than 15 days' prior notice from the **GOVERNMENT** to the other **CONTRACTOR** Entities, to assign and novate such terminated **CONTRACTOR** Entity's participating interest, or any part thereof, to the remaining **CONTRACTOR** Entities on such terms and in such amounts as the **GOVERNMENT** may determine. The **GOVERNMENT** has no obligation to make such allocation and may retain the terminated interest, provided that the **GOVERNMENT** will use reasonable endeavours to find a new buyer for such interests.
- 45.12 No assignment, novation, transfer, or other disposition of a terminated **CONTRACTOR** Entity's undivided interests to another **CONTRACTOR** Entity pursuant to this Article 45 will be a taxable event under Applicable Law as to the **CONTRACTOR** Entity receiving the undivided interests of a terminated **CONTRACTOR** Entity.
- 45.13 Neither the **GOVERNMENT** nor any **CONTRACTOR** Entity will assume any liabilities, obligations, or duties of a terminated **CONTRACTOR** Entity in respect of the terminated **CONTRACTOR** Entity's undivided interest arising or accrued prior to the latter of (i) the effective date of the termination of such **CONTRACTOR** Entity and (ii) in the case of assignment and novation to the remaining **CONTRACTOR** Entities, the effective date of the reassignment and redistribution of the terminated **CONTRACTOR** Entity's interests to another **CONTRACTOR** Entity. The **GOVERNMENT** will in no circumstances assume accrued liabilities, obligations, or duties of a terminated **CONTRACTOR** Entity in respect of the terminated **CONTRACTOR** Entity's undivided interest, whenever arising or accrued. All accrued liabilities will remain the sole obligation of the terminated **CONTRACTOR** Entity.
- 45.14 Nothing in this Article 45 limits or impairs a Party's rights under English Law in respect of termination.

#### **ARTICLE 46 – COUNTERPARTS; ENTIRE AGREEMENT**

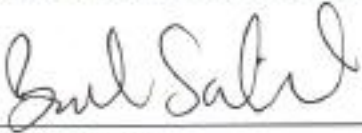
- 46.1 The Parties may execute this Contract in counterparts, each of which constitutes an original, and all of which, collectively, constitute only one agreement. The signatures of all of the Parties need not appear on the same counterpart, and delivery of an executed counterpart signature page by facsimile or electronic scan is as effective as executing and delivering this Contract in the presence of the other Parties. This Contract is effective as of the date set forth on the signature page (the "**Effective Date**"). In proving this Contract, a Party must produce or account only for the executed counterpart of the Party to be charged.

- 46.2 This Contract and the Letter of Representations and Warranties constitutes the final, complete and exclusive expression of the Parties' agreement on the matters contained in this Contract. All prior and contemporaneous negotiations and agreements between the Parties on the matters contained in this Contract are expressly merged into and superseded by this Contract. The provisions of this Contract may not be explained, supplemented or qualified through evidence of trade usage or a prior course of dealings. In entering into this Contract neither Party has relied upon any statement, representation, warranty or agreement of the other party or any other Person, except for those expressly contained in this Contract, and in the Letter of Representations and Warranties and the Guarantee. There is no condition precedent to the effectiveness of this Contract (except for signature and delivery by the Parties) and there are no representations or warranties, in each case other than those expressly stated in this Contract and the Letter of Representations and Warranties.


*[Signature page follows.]*

Effective Date: 20 October, 2010

For the **KURDISTAN REGIONAL GOVERNMENT**

By : 

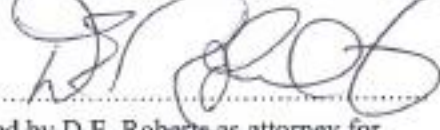
Barham Salih  
Prime Minister  
Kurdistan Regional Government  
On behalf of the Regional Council  
for the Oil and Gas Affairs of  
the Kurdistan Region - Iraq

By : 

Ashti Hawrami  
Minister of Natural Resources  
Kurdistan Regional Government  
On behalf of the Ministry of Natural  
Resources in the Kurdistan Region

For each **CONTRACTOR Entity**

**MARATHON PETROLEUM KDV B.V.**

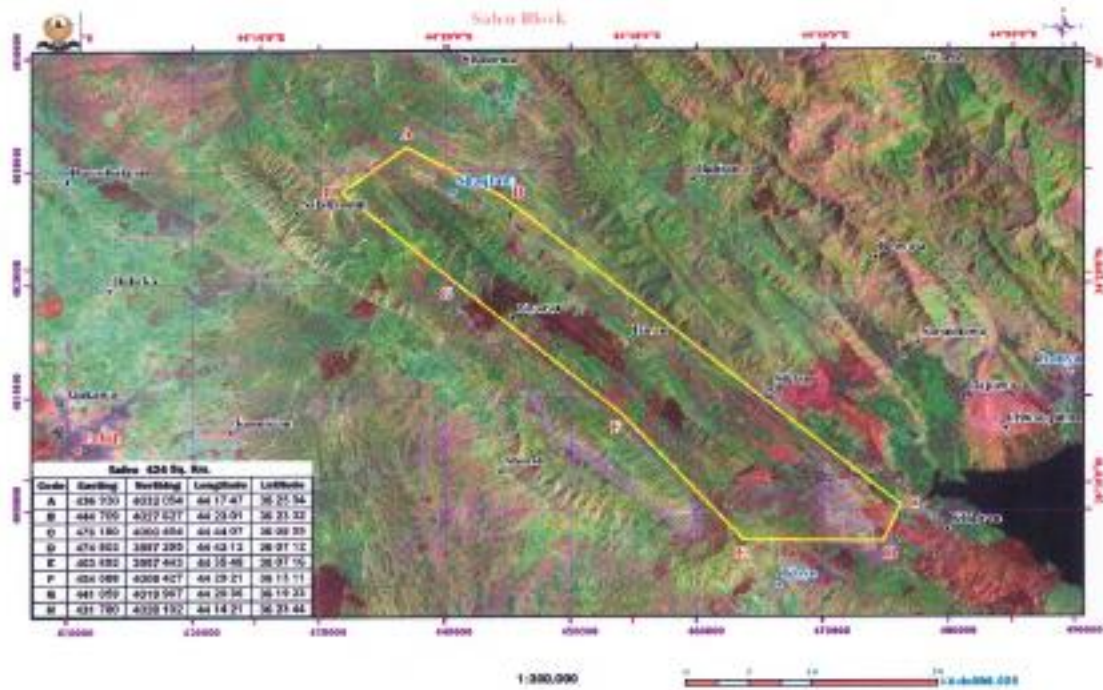


Signed by D.E. Roberts-as attorney for  
Marathon Petroleum KDV B.V.  
under a power of attorney dated 14 October 2010

*[Signature page to Production Sharing Contract – Safen]*

**ANNEX A**

**Map showing coordinates of the Safen Contract Area corner points**



**ANNEX B**  
**ACCOUNTING PROCEDURE**

**PARAGRAPH 1 – GENERAL PROVISIONS**

**1.1 Purpose**

To classify expenditures, define further Petroleum Costs (in addition to those defined as such in the Articles of the Contract), and prescribe the manner in which the **CONTRACTOR**'s Accounts shall be prepared and approved.

**1.2 Definitions**

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

**1.3 Inconsistency**

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

**1.4 Accounting Records and Reports**

1.4.1 The **CONTRACTOR** shall maintain the Accounts in accordance with Article 15.1 and in accordance with this Accounting Procedure, including in accordance with the charts of Accounts agreed under Paragraph 1.4.2.

1.4.2 Within sixty (60) days of the Effective Date, the **CONTRACTOR** shall submit to and discuss with the **GOVERNMENT** a proposed outline of charts of Accounts, which outline shall be in accordance with generally accepted standards and recognized accounting systems and consistent with normal petroleum industry practice and procedures. Within ninety (90) days of receiving the above submission, the **GOVERNMENT** shall either provide written notification of its approval of the proposal or request in writing revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date, the **CONTRACTOR** and the **GOVERNMENT** shall agree on the outline of charts of Accounts which shall describe the basis of the accounting system and procedures to be developed and used under this Contract. Following such agreement, the **CONTRACTOR** shall expeditiously prepare and provide the **GOVERNMENT** with formal copies of the comprehensive charts of Accounts and manuals related to the accounting, recording and reporting functions, and procedures which are, and shall be, observed under the Contract.

1.4.3 Notwithstanding the generality of the foregoing, the **CONTRACTOR** shall make regular Statements relating to the Petroleum Operations. These Statements are as shown:

- (a) Production Statement (as indicated in Paragraph 6).
- (b) Value of Production and Pricing Statement (as indicated in Paragraph 7).
- (c) Cost Recovery and Share Account Statement (as indicated in Paragraph 8).
- (d) Statement of Expenditures and Receipts (as indicated in Paragraph 9).
- (e) Final End-of-Year Statement (as indicated in Paragraph 10).
- (f) Budget Statement (as indicated in Paragraph 12).

1.4.4 All reports and statements shall be prepared in accordance with the Contract, Kurdistan Region Law, and where there are no relevant provisions of either of these, in accordance with prudent international petroleum industry practice.

### **1.5 Language and Units of Account**

All Accounts shall be maintained and prepared in the English language and shall be recorded in Dollars. Where necessary for clarification, the **CONTRACTOR** may also maintain Accounts in other currencies.

### **1.6 Audit and Inspection Rights of the GOVERNMENT**

In addition to the provisions of Articles 15.3 to 15.7 and 15.9, the following provisions shall apply to any audit carried out in accordance with Articles 15.3 to 15.7:

- 1.6.1 For purposes of auditing, the **GOVERNMENT**, acting reasonably and in accordance with prudent international petroleum industry practice, may examine and verify, at reasonable times upon reasonable prior written notice to the **CONTRACTOR**, all charges and credits relating to the Petroleum Operations, such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records including electronic records reasonably considered necessary by the **GOVERNMENT** to audit and verify the charges and credits, values and treatments.
- 1.6.2 Furthermore, the auditors shall have the right in connection with such audit, to visit and inspect at reasonable times, all sites, plants, facilities, warehouses and offices of the **CONTRACTOR** directly or indirectly serving the Petroleum Operations and to question personnel associated with those Petroleum Operations.
- 1.6.3 Where the **GOVERNMENT** requires verification of charges made by an Affiliated Company of the **CONTRACTOR**, the **GOVERNMENT** shall have the right to obtain an audit certificate for such changes from an internationally recognized firm of public accountants acceptable to both the **GOVERNMENT** and the **CONTRACTOR**, which may be the **CONTRACTOR**'s statutory auditor.
- 1.6.4 All agreed adjustments resulting from an audit shall be promptly made in the **CONTRACTOR**'s Accounts and any consequential adjustments to payments due to

the **CONTRACTOR** or to the **GOVERNMENT**, as the case may be, shall be made promptly.

- 1.6.4 When issues are outstanding with respect to an audit, the **CONTRACTOR** shall maintain the relevant documents and permit inspection thereof until the issue is resolved.

#### **1.7 Payments**

Unless as otherwise provided in Article 24, Article 29 or other Articles of the Contract:

- 1.7.1 All payments between the Parties shall, unless otherwise agreed, be in Dollars and be made through a bank designated in writing by each receiving party; and all sums due under the Contract shall be paid within thirty (30) days following the end of the Month in which the obligation to make such payment occurred.
- 1.7.2 All sums due by one party to the other under the Contract shall, for each day such sums are overdue, bear interest compounded monthly at LIBOR plus two per cent (2%).

#### **1.8 Currency Exchange Rates**

In addition to the provisions of Article 29, the following provisions shall apply to any exchanges of currency carried out in accordance with Article 29:

- 1.8.1 Amounts received and Petroleum Costs incurred, shall be converted from other currencies into Dollars in accordance with the **CONTRACTOR**'s usual accounting procedures which shall reflect generally accepted accounting practices in the international petroleum industry, and with reference to exchange rates obtained in accordance with Article 29.

#### **1.9 Accrual Basis, Cash Flow Basis and Reports**

All books and Accounts shall be prepared on an accrual basis in accordance with generally accepted accounting principles used in the international petroleum industry.

#### **1.10 Values and Treatments**

Values and treatments proposed by the **CONTRACTOR** relating to all Petroleum Costs shall be subject to challenge by the **GOVERNMENT** in the course of audit to ensure that they are in accordance with the provisions of this Accounting Procedure.

### **PARAGRAPH 2 – CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENSES**

#### **2.1 Segregation of Costs and Expenses**

Petroleum Costs shall be segregated in accordance with the purposes for which such Petroleum Costs are made. The purposes which shall qualify are:



- (a) those which have been included in the approved Work Program and Budget for the year in which the Costs and Expenditures are made;
- (b) expenditures incurred in cases of emergency as set out in Articles 11.7, 13.5, 13.9 35.5, 35.6 and any other Articles of the Contract;
- (c) any other purposes agreed in the Articles of the Contract; and
- (d) other items which have been agreed by the Parties from time to time.

All Petroleum Costs recoverable under Paragraph 3 relating to Petroleum Operations shall be classified, defined and allocated as set out below.

## **2.2 Exploration Costs**

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

- 2.2.1 Aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation and purchased geological and geophysical information.
- 2.2.2 Stratigraphic test hole drilling and water well drilling.
- 2.2.3 Labour, materials, supplies, and services used in drilling and formation testing of wells with the object of finding Petroleum or Appraisal Wells excluding any costs of the subsequent completion of such wells as producing wells.
- 2.2.4 Facilities to the extent used in support of the purposes described in Paragraphs 2.2.1, 2.2.2 and 2.2.3, including access roads.
- 2.2.5 That portion of all service expenditures and that portion of all general and administrative expenditures directly attributable to Exploration Costs or allocated thereto on a consistent and equitable basis.
- 2.2.6 Any other expenditures incurred in the search for and appraisal of Petroleum after the Effective Date and not otherwise covered under this Paragraph 2.2.

## **2.3 Gas Marketing Costs**

Gas Marketing Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Gas Marketing Operations and include that portion of all service expenditures and that portion of all general and administrative expenditures directly attributable to Gas Marketing Costs or allocated thereto on a consistent and equitable basis.

## **2.4 Development Costs**

Development Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Development Operations including all direct and allocated indirect costs and expenditures incurred in:

- 2.4.1 Drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum reservoir, whether these wells are dry or producing and drilling wells for the injection of water or gas to enhance recovery of Petroleum.
- 2.4.2 Completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing well or as a well for the injection of water or gas to enhance recovery of Petroleum.
- 2.4.3 The costs of Petroleum production, transport and storage facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, Petroleum storage facilities, and access roads for production activities.
- 2.4.4 Engineering and design studies for the wells and facilities referred to in Paragraphs 2.4.1, 2.4.2 and 2.4.3.

And including that portion of all service expenditures and that portion of all general and administrative expenditures directly attributable to Development Costs or allocated thereto on a consistent and equitable basis; and any other expenditure incurred in the Development Operations and not otherwise covered under Paragraph 2.3.

## **2.5 Production Costs**

Production Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Production Operations, including all direct and allocated indirect costs and expenses incurred in Petroleum Operations after First Production which are other than Exploration Costs, Gas Marketing Costs, Development Costs and Decommissioning Costs. Production Costs include that portion of all service expenditures and that portion of all general and administrative expenditures directly attributable to Production Costs or allocated thereto on a consistent and equitable basis.

## **2.6 Decommissioning Costs**

Decommissioning Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Decommissioning Operations and include that portion of all service expenditures and that portion of all general and administrative expenditures directly attributable to Decommissioning Costs or allocated thereto on a consistent and equitable basis, and the Decommissioning Reserve Fund shall be determined on such basis, in advance of incurring such costs, as provided in Article 38 and, for the purposes of cost recovery, the contributions to the Decommissioning Reserve Fund shall be recoverable in accordance with Article 38.

## 2.7 Service Expenditures

Service expenditures are expenditures in support of Petroleum Operations including warehouses, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewerage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities. Service expenditures in any Calendar Year shall include the costs incurred in such year to purchase and/or construct the said facilities as well as the annual costs of maintaining and operating the same. All service expenditures shall be regularly allocated as specified in Paragraphs 2.2.5, 2.3, 2.4, 2.5 and 2.6 to Exploration Costs, Gas Marketing Costs, Development Costs, Production Costs and Decommissioning Costs respectively and shall be separately shown under each of these categories. Where service expenditures are made in respect of shared facilities, the basis of allocation of costs to Petroleum Operations shall be consistent and equitable and shall be specified.

## 2.8 General and Administrative Expenditures

General and administrative expenditures are:

- 2.8.1 All main office, field office and general administrative expenditures in the Kurdistan Region including supervisory, accounting, procurement and employee relations services.
- 2.8.2 Where the **CONTRACTOR** is an Affiliate of a group of companies whose headquarters is Abroad (a "**Foreign CONTRACTOR**"), an annual overhead charge shall be made for services rendered (excluding the direct expenditures as referred in Paragraph 3.1.2.(b)) by any Affiliate of the **Foreign CONTRACTOR** outside the Kurdistan Region to support and manage Petroleum Operations under the Contract, or where the **CONTRACTOR**, not being a **Foreign CONTRACTOR** draws upon the services of an Affiliate within the Kurdistan Region, an annual overhead charge shall be made for services rendered (excluding the direct expenditures as referred in Paragraphs 3.1.2.(a) and (b)) by such Affiliate to support and manage Petroleum Operations under the Contract ("**Parent Company Overhead**").

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

- (a) cannot, without unreasonable effort and/or expenditure or without the release of confidential data proprietary to any of the **CONTRACTOR's** Affiliates, be charged under any other section of this Annex; and

- (b) are properly allocable to Petroleum Operations under the Contract. It is understood, however, that services performed by the departments listed above and other corporate departments which directly benefit Petroleum Operations under the Contract shall be charged as direct costs in accordance with Paragraph 3.

In respect of the costs of the **CONTRACTOR's** Parent Company Overhead, as described above, the **CONTRACTOR** shall charge monthly to Petroleum Operations an amount equal to the total of the following:

#### 2.8.2.1 Exploration Overhead

The **CONTRACTOR** shall be entitled to an annual charge based on a sliding scale percentage and charged monthly to Petroleum Operations. The basis for applying this percentage shall be the total of Exploration Costs and Gas Marketing Costs during each Calendar Year (exclusive of this Exploration Overhead) or fraction thereof less expenditures which have been subjected to the two (2) per cent fee, referred to in Paragraph 3.1.8(b). The sliding scale percentage shall be the following:

- For the first four million Dollars (US \$4,000,000) four per cent (4%)
- For the next four million Dollars (US \$4,000,000) three per cent (3%)
- Over eight million Dollars (US \$8,000,000) two per cent (2%)

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

#### 2.8.2.2 Development, Production and Decommissioning Operations Overhead

The overhead rates applicable to Development, Production and Decommissioning Operations shall be agreed between the Parties in due course and shall incorporate the following guidelines:

- (a) The **CONTRACTOR's** charges must be charged as direct charges whenever possible. Overhead charges exist only to compensate the **CONTRACTOR's** Affiliates for costs which are properly allocable to Petroleum Operations under the Contract but which cannot, without unreasonable effort and/or release of confidential data proprietary to the **CONTRACTOR's** Affiliates, be charged under any other section. Overhead costs are billed monthly. Overhead must be commensurate with services rendered and based on actual cost studies but may not exceed an amount calculated as a percentage of certain annual expenditures excluding Exploration Costs and
- (b) That percentage as well as the types of expenditures, which affect overhead and those, which do not, shall be agreed among the Parties.
- (c) The maximum percentage rates may be revised by mutual agreement not more often than annually. The initial maximum percentage rates and the types of expenditures to which they apply shall be agreed as soon as the Parties possess reasonably reliable cost estimates for the relevant Production Area.

- (d) Overhead charges are not subject to audit by **GOVERNMENT**.
  - (e) The **CONTRACTOR** shall upon request furnish at the end of each relevant Calendar Year to the **GOVERNMENT** a confirmation by its statutory auditor that the overhead costs actually charged do not duplicate any other charges and that the method used in allocating overhead to Petroleum Operations hereunder as opposed to other activities is reasonable and in accordance with generally accepted accounting practices.
  - (f) The **CONTRACTOR** must budget for overhead charges.
- 2.8.3 All general and administrative expenditures shall be regularly allocated as specified in Paragraphs 2.2.5, 2.3, 2.4, 2.5 and 2.6 to Exploration Costs, Gas Marketing Costs, Development Costs, Production Costs and Decommissioning Costs respectively and shall be separately shown under each of these categories.

### **PARAGRAPH 3 – COSTS, EXPENSES, EXPENDITURES AND CREDITS OF THE CONTRACTOR**

#### **3.1 Costs Recoverable Without Further Approval of the GOVERNMENT**

The following Petroleum Costs incurred by the **CONTRACTOR** pursuant to the Contract as classified under the headings referred to in Paragraph 2 shall be recoverable for the purpose of Article 25 of the Contract (except to the extent provided in Paragraph 4 or elsewhere in this Annex) without the requirement for obtaining any further approval of the **GOVERNMENT**, subject to audit as provided for in Article 15 and in Paragraph 1.6.

##### **3.1.1 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 Contract.

##### **3.1.2 Labour and Associated Labour Costs**

- (a) *The **CONTRACTOR's** locally recruited employees based in the Kurdistan Region:* Costs of all **CONTRACTOR's** locally recruited employees who are directly engaged in the conduct of Petroleum Operations under the Contract in the Kurdistan Region. Such costs shall include the costs of salaries, wages, bonuses, overtime, employee benefits and **GOVERNMENT** benefits for employees and levies imposed on the **CONTRACTOR** as an employer, transportation and relocation costs within the Kurdistan Region of the employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice in the Kurdistan Region. If such employees are engaged in other activities in the Kurdistan Region, in addition to Petroleum Operations, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.

- (b) *Assigned Personnel:* Costs of salaries and wages including bonuses of the **CONTRACTOR's** employees directly engaged in the conduct of the Petroleum Operations under the Contract, 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 Contract, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in Paragraphs 3.1.2(c), (d), (e), (f) and (g), shall be charged and the basis of such pro-rata allocation shall be specified.
- (c) The **CONTRACTOR's** costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under Paragraph 3.1.2(b).
- (d) Expenses or contributions made pursuant to assessments or obligations imposed under Law which are applicable to the **CONTRACTOR's** cost of salaries and wages chargeable under Paragraph 3.1.2(b).
- (e) The **CONTRACTOR's** cost of established plans for employees' group life insurance, hospitalization, pension, stock purchases, savings, bonus, and other benefit plans of a like nature customarily granted to the **CONTRACTOR's** employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under Paragraph 3.1.2(b).
- (f) Actual transportation and travel expenses of employees of **CONTRACTOR**, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to the Kurdistan Region whose salaries and wages are chargeable to Petroleum Operations under Paragraph 3.1.2(b).

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

- (g) Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under Paragraph 3.1.2(b) and for which expenses such personnel are reimbursed under the **CONTRACTOR's** standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

### 3.1.3 Transportation and Employee Relocation Costs

The cost of transportation of employees, equipment, materials and supplies other than as provided in Paragraph 3.1.2(f) necessary for the conduct of the Petroleum Operations under the Contract along with other related costs such as, but not limited to, import duties, customs fees, unloading charges, dock fees, and inland and ocean freight charges.

### 3.1.4 Charges for Services

#### (a) *Third Parties*

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

#### (b) *Affiliates of the **CONTRACTOR***

(i) **Professional and Administrative Services Expenses:** cost of professional and administrative services provided by any Affiliates of the **CONTRACTOR** for the direct benefit of Petroleum Operations, including services provided by the production, exploration, legal, procurement, financial, insurance, accounting and computer services divisions other than those covered by paragraphs 3.1.4 (b) (ii), 3.1.6 and 3.1.8 (b) which **CONTRACTOR** may use in lieu of having its own employees. Such charges shall reflect the cost of providing their services. Such charges shall not include any element of profit and shall be no more or less favourable than similar charges for other operations carried on by the **CONTRACTOR** and its Affiliates. The chargeout rate shall include all costs incurred by Affiliates incidental to the employment of such personnel including all Labour and Associated Labour Costs and the cost of maintaining and operating offices and providing all support services for such personnel. Costs of travel of such personnel in respect of Petroleum Operations will be directly charged. The charges for such services shall not exceed those prevailing if performed by non-Affiliated third parties, taking into account the quality and availability of such services. 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.

(ii) **Scientific or Technical Personnel:** cost of scientific or technical personnel services provided by any Affiliate of the **CONTRACTOR** for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. The chargeout rate shall include all costs incurred by Affiliates

incidental to the employment of such personnel including all Labour and Associated Labour Costs and the cost of maintaining and operating offices and providing all support services for such personnel costs of travel of such personnel in respect of Petroleum Operations will be directly charged. The charges for such services shall not exceed those prevailing if performed by non-affiliated third parties, taking into account the quality and availability of such services. Unless the work to be done by such personnel is covered by an approved Work Program and Budget, the **CONTRACTOR** shall not authorize work by such personnel without approval of the **GOVERNMENT**.

- (iii) **Equipment and facilities:** use of equipment and facilities owned and furnished by the **CONTRACTOR**'s Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted and shall be on an arm's length basis. On the request of the **GOVERNMENT**, the **CONTRACTOR** shall provide the **GOVERNMENT** with evidence of such rates being on an arm's length basis. (If the **GOVERNMENT** considers that any such rate is not on an arm's length basis then the **GOVERNMENT** has the right to refer the matter to an expert pursuant to Article 42.2 of the Contract). 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**.

### 3.1.5 Communications

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

### 3.1.6 Office and Miscellaneous Facilities

Net cost to the **CONTRACTOR** of establishing, maintaining and operating any office, sub-office, warehouse, housing or other facility directly serving the Petroleum Operations. If any such facility services more than one contract area the net costs thereof shall be allocated on an equitable basis in accordance with prudent international petroleum industry practice.

### 3.1.7 Ecological and Environment

- (a) 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;



- (b) Costs incurred in environmental or ecological surveys required by regulatory authorities, including an environmental impact assessment commissioned pursuant to Article 37.5 of the Contract and any other costs incurred in complying with the requirements of Article 37;
- (c) Costs to provide or have available pollution containment and removal equipment;
- (d) Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations;
- (e) Costs of restoration of the operating environment incurred pursuant to an approved scheme prepared in accordance with Article 38 of the Contract;
- (f) Any costs incurred for the decommissioning of facilities and site restoration, including any related activity required by the **GOVERNMENT** or other competent authority or by the Contract; and
- (g) Any contributions made by the **CONTRACTOR** to the Decommissioning Reserve Fund in accordance with Article 38, when such contributions are made.

#### 3.1.8 Material and Equipment 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:

- (a) **Acquisition** - the **CONTRACTOR** shall only supply or purchase materials for use in Petroleum Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.
- (b) **Components of costs, arm's length transactions** - except as otherwise provided in paragraph 3.1.8(d) , material purchased by the **CONTRACTOR** in arm's length transactions in the open market for use in the Petroleum Operations under the Contract shall be valued to include invoice price less trade and cash discounts (if any), licence fees, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the **CONTRACTOR** has arranged the purchase, coordinated the forwarding and expediting effort, its costs should not exceed those currently prevailing in normal arm's length transactions on the open market and in any case shall not

exceed a fee equal to two per cent (2%) of the value of the materials added to the cost of the materials purchased.

- (c) **Accounting** - such material costs shall be charged to the accounting records and books in accordance with the "**First in, First Out**" (FIFO) method;
- (d) Material purchased from or sold to Affiliates of the **CONTRACTOR** or transferred from other activities of the **CONTRACTOR** to or from Petroleum Operations under this Contract shall be valued and charged or credited at the prices specified in Paragraphs 3.1.8(d)(i), 3.1.8(d)(ii) and 3.1.8(d)(iii):
  - (i) 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.
  - (ii) Used material (Conditions "B", "C" and "D");
    - (A) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy five per cent (75%) of the current price of new material defined in Paragraph 3.1.8(d)(i);
    - (B) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at not more than fifty per cent (50%) of the current price of new material as defined in Paragraph 3.1.8(d)(i). The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning do not exceed the value of Condition "B" material;
    - (C) Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by the **CONTRACTOR**. If material is not fit for use by the **CONTRACTOR** it shall be disposed of as junk.
  - (iii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in Paragraph 3.1.8(d)(i) .
  - (iv) When the use of material is temporary and its service to the Petroleum Operations under the Contract does not justify the reduction in price as provided for in paragraph 3.1.8.(d)(ii)(b), such material shall be priced on a basis that will result in a net charge to the accounts under the Contract consistent with the value of the service rendered.

- (v) Premium prices - whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the **CONTRACTOR** has no control, the **CONTRACTOR** may charge Petroleum Operations for the required material at the **CONTRACTOR**'s actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the **GOVERNMENT** of the proposed charge prior to charging Petroleum Operations for such material and the **GOVERNMENT** shall have the right to challenge the transaction on audit.
  - (vi) Warranty of material furnished by the **CONTRACTOR** - the **CONTRACTOR** does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the **CONTRACTOR** from the manufacturers of the material or their agents.
  - (vii) Adjustments arising from material inventories conducted in accordance with Paragraph 5.2.
- (c) Equipment of the **CONTRACTOR** charged at rates not to exceed the average commercial rates of non-affiliated third parties for equipment, facilities, installations and utilities for use in the area where the same are used. On request, the **CONTRACTOR** shall furnish a list of rates and the basis of application. Such rates shall be revised when found to be either excessive or insufficient, but not more than once every six (6) Months.
- Drilling tools and other equipment lost in the hole or damaged beyond repair may be charged at replacement cost less depreciation plus transportation costs to deliver like equipment to the location where used.
- (f) Use of leased or hired machinery and/or equipment in the Petroleum Operations shall be charged at full cost to the **CONTRACTOR**. This may include mobilisation and de-mobilisation charges, lease and hire fees, as well as other contractual costs.

### 3.1.9 Rentals and Taxes

All rentals of every kind and nature levied by any **GOVERNMENT** and all Taxes imposed in connection with the **CONTRACTOR**'s assets, income or activities under the Contract and paid directly by the **CONTRACTOR** or any **CONTRACTOR** Entity (save where the contrary is expressly provided in the Contract) with the exception of Taxes (but only those Taxes described in Article 31.3), bonus payments, Capacity Building Payments, and any other payments made under Article 32.

If the **CONTRACTOR**, any **CONTRACTOR** Entity or any of its Affiliated Companies is subject to income or withholding tax as a result of services performed at cost for the Petroleum Operations under the Contract, its charges for such services may be increased by the amount required to cover such taxes (grossed up) including taxes on such gross up.

### 3.1.10 Insurance and Losses

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

### 3.1.11 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 under the Contract, or sums paid in respect of legal services necessary for the protection of the joint interest of the **GOVERNMENT** and the **CONTRACTOR** shall be recoverable. Such expenditures shall include attorney's fees, court costs, arbitration costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims provided such costs are not covered elsewhere in the Annex. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the **CONTRACTOR** or an Affiliated Company of the **CONTRACTOR**, such compensation shall be included instead under Paragraph 3.1.2 or 3.1.4(b) as applicable.

### 3.1.12 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, except as may otherwise be covered elsewhere in the Annex.

### 3.1.13 Training Costs

All costs and expenses incurred by the **CONTRACTOR** in the training of its employees engaged in Petroleum Operations under the Contract.

### 3.1.14 General and Administrative Costs

The costs described in Paragraph 2.8.1 and the charge described in Paragraph 2.8.2.

### 3.1.15 Banking Charges and Currency Exchange Losses

Charges and fees by the banks for money transfers, payments and foreign exchange transactions, as well as currency exchange losses incurred by the **CONTRACTOR** in connection with the Petroleum Operations.

### 3.1.16 Other Expenditures

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

### 3.2 **Credit Under the Contract**

The proceeds, other than the proceeds from the sale of Petroleum received from Petroleum Operations under the Contract, including the items listed below shall be credited to the Accounts under the Contract for the purposes of Article 25 of the Contract:

- 3.2.1 The proceeds of any insurance or claim or judicial awards in connection with Petroleum Operations under the Contract or any assets charged to the Accounts under the Contract where such operations or assets have been insured and the premia charged to the Accounts under the Contract.
- 3.2.2 Legal costs charged to the accounts under Paragraph 3.1.11 and subsequently recoverable by the **CONTRACTOR**.
- 3.2.3 Revenue received from third parties for the use of property or assets the cost of which has been charged to the Accounts under the Contract.
- 3.2.4 Any adjustment received by the **CONTRACTOR** from the suppliers/manufacturers or their agents in connection with a defective material the cost of which was previously charged by the **CONTRACTOR** to the Accounts under the Contract.
- 3.2.5 Rentals, refunds, including refunds of taxes paid, or other credits received by the **CONTRACTOR** which apply to any charge which has been made to the Accounts under the Contract, but excluding any award granted to the **CONTRACTOR** under arbitration or expert proceedings.
- 3.2.6 Costs originally charged to the Accounts under the Contract for materials subsequently exported from the Kurdistan Region or transferred to another Contract Area within the Kurdistan Region.
- 3.2.7 Proceeds from the sale or exchange by the **CONTRACTOR** of plant or facilities used in Petroleum Operations the acquisition costs of which have been charged to the Accounts under the Contract.
- 3.2.8 Proceeds derived from the sale or license of any intellectual property the development costs of which were incurred pursuant to and are recoverable under the Contract.
- 3.2.9 Proceeds derived from the sale, exchange, lease, hire, transfer or disposal in any manner whatsoever of any other item the costs of which have been charged to Petroleum Operations.

### **3.3 Duplication of Charges and Credits**

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

#### **PARAGRAPH 4 – COSTS AND EXPENSES NOT TO BE TREATED AS RECOVERABLE**

The following costs and expenditures shall not be included in the Petroleum Costs recoverable under Article 25:

- 4.1 Taxes on income or profit paid to any **GOVERNMENT** authority except Taxes and duties that may be included in the costs of material and equipment purchased for the Petroleum Operations;
- 4.2 Any payment made to the **GOVERNMENT** by reason of the failure of the **CONTRACTOR** to fulfil its Minimum Exploration Obligations in respect of the relevant Sub-Period under the Contract.
- 4.3 The cost of any letter of guarantee, if any, required under the Contract;
- 4.4 The bonuses, Capacity Building Payments, or other payments set out in Article 32 of the Contract;
- 4.5 Costs of marketing or transportation of Petroleum beyond the Delivery Point (excluding Gas Marketing Costs);
- 4.6 Attorney's fees and other costs of proceedings in connection with arbitration under Article 42 of the Contract or internationally recognised independent expert determination as provided in the Contract or this Accounting Procedure;
- 4.7 Any interests, fees, costs and expenses paid by the **CONTRACTOR** for loans and any other form of financing or advances for the financing of the Petroleum Costs entered into by the **CONTRACTOR** with third parties or Affiliated Companies;
- 4.8 Any accounting provision for depreciation and/or amortisation, excluding any adjustments in value pursuant to Paragraph 3.1.8;
- 4.9 Dividends, repayment of equity or repayment of intercompany loans;
- 4.10 Fines and penalties imposed under Law.

#### **PARAGRAPH 5 – RECORDS AND VALUATION OF ASSETS**

##### **5.1 Records**

The **CONTRACTOR** shall maintain detailed records of property in use for Petroleum Operations under the Contract in accordance with prudent international petroleum industry practice for exploration and production activities.

## **5.2 Inventories**

Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three (3) years with respect to immovable assets. The **CONTRACTOR** shall give the **GOVERNMENT** at least thirty (30) days written notice of its intention to take such inventory and the **GOVERNMENT** shall have the right to be represented when such inventory is taken.

Failure of the **GOVERNMENT** to be represented at an inventory shall bind the **GOVERNMENT** to accept the inventory taken by the **CONTRACTOR**.

The **CONTRACTOR** shall clearly inform **GOVERNMENT** about the principles upon which valuation of the inventory has been based. The **CONTRACTOR** shall make every effort to provide to the **GOVERNMENT** a full report on such inventory within thirty (30) days of the taking of the inventory. When an assignment of rights under the Contract takes place the **CONTRACTOR** may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.

## **PARAGRAPH 6 – PRODUCTION STATEMENT**

### **6.1 Production Information**

Without prejudice to the rights and obligations of the Parties under Article 16 of the Contract, from the date of First Production from the Contract Area the **CONTRACTOR** shall submit a monthly production statement to the **GOVERNMENT** showing the following information separately for each producing Development Area and in aggregate for the Contract Area:

- 6.1.1 The quantity of Crude Oil produced and saved.
- 6.1.2 The quality characteristics of such Crude Oil produced and saved.
- 6.1.3 The quantity of Natural Gas produced and saved.
- 6.1.4 The quality characteristics of such Natural Gas produced and saved.
- 6.1.5 The quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage.
- 6.1.6 The quantities of Crude Oil and Natural Gas unavoidably lost.
- 6.1.7 The quantities of Natural Gas flared and vented.
- 6.1.8 The size of Petroleum stocks held at the beginning of the calendar Month in question.
- 6.1.9 The size of Petroleum stocks held at the end of the calendar Month in question.

- 6.1.10 The quantities of Natural Gas reinjected into the Reservoir.
  - 6.1.11 In respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Measurement Point. All quantities shown in this Statement shall be expressed in both volumetric terms (Barrels of oil and cubic meters of gas) and in weight (metric tonnes).
- 6.2 Submission of Production Statement**

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

#### **PARAGRAPH 7 – VALUE OF PRODUCTION AND PRICING STATEMENT**

**7.1 Value of Production and Pricing Statement Information**

The **CONTRACTOR** shall, for the purposes of Article 25 of the Contract, prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter.

This “Value of Production and Pricing Statement” shall contain the following information:

- 7.1.1 The quantities and prices realized therefor by the **CONTRACTOR** in respect of sales of Natural Gas and Crude Oil delivered to third parties made during the Quarter in question.
- 7.1.2 The quantities and prices realized therefor by the **CONTRACTOR** in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to Third Parties.

**7.2 Submission of Value of Production and Pricing Statement**

The Value of Production and Pricing Statement for each Quarter shall be submitted to the **GOVERNMENT** not later than ten (10) days after the end of such Quarter.

#### **PARAGRAPH 8 – COST RECOVERY AND SHARE ACCOUNT STATEMENT**

**8.1 Cost Recovery Statement**

The **CONTRACTOR** shall prepare with respect to each Quarter a Cost Recovery Statement containing the following information:-

- 8.1.1 Recoverable Petroleum Costs carried forward from the previous Quarter, if any.
- 8.1.2 Recoverable Petroleum Costs for the Quarter in question.
- 8.1.3 Credits under the Contract for the Quarter in question.



- 8.1.4 Total Recoverable Petroleum Costs for the Quarter in question (Paragraph 8.1.1 plus Paragraph 8.1.2, net of Paragraph 8.1.3).
- 8.1.5 Quantity and value of Petroleum applied to cost recovery pursuant to Article 25 taken by the **CONTRACTOR** for the Quarter in question.
- 8.1.6 Amount of recoverable Petroleum Costs to be carried forward into the next Quarter (Paragraph 8.1.4 net of Paragraph 8.1.5).

## **8.2. Cumulative Production Statement**

The **CONTRACTOR** shall prepare with respect to each Quarter a Cumulative Production Statement containing the following information:

- 8.2.1 The cumulative production position at the end of the Quarter preceding the Quarter and Month in question.
- 8.2.2 Production of Export Petroleum for the Quarter in question.
- 8.2.4 The cumulative production position at the end of the Quarter in question.
- 8.2.5 The amount of Petroleum applied to Royalty pursuant to Article 24, cost recovery pursuant to Article 25 and Profit Petroleum pursuant to Article 26 taken by the **GOVERNMENT** and by the **CONTRACTOR**, respectively, during the Quarter in question.
- 8.2.6 The forecast of production and the share of Petroleum applied to Royalty pursuant to Article 24, cost recovery pursuant to Article 25 and Profit Oil pursuant to Article 26 due to the **GOVERNMENT** and to the **CONTRACTOR**, respectively, for the next succeeding Quarter and Month.

## **8.3 Preparation and Submission of Cost Recovery and Cumulative Production Statements**

- 8.3.1 Provisional Cost Recovery and Cumulative Production Statements, containing estimated information where necessary, shall be submitted by the **CONTRACTOR** on the last day of each Quarter and Month for the purposes of Article 25 of the Contract.
- 8.3.2 Final quarterly Cost Recovery and Cumulative Production Statements shall be submitted within thirty (30) days of the end of the Quarter in question.

## **8.4 Annual Statement**

For the purposes of Article 25 of the Contract, an Annual Cost recovery and Cumulative Production Statement shall be submitted within ninety (90) days of the end of each Year. The Annual Statement shall contain the categories of information listed in Paragraphs 8.1 and 8.2 for the Year in question, separated into the Quarters of the Year in question and showing the cumulative positions at the end of the Year in question with respect to cumulative unrecovered Petroleum Costs and Cumulative Production

#### **PARAGRAPH 9 – STATEMENT OF EXPENDITURE AND RECEIPTS**

- 9.1 The **CONTRACTOR** shall prepare with respect to each Quarter a Statement of Expenditure and Receipts under the Contract. The Statement will distinguish between Exploration Costs, Gas Marketing Costs, Development Costs, Production Costs and Decommissioning Costs and will identify major items of expenditures within these categories. The Statement will show the following:
- 9.1.1 Actual expenditures and receipts for the Quarter in question.
  - 9.1.2 Cumulative expenditure and receipts for the budget Calendar Year in question.
  - 9.1.3 Latest forecast cumulative expenditures at the Calendar Year end.
  - 9.1.4 Variations between budget forecast and latest forecast and explanations thereof.
- 9.2 The Statement of Expenditure and Receipts of each Quarter shall be submitted to the **GOVERNMENT** no later than thirty (30) days after the end of such Quarter.

#### **PARAGRAPH 10 – FINAL END-OF-YEAR STATEMENT**

The **CONTRACTOR** will prepare a Final End-of-Year Statement. The Statement will contain information as provided in the Production Statement, Value of Production and Pricing Statement, Cost Recovery and Cumulative Production Statements and Statement of Expenditures and Receipts but will be based on actual quantities of Petroleum produced and expenses incurred. This Statement will be used to make any adjustments that are necessary to the payments made by the **CONTRACTOR** under the Contract. The Final End-of-Year Statement of each Calendar Year shall be submitted to the **GOVERNMENT** within ninety (90) days of the end of such Calendar Year.

#### **PARAGRAPH 11 – AUDITS**

Each such report and statement provided for in Paragraph 6 through 10 shall be considered true and correct, unless the **GOVERNMENT** raises an exception thereto within the timeframe and under the process set out in Article 15 of the Contract.

#### PARAGRAPH 12 – ANNUAL WORK PROGRAM AND BUDGET

- 11.1 Each annual Work Program and Budget to be prepared in accordance with Articles 11, 12 and 14 of the Contract, in respect of Exploration Costs, Gas Marketing Costs, Development Costs and Production Costs respectively will show the following:
  - 11.1.1 Forecast expenditures for the budget Calendar Year in question including a quarterly classification of such expenditures.
  - 11.1.2 Cumulative expenditures to the end of said budget Calendar Year.
  - 11.1.3 A schedule showing the most important individual items of Development Costs (if applicable) for said budget Year.

#### PARAGRAPH 13 – CONTRACTOR ENTITY INCOME TAX COMPUTATION

- 13.1 For the purpose of Article 31.3(b) of the Contract, the net taxable profits of each **CONTRACTOR** Entity from all the Petroleum Operations carried out under this Contract, shall be calculated in accordance with this Paragraph.
- 13.2 Each **CONTRACTOR** Entity shall maintain for each Calendar Year separate Accounts with respect to the Petroleum Operations which shall be used, *inter alia*, to establish a profit and loss account and a balance sheet which will show the results of the Petroleum Operations carried out in such Calendar Year as well as the assets and liabilities assigned or directly related thereto. The profit and loss account will be maintained under the accrual method of accounting.
- 13.3 For purposes of determining the net taxable profits of each **CONTRACTOR** Entity for corporate income tax purposes:
  - 13.3.1 the profit and loss account of such **CONTRACTOR** Entity shall be credited with the following:
    - (a) if the Royalty is paid in cash pursuant to Article 24, revenues arising from the disposal of Royalty volumes as recorded in such entity's Accounts and determined in accordance with the provisions of Article 24;
    - (b) revenues arising from the disposal of any Available Petroleum to which such entity is entitled for recovery of its Petroleum Costs as recorded in its Accounts and determined in accordance with the provisions of Article 25;
    - (c) revenues from the disposal of any Profit Petroleum to which such entity is entitled under Article 26 as is recorded in its Accounts and determined in accordance with the provisions of Article 26;

- (d) any other revenues or proceeds directly connected to the Petroleum Operations including those arising from the disposal of related Petroleum substances, or from the treatment, storage and transportation of products for third parties;
- (e) any exchange gains realised or other financial income earned by such entity in connection with the Petroleum Operations;

13.3.2 the profit and loss account for such **CONTRACTOR** Entity shall be debited with all charges incurred for the purposes of the Petroleum Operations whether incurred inside or outside the Kurdistan Region, which charges shall include the following:

- (a) in addition to the charges specifically set forth below in this Paragraph, all other Petroleum Costs, including the costs of supplies, personnel and manpower expenses, and the cost of services provided to the **CONTRACTOR** in connection with the Petroleum Costs;
- (b) if the Royalty is paid in cash pursuant to Article 24, Royalty payments made and as recorded in such entity's Accounts and determined in accordance with the provisions of Article 24;
- (c) General and administrative expenditures related to the Petroleum Operations performed under this Contract;
- (d) depreciation of capital expenditure in accordance with the following provisions:
  - (i) capital expenditures incurred by the **CONTRACTOR** for the purposes of the Petroleum Operations shall be depreciated on a reducing balance basis;
  - (ii) the depreciation rates, which shall be applicable from the Calendar Year during which such capital expenditures are incurred, or from the Calendar Year during which the assets corresponding to said capital expenditures are put into normal service, whichever is later, for the first Calendar Year in question and for each subsequent Calendar Year, are as follows:

<b>Nature of the capital asset to be depreciated</b>	<b>Annual depreciation Rate</b>
Permanent buildings	10.0%
Temporary buildings	20.0%
Office and home furniture and fixtures	20.0%
Productive wells	20.0%
Production and delivery equipment	20.0%

Drilling equipment	20.0%
Pipelines	20.0%
Automotive equipment	20.0%
Marine and aviation equipment	20.0%
All other capital assets	20.0%

- (c) Exploration Costs (which for the avoidance of doubt include appraisal expenditures) shall be deductible on a reducing balance basis at the rate of 20% per annum.
- (f) interest and fees paid to creditors of the **CONTRACTOR**, for their actual amount;
- (g) losses of Assets resulting from destruction or damage, assets which are renounced or abandoned during the year, assets which are transferred under Article 20.2, bad debts, indemnities paid to third parties as compensation for damage;
- (h) any other costs, expenses, losses or charges directly related to the Petroleum Operations, including exchange losses realised in connection with the Petroleum Operations as well as the bonuses, Capacity Building Payments, or other payments provided in Article 32, the Exploration Rental provided in Article 6.3, the Production Rental provided in Article 13.10, the allocation to training, provided in Article 23.7, the allocation to the Environment Fund provided in Article 23.9, the costs specified in Articles 23.11, 38.1 and 38.6, and transportation and marketing costs beyond the Delivery Point;
- (i) the amount of non-offset losses relating to the previous Calendar Years, which shall be carried forward for an indefinite period until full settlement of said losses or termination of this Contract;

13.3.3. The net profit of such **CONTRACTOR** Entity shall be equal to the difference between all the amounts credited and all the amounts debited in the profit and loss account; and

- (a) if this amount is negative, it shall constitute a loss.
- (b) if the amount is positive, it shall be grossed up to take account of the fact that such entity's corporate income tax is being settled out of the **GOVERNMENT**'s share of the Profit Petroleum in accordance with Article 31.2, by applying the following formula in order to provide such entity's net taxable profits for corporate income tax purposes:

$$\text{Net Taxable Profits} = \frac{\text{Net Profits} \times (100 - \text{Applicable Rate of Corporate Income Tax})}{100}$$

- 13.4 For purposes of determining each **CONTRACTOR** Entity's liability to corporate income tax for a tax year in respect of the Petroleum Operations carried out under this Contract, the net taxable profits (if any) for such tax year shall be multiplied by the applicable rate of corporate income tax, as provided in Article 31.3(a).

**ANNEX C**  
**FORM OF GUARANTEE**

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**GUARANTEE**

**BY**

**MARATHON OIL CORPORATION**

**IN FAVOR OF**

**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ**

**(Safen Block PSC)**

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## GUARANTEE

THIS GUARANTEE, dated \_\_\_\_\_, is by:

- (1) MARATHON OIL CORPORATION, a corporation incorporated under the laws of the State of Delaware, United States of America (the "Guarantor")

in favor of

- (2) THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ (the "Beneficiary").

The Beneficiary has entered into a Production Sharing Contract (the "PSC") dated [\_\_\_\_] October 2010 with Marathon Petroleum KDV B.V. (the "PSC Company"), an indirect subsidiary of the Guarantor, in respect of the Safen block in the Kurdistan Region of Iraq. The delivery of this Guarantee is a requirement of, and is delivered pursuant to, the PSC.

### 1. Definitions; Interpretation

#### 1.1 Definitions

1.1.1 Unless defined in this Guarantee, terms defined in the PSC have the same meaning in this Guarantee.

1.1.2 As used in this Guarantee:

"Beneficiary" is defined in the preamble.

"Business Day" means a day on which banks are open for general business in London, England and New York City, United States of America;

"Demand" is defined in clause 2.2.

"Guaranteed Obligations" is defined in clause 2.1.

"person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

"PSC" is defined in the Recital.

"PSC Company" is defined in the Recital.

#### 1.2 Construction and Interpretation

1.2.1 Any reference to a clause or annex is, unless otherwise stated, to a clause or annex of this Guarantee.

1.2.2 Any reference to an "Article" is to an "Article" of the PSC.

1.2.3 Headings and sub-headings are for ease of reference only.

### 2. Guarantee

#### 2.1 Guaranteed Obligations

The Guarantor guarantees, to the Beneficiary, the due and punctual payment and in the manner and currency prescribed by the PSC for payments by the PSC Company, within 5 Business Days after receipt of written demand for payment as provided in clause 2.2 (*Demand*), of all sums payable by the PSC Company pursuant to Article 7.5 of the PSC



with respect to the Minimum Exploration Obligations in the Second Sub-Period (together the "Guaranteed Obligations" and each a "Guaranteed Obligation") together with any interest due with respect thereto as provided in the PSC.

## 2.2 Demand

The Guarantor will have no obligation in respect of any Guaranteed Obligations unless the Guarantor has received a written demand for payment (the "Demand"). The Guarantor shall make payment to the Beneficiary by wire transfer of cleared funds within 5 Business Days after receipt of a Demand. A Demand must:

- (a) make specific reference to this Guarantee;
- (b) state the amount that is demanded and which components of the Guaranteed Obligations are the subject of the Demand;
- (c) state that the Beneficiary has not received payment of the relevant Guaranteed Obligation from the PSC Company on the date on which it became due and payable; and
- (d) provide the Beneficiary's wire instructions for the payment of the Demand.

## 3. Nature of Guarantee

- 3.1 This Guarantee is an absolute, unconditional, and irrevocable guarantee of payment when due and not of collection, and whether by acceleration or otherwise.
- 3.2 The Beneficiary is not required to exercise any right, assert any claim or demand, or enforce any remedy whatsoever against the PSC Company or any other person before, or as a condition to, exercising any of the rights, powers, or remedies conferred upon the Beneficiary by this Guarantee or by applicable law. Without limiting the generality of the foregoing, the Beneficiary will not be required to (i) take any action or obtain judgment in any court against the PSC Company, or (ii) to make or file any claim or proof in a winding up or dissolution of the PSC Company.
- 3.3 Except as provided in clause 2.2 (*Demand*), the Guarantor hereby expressly waives presentment, demand, protest, and notice of dishonour in respect of each Guaranteed Obligation.
- 3.4 Subject to Article 8, the obligations of the Guarantor:
  - (a) constitute continuing obligations, notwithstanding any settlement of account or other matter or thing whatsoever;
  - (b) will not be considered satisfied by any intermediate payment of the PSC Company's obligations in respect of the Guaranteed Obligations; and
  - (c) will continue in full force and effect until the Guaranteed Obligations have been paid in full to, and received by, the Government in accordance with the PSC.
- 3.5 Subject to Article 8, neither the obligations of the Guarantor pursuant to, nor the rights, powers, and remedies conferred upon the Beneficiary by, this Guarantee or by law will be discharged, impaired, or otherwise affected by:
  - (a) the winding up, dissolution, administration, reorganisation or moratorium of the PSC Company or any change in its status, function, control, or ownership;
  - (b) time or other indulgence, including any composition, being granted or agreed to be granted to the PSC Company in respect of any of the Guaranteed Obligations;

- (c) any change in the time, manner, or place of payment of, or any other term of, all or any of the Guaranteed Obligations, or any other extension or, compromise of the PSC Company, provided that none of the foregoing increases the amount of the Guaranteed Obligations;
  - (d) any reduction, limitation, impairment, or termination of any part of the Guaranteed Obligations for any reason, including any claim of waiver, release, surrender, alteration, or compromise;
  - (e) any increase in the amount payable in respect of any Guaranteed Obligation, provided that the Guarantor has provided its prior written consent to any such increase which expressly states Guarantor's intention that this Guarantee will apply to such increased amount;
  - (f) the termination of the PSC or termination of the PSC Company's rights under the PSC, or any withdrawal or abandonment by the PSC Company of its interests under the PSC;
  - (g) any direct or indirect change in the ownership of the PSC Company, including by merger, amalgamation, by law, or otherwise;
  - (h) any transfer all of any part of the PSC Company's interests under or in respect of the PSC;
  - (i) any dispute or claim the PSC Company may have against the Beneficiary;
  - (i) the insolvency or bankruptcy of, or similar event affecting, the PSC Company;
  - or
  - (j) any other circumstance or combination of circumstances which might otherwise constitute a defense available to, or a legal or equitable discharge of, the PSC Company.
- 3.6 The Guarantor waives any right to or claim of any defense or setoff, counterclaim, recoupment or termination by reason of (i) the invalidity, illegality, non-genuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, any Guaranteed Obligation; (ii) any claims, set-offs, or liabilities of the PSC Company to the Guarantor or the Beneficiary; (iii) any claims, set-offs, or liabilities of the Guarantor in respect of the Beneficiary; (iv) or any other reason whatsoever.
- 3.7 This Guarantee will continue to be effective or be reinstated, as the case may be, if at any time any payment (in whole or in part) of any of the Guaranteed Obligations is rescinded or must otherwise be restored by the Beneficiary upon the insolvency, bankruptcy, or reorganization of the PSC Company or otherwise, all as though such payment had not been made. Any settlement or discharge between the Guarantor and the Beneficiary will be conditional upon no payment by the PSC Company, or any other person, to the Beneficiary on the PSC Company's behalf being avoided or reduced by virtue of any laws relating to bankruptcy, insolvency, liquidation, or similar laws.

#### **4. Taxes**

- 4.1 The Guarantor shall make all payments to the Beneficiary in accordance with the PSC and free and clear of, and without deduction for, any present or future taxes, withholdings, or other charges of any nature whatsoever imposed by any taxing authority.

- 4.2 If any withholding or deduction from any payment to be made by the Guarantor is required in respect of any taxes, then the Guarantor shall:
- (a) pay directly to the relevant authority the full amount required to be so withheld or deducted;
  - (b) promptly forward to the Beneficiary an official receipt or other documentation satisfactory to the Beneficiary evidencing such payment to such authority; and
  - (c) pay to the Beneficiary such additional amount or amounts as is necessary to ensure that the net amount actually received by the Beneficiary will equal the full amount the Beneficiary would have received had no such withholding or deduction been required.
- 4.3 If any taxes are directly asserted against the Beneficiary with respect to any payment received by the Beneficiary from the Guarantor pursuant to this Guarantee, then:
- (a) the Beneficiary may pay such taxes; and
  - (b) the Guarantor shall indemnify the Beneficiary against any claim, demand, action, liability, damages, cost, loss, or expense (including legal fees and any applicable value added tax) which the Beneficiary incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of any such tax, and promptly pay such additional amounts (including, if incurred as a result of Guarantor's or the PSC Company's action, omission or delay, any penalties, interest or expenses) as necessary so that the net amount received by the Beneficiary, after the payment of such taxes (including any taxes on such additional amount), will equal the amount the Beneficiary would have received had such taxes not been asserted.

## **5. Benefit; Assignment**

- 5.1 This Guarantee enures to the benefit of the Beneficiary and its (and any subsequent) successors and assigns, each of which shall be entitled to enforce this Guarantee against the Guarantor.
- 5.2 The Guarantor is not entitled to assign or transfer all or any of its rights, benefits and obligations hereunder. The Beneficiary is entitled to assign all or any of its rights and benefits hereunder.

## **6. Severability**

If at any time any provision of this Guarantee is determined to be illegal, invalid, or unenforceable in any respect under the laws of any jurisdiction, neither (i) the legality, validity or enforceability of the remaining provisions hereof nor (ii) the legality, validity or enforceability of such provision under the laws of any other jurisdiction will, in any such case, in any way be affected or impaired thereby.

## **7. Notices**

- 7.1 **Address for notices to Guarantor**  
The Beneficiary shall:
- (a) make any Demand or provide any notice and other communication to the Guarantor in respect of this Guarantee in writing;
  - (b) address such Demand, notice, or other communication as provided in clause 7.1(c); and

- (c) use one of the following methods to deliver such Demand or other notice or communication, each of which, for purposes of this agreement, is a writing: (i) personal delivery; (ii) email (followed by delivery of the Demand, notice or communication by air courier); or (iii) a reputable, internationally recognised air courier, with all fees prepaid, and sent to the Guarantor:

Marathon Oil Corporation

Attention: Treasurer

Address:

5555 San Felipe Road

Houston, Texas 77056

United States of America

(Telephone for air courier: +1 (713) 296-1959)

Email: PCReinbolt@MarathonOil.com

**7.2 Effectiveness as to Guarantor**

- 7.2.1 A Demand, notice or other communication will be effective as to the Guarantor only if (i) the Beneficiary has complied with this clause 7 and (ii) the Guarantor has received the Demand, notice, or other communication.
- 7.2.2 If a Demand, notice or other communication is delivered in person, it will be deemed received by the Guarantor by the date set forth in the signed receipt.
- 7.2.3 If the Beneficiary sends a Demand, notice, or other communication by a reputable, internationally recognised air courier in accordance with clause 7.1, the Demand, notice, or other communication will be deemed received by the Guarantor by the date set forth in the signed receipt.
- 7.2.4 If Beneficiary sends a Demand, notice, other communication by email and the email transmission is followed by delivery of the Demand, notice, or other communication by air courier in accordance with clause 7.1, the Demand, notice, or other communication shall be deemed to have been delivered to the Guarantor when the email is received by the Guarantor.

**7.3 Notices to Beneficiary**

The Guarantor shall give all notices or other communications to the Beneficiary in connection with this Guarantee in the same manner as prescribed in the PSC for notices to the Beneficiary.

**7.4 Change of Address**

The Guarantor or the Beneficiary may change its address as set forth in clause 7 by a notice to the other in accordance with this clause 7.

**8. Term**

This Guarantee is effective as of [\_\_\_\_\_]. Subject to clause 3.7, this Guarantee shall cease to be effective upon discharge of all of the Guaranteed Obligations.

**9. Representations and Warranties**

The Guarantor represents and warrants:

- 9.1 This Guarantee has been authorised by all necessary corporate action, and the Guarantor has all necessary power and authority to sign and perform its obligations hereunder.
- 9.2 This Guarantee is legal, valid, and binding.
- 9.3 The Guarantor has received all authorisations and consents necessary for the provision of this Guarantee to the Beneficiary, and the validity and enforceability against it, of this Guarantee.
- 9.4 Except as provided in the next sentence, there is no Law applicable to it or agreement to which it is a party that (i) conflicts with or prevents it from performing this Guarantee in accordance with its terms, or (ii) affects the validity and enforceability against it of this Guarantee in accordance with its terms. No representation is made in respect of the laws of the Kurdistan Region of Iraq or the Republic of Iraq.
- 9.5 The Guarantor is not a party to any administrative or judicial proceeding, litigation, or arbitration that could affect the validity or enforceability of this Guarantee.

## **10. Arbitration; Indemnification**

- 10.1 The Guarantor and the Beneficiary shall, exclusively, refer any dispute, claim or controversy arising out of or in connection with this agreement (including a dispute, claim or controversy relating to any non-contractual obligations arising out of or in connection with this agreement) to and to be finally resolved by arbitration under the rules of the London Court of International Arbitration, which rules are incorporated by reference into this clause.
- 10.2 The language of the arbitration will be English, and any award will be written in the English language.
- 10.3 The seat, or legal place, of the arbitration will be London, England.
- 10.4 The arbitral tribunal will comprise one arbitrator directly appointed by the London Court of International Arbitration.
- 10.5 The Beneficiary may seek enforcement of an arbitral award by any court of competent jurisdiction.
- 10.6 Any award must be expressed in United States dollars.
- 10.7 The arbitral award will be final and not subject to any appeal.
- 10.8 If any question of law arises during the arbitral proceedings or arises out of an award, neither the Beneficiary nor the Guarantor may make an application or bring an appeal to any court on a question of law, and both the Beneficiary and the Guarantor expressly waive their respective rights to make an application or bring an appeal under the English Arbitration Act 1997.
- 10.9 The Guarantor shall indemnify the Beneficiary from and against all costs and expenses (including legal fees and any taxes or duties) incurred by the Beneficiary in the enforcement and protection of its rights under this Guarantee.

## **11. Variation**

- 11.1 This Guarantee may be amended only by a written agreement of the Beneficiary and the Guarantor that identifies itself as an amendment to this Guarantee.
- 11.2 The Beneficiary or the Guarantor may waive any provision in this Guarantee only by a writing executed by such party. A waiver or consent made on one occasion will be effective only in that instance and only for the purpose stated.

- 11.3 No failure or delay in exercising any right or remedy, or in requiring the satisfaction of any condition, under this Guarantee by the Guarantor or the Beneficiary, and no act, omission or course of dealing between the Beneficiary and the Guarantor, will operate as a waiver or estoppel of any right, remedy, or condition.

## **12. Governing Law**

This Guarantee and all matters arising from or connected with it are governed by English law.

*[Signature page follows.]*

By:.....

Name:

Title:

Received and accepted for and on behalf of the **GOVERNMENT OF THE KURDISTAN REGION OF IRAQ**

By:.....

On behalf of the **REGIONAL COUNCIL**

**FOR THE OIL AND GAS AFFAIRS OF THE KURDISTAN REGION - IRAQ**

By:.....

On behalf of the **MINISTRY OF NATURAL RESOURCES IN THE KURDISTAN REGION**

*[Signature page to Guarantee of Marathon Oil Corporation in favor of the Government of the Kurdistan Region (Safen).]*