

# **PRODUCTION SHARING CONTRACT**

Between

**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ**

and

**Repsol YPF Oriente Medio S.A.**

**(Qala Dze Block)**

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**ANNEXES:**

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<b>Annex B</b>	Accounting Procedure
<b>Annex C</b>	Form of Guarantee

## PRODUCTION SHARING CONTRACT

This Production Sharing Contract (this "Contract") is between:

- (1) The **KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (the "Government"); and
- (2) **REPSOL YPF ORIENTE MEDIO S.A.**, a *sociedad anónima* incorporated and existing under the laws of the Kingdom of Spain, whose registered office is at Paseo de la Castellana 278/280 Madrid 28046 (the "Contractor" and a "Contractor Entity").

### RECITALS

- A. The Government has determined that this Contract will facilitate the development of the petroleum wealth of the Kurdistan Region in a way that achieves the highest benefit to the people of the Kurdistan Region and all of Iraq, will promote the economic development of the Kurdistan Region and Iraq and the social welfare of its people, uses the most advanced techniques, and accesses best market principles to encourage investment.
- B. The Government enters into this Contract pursuant to the Government's rights and authorities under the Constitution of Iraq and the Kurdistan Oil and Gas Law 2007. In accordance with the Constitution of Iraq, the prevailing Laws of the Kurdistan Region comprise the Kurdistan Region Law and, with regard to a matter wholly within the exclusive jurisdiction of the Government of Iraq, the federal Laws of Iraq.
- C. The Contractor and the Government each affirms its ongoing commitment and adherence to the Principles and Criteria of the Extractive Industries Transparency Initiative (EITI).
- D. The Contractor has assured the Government that the Contractor has, together with its Affiliates:
  - (1) the financial capability, and the technical knowledge and technical ability, to carry out Petroleum Operations in the Contract Area under the terms of this Contract; and
  - (2) a record of compliance with the principles of good corporate citizenship.
- E. This Contract is a production sharing contract. The object of this Contract is for the Contractor to undertake Petroleum Operations in the Contract Area at the Contractor's sole risk and expense.
- F. Neither the Contractor, nor any Contractor Entity will receive any compensation for its services, nor any reimbursement of its expenditures under this Contract, except for the share of Petroleum from the Contract Area to which it may become entitled under this

Contract. If there is no Commercial Discovery in the Contract Area, or if the production achieved from any Production Area is insufficient to reimburse the Contractor or any Contractor Entity, each Contractor Entity will bear its own losses without any obligation of the Government to provide any reimbursement or other compensation.

- G. It is the policy of the Government to: (1) ensure that Natural Gas is first made available to satisfy the consumption requirements and needs of the people of Iraq, (2) determine and control all exports of Natural Gas produced in the Region, and (3) act, directly or indirectly through a designated Affiliate of the Government or other designee of the Government, as the aggregator of all Natural Gas produced in the Region for export.
- H. Nothing in this Contract is intended to confer any right upon the Contractor other than those rights expressly granted in this Contract. This Contract does not transfer ownership of any Petroleum in the ground to the Contractor or any Contractor Entity.
- I. The Contractor and Repsol YPF, S.A. have provided the Government with a letter of representations and warranties dated concurrently herewith (the "**Repsol Letter of Representations**") as an inducement for the Government to enter into this Contract, and upon which the Government is relying in entering into this Contract.
- J. Concurrently with the signing of this Contract, Repsol YPF, S.A. has delivered a guarantee in favour of the Government as required by this Contract.
- K. Prior to this Contract, Repsol Exploracion S.A. delivered a Confidentiality and Pre-Contractual Understandings Agreement, which continues in accordance with its terms and is not impaired by this Contract, except as expressly set forth herein.

## CLAUSE 1 – DEFINITIONS; CONSTRUCTION

### DEFINITIONS

- 1.1 Unless otherwise specified:

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

**Accounts** is defined in clause 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 Encumbrance 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 clause 34.1.

**Adjustment Date** is defined in clause 27.7.1.

**Affiliate** means, in relation to any Person (the "first Person"), another Person that is:

- (a) the ultimate holding company of such first Person and any subsidiary (other than the first Person) of the first Person's ultimate holding company; or
- (b) if the first Person is not a subsidiary of another company, any subsidiary of the first Person.

For the purpose of this definition, "holding company" and "subsidiary" have the meanings given to those expressions in Section 1159 of the Companies Act 2006 (England).

**Annual Reconciliation Statement** is defined in clause 32.9.

**Agreed Rate** means interest compounded on a monthly basis, at the rate per annum equal to the three-month term, London Interbank Offered Rate (LIBOR rate) for U.S. dollar deposits, as published the Financial Times (London Edition) or if not published, then by The Wall Street Journal (New York Edition), plus 4.00%, applicable on the first International Business Day prior to the due date of payment and thereafter on the first Business Day of each succeeding calendar month. If the aforesaid rate is contrary to any applicable usury law, the rate of interest to be charged shall be the maximum rate permitted by such applicable law.

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

**Appraisal and Appraisal Operations** means appraisal work (being part of Exploration) and a program carried out following a Discovery for the purpose of delineating the Reservoir to which that Discovery relates in terms of measurement of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein, and includes geological, geophysical, aerial and other surveys, stratigraphic tests, the drilling of shot holes, core holes, Appraisal Wells and other related holes and wells, and the purchase or acquisition of Assets and Materials therefor.

**Appraisal Area** means the area defined in clause 12.4.

**Appraisal Report** means, in respect of a Appraisal Operations in respect of a Discovery, a report in such form as required by the Government and that includes:

- (a) geological conditions, such as structural configuration, physical properties, and stratigraphy;
- (b) the thickness and extent of Reservoir rocks;
- (c) petrophysical properties of the Reservoirs;
- (d) type of substances obtained;
- (e) Volumes of Crude Oil and Natural Gas initially in place;

- (f) the chemical composition, the physical properties and quality of any Crude Oil discovered;
- (g) pressure, volume and temperature analysis of the reservoir fluid;
- (h) the productivity indices for wells tested at various rates of flow;
- (i) Crude Oil characteristics, including oil gravity, sulphur percentage, sediment and water content and product yield pattern;
- (j) Natural Gas composition;
- (k) estimates of recoverable reserves;
- (l) the estimated production capacity of the Reservoirs;
- (m) production forecast per well;
- (n) a preliminary estimate of recoverable reserves; and
- (o) such other information as reasonably required by the Government or generally provided in such reports in accordance with Best Practices.

**Appraisal Work Program** is defined in clause 12.4.

**Approved** means approved by the Management Committee and the Government.

**Approved Budget** means a Budget that has been approved by the Management Committee and the Government together with an Approved Work Program.

**Approved Domestic Gas Marketing Work Program and Budget** is defined in clause 14.1.

**Approved Gas Field Appraisal Work Plan and Budget** is defined in clause 14.1.

**Approved Work Program** means a Work Program that has been approved by the Management Committee and the Government.

**Approved Work Program and Budget** means an Approved Work Program together with a Budget with respect thereto that has been approved by the Management Committee and the Government.

**Arm's-Length Sale(s)** means, in respect of sales of Petroleum, a sale 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. The following are not Arm's Length Sales:

- (a) sales between or among any of the Contractor Entities and their respective Affiliates;
- (b) sales involving the Government or the Government of Iraq;
- (c) sales involving swaps or exchanges; and
- (d) transactions which are not a routine sales practice in the international oil and gas industry.

**Assets** means equipment and other property, whether real or personal, owned or leased, used or expected to be used by the Contractor in connection with Petroleum Operations.

**Assets and Materials** is defined in clause 19.1.



**Assign and Assignment** means any transfer, conveyance, novation, merger (including "reverse triangle" mergers), Encumbrance or other dealing in any manner whatsoever or howsoever accomplished or characterised (whether legally, beneficially, or otherwise, into any form of trust or fiduciary holding, and whether conditionally or not). **Assignee** means a Person accepting an Assignment from a Party, and **Assignor** means the Party making an Assignment to another Person.

**Associated Gas** means Natural Gas found in association with Crude Oil, either dissolved in the Crude Oil or as Gas-cap Gas, that is recovered as Natural Gas at the surface by separation or other primary field processes.

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

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

**Available Gas** is defined in clause 25.2.

**Available Petroleum** is defined in clause 25.3.

**Barrel** means a quantity of 42 US gallons as a unit to measure liquids, at a temperature of 60° Fahrenheit and pressure of 14.7 psi.

**Base Exploration Term** is defined in clause 6.3.

**Best Practices** means standards that are no less stringent than the best practices, methods, and procedures in carrying out petroleum operations consistent with a reasonable degree of prudence, as evidenced by the best practices of experienced operators in the exploration, development, and production of petroleum principally aimed at ensuring:

- (a) conservation of Petroleum resources, which implies the utilisation of methods and processes to maximise the recovery of Petroleum in a technically and economically sustainable manner, control of reserve decline, and minimisation of losses at the surface;
- (b) operational safety, including the use of methods and processes that promote occupational security and the prevention of accidents;
- (c) environmental protection and worker safety, including best methods and processes which minimise the impact of Petroleum Operations on the environment.
- (d) that all materials, resources, and supplies are available to meet the Contractor's obligations hereunder under normal conditions and anticipated abnormal conditions;
- (e) that sufficient engineering, design, construction and safety personnel are available, are adequately experienced and trained to conduct Petroleum Operations, and provide required training properly and within Applicable Law, manufacturer's guidelines and specifications, and are capable of responding to abnormal conditions and anticipated abnormal conditions;
- (f) that appropriate monitoring and testing is done to ensure that Assets are capable of functioning, and will continue to function, as designed and to provide assurance that Assets will function properly under normal conditions and anticipated abnormal conditions;

- (g) that appropriate protective devices and design features are provided to ensure that safe, reliable, long-term Petroleum Operations can be achieved;
- (h) that equipment is operated at all times in a manner compliant with Applicable Law, applicable Permits, and this Contract, in accordance with all manufacturers' warranties, and in a manner safe to workers, the general public, the environment, plant and Assets;
- (i) notwithstanding the requirements of the ASME Boiler & Pressure Vessel Code Section VIII, that all pressurised equipment handling hydrocarbons (whether such Asset is new or used) is subject to hydraulic pressure testing prior to use; and
- (j) that full and complete records of accounts are kept and maintained.

**Budget** means an estimate of income and expenditure approved, or as the context may require, to be approved by the Management Committee in accordance with this Contract in respect of all Petroleum Operations included in a Work Program.

**Calendar Year** means a period of 12 consecutive Months, beginning 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 for the purposes set forth in clause 32.16.

**Capacity Building Bonus – First Tranche** is defined in clause 32.1(a).

**Capacity Building Bonus – Second Tranche** is defined in Article 32.1(b).

**Capacity Building Payment** means the obligation of each Contractor Entity to pay an amount equal to the Capacity Building Value.

**Capacity Building Payment Monthly Statement** is defined in clause 32.7.

**Capacity Building Value** means during any period for each Contractor Entity:

- (a) zero US\$ until the R Factor is first equal to one; and
- (b) after the first time that the R Factor equals or exceeds one ( $R \geq 1$ ), and notwithstanding if the actual R Factor determined with respect to a period occurring after the first time the R Factor equals or exceeds one may be less than 1:
  - (1) an amount in US\$ equal to the value, determined in accordance with clause 27, of 30% of the Profit Petroleum attributed to such Contractor Entity.

**Chairman** is defined in clause 8.9.

**Change of Control** is defined in clause 39.10.

**Change of Tax Law** is defined in clause 43.4.

**Commercial Discovery** means a Discovery, after taking into account available technical, operational, commercial, and financial data, including recoverable reserves of Petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, which is expected to result in both full recovery of Petroleum Costs and a reasonable return on investment.

**Commercial Production** means Production of Petroleum under an Approved Production Work Program and Budget of regular production and sale or other disposition.

**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.

**Contract Area** means, as of the Effective Date, the area shown on the map in Annex A, as such area may be relinquished or otherwise reduced in accordance with this Contract.

**Contract Year** means a period of 12 consecutive Months starting from the Effective Date or any anniversary of the said Effective Date. In the case of the final Contract Year of this Contract, the Contract Year will end on the termination date.

**Contractor** means all the Contractor Entities, together.

**Contractor Entity** means, as at any time of determination, Repsol and its respective Permitted Assignees and successors. The Government is not a Contractor Entity. A Public Company or other Person that is a Government Interest Holder is not a Contractor Entity solely by virtue of being a Government Interest Holder.

**Control** is defined in clause 39.10(b).

**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 principles of the Laws of the Kingdom of Spain in respect of bribery, kickbacks, and corrupt business practices;
- (c) the principles of the Foreign Corrupt Practices Act of 1977 of the United States of America (Pub. L. No. 95-213 §§ 101-104 *et seq*), as amended;
- (d) the principles of 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; and
- (e) the principles of the UK Bribery Act 2010.

**Cost Gas** is defined in clause 25.9.

**Cost Oil** is defined in clause 25.8.

**Cost Petroleum** is defined in clause 25.11.

**Cost Recoverable** means recoverable by the Contractor as Petroleum Costs in accordance with the provisions of this Contract (including the Accounting Procedure).

**Crude Oil** means all liquid hydrocarbons (including crude mineral oil, condensate, asphalt, ozokerite, and bitumens) in both solid and liquid form in its natural state or obtained from Natural Gas by condensation or extraction.

**Cumulative Costs** is defined in clause 26.1.

**Cumulative Revenues** is defined in clause 26.1.

**Data** means records, information, or data of any sort, whether raw, derived, processed, interpreted or analysed, obtained or produced pursuant to this Contract, including

geological, geophysical, petrophysical, engineering, drilling, production, well location, well log, core sample and completion status records, information and data.

**Date of Commencement of Commercial Production** means the date as of which the Management Committee determines that Commercial Production is first achieved in the Contract Area.

**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** mean closing down, decommissioning, abandoning, or wholly or partly removing Assets and Materials in or from the Contract Area, keeping Assets and Materials in the Contract Area in a safe condition following cessation of production pending abandonment, and restoration of land in the Contract Area.

**Decommissioning Plan and Work Program** is defined in clause 38.2.

**Decommissioning Reserve Fund** is defined in clause 38.6 and includes all contributions paid into such fund and all interest accumulated in such fund.

**Delivery Point** means the point after extraction either as specified in an Approved Development Plan for a Production Area, or at such other point (including a point of sale in respect of Natural Gas) which may be agreed by the Parties, at which Petroleum produced and saved is metered for the purposes of clause 27.5, valued for the purposes of clause 27.1, and, in the case of Crude Oil, available to be lifted by a Party.

**Development Costs** means all the costs and expenditures incurred by the Contractor when carrying out Development Operations in accordance with an Approved Development Work Program and Budget (subject to clause 2.6).

**Development and Development Operations** means, in respect of a Production Area, all operations or works conducted in accordance with an Approved Development Plan and Budget up to the Delivery Point with a view to developing a Production Area.

**Development Period** is the period during the term of this Contract (a) that is not the Exploration Period or a Gas Field Holding Period and (b) during which the Contractor is entitled to conduct Development Operations.

**Development Plan** means a plan prepared by the Contractor in accordance with Best Practices, and which includes details of:

- (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 Injection Wells;
- (d) the sequencing and timing of the development of Reservoirs;
- (e) the expected First Production of Petroleum;
- (f) laying of pipelines;
- (g) installation of separators, tanks, pumps and any other associated production and injection facilities for the production;

- (h) treatment and transportation of Petroleum to processing and storage facilities;
- (i) the construction of transportation pipelines inside or outside the Contract Area;
- (j) construction of storage facilities for Petroleum;
- (k) plans for the use or flaring of Natural Gas;
- (l) training commitment in accordance with clause 23;
- (m) preliminary decommissioning and site restoration plans;
- (n) a detailed forecast of annual capital expenditures, operating expenditures, and abandonment expenditures,
- (o) each Contractor Entity's source of capital; and
- (p) any other operations and expenditures not expressly provided for in this definition, but the Contractor expects will be reasonably necessary for Development Operations, Production Operations, and delivery of Petroleum and disposition of Natural Gas produced from the Contract Area.

**Development Work Program and Budget** means the Work Program and Budget prepared by the Contractor pursuant to clause 13.2.

**Discovery** means the finding of a previously unknown accumulation(s) of Petroleum in one or more Reservoirs within the Contract Area and which have, for the first time, been demonstrated through drilling to contain Petroleum that can be recovered at the surface in a flow measurable by conventional petroleum industry testing methods and may be considered for Appraisal.

**Discovery Report** is defined in clause 12.2.

**Dispute** means a dispute or claim of any and every kind or type, arising out of or relating to this Contract (including those sounding in tort) between all or any of the Parties.

**Domestic Gas Marketing Operations** is defined in clause 14.1.

**Domestic Gas Plan** is defined in clause 14.1.

**Domestic Market** is defined in clause 14.1.

**Effective Date** is defined in clause 46.8.

**EHS Monitors** mean accredited professionals, including certified safety professionals, certified industrial hygienists, registered occupational hygienists or their equivalents.

**EHS Standards** is defined in clause 37.2.

**EIA** is defined in clause 37.7.

**EIR** is defined in clause 37.6.

**EMMP** is defined in clause 37.8.

**Encumbrance** and **Encumber** means any mortgage, charge, pledge, hypothecation, lien, assignment by way of security, title retention, option, right to acquire, right of pre-emption, right of set off, counterclaim, trust arrangement, overriding royalty, net profits interest, or any other security, preferential right, equity or restriction, any agreement to give or to create any of the foregoing and any transaction which, in legal terms, is not a

secured borrowing but which has an economic or financial effect similar to that of a secured borrowing.

**Environment Fund** is defined in clause 23.13.

**Expatriate** means any employee not normally resident in the Kurdistan Region or Iraq, who is employed by either Contractor Entities or Subcontractors for purposes of this Contract and who is engaged on terms which provide for the payment of passages to and from the Kurdistan Region or Iraq.

**Expert** means, with respect to a Dispute, an independent person with appropriate qualifications and experience who:

- (a) has been agreed upon between the Parties to the Dispute; or
- (b) has been nominated by President of the Energy Institute in London, England, on the application of any Party to the Dispute failing agreement within 14 days of either:
  - (1) approval by the Management Committee of the Terms of Reference, or
  - (2) the date the Parties receive notice that the Expert is unable or unwilling to complete the reference to Expert determination

**Exploration** means such geological, geophysical, aerial and other surveys as may be contained in an Approved Work Program and Budget with a view to discovering Petroleum in the Contract Area previously not known to have existed using geological, geophysical and other methods and the drilling of Exploration Well(s), and includes (a) any activity in connection therewith or in preparation therefor, and any relevant processing; and (b) Appraisal.

**Exploration Costs** means Petroleum Costs incurred by the Contractor Entities when carrying out Exploration Operations in accordance with an Approved Exploration Work Program and Budget (subject to clause 2.6).

**Exploration Operations** means any and all operations conducted in respect of Exploration, including Appraisal Operations.

**Exploration Period** is defined in clause 6.3.

**Exploration Rental** is defined in clause 6.2.

**Exploration Work Program and Budget** means an exploration work program and budget prepared pursuant to clause 11.1 or 11.2.

**Export Gas Marketing Operations** is defined in clause 14.1.

**Export Markets** is defined in clause 14.1.

**Export Plan Evaluation Period** is defined in clause 14.27.

**Extended Exploration Term** is defined in clause 6.3.1.

**First Exploration Well** is defined in clause 10.3(d).

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

**First Sub-Period** is defined in clause 6.4(a).

**First Sub-Period Guaranteed Amounts** is defined in clause 9.1.1.

**Force Majeure** is defined in clause 40.1.

**Force Majeure Estimate** is defined in clause 40.11.

**Gas** means Natural Gas, both Associated Gas and Non-Associated Gas, and all of its constituent elements produced from any Well in the Contract Area. Gas may be produced from Natural Gas Wells or in association with Crude Oil from Crude Oil Wells.

**Gas-cap Gas** means free gas that overlies and is in contact with significant quantities of Crude Oil in a Reservoir.

**Gas Development Period Early Termination Notice** is defined in clause 14.33.

**Gas Export Plan** is defined in clause 14.1.

**Gas Field** means an area in the Contract Area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature, stratigraphic conditions, or both, which either:

- (a) is a Discovery of Non-Associated Gas; or
- (b) is a Discovery of Crude Oil with Associated Gas that cannot be a Commercial Discovery without a plan for the economic disposition (excluding flaring or re-injection) of the Associated Gas, and notwithstanding that liquids and condensates are included in the definition of Crude Oil (*i.e.*, a condensate Reservoir is a Gas Field).

**Gas Field Holding Period** is defined in clause 14.10.

**Gas Field Holding Period Application** is defined in clause 14.8.

**Gas Field Holding Period Rental** is defined in clause 14.13.

**Gas Marketing Costs** means costs and expenditure incurred by the Contractor in accordance with a Domestic Gas Marketing Work Program and Budget.

**Gas Marketing Operations** is defined in clause 14.1.

**Government** is defined in the preamble.

**Government Business Day** means a day between the hours of 9:00am and 3:00pm when the offices of the Government are legally required to be open to conduct the business of the Government.

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

**Government Interest Holder** is defined in clause 4.2.



**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.

**Guarantee** means a Guarantee in the form and content as set forth in Annex C.

**Guaranteed Amount** means either the First Sub-Period Guaranteed Amount or the Second Sub-Period Guaranteed Amount, as applicable.

**Holding Period Early Termination Notice** is defined in clause 14.28.

**Income Tax** and **Incomes Taxes** mean, in respect of any Person, Taxes imposed by Kurdistan Region Laws on the income of such Person.

**International Banking Day** means, in respect of a Party making a payment and a Party is to receive a payment, a day on which banks are open to conduct business by electronic transfer of funds in both the place from where the funds are to be sent and the place where the funds are to be received.

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

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

**Joint Operating Agreement** means an agreement between the Contractor Entities for the purpose of regulating the relationship between the Contractor Entities in respect of this 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 Laws of the Kurdistan Region and the Laws of any governmental authority of any district, sub-district, municipality, territorial, or other political subdivision of 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).

**Laws** 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.

**LCIA** is defined in clause 42.4.

**Loss or Expense** means any liability, loss, claim, settlement payment, cost and expense, interest, award, judgment, damages (including consequential, indirect, and punitive damages), fees or other charge and, to the extent permitted by applicable law, any court filing fee, court cost, arbitration fee or cost, witness fee, and each other fee and cost (including attorneys' fees, other professionals' fees, and disbursements) of investigating and defending or asserting a claim (including a claim for indemnification).

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



**MER** ("Maximum Efficient Rate") means in respect of a Reservoir, the maximum rate of production of Crude Oil, without excessive decline of production or excessive loss of Reservoir pressure, in accordance with good oil-field practice and the provisions of clause 16.16.

**Minimum Exploration Obligations** is defined in clause 10.2.

**Minimum Financial Commitment** means:

- (a) in respect of the First Sub-Period, the amounts set out in clause 10.3; and
- (b) in respect of the Second Sub-Period, the amounts set out in clause 10.4.

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

**Natural Gas** means a mixture of hydrocarbons and varying quantities of non-hydrocarbons that exist either in the gaseous phase or in solution with Crude Oil in natural underground Reservoirs remaining after the extraction of liquid hydrocarbons (including condensates) from wet gas.

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

**Non-Associated Gas** means Natural Gas that is found in a Reservoir either (a) without association with Crude Oil, or (b) in association with quantities of Crude Oil that, without a plan of disposition of the Natural Gas other than by flaring or reinjection, by itself cannot be commercially produced.

**Notice of Dispute** is defined in clause 42.2.

**Notice of Early Termination of Gas Field Holding Period** is defined in clause 14.14.

**Oil Field** means an area within the Contract Area consisting of a single Reservoir or multiple Reservoirs all grouped on, or related to, the same individual geological structural features, stratigraphic conditions, or both, and that (a) may become part of a single Production Area for Crude Oil and (b) is not a Gas Field.

**Operator** means the entity designated by the Contractor pursuant to clause 5 as the "Operator".

**Original Contractor Entity** is defined in clause 43.4.

**Parties** mean the Government and each Contractor Entity, and **Party** any of the Contractor Entities or the Government. The Government or a Public Company in its capacity as holder of all or part of the Government Interest is Party only in respect of such Government Interest.

**Permit** means a licence, permit, consent, authorisation, or other permission of the Government or any relevant public authority in the Kurdistan Region in respect of Petroleum Operations.

**Permitted Assignee** means, as applicable: (a) an Assignee that has received an Assignment in compliance with clause 39, or, (b) in the case of the Government Interest, an Assignee of the Government Interest that received an Assignment thereof in compliance with clause 4.

**Person** means an individual or a corporation, limited liability company, partnership (whether or not having separate legal personality), joint venture, trust, unincorporated organisation, association, government, agency or political subdivision thereof or any other entity.

**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 of the foregoing that has been returned to a Reservoir.

**Petroleum Costs** means all costs and expenditure incurred by the Contractor in respect of Petroleum Operations that the Contractor is entitled to recover under this Contract.

**Petroleum Field** means a Gas Field or an Oil Field.

**Petroleum Operations** means all Exploration Operations, Gas Marketing Operations, Development Operations, Production Operations, and Decommissioning Operations, and any other activities or operations related to any of such operations authorised, required, or contemplated by this Contract or Applicable Law.

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

**Production Area** means an area within the Contract Area:

- (a) encompassing the areal closure of a Petroleum bearing Reservoir outlined following Appraisal; and
- (b) which is delineated and designated as a "production area" in an Approved Development Plan.

**Production Bonus** is defined in clause 32.2.

**Production Costs** means all the costs and expenditure incurred by the Contractor Entities in carrying out the Production Operations in accordance with an Approved Work Program and Budget (subject to clause 2.6) which the Contractor is entitled to recover as a Petroleum Cost.

**Production Operations** means operations and all activities related thereto carried out by the Contractor for Petroleum production from a Production Area from the start of Commercial Production, such as extraction, injection, stimulation, treatment, storage within the Production Area, lifting, and related operations. No operations or activities of the Contractor after the Delivery Point are within the scope of the definition.

**Production Rental** is defined in clause 13.6.

**Production Work Program and Budget** means a Work Program and Budget prepared for Production Operations pursuant to clause 13.4.

**Profit Gas** is defined in clause 25.9.1.

**Profit Oil** is defined in clause 25.8.1.

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

**Public Company** means: (a) any entity created by the Kurdistan Region Oil and Gas Law, including the Kurdistan Exploration and Production Company; (b) a legal entity established by Kurdistan Region Law as a separate legal 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 Kurdistan Region Law; and (c) any separate and autonomous company organised under Kurdistan Region Law which is controlled, directly or indirectly by a wholly Government-owned and controlled entity, by the Government, the Parliament of the Kurdistan Region, or which is under the guidance of the Government or the Parliament of the Kurdistan Region (whether or not in any such case partially or fully funded by the Government or the Parliament of the Kurdistan Region). 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 consecutive Months starting on the first day of each of January, April, July, and October.

**Regional Tax Law** means any Kurdistan Region Law in respect of Taxes.

**Relevant Day** is defined in clause 40.11(a).

**Repsol** is defined in the preamble.

**Repsol Letter of Representations** is defined in the preamble.

**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 clause 26.1.

**R Factor** is defined in clause 26.1.

**Rights Sale** is defined in clause 32.10.2.

**Royalty** is defined in clause 24.4.

**Royalty Crude Oil** is defined in clause 24.1.

**Royalty Gas** is defined in clause 24.2.

**Royalty Petroleum** is defined in clause 24.3.

**Royalty Rate** is defined in clause 24.6.

**Second Exploration Well** is defined in clause 10.4(b).

**Second Sub-Period** is defined in clause 6.4(b).

**Second Sub-Period Guaranteed Amount** is defined in clause 9.2.

**Semester** means a period of 6 consecutive Months starting from the first day of each of January and July.

**Subcontractor** means any Person providing services or undertaking works relating to the Petroleum Operations on behalf of, the Contractor, any Contractor Entity, or the Operator, whether directly or indirectly at any contracting tier.

**Sub-Period** and **Sub-Periods** are defined in clause 6.4.

**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, in each case as imposed by Kurdistan Region Law.

**Title Transfer Date** is defined in clause 20.1.

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

**Vice Chairman** is defined in clause 8.9.1.

**Well** means a borehole, made by drilling in the course of Petroleum Operations.

Categories of Wells are defined:

- (a) **Exploration Well** means a well other than an Appraisal Well drilled for the purposes of searching for undiscovered Petroleum accumulations on any geological entity(ies) (be it of structural, stratigraphic, facies, or pressure nature) to at least a depth or stratigraphic level specified in the Work Program.
- (b) **Appraisal Well** means a well drilled for the purpose of delineating and evaluating the extent, the production capacity, the potential and commerciality of recoverable reserves of a Discovery in a geological structure or feature established by an Exploration Well.
- (c) **Development Well** means a well drilled, deepened, or completed after the date of approval of the Development Plan pursuant to Development Operations or Production Operations for the purposes of producing Petroleum, increasing production, sustaining production or accelerating extraction of Petroleum including production Wells, Injection Wells, and dry Wells.
- (d) **Injection Well** means a well drilled within a Production Area which injects Natural Gas or a fluid in order to enhance the recovery of Petroleum by pressure maintenance or by improving the quality of the Reservoir.

**Work Program** means any of the following: an Exploration Work Program, a Gas Marketing Operations Work Program, a Development Work Program, a Decommissioning Work Program, or any other program which details the Petroleum Operations to be conducted by the Contractor and the schedule for performing such program.

## CONSTRUCTION

- 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; and
  - (c) singular includes plural and vice versa.
- 1.3 Reference to a "**clause**" is to a clause of this Contract, and reference to a "**paragraph**" is to a paragraph in the Accounting Procedure.
- 1.4 Reference to "**gross negligence**" and "**grossly negligent**" means with respect to any Person, 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 as constitutes in effect an utter disregard for harmful, foreseeable, and avoidable consequences.
- 1.5 Reference to "**participating interest**" means, in respect of each Contractor Entity, its undivided share, expressed as a percentage, of its participation in the rights and obligations of the Contractor under this Contract where such rights or obligations are not joint with the other Contractor Entities.
- 1.6 Reference to:
- (a) "**significant**" means important enough, from the perspective of a reasonable person in the Government's position, to merit attention, and it includes a lesser level of significance than does the term "material"; and
  - (b) "**material**" means of such a nature that knowledge of the item would affect a Person's decision.
- 1.7 The Contractor will be considered to have "**knowledge**" in respect of a matter pertaining to this Contract or Petroleum Operations if such knowledge is held or ought reasonably to be held by any Contractor Entity, the Operator, any Subcontractor, or any consultant, or agent of any Contractor Entity, the Operator, or Subcontractor.
- 1.8 A reference to conduct includes an omission, statement, or undertaking, whether or not in writing.
- 1.9 Reference to any contract, agreement, instrument, guideline or document includes any amendments, restatements, and replacements thereof.
- 1.10 References to a Law or any provision of Law are references to that provision as amended, extended or re-enacted and include all laws and official requirements made under or deriving validity from it or enacting such modification.
- 1.11 In computing any period of time, the day of the act, event or default from which such period begins to run shall be included. All references to time are to the time in Erbil. Unless specifically provided otherwise:
- (a) any payment falling due on a day that is not an International Banking Day will be due and payable on the following International Banking Day;
  - (b) any notice or other communication to Government that is received on a day that is not a Government Business Day or after 3:30 pm on a Government Business Day will not be considered received, unless acknowledged by the recipient, until the next following Government Business Day.

- 1.12 The language which governs the interpretation of this Contract is the English language.
- 1.13 Ambiguities are to be resolved, where appropriate, with reference to principles and practices generally accepted in the international petroleum industry. If there is ever any conflict between or among standards of performance for the Contractor, the most stringent standard will apply. In no event will the Contractor be required to take an action that is prohibited under Applicable Law.
- 1.14 Any Joint Operating Agreement between Contractor Entities, including as approved by the Government in accordance with clause 5, is only binding as between such Contractor Entities, is not relevant for the construction or interpretation of this Contract, and does not establish any approved course of dealing as between the Government and any Contractor Entity or the Contractor.
- 1.15 Nothing in this Contract constitutes or implies any contractual relationship or other relationship between (i) the Contractor or any Contractor Entity and (ii) the Government of Iraq, any region of Iraq (other than the Kurdistan Region), or any governorate or other political or administrative subdivision of Iraq.
- 1.16 No Party shall construe any provision in this Contract as establishing that any Contractor Entity is an employee, agent, or representative of the Government or any public authority in the Region or in Iraq.
- 1.17 This Contract does not establish, and no Party shall construe this Contract to have established, a partnership, or other form of association or fiduciary relationship between the Government and any other Person, including any Government Interest Holder.
- 1.18 Any enumeration of a Party's rights and remedies set forth in this Contract is not intended to be exhaustive. A Party's exercise of any right or remedy under this Contract does not preclude the exercise of any other right or remedy. Each Party's rights and remedies are cumulative and are in addition to any other right or remedy set forth in this Contract, any other agreement between the relevant Parties, or which may now or subsequently exist at law or in equity, by law, or otherwise.
- 1.19 The Government does not confer any rights or assurances to any Party or Government Interest Holder other than as expressly set forth in this Contract. There are no implied rights, permissions, or assurances provided to any Contractor Entity or Government Interest Holder.

## CLAUSE 2 – SCOPE

### EXCLUSIVE RIGHT

- 2.1 The Government grants to the Contractor the exclusive right to conduct Petroleum Operations in the Contract Area on behalf of the Government for the term of this Contract.
- 2.2 Natural resources other than Petroleum are excluded from the scope of this Contract, even if the Contractor discovers any such resources in the conduct of Petroleum Operations.
- 2.3 Nothing in this Contract conveys any right, title, or interest to the Contractor or any Contractor Entity in Petroleum before the Delivery Point.

### COMPLIANCE

- 2.4 The Contractor is responsible to the Government for the conduct of Petroleum Operations.
- 2.5 Each Contractor Entity shall at all times comply, and procure that each Subcontractor complies, with the Kurdistan Region Oil and Gas Law and all other Applicable Law. No provision of this Contract will: (a) excuse the Contractor or a Contractor Entity or any Subcontractor from compliance with Applicable Law, or (b) impair any right or privilege of the Government under Applicable Law.
- 2.6 Subject to clause 40 (*Force Majeure*), the Contractor shall: (a) conduct Petroleum Operations only in accordance with an Approved Work Program and Budget; and (b) not suspend or abandon performance of Petroleum Operations except in accordance with an Approved Work Program and Budget.
  - 2.6.1 In cases of emergency, the Contractor shall undertake such additional efforts and incur such additional expenditures as the Contractor considers necessary to protect life, the environment, or property.
    - 2.6.1.1 The Contractor shall promptly report its incurrence of such additional expenditures to the Management Committee.
    - 2.6.1.2 Such additional expenditure will be Cost Recoverable.
  - 2.6.2 The Contractor is entitled to incur expenditures not identified in an Approved Budget, provided that: (a) the aggregate amount of such expenditures do not exceed 10% of such Approved Budget in any Calendar Year; and (b) the Contractor has promptly reported the incurrence of such excess expenditures to the Management Committee.
    - 2.6.2.1 Excess expenditures incurred in compliance with and within the limits set forth in clause 2.6.2 will be Cost Recoverable.
    - 2.6.2.2 Any expenditure above the 10% threshold will only be recoverable by the Contractor with the unanimous approval of the Management Committee.



**PERMITS**

- 2.7 Upon the Contractor's request, the Government shall provide or procure the provision of all Permits for Petroleum Operations to be performed in accordance with an approved Work Program and Budget, including those relating to any extension and renewal periods. If the Government determines that a Permit is required from the Government of Iraq and unless the Government otherwise instructs, the Government shall be responsible for securing such Permit on behalf of the Contractor, provided that the Contractor shall provide all necessary assistance.

**BEST PRACTICES**

- 2.8 In performing Petroleum Operations, the Contractor shall do so at all times in accordance with Best Practices, including:
- (a) using all technical, human and material resources reasonably required for execution of the Petroleum Operations in accordance with Best Practices; and
  - (b) implementing all appropriate management and administration techniques for execution of the Petroleum Operations in accordance with Best Practices.

**SOLE RISK**

- 2.9 The Contractor shall conduct all Petroleum Operations at its sole cost and risk.
- 2.9.1 The Contractor shall provide all funding for the performance of its obligations hereunder.
- 2.9.2 If no Commercial Discovery is determined, or if production of Petroleum is insufficient to reimburse the Contractor, the Contractor will bear all losses arising under or related to this Contract.
- 2.9.3 Each Contractor Entity shall only have the right to receive and dispose of its share of the Petroleum produced and saved from the Contract Area as reimbursement of costs incurred and compensation for services rendered pursuant to this Contract.

**AUXILIARY RIGHTS**

- 2.10 The Contractor is entitled to:
- (a) access and operate freely within the Contract Area and wherever Assets and Materials of a Contractor Entity or Subcontractor 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) use in Petroleum Operations sand, gravel, and water belonging to the public domain by prior arrangement with the relevant authorities and on payment of the generally prevailing charge for such resources in the locality of use;
  - (d) employ qualified Expatriate and local personnel and retain Subcontractors for the conduct of Petroleum Operations in accordance with clauses 22 and 23 (provided any Expatriate personnel working in the Kurdistan Region will require



- a Permit, not to be unreasonably withheld or delayed, and the Government will procure any Permits required from the Government of Iraq);
- (e) import any goods, materials, equipment required for the Petroleum Operations in accordance with clauses 19, 22, and 30; and
- (f) use land or property belonging to the Kurdistan Region outside of the Contract Area on reasonable commercial terms to the extent made available, and the Government will assist the Contractor securing the use by the Contractor of any private property in the Kurdistan Region.

#### LIABILITY ATTRIBUTION

- 2.11 The conduct of a Subcontractor of any Contractor Entity (at any tier) or of the Operator will be binding upon, and considered to constitute the conduct of the Contractor.

### CLAUSE 3 – CONTRACTOR; PARTICIPATING INTERESTS

#### CONTRACTOR

- 3.1 The obligations of the Contractor constitute joint and several obligations of the Contractor Entities, except only where specifically provided otherwise.

#### PARTICIPATING INTEREST OF REPSOL

- 3.2 As of the Effective Date, the Contractor has an 80% participating interest

### CLAUSE 4 – GOVERNMENT INTEREST

#### GENERAL

- 4.1 The Government has a participating interest of 20% in Petroleum Operations and all other rights, duties, and obligations of the Contractor (except as provided in this clause 4), carried by the Contractor (the "Government Interest").
- 4.2 No holder of all or any part of the Government Interest (a "Government Interest Holder") (including the Government), in such capacity:
  - (a) is a Contractor Entity; or
  - (b) has any obligation or liability to the Contractor or any Contractor Entity whatsoever, including any obligation or liability to contribute any share of Petroleum Costs and any other obligation or liability arising out of or related to Petroleum Operations, all of which are carried by the Contractor.

No default or failure to perform of a Government Interest Holder under this Contract may be considered a breach of this Contract by the Contractor or any Contractor Entity or invoked by the Government to terminate this Contract as to the Contractor or any Contractor Entity.

- 4.3 Subject to clause 4.4, a Government Interest Holder is not, if that is its only capacity under this Contract, entitled to any notices under this Contract from the Contractor or

entitled to provide any consents, except, in each case as specifically provided otherwise, but a Government Interest Holder has rights under clause 42.

- 4.4 Any term of this Contract may be waived or amended without prior notice and consent of a Government Interest Holder, unless such waiver or amendment would change any right or obligation of a Government Interest Holder.
- 4.4.1 Any waiver or amendment which purports to change any right or obligation of a Government Interest Holder is only effective with prior notice to and the consent of such Government Interest Holder.
- 4.4.2 The consent of a Contractor Entity is not required for the Government to waive or amend this clause 4, unless such waiver or amendment would materially affect a right or interest of a Contractor Entity.
- 4.5 A Government Interest Holder is not an indispensable party for any Dispute between the Parties, unless a determination of such Dispute would change or impair the rights of a Government Interest Holder under this Contract.

#### ASSIGNMENT

- 4.6 The provisions of clause 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.
- 4.7 An Assignee of a Government Interest Holder will have, in respect of the Government Interest which has been Assigned, the same rights and obligations as the Assignor of such Government Interest prior to the Assignment.
- 4.8 The Government may at any time designate a Public Company as a Government Interest Holder without the consent of, or prior notice to, any other Party. A Public Company as holder of the Government Interest will be individually liable (and not jointly and severally liable with the Contractor) for any obligations to the Government under this Contract.
- 4.8.1 The Government shall provide the Contractor with a notice notifying the Contractor of such designation of a Public Company by the Government, and the Contractor shall be entitled to rely on such notice for all purposes under this Contract.
- 4.8.2 A Public Company will not be required to sign any formal assignment or accession agreement except as required by the Government.
- 4.8.3 Only for the purposes of clause 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 will be deemed held by the Government.
- 4.8.4 As a consequence of any deemed ownership as set forth in clause 4.8.3, the Government:
- (a) incurs no liabilities or obligations (directly, indirectly, or implicitly) to any other Party solely by virtue of such deemed holding; and

- (b) does not guarantee, and must not be considered to have implicitly guaranteed, any obligation of a Public Company as a Government Interest Holder solely by virtue of such deemed holding.
- 4.9 Subject to clause 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.
  - 4.9.1 Such Assignee must sign an assignment agreement as required by the Government.
  - 4.9.2 The Government will provide the Contractor with a notice 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 clause 4.12, a Public Company (as a Government Interest Holder) 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 shall not make any such Assignment of all or any part of its Government Interest without the prior consent of the Government and in accordance with any assignment and novation or other agreements and conditions required and approved by the Government.
  - 4.10.1 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.
  - 4.10.2 The Public Company 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 clause 4.12, a Government Interest Holder that 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.
  - 4.11.1 Such Government Interest Holder 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.
  - 4.11.2 Any Assignment by a Government Interest Holder without the prior consent of the Government and in accordance with the requirements of the Government will be void.
  - 4.11.3 The Assignor and the Assignee shall jointly and promptly notify the Contractor of any Assignments of the Government Interest pursuant to this clause 4.11, and the Contractor will be entitled to rely on such notice for all purposes under this Contract.

- 4.12** No provision of this Contract prohibits a Contractor Entity from at any time offering to acquire or acquiring all or any part of the Government Interest from any Person that is a Government Interest Holder.
- 4.12.1** If at any time a Government Interest Holder (including the Government and a Public Company) intends to offer to Assign 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 may notify the Contractor of the availability of the Government Interest.
- 4.12.2** No Contractor Entity has or may have any preemption or similar priority rights in respect of the Government Interest, and a Government Interest Holder is never required by this Contract 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 Assignment was contrary to Applicable Law or public policy.
- 4.13.1** Upon any exercise by the Government of its rights under this clause 4.13, the Government Interest will automatically revert to the Government.
- 4.13.2** The Government's rights under this clause 4.13 are exclusive to the Government, are not subject to a claim from any Contractor Entity, and clauses 41 and 42 do not apply with respect to this clause 4.13.
- 4.13.3** The Government expressly reserves all sovereign immunities in respect of any Dispute arising out of or relating to the exercise of its rights under this clause 4.13, and any Dispute with respect to this clause 4 between the Government and any Government Interest Holder may exclusively be resolved in accordance with Kurdistan Region Laws before a competent authority in the Kurdistan Region located in Erbil.

## **CLAUSE 5 – OPERATOR; JOINT OPERATING AGREEMENT**

### **OPERATOR**

- 5.1** The Contractor designates Repsol, and Repsol agrees to act, as Operator on behalf and in the interest of the Contractor under this Contract.
- 5.1.1** The Contractor authorises the Operator to represent the Contractor and to take such actions as agent on behalf of Contractor and to exercise such rights, privileges and powers and to comply with such obligations under this Contract as are attributed or imposed to Contractor by the terms of this Contract. In such capacity, the Operator will, subject to the terms and conditions of this Contract and to the extent agreed in the Joint Operating Agreement, have all of the rights, privileges, powers, and responsibilities of the Contractor as set forth in this Contract, including responsibility for the conduct of all Petroleum Operations and other activities of Contractor as contemplated by this Contract.

- 5.2 The Government may deal with, and rely on, the Operator for all purposes under this Contract.
- 5.2.1 The obligations, liabilities, acts and omissions of the Operator are the obligations, liabilities, acts and omissions of the Contractor.
- 5.2.2 The conduct of the Operator will be binding upon, and considered to constitute, the conduct of the Contractor.
- 5.3 The Contractor shall at any time have the right to appoint another Contractor Entity as the Operator, upon giving the Government not less than 30 days' prior written notice of such appointment.
- 5.4 The Contractor shall cause the Operator not to resign, and the Contractor shall not remove an Operator until such time as a substitute Operator has been appointed by the Contractor and notice therefor has been given to the Government.
- 5.5 Upon any change of Operator pursuant to clause 5.3, the replaced Operator will be released and discharged of all its rights and obligations as Operator hereunder, and the replacement Operator will be considered to have assumed all such obligations, rights, and privileges.
- 5.6 Without limiting the Government's rights under clause 45, if either of the following occurs 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 unless, within such 30-day notice period, the Contractor has established to the satisfaction of the Government that the Act of Insolvency does not apply and 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.
- 5.7 If the Contractor, in accordance with clause 5.6, does not comply with the obligation to propose another Operator within 30 days from the date when the Government gave notice to the Contractor, the Government will be entitled to exercise its rights under clause 45 to terminate this Contract.

#### JOINT OPERATING AGREEMENT

- 5.8 A Contractor Entity shall not enter into any Joint Operating Agreement, except if the terms of such Joint Operating Agreement:
- (a) have been approved by the Government;
- (b) are in full compliance with Applicable Law as of the date of the approval by the Government;
- (c) are consistent with the provisions of the Contract; and
- (d) otherwise comply with the requirements of clauses 5.9 through 5.11.
- 5.9 A Joint Operating Agreement must provide for the termination and release of any and all Encumbrances, pre-emption rights, trust arrangements, and all other types of claims or rights impairing the transferability of the participating interest of a Contractor Entity

by the Government in the event of any termination of a Contractor Entity by the Government pursuant to this Contract.

- 5.10 A Joint Operating Agreement must provide that a Contractor Entity party to such Joint Operating Agreement shall not make an Assignment:
- (a) which would result in the Assignee holding less than a 5% participating interest;
  - (b) which would result in the Assignor, if the Assignor is Assigning less than 100% of its interests, holding less than a 5% participating interest;
  - (c) without the consent of the Government in accordance with this Contract; and
  - (d) unless the proposed Assignee has entered into an instrument satisfactory to each of the Contractor Entities and the Government so as to assume and to perform the obligations of the Assignor.
- 5.11 The Contractor shall submit to the Government for approval any agreement to amend any Joint Operating Agreement.

## CLAUSE 6 – TERM

### GENERAL

- 6.1 The term of this Contract comprises an Exploration Period and a Development Period. In respect of a Discovery of a Gas Field, the term of this Contract may also comprise a Gas Field Holding Period as provided in clause 14 (*Natural Gas*).

### EXPLORATION RENTAL

- 6.2 From the first day of the Exploration Period until expiry of the Exploration Period, the Contractor shall pay to the Government an annual surface rental for the Contract Area of US\$10.00 per square kilometre per Contract Year ("**Exploration Rental**").
- 6.2.1 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 subject to proration 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.
- 6.2.2 Exploration Rental will not be Cost Recoverable.

### EXPLORATION PERIOD

- 6.3 The Exploration Period is for a base term of five Contract Years from the Effective Date (the "**Base Exploration Term**").
- 6.3.1 The Base Exploration Term is extendable on a yearly basis in accordance with clauses 6.5 and 6.6 up to a maximum term of 7 Contract Years (the Base Exploration Term as so extended, the "**Extended Exploration Term**").
- 6.3.2 The Exploration Period is subject to further extension beyond the Extended Exploration Term as provided in clauses 6.6 and 6.7.

- 6.3.3 The Exploration Period is subject to early termination as provided in this Contract.

#### SUB-PERIODS

- 6.4 The Exploration Period consists of two sub-periods (each such sub-period, as it may be extended, a "Sub-Period"), each of which is extendable pursuant to clauses 6.5 and 6.6, provided the Exploration Period may not exceed the Extended Exploration Term except as provided in clauses 6.6 and 6.7:
- (a) a first Sub-Period of three Contract Years from the Effective Date ("First Sub-Period"); and
  - (b) a second Sub-Period of two Contract Years beginning from the first day of the Second Sub-Period ("Second Sub-Period").

#### EXTENSIONS OF SUB-PERIODS

- 6.5 Subject to clauses 6.5.1, 6.5.2, 6.5.3, and 6.7, the Contractor will be entitled to extensions, each of no more than one Contract Year, of the then current Sub-Period, if the Contractor has notified the Government of a Discovery of Crude Oil or of a Gas Field in such Sub-Period in accordance with clauses 12.1 and 12.2 (Discovery Report; Relinquishment), but reasonably considers that additional work is necessary before deciding whether to:
- (a) submit a proposed Appraisal Work Program and Budget in respect of such Discovery in accordance with clause 12.4 (*Appraisal Work Program and Budget*); or
  - (b) in respect of a Discovery of Crude Oil, declare such Discovery to be a Commercial Discovery.
- 6.5.1 The Base Exploration Term plus the extensions provided in accordance with this clause 6.5 may not exceed the Extended Exploration Term.
- 6.5.2 To be entitled to exercise its right to an extension pursuant to this clause 6.5, the Contractor must notify the Government at least 30 days before the end of the applicable Sub-Period (as it may have been extended pursuant to this clause 6.5) of its intention to exercise such right of extension, the proposed duration of such extension, and the proposed Work Plan and Budget for such extension.
- 6.5.3 The Contractor will not be entitled to an extension unless there is an Approved Work Program and Budget with respect to such extension.
- 6.6 Subject to clause 6.7, if at the end of the Extended Exploration Term the Contractor wishes to conduct additional Exploration Operations, the Contractor will be entitled to an extension of the Exploration Period of one year beyond the Extended Exploration Term, provided:
- (a) the Contractor has notified the Government, at least 30 days prior to the end of the applicable Sub-Period, of the Contractor's exercise of such entitlement and proposed Work Program and Budget with respect thereto;



- (b) the Contractor's proposed Work Program and Budget for such extension is acceptable to the Government; and
  - (c) the Contractor is not in breach of any material obligation or duty under this Contract or Applicable Law.
- 6.6.1 Subject to clause 6.7, upon the expiration of an extension under this clause 6.6 and if the Contractor considers it has still not completed its evaluation of the Contract Area, the Contractor will be entitled to a second extension of one Contract Year; provided:
- (a) that the Contractor has notified the Government thereof at least 30 days before the last day of the first extension; and
  - (b) the Contractor's proposed Work Program and Budget is acceptable to the Government for such extension.
- 6.6.2 The Contractor is not entitled to any single extension under this clause 6.6 of more than one Contract Year, and the Contractor is not entitled to more than two extensions pursuant to this clause 6.6.
- 6.7 The Contractor will not be entitled to any extensions under clauses 6.5, 6.6, or 6.6.1:
- (a) unless the Government is satisfied that the Contractor has fulfilled its Approved Work Program (including Minimum Exploration Obligations) in respect of the preceding Sub-Period or extension, as applicable; or
  - (b) if the Contractor is in material breach of any obligation or duty under this Contract or Applicable Law.

**EXPIRATION OF EXPLORATION PERIOD**

- 6.8 The Exploration Period will expire at the end of the First Sub-Period (as it may be extended pursuant to clauses 6.5 and 6.6), and this Contract will terminate, unless:
- (a) the Contractor has notified the Government at least 30 days before the expiry of the First Sub-Period of the Contractor's intention to enter into the Second Sub-Period; or
  - (b) clause 6.5 is applicable.
- 6.9 The Exploration Period will expire at the end of the Second Sub-Period (as it may be extended pursuant to clauses 6.5, 6.6, and 6.11.1).
- 6.10 The Contractor may terminate this Contract at any time during the Exploration Period (as it may be extended pursuant to clauses 6.5, 6.6, and 6.7) upon 30 days' prior notice to the Government.
- 6.11 The Exploration Period will expire on the earlier of the first day of the (a) Gas Field Holding Period and (b) Development Period.
- 6.11.1 Subject to clause 6.7, the Exploration Period will be automatically extended during the pendency of the Government's consideration of a Gas Field Holding Period Application in accordance with clause 14 (*Natural Gas*), if the Exploration Period would otherwise expire during such consideration period.



- 6.11.2 If the Government denies a Gas Field Holding Period Application, the Exploration Period will not be shortened, extended, or otherwise affected solely because of such denial.

#### **GUARANTEED AMOUNT**

- 6.12 If this Contract is terminated during the Exploration Period, and if the Contractor has not 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, then the Contractor shall pay to the Government the applicable Guaranteed Amount (if any).

#### **DEVELOPMENT PERIOD**

- 6.13 Subject to extension as provided in clause 6.14, the Development Period for:
- (a) all Commercial Discoveries of Crude Oil is 20 years from the date of the first declaration of a Commercial Discovery of Crude Oil by the Contractor pursuant to clause 12.6(a); and
  - (b) all Gas Fields is 20 years from the last day of the Gas Field Holding Period.
- 6.13.1 If the Contractor considers that a Discovery of Crude Oil is a Commercial Discovery, the Contractor will have the exclusive right to develop and produce such Commercial Discovery of Crude Oil pursuant to the terms of this Contract.
- 6.13.2 If the Contractor agrees a Gas Export Plan or a Domestic Gas Plan with the Government and there is an Approved Development Plan with respect thereto as provided in clause 14 (*Natural Gas*), the Contractor will have the exclusive right to develop and produce the Gas Fields subject to such Approved Development Plan pursuant to the terms of this Contract.
- 6.14 If Commercial Production from a Production Area (whether an Oil Field or a Gas Field) is still possible at the end of the Development Period, the Contractor will be entitled to an automatic extension of the Development Period in respect of such Production Area.
- 6.14.1 The term of any such extension of the Development Period will be 5 Years.
- 6.14.2 To be eligible for an extension under this clause 6.14, the Contractor must notify the Government of the Contractor's intention to exercise its right to an extension at least 180 days before the end of the Development Period, and the Contractor must not be in material breach of any obligation under this Contract or Applicable Law.

#### **TERMINATION OF PRODUCTION OPERATIONS**

- 6.15 Upon not less than 90 days' prior notice to the Government, the Contractor may terminate Production Operations for any Production Area.
- 6.15.1 Upon such termination, the Production Area shall be considered relinquished to the Government.
- 6.15.2 This Contract will terminate on the date when the Contractor notifies the Government that Production Operations for all Production Areas are stopped, will not be resumed, and the Contractor has relinquished all Production Areas.

- 6.15.3 Termination of Production Operations will not relieve a Contractor Entity of any liabilities or obligations under a gas sales and purchase agreement with the Government (or any Public Company or other Affiliate of the Government, or otherwise, as designated by the Government) in respect of any Gas Export Plan or Domestic Gas Plan, except as otherwise provided in the relevant agreements.

## CLAUSE 7 – RELINQUISHMENT

### MANDATORY AND CONSIDERED RELINQUISHMENT

- 7.1 By no later than the last day of the Base Exploration Term (without any extensions), and subject to clauses 7.7, 7.8, and 7.10, the Contractor shall relinquish 25% of the Contract Area that is then not (a) the subject of Appraisal, (b) a Gas Field subject to a Gas Field Holding Period, or (c) a Production Area.
- 7.1.1 At the end of the first extension to the Base Exploration Term (if any) granted pursuant to clause 6.5 or clause 6.6, the Contractor shall relinquish 25% of the remaining Contract Area that is then not: (a) the subject of Appraisal, (b) a Gas Field subject to a Gas Field Holding Period, or (c) a Production Area.
- 7.1.2 The Contractor shall give the Government not less than 30 days' prior notice of the boundaries of the portion of the Contract Area to be relinquished.
- 7.2 As of the first day of the Development Period or a Gas Field Holding Period, whichever is first to occur, all of the remaining area of the Contract Area will be considered to be relinquished that is then not (a) a Gas Field subject to the Gas Field Holding Period, or (b) a Production Area.
- 7.3 The Contractor shall relinquish a Discovery as provided in clause 12.3, and a Discovery will be considered relinquished as provided in clause 12.4.5.
- 7.4 On not less than 30 days' prior notice to the Contractor by the Government, the Contractor shall relinquish a Production Area if, in respect of such Production Area:
- (a) for reasons other than *Force Majeure* in accordance with clause 40 (*Force Majeure*), the Contractor has ceased normal production of such Production Area for more than 180 consecutive days; or
  - (b) if the Contractor has failed to resume Petroleum Operations in such Production Area within 90 days' following the occurrence of an event entitling the Contractor to claim *Force Majeure* in accordance with clause 40 (*Force Majeure*).
- 7.5 If the Contractor has notified the Government of its intention to terminate Petroleum Operations in a Production Area in accordance with clause 6.15 (*Termination of Production Operations*), the Contractor shall relinquish the Production Area effective as of the date of the expiration of the 90-day notice period with respect thereto as provided in clause 6.15.
- 7.6 To the extent not set forth in this clause 7, Gas Fields will be considered relinquished as provided in clause 14 (*Natural Gas*).

#### **VOLUNTARY RELINQUISHMENT**

- 7.7 During the Exploration Period, the Contractor may relinquish all or any part of the Contract Area on not less than 90 days' prior notice to the Government of its intention to relinquish and the boundaries of the portion of the Contract Area to be relinquished.
- 7.7.1 The Government shall credit any voluntary relinquishments during the:
- (a) First Sub-Period against the Contractor's mandatory relinquishments obligations under clause 7.1;
  - (b) the first extension of the First Sub-Period against the Contractor's mandatory relinquishments obligations under clause 7.1.1
- 7.8 During the Development Period, the Contractor may relinquish a Production Area for Crude Oil as provided in clause 6.15 (*Termination of Production Operations*).
- 7.9 During a Gas Field Holding Period, the Contractor may relinquish the Gas Field on not less than 90 days' prior notice to the Government. The relinquishment will be effective as of the last day of such 90-day notice period.

#### **GENERAL QUALIFICATIONS**

- 7.10 For the application of clause 7.1:
- (a) except as provided in clause 7.11, the Contractor is entitled to determine the area, shape, and location of the Contract Area to be kept; and
  - (b) the Contractor is entitled to retain for 24 months that part of the Contract Area which contains a Discovery and which, in the opinion of Contractor, may, together with any other Discovery within the Contract Area, constitute a Commercial Discovery of Crude Oil.
- 7.11 For the application of clauses 7.1, 7.7, and 7.8, the relinquished portions of the Contract Area must be contiguous and be of a shape and size of which will readily permit delineation.

#### **CLEAN-UP**

- 7.12 Prior to relinquishment of any area, the Contractor shall, in accordance with Best Practices, Applicable Law, and the EHS Standards:
- (a) perform all necessary clean-up activities to restore such area as nearly as possible to the condition in which it existed on the Effective Date, including removal of such Assets and Materials, facilities, or installation as the Government may reasonably instruct;
  - (b) safely cap all Wells and, unless otherwise instructed by the Government, and contingent upon safety and additional cost considerations, ensure that any Well technically capable of production is left in a condition that it may be re-entered for further testing or completion; and
  - (c) take all actions to prevent hazards to the natural environment, human life, or property.

#### EFFECT OF RELINQUISHMENT

- 7.13** This Contract will terminate:
- (a) upon the relinquishment (whether mandatory, considered, or voluntary) of the entire Contract Area; and
  - (b) with respect to all relinquished areas immediately upon relinquishment, and the Contractor shall have no further rights with respect to such areas.
- 7.14** No relinquishment by the Contractor will relieve the Contractor from any liabilities arising from or related to the relinquished Contract Area or of any continuing obligations of the Contractor under this Contract. A relinquishment that constitutes a termination of this Contract will be governed by clause 45.14.
- 7.15** If the Contractor relinquishes the entire Contract Area during the Exploration Period without having fulfilled its Minimum Exploration Obligations with respect to the then current Sub-Period, the Contractor shall promptly pay to the Government the applicable Guaranteed Amount (if any).
- 7.16** Upon any relinquishment of any Gas Field when the Contractor retains rights under this Contract to conduct Exploration Operations or Production Operations, the Government and any contractors of the Government and their representatives and subcontractors will have the absolute right to move freely within the Contract Area, provided no such Person causes any unreasonable interference in ongoing Exploration Operations or Production Operations of the Contractor.

#### CLAUSE 8 – MANAGEMENT COMMITTEE

##### ESTABLISHMENT

- 8.1** Within 30 days following the Effective Date, the Contractor and the Government shall:
- (a) establish a Management Committee for the purpose of providing orderly direction of all matters pertaining to the Petroleum Operations and Work Programs; and
  - (b) by notice to the other, each nominate its respective members of the Management Committee and their alternates.
- 8.2** The Management Committee shall comprise two members designated by the Government and two members designated by the Contractor.
- 8.2.1** A Government Interest Holder (solely in respect of such capacity) is not entitled to representation on the Management Committee.
- 8.3** Upon 10 days' prior notice to the other, each of the Government and the Contractor may replace any of its members of the Management Committee.
- 8.3.1** Decisions of the Management Committee are to be made at the meetings.

#### **FUNCTIONS**

- 8.4** The Management Committee shall review, deliberate, decide, approve, 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 proposed by the Contractor;
  - (d) Accounts of Petroleum Costs;
  - (e) procurement procedures for potential Subcontractors;
  - (f) Development Plan and Budget for each Production Area;
  - (g) any matter having a material adverse affect on Petroleum Operations; and
  - (h) any other subject matter that the Contractor and the Government are willing to consider.

#### **REGULAR MEETINGS; VENUE**

- 8.5** Unless otherwise agreed by the Management Committee, all meetings of the Management Committee will take place in the Kurdistan Region, alternately at the offices of the Government and those of the Contractor, at least (a) twice each Contract Year prior to the date of the first Commercial Discovery and (b) three times each Contract Year thereafter.

#### **EXTRAORDINARY MEETINGS**

- 8.6** 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 where:
- (a) the meeting of the Management Committee will have a quorum in accordance with clauses 8.11 through 8.13, but not all members of the Management Committee are present, subject to reasonable notice (in any event not less than 10 days); or
  - (b) all members of the Management Committee will be present at the meeting, without notice.
- 8.6.1** The Party calling an extraordinary meeting shall specify the matters to be discussed at the meeting.

#### **ACTION BY MEMBERS WITHOUT MEETING**

- 8.7** Any action required or permitted to be taken at a meeting of the Management Committee may be taken without a meeting if the action is evidenced by the written consent of the members approving such action and delivered to the Contractor.

#### **AGENDA; MINUTES**

- 8.8** The Contractor shall (a) prepare the agendas for meetings of the Management Committee in accordance with instructions of the Chairman and (b) provide such

agendas to the Government and the members at least 15 days before the date of the meeting.

- 8.8.1 Each agenda must include any subject matter proposed by either the Government or the Contractor.
- 8.8.2 The Contractor shall be responsible for preparing and keeping minutes of the decisions made at the meetings.
- 8.8.3 The Contractor shall send a copy of such minutes to the Government and the members for review and approval. The Government and the Contractor shall review and approve or disapprove such minutes within 10 days after receipt of the draft minutes.
- 8.8.4 Unless either the Government or the Contractor notifies the other of its disapproval of the minutes within such 10-day period, the minutes will be considered approved by the Government and the Contractor at the end of such 10-day period.

#### CHAIRMAN

- 8.9 The chairman of the Management Committee shall be one of the members designated by the Government (the "Chairman").
  - 8.9.1 The vice-chairman of the Management Committee shall be one of the members designated by the Contractor (the "Vice-Chairman").
  - 8.9.2 In the absence of the Chairman or his alternate, the Vice-Chairman shall act as the Chairman.
- 8.10 Each of the Contractor and the Government may send advisers and experts to meetings of the Management Committee.
  - 8.10.1 Unless the Government agrees otherwise, the costs of the Contractor's advisers and experts incurred in attending meetings of the Management Committee will not be Cost Recoverable.

#### QUORUM

- 8.11 The Management Committee cannot validly deliberate, unless each of the Government and the Contractor is represented by at least one of its members or its alternate.
- 8.12 If at least one member or its alternate representing each of the Government and the Contractor is not present, the Management Committee must be adjourned.
- 8.13 If the meeting is adjourned pursuant to clause 8.12, the Party present at the adjourned meeting shall then notify the other Party of a new date, time, and location for the next meeting.

#### VOTING

- 8.14 Each of the Government and the Contractor will have one vote in the Management Committee. The two members appointed by the Government, and the two members appointed by the Contractor, are required to vote as a single block. A vote cannot be fractionalised.

- 8.15 An abstaining vote will be considered as a vote in support of the voting member.
- 8.16 Unanimous approval of the Management Committee is required for all matters, except as set forth in clauses 8.18 and 8.19.
- 8.17 If the Management Committee cannot reach unanimous agreement on a matter, the Management Committee shall meet a second time within 14 days to attempt to reach a unanimous decision.
- 8.18 Except as provided in clause 8.19, if the Management Committee is unable to reach a unanimous agreement at the second meeting, the vote of the Government shall be considered the tie-breaking vote.
- 8.19 The Contractor shall have the tie-breaking vote during the Exploration Period in respect of approval of the Exploration Work Program and Budget.

#### SUBCOMMITTEES

- 8.20 The Management Committee may request the creation of a technical sub-committee or any other sub-committee to assist it.
  - 8.20.1 Any such sub-committee shall be composed of a reasonable number of experts from the Government and the Contractor.
  - 8.20.2 After each meeting, the technical sub-committee or any other sub-committee shall deliver a written report to the Management Committee.
  - 8.20.3 Any costs incurred by the Contractor for meetings of the Management Committee and in respect of technical sub-committees or any other sub-committees will be Cost Recoverable.

### CLAUSE 9 – GUARANTEES

#### FIRST SUB-PERIOD OBLIGATIONS

- 9.1 Concurrently with the signing of this Contract, the Contractor shall cause to be delivered to the Government a joint and several payment guarantee of Repsol YPF, S.A., the ultimate parent company of the Contractor.
  - 9.1.1 Such guarantee must be (a) in form and content acceptable to the Government and (b) in respect of the Contractor's obligation to pay the Capacity Building Payment and the Contractor's payment obligation pursuant to clause 10.5.3 (such obligations of the Contractor, the "**First Sub-Period Guaranteed Amounts**") in respect of the First Sub-Period.

#### SECOND SUB-PERIOD

- 9.2 Not later than 60 days after the first day of the Second Sub-Period, the Contractor shall provide the Government, unless the Government waives this clause 9.2 pursuant to notice received by each Contractor Entity within 30 days following start of the Second Sub-Period, with a joint and several guarantee of the ultimate parent companies of each Contractor Entity, in form and content as set forth in Exhibit C and otherwise acceptable



to the Government, with respect to the Contractor's payment obligations pursuant to clause 10.5.4 (such obligation of the Contractor, the "**Second Sub-Period Guaranteed Amount**").

- 9.2.1 If a Contractor Entity does not have an ultimate parent company, the Government the Contractor Entity shall cause a controlling beneficial shareholder or other Person with sufficient credit quality in the opinion of the Government and otherwise acceptable to the Government to be a party to such Guarantee.
- 9.2.2 If the Government does not receive such guarantee within 30 days following start of the Second Sub-Period as provided in this clause 9.2, the Government may notify the Contractor to suspend all operations in the Contract Area until the requirements of this clause 9.2 have been satisfied.

#### **GAS PLAN GUARANTEES**

- 9.3 Each Contractor Entity shall deliver such guarantees or other form of credit as are required in respect of any gas sales and purchase agreement entered into among the Parties for the sale of Natural Gas to the Government or any other Person.

#### **ACCESSION**

- 9.4 In the event of an Assignment by a Contractor Entity to a third party in accordance with clause 39, an ultimate parent company of such 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.

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

#### **COMMENCEMENT**

- 10.1 The Contractor shall start Exploration Operations within 30 days of the Management Committee's approval of the Exploration Work Program and Budget in accordance with clause 8.

#### **MINIMUM WORK OBLIGATIONS**

- 10.2 The Contractor shall perform geological, geophysical and drilling works as provided under clauses 10.3 (*First Sub-Period*) and 10.4 (*Second Sub-Period*) (such works, the "**Minimum Exploration Obligations**").

#### **FIRST SUB-PERIOD**

- 10.3 Subject to clause 10.5 (*Qualifications*), during the First Sub-Period the Contractor shall:
- (a) carry out geological and geophysical studies, comprising:
    - (1) the compilation of a technical database;
    - (2) the performance of a remote sensing study; and
    - (3) 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 150 line kilometres of two dimensional seismic data, or a three dimensional seismic data program by agreement between the Parties, committing for this purpose a minimum financial amount of US\$4,000,000; and
- (d) except only if the Contract terminates because the Contractor does not pay the Capacity Building Bonus – Second Tranche in accordance with Article 32.1, drill one Exploration Well (the “**First Exploration Well**”), including testing and coring as appropriate, and commit for this purpose a minimum financial amount of US\$15,000,000 for such First Exploration Well.

#### SECOND SUB-PERIOD

- 10.4** If the Contractor has notified the Government that the Contractor will enter into the Second Sub-Period in accordance with clause 6.9 (*Expiration of Exploration Period*), then, subject to clause 10.5 (*Qualifications*), 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 Exploration Well (the “**Second Exploration Well**”), including testing and coring as appropriate, and commit for this purpose a minimum financial amount of US\$15,000,000, 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.

#### QUALIFICATIONS

- 10.5** In respect of the Minimum Exploration Obligations under clauses 10.3 and 10.4, this clause 10.5 applies.
- 10.5.1** The Contractor shall satisfy the Minimum Exploration Obligations for a Sub-Period, even if satisfaction will require the Contractor to spend more than the Minimum Financial Commitment for such Sub-Period.
- 10.5.2** If the Contractor has satisfied its Minimum Exploration Obligations for a Sub-Period without having spent the total Minimum Financial Commitment for such Sub-Period, the Contractor will be considered to have satisfied its Minimum Exploration Obligations for such Sub-Period.
- 10.5.3** Except only if the Contract terminates because the Contractor does not pay the Capacity Building Bonus – Second Tranche in accordance with Article 32.1, if this Contract is terminated during the First Sub-Period, and if the Contractor has expended less than US\$15,000,000 as required by clause 10.3(d), and if clause 10.5.2 or clause 10.5.6 is not applicable, then the Contractor shall pay the Government an amount equal to the difference between (x) US\$15,000,000 and (y) the amount actually expended in accordance with the Approved Work Plan and Budget in respect of the Minimum Work Obligations for the First Sub-

Period. The Contractor shall make such payment on the Termination Date, and the Contractor's obligation to make such payment will survive termination of this Contract.

- 10.5.4 If this Contract is terminated during the Second Sub-Period, and if the Contractor has expended less than US\$15,000,000 as required by clause 10.4(b), and if clause 10.5.2, clause 10.5.6, or 10.5.8 is not applicable, then the Contractor shall pay the Government an amount equal to the difference between (x) US\$15,000,000 and (y) the amount actually expended in accordance with the Approved Work Plan and Budget in respect of the Minimum Work Obligations for the Second Sub-Period. The Contractor shall make such payment on the Termination Date, and the Contractor's obligation to make such payment will survive termination of this Contract.
- 10.5.5 The Contractor shall drill each Exploration Well to the depth set forth in the Approved Exploration Work Program, unless:
- (a) formation is encountered at a lesser depth than originally anticipated;
  - (b) basement is encountered at a lesser depth than originally anticipated;
  - (c) in the Contractor's reasonable opinion, continued drilling of the Exploration Well is too hazardous because of abnormal or unforeseen conditions;
  - (d) it is impractical to continue drilling with the Contractor's Assets, because insurmountable technical problems have been encountered;
  - (e) Petroleum formations have been encountered, penetration of which will require laying protective casing as a consequence of which the Exploration Well cannot be drilled to the depth required by the Approved Exploration Work Program;
  - (f) the Government and the Contractor agree to terminate the drilling operation; or
  - (g) the Government confirms that the drilling obligation has been fulfilled.
- 10.5.6 If the Contractor stops drilling for any of the reasons set forth in clause 10.5.5:
- (a) the Exploration Well will be considered to have been drilled to the depth required by the Approved Exploration Work Program; and
  - (b) the Minimum Exploration Obligations in respect of the Exploration Well will be considered to have been satisfied.
- 10.5.7 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 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 the total Minimum Financial Commitment for such subsequent Sub-Period or extension period.

- 10.5.8 The Minimum Exploration Obligations performed in the First Sub-Period will satisfy the same Minimum Exploration Obligations for the Second Sub-Period:
- (a) to the extent, in the First Sub-Period, the Contractor has performed the Minimum Exploration Obligations required for the Second Sub-Period; and
  - (b) if the Contractor has notified the Government that the Contractor will enter into the Second Sub-Period in accordance with clause 6.8.

## CLAUSE 11 – EXPLORATION WORK PROGRAMS

### GENERAL

- 11.1 Within 90 days following the Effective Date, the Contractor shall prepare and submit to the Management Committee a proposed work program and budget in respect of Exploration Operations (the “**Exploration Work Program and Budget**”) for the remainder of the Calendar Year.
- 11.2 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.
- 11.3 The Contractor shall not conduct any Exploration Operations unless there is an Approved Exploration Work Program and Budget.

### DETAILS

- 11.4 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 (including Affiliates of a Contractor Entity); and
  - (d) estimated expenditures, broken down by cost centre in accordance with the Accounting Procedure.

### APPROVAL BY MANAGEMENT COMMITTEE

- 11.5 The Management Committee shall meet within 60 days following its receipt of Contractor’s proposed Exploration Work Program and Budget, and either approve, approve with conditions, or reject the proposed Exploration Work Program and Budget.
- 11.6 Within such 60-day period, the Government may notify the Contractor of any modification to the proposed Exploration Work Program and Budget requested by the Government, and the Contractor shall promptly notify the Government of the Contractor’s comments to the Government’s requests.
- 11.6.1 If there is a deadlock in respect of the approval of a proposed Exploration Work Program and Budget, then clause 8.19 will apply.

## CLAUSE 12 – DISCOVERY; APPRAISAL; DEVELOPMENT

### DISCOVERY REPORT; RELINQUISHMENT

- 12.1 The Contractor shall notify the Government of a Discovery within 48 hours of completing tests confirming the presumed existence of the Discovery.
- 12.2 Within 30 days following notification of the Discovery to the Government pursuant to clause 12.1, the Contractor shall deliver a comprehensive report (the “**Discovery Report**”) to the Management Committee and the Government. The Discovery Report must detail all technical Data then available to the Contractor together with:
- (a) the Contractor’s opinion on the commercial potential of the Discovery, and
  - (b) a statement as to whether the Contractor (1) intends to conduct Appraisal Operations with respect to such Discovery, (2) will request an extension pursuant to clause 6, or (3) both of the foregoing.
- 12.2.1 The Contractor shall promptly provide such other information relating to the Discovery as the Government reasonably requests.
- 12.3 If the Contractor notifies the Government in the Discovery Report that the Contractor does not intend to conduct Appraisal Operations, the Contractor shall send a notice of relinquishment to the Government within not more than 30 days following the date of the Discovery Report.
- 12.3.1 In such notice of relinquishment, the Contractor must provide 30 days’ notice to the Government of the relinquishment of an area containing, at a minimum, the geological structure or feature in which the Discovery was made.
  - 12.3.2 Such relinquishment will be effective as of the last day of such 30-day notice period and will be credited to the Contractor’s mandatory relinquishment obligations under clause 7.1.
  - 12.3.3 If the Contractor fails to deliver a notice of relinquishment as provided in this clause 12.3, an area containing, at a minimum, the geological structure or feature in which the Discovery was made will be considered relinquished as of the 90<sup>th</sup> day following the date of the Discovery Report.

### APPRAISAL WORK PROGRAM AND BUDGET

- 12.4 If the Contractor has stated an intention in the Discovery Report to conduct Appraisal Operations, within 60 days following the date of the Discovery Report the Contractor shall submit to both the Management Committee and the Government the Contractor’s proposed Work Program for Appraisal of the Discovery (the “**Appraisal Work Program**”) and proposed Budget with respect to such proposed Appraisal Work Program.
- 12.4.1 The Contractor shall include in such proposed Appraisal Work Program:
- (a) the area to be Appraised (the “**Appraisal Area**”), the surface of which may not exceed twice the surface of the geological structure or prospect to be appraised; and
  - (b) the date the Contractor will start Appraisal Operations and the date the Contractor expects to complete Appraisal Operations.

- 12.4.2 The Management Committee and the Government must complete their respective review of the proposed Appraisal Work Program and Budget within 30 days of its receipt by the Management Committee and the Government.
- 12.4.3 If the Government requires any modification to the proposed Appraisal Work Program and Budget, the Management Committee shall meet to discuss the proposed Appraisal Work Program and Budget and the required modifications thereto within 60 days from its receipt of the Government's required modifications.
- 12.4.4 If the Management Committee does not receive a proposed Work Program and Budget for Appraisal Operations within 60 days after the date of the Discovery Report, at any time thereafter the Government may send a notice to the Contractor setting forth that the Discovery will be considered as relinquished as of the date set forth in such notice (which may not be less than 30 days), unless the Management Committee has received a proposed Work Program and Budget for Appraisal Operations.
- 12.4.5 If the Management Committee has not received such proposed Work Program Budget for Appraisal Operations within the period set forth in the notice from the Government to the Contractor as set forth in clause 12.4.4, the Discovery will be considered relinquished as of the last day of the notice period (subject to clause 40 (*Force Majeure*)).

#### APPRAISAL REPORT AND DECLARATIONS

- 12.5 The Contractor shall submit an Appraisal Report to the Management Committee within 90 days following completion of the Approved Appraisal Work Program.
- 12.6 Together with its Appraisal Report, in respect of each Discovery the Contractor shall submit a declaration to the Management Committee specifying that the Contractor has concluded one of the following:
  - (a) the Discovery is a Commercial Discovery of Crude Oil;
  - (b) the Discovery is not a Commercial Discovery of Crude Oil or a Discovery of a Gas Field;
  - (c) the Discovery is a Discovery of Crude Oil that may become a Commercial Discovery of Crude Oil, subject to additional Exploration or Appraisal within or outside of the Appraisal Area;
  - (d) the Discovery is a Gas Field and stating that the Contractor either intends to (1) submit a Gas Field Holding Period Application in accordance with clause 14.8 (*Gas Field Holding Period Application*), or (2) the Contractor is relinquishing the Gas Field.
- 12.7 If, with respect to a Discovery the declaration of the Contractor pursuant to clause 12.6 is that:
  - (a) the Discovery is not a Commercial Discovery of Crude Oil or a Discovery of a Gas Field, then clause 7.3 will apply; or

- (b) the Discovery is a Discovery of a Gas Field, and the Contractor intends to submit a Gas Field Holding Period Application in accordance with clause 14 (*Natural Gas*), then clause 14 will apply.

**12.8** If, with respect to a Discovery the declaration of the Contractor pursuant to clause 12.6 is that the Discovery is a Commercial Discovery of Crude Oil or that the Discovery may become a Commercial Discovery of Crude Oil subject to additional Exploration or Appraisal within or outside of the Appraisal Area, then the Government shall examine the Appraisal Report and any studies, conclusions, and other Data that it may obtain within a reasonable period of time, taking into account the declaration submitted by the Contractor in accordance with clause 12.6.

**12.8.1** The Management Committee and the Government may each obtain opinions, reports and studies, including a feasibility study, from independent third parties.

**12.8.2** If, in the view of each of the Management Committee and the Government, the results of the Appraisal Report, studies or independent third party opinions confirm that the Discovery is a Commercial Discovery of Crude Oil, then, unless the Contractor has terminated the Contract or exercised its rights to relinquishment, the Management Committee shall either:

- (a) in the case of a Commercial Discovery, declare a Commercial Discovery of Crude Oil and instruct the Contractor to submit a proposed Development Plan in accordance with clause 12.9; or
- (b) subject to clause 34 (*Unitisation*), in the case of Discovery that may become a Commercial Discovery subject to additional Exploration or Appraisal within or outside of the Appraisal Area, instruct the Contractor to submit its proposed Appraisal Work Program and Budget to the Management Committee within 30 days.

#### **DEVELOPMENT PLAN – CRUDE OIL**

**12.9** If the Management Committee has declared a Commercial Discovery of Crude Oil pursuant to clause 12.8, the Contractor shall submit a proposed Development Plan for Crude Oil to the Management Committee and the Government within 180 days following the date of the Appraisal Report submitted pursuant to clause 12.5.

**12.10** The Government shall endeavour to complete its review of the Contractor's proposed Development Plan within 60 days after receipt of such plan by the Government.

**12.10.1** The Development Period for each Commercial Discovery within a Development Plan will be extended for the number of days in excess of such 60-day period that it takes for the Government to approve the Development Plan.

**12.11** If the Government requests any modifications to the Development Plan, and if the Contractor notifies the Government of any objections or has other concerns with any such requested modifications, then the Government and the Contractor shall meet as soon as practical to attempt to reach agreement on a Development Plan.

**12.11.1** The Contractor and the Government shall endeavour to have such meeting in all events within 60 days of receipt by the Contractor of the Government's



written notification of requested modifications accompanied by all the documents justifying such request.

12.11.2 If the Contractor and the Government are able to agree on changes proposed by the Government or any other modifications, and there are no further requested changes on the part of the Government, the Contractor shall formally submit the agreed Development Plan to the Management Committee, and the Management Committee shall promptly approve the Development Plan.

12.12 If the Contractor does not deliver a Development Plan in accordance with clause 12.9, the Government may send the Contractor a warning notice that the Contractor is in breach of clause 12.9 and that failure to comply within 30 days from the date of such notice can result in relinquishment of an area containing, at a minimum, the geological structure or feature in which the Discovery was made.

12.12.1 If the Contractor does not deliver a Development Plan in accordance with clause 12.12, the Government may send the Contractor a notice that the Contractor is in breach of clause 12.9 and that failure to comply within 15 days from the date of such notice will result in relinquishment of an area containing, at a minimum, the geological structure or feature in which the Discovery was made.

12.12.2 If the Contractor does not deliver a Development Plan in accordance with clause 12.12.1, an area containing, at a minimum, the geological structure or feature in which the Discovery was made will be considered relinquished as of the 15<sup>th</sup> day following the date of the notice sent in accordance with clause 12.12.1.

## **CLAUSE 13 – DEVELOPMENT WORK PROGRAM**

### **GENERAL**

13.1 The Contractor shall perform Development Operations in accordance with a Development Plan approved by the Government and the Management Committee and an Approved Development Work Program and Budget.

13.11 This clause 13 applies to Gas Fields and Oil Fields.

### **DEVELOPMENT WORK PROGRAM AND BUDGET**

13.2 Within 90 days following approval of a Development Plan by the Management Committee and the Government, the Contractor shall prepare and submit to the Government and 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 expected duration of the Development Operations.

13.2.1 No later than 1 October in each following Calendar Year, the Contractor shall submit to the Management Committee updates in respect of its Development Work Program and Budget.

- 13.2.2 Each Development Work Program and Budget shall include details of the following:
- (a) works to be carried out;
  - (b) Assets and Materials to be acquired;
  - (c) service providers and services to be provided by third parties and Affiliates of a Contractor Entity;
  - (d) in the case of no production, the estimated start date for production; and
  - (e) expected Petroleum Costs.
- 13.3 If the Government considers that modifications must be made to the Development Work Program and Budget:
- (a) the Contractor shall communicate its comments on any such requested modifications to the Government as promptly as reasonable; and
  - (b) the Management Committee shall meet to discuss the Development Work Program and Budget and the Government's proposed modifications thereto within 60 days from its receipt of the proposed Development Work Program and Budget.

#### **PRODUCTION WORK PROGRAM AND BUDGET**

- 13.4 No later than 1 October of the Calendar Year preceding the estimated start date for production as set forth in 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 for Production Operations (the "**Production Work Program and Budget**") for the following Calendar Year.
- 13.4.1 To enable the Management Committee and the Government to forecast Petroleum Costs, the Contractor shall include details of the following in the proposed Production Work Program and associated Budget:
- (a) works to be carried out;
  - (b) Assets and Materials to be acquired;
  - (c) type of services to be provided, distinguishing between third parties and Affiliates of Contractor Entities; and
  - (d) all expected Petroleum Costs.
- 13.5 If any modification to a proposed Production Work Program and Budget or Approved 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. The Contractor shall communicate its comments on any such requested modifications to the Government prior to such meeting.

#### **PRODUCTION RENTAL**

- 13.6 From the first day of First Production from any Production Area (whether in respect of an Oil Field or a Gas Field) in the Contract Area, the Contractor shall pay to the



Government, in arrears, an annual surface rental ("**Production Rental**") for the Contract Area, of US\$100.00 per square kilometre per Contract Year. The Contractor shall pay the Production Rental on the first day of the first Month following First Production and continuing thereafter on each anniversary thereof. Production Rental payments will not be Cost Recoverable.

## CLAUSE 14 – NATURAL GAS

### DEFINITIONS

14.1 As used in this Contract:

"**Approved Domestic Gas Marketing Work Program and Budget**" is a Work Program for Domestic Gas Marketing Operations and associated Budget that has been approved by the Management Committee and the Government.

"**Approved Gas Field Appraisal Work Plan and Budget**" means an Approved Work Plan and Budget for the Appraisal of a Gas Field.

"**Domestic Gas Marketing Operations**" means Gas Marketing Operations solely in respect of the Domestic Market for Natural Gas, in all events carried out pursuant to and in accordance with an Approved Domestic Gas Marketing Work Program and Budget.

"**Domestic Gas Plan**" means a plan for the sale or other disposition of Natural Gas to the Domestic Market.

"**Domestic Market**" means sales or other gas projects within the Region where the entirety of the Natural Gas is intended for consumption within Iraq.

"**Export Gas Marketing Operations**" means all Gas Marketing Operations in respect of an Export Market for Natural Gas.

"**Export Market**" means sales of Natural Gas, including for transportation outside of the borders of Iraq, whether the deliveries or point of sale occur inside or outside the borders of Iraq where the ultimate destination of the volumes sold is outside of Iraq. A sale to the Government (whether directly or indirectly through a Public Company or other Affiliate of the Government designated by the Government) meeting the foregoing criteria will be within this definition.

"**Gas Export Plan**" means a plan for the sale or other disposition of Natural Gas to an Export Market, including a sale of Natural Gas to the Government, a Public Company, or otherwise, in accordance with a gas sales and purchase agreement with the Contractor Entities, as proposed by the Government.

"**Gas Marketing Operations**" means any activity relating to the evaluation of markets or projects for the potential delivery, sale, processing, compression, and transportation of Natural Gas, including evaluations of potential markets and projects, the quantities of Natural Gas that could be sold, delivery specifications and requirements, production costs, transportation arrangements, and all other activities generally relevant to the identification of a sale or other disposition of Gas from the Contract Area, and includes such activities as they may relate to Gas from other Natural Gas producers in the Region.

"Gas Marketing Operations" does not include the actual entry into any contract or contracts for the sale, dedication, designation, commitment, or other disposal of Gas from the Contract Area.

**GENERAL**

- 14.2 This clause 14 applies to (a) Gas (including Associated Gas) from the Contract Area and (b) all Gas Fields.
- 14.3 If technically and economically justified, and subject to clause 14.6, the Contractor may freely use Gas that is produced from the Contract Area for Petroleum Operations in accordance with an Approved Work Plan and Budget.
- 14.4 If technically and economically justified, the Contractor shall, in priority, use Associated Gas from an Oil Field in an Oil Field for the purpose of enhancing recovery of Crude Oil in accordance with Best Practices.
- 14.5 The Contractor Entities each acknowledge that it is in their interest to sell, dedicate, designate, commit, or otherwise dispose of their respective entitlements to Gas produced from the Contract Area on a jointly dedicated basis together with the Government.
  - 14.5.1 Notwithstanding the lifting entitlements of a Contractor Entity under this Contract, a Contractor Entity shall not (and is not authorised to) sell, dedicate, designate, commit, or otherwise dispose or ship its entitlement to Gas, except on a jointly-dedicated basis together with the Government.
  - 14.5.2 A Contractor Entity shall not (and is not authorised to) to sell, dedicate, designate, commit, or or otherwise dispose of or ship the Government's or Government Interest Holder's entitlement to Gas.
  - 14.5.3 Neither the Government, nor a Government Interest Holder has any right to sell, dedicate, designate, commit, or or otherwise dispose of or ship a Contractor Entity's entitlement to Gas, except, in the case of Associated Gas, as provided in clause 14.37.
  - 14.5.4 The Government controls and determines the interests of each Government Interest Holder in respect of the sale, dedication, designation, commitment, or other disposal or shipment of Gas. A Government Interest Holder shall not commit, or otherwise dispose or ship its entitlement to Gas (and no Government Interest Holder is authorised to sell, dedicate, designate, commit, or otherwise dispose of or ship its entitlement to Gas), except on a jointly-dedicated basis together with the Government.
  - 14.5.5 No Contractor Entity is obligated to sell, dedicate, designate, commit, or otherwise dispose of or ship its entitlement to:
    - (a) Non-Associated Gas to the Government or any other Person, except on such terms as are acceptable to the Contractor Entity; or
    - (b) Associated Gas to the Government or any other Person, except as provided in clause 14.37.

- 14.5.6 The Government will not sell, dedicate, designate, commit, or otherwise dispose of or ship its entitlement to Gas (including, in respect of the Government, pursuant to clause 32.11), except on a jointly-dedicated basis together with the Contractor Entities.
- 14.5.7 The Government may at any time by notice to the Contractor designate a Gas Field or Gas Fields as exclusively dedicated and reserved for the Domestic Market or the Export Market.
- 14.5.8 Nothing in this Contract prohibits the Government from inviting the Contractor Entities to participate in any Person organised to undertake all or any part of a Gas Export Plan or Domestic Gas Plan.

#### FLARING

- 14.6 Flaring of Natural Gas is prohibited, except:
  - (a) in accordance with an Approved Work Program and applicable Permits; or
  - (b) in an emergency.
- 14.7 The Contractor shall submit any request for a Permit for flaring to the Government.
  - 14.7.1 The Contractor must include in such request for a Permit:
    - (a) an evaluation of reasonable alternatives to flaring that have been considered by the Contractor together with information on the expected amount and quality of Natural Gas to be flared and the proposed duration of the requested flaring; and
    - (b) its consideration and plans for taking all commercially reasonable measures to ensure the extraction of natural gasoline and other liquids from Associated Gas to be flared.
  - 14.7.2 The Government may refuse to grant such Permit in the Government's sole discretion, including in circumstances where the request reasonably shows that flaring would be in the economic interest of the Parties or is necessary for the production of Petroleum, and the Government has no implied duty to provide any Permit for flaring.

#### GAS FIELD HOLDING PERIOD APPLICATION

- 14.8 If the Contractor submits a declaration in accordance with 12.6(d) in respect of a Discovery of a Gas Field, the Contractor may, not less than 90 days thereafter, submit a written application (a "Gas Field Holding Period Application") to the Government to hold such Discovery as a Gas Field for a period as set forth in clause 14.10.
  - 14.8.1 The Contractor will not be entitled to submit a Gas Field Holding Period Application in respect of a Gas Field after the 8<sup>th</sup> anniversary of the Effective Date, and the Government will have no obligation or duty, and no implied obligation or duty, to consider a Gas Field Holding Period Application received after such date or to grant a Gas Field Holding Period with respect thereto.
  - 14.8.2 If the Contractor does not submit a Gas Field Holding Application within such 90-day period, and effective as of the 120<sup>th</sup> day following the date the

Contractor submitted its Appraisal Report and declaration in accordance with clause 12.6(d), the Contractor shall relinquish either:

- (a) the entire Contract Area when there is no other Discovery and no Exploration Operations; or
- (b) the structures containing the Gas Field, when the Contract is entitled to conduct further Exploration Operations or there is a Discovery.

**14.9** The Contractor must include in a Gas Field Holding Period Application:

- (a) the proposed delineation and related surface area of the Gas Field;
- (b) the estimated reserves in the Gas Field;
- (c) a proposed Gas Field Appraisal Work Plan and Budget, if either: (1) the Government has notified the Contractor that the Government requires additional Appraisal Operations, or (2) the Contractor wishes to undertake further Appraisal Operations; and
- (d) its proposed Domestic Gas Marketing Work Plan and Budget, if the Government has notified the Contractor that the Gas Field has been designated by the Government as exclusively dedicated for the Domestic Market.

**14.9.1** Nothing in this clause 14.9 precludes the Government from instructing the Contractor to prepare a Domestic Gas Marketing Work Plan and Budget at a later date.

#### **GAS FIELD HOLDING PERIOD**

**14.10** Upon the Government's approval of a Gas Field Holding Application and additional submissions in accordance with clause 14.9, the Contractor will be entitled to hold the subject Gas Field for a period as set forth by the Government in a notice to the Contractor setting forth its approval of a Gas Field Holding Period Application (such period, as it may be shortened or extended in accordance with this Contract, the "**Gas Field Holding Period**") as set forth in clause 14.11.

**14.11** The Government shall set forth a Gas Field Holding Period in accordance with this clause 14.11.

**14.11.1** If the date the Contractor has submitted a Gas Field Holding Application is before the 5<sup>th</sup> anniversary of the Effective Date, then the Government shall provide a Gas Field Holding Period of four years (such period terminating on the 9<sup>th</sup> anniversary of the Effective Date).

**14.11.2** If the date the Contractor has submitted a Gas Field Holding Application is on or after the 5<sup>th</sup> anniversary of the Effective Date and before the 6<sup>th</sup> anniversary of the Effective Date, then the Government shall provide a Gas Field Holding Period of three years (such period terminating on the 9<sup>th</sup> anniversary of the Effective Date).

**14.11.3** If the date the Contractor has submitted a Gas Field Holding Application is on or after the 6<sup>th</sup> anniversary of the Effective Date and before the 7<sup>th</sup> anniversary of the Effective Date, then the Government shall provide a Gas Field Holding

Period of two years (such period terminating on the 9<sup>th</sup> anniversary of the Effective Date).

- 14.11.4 If the date the Contractor has submitted a Gas Field Holding Application is on or after the 7<sup>th</sup> anniversary of the Effective Date and before the 8<sup>th</sup> anniversary of the Effective Date, then the Government shall provide a Gas Field Holding Period of one year (such period terminating on the 9<sup>th</sup> anniversary of the Effective Date).
- 14.11.5 If the date the Contractor has submitted a Gas Field Holding Application is on or after the 8<sup>th</sup> anniversary of the Effective Date, in accordance with clause 14.8.1 the Contractor will not be entitled to a Gas Field Holding Period.

14.12 If the Contractor submits a declaration in accordance with 12.6(d) in respect of subsequent Discoveries of Gas Fields, the Contractor may in respect of each such subsequent Discovery and not less than 90 days thereafter, submit Gas Field Holding Period Application to the Government to hold such Discovery as a Gas Field within the existing Gas Field Holding Period.

- 14.12.1 The Contractor must include in such Gas Field Holding Period Application the same information as provided in clause 14.9.
- 14.12.2 The Contractor is not entitled to separate Gas Field Holding Periods for each Gas Field, and is entitled to only one Gas Field Holding Period for all Gas Fields.
- 14.12.3 If the Contractor does not timely submit a Gas Field Holding Period Application in respect of an additional Discovery of a Gas Field, such Discovery of a Gas Field will not be entitled to a Gas Field Holding Period.

#### **GAS FIELD HOLDING PERIOD RENTAL**

14.13 From the first day of the Gas Field Holding Period until expiry of the Gas Field Holding Period, the Contractor shall pay to the Government an annual surface rental for that portion of the Contract Area that is subject to the Gas Field Holding Period of US\$10.00 per square kilometre per Contract Year (the "**Gas Field Holding Period Rental**").

- 14.13.1 The Gas Field Holding Period Rental is due and payable in arrears on or before each anniversary of the Effective Date and on the last day of the Gas Field Holding Period or termination of this Contract (whichever is earlier), and is subject to proration in any Contract Year during which there has been a relinquishment or expiry of the Gas Field Holding Period, based on actual number of days in such Contract Year.
- 14.13.2 Gas Field Holding Period Rental will not be Cost Recoverable.

#### **EARLY TERMINATION AND RELINQUISHMENT**

14.14 If the Contractor fails to undertake and complete all work contemplated by and in accordance with an Approved Gas Field Appraisal Work Plan and Budget with respect to a Gas Field, the Government may provide not less than 90 days' prior notice (a "**Notice of Early Termination of Gas Field Holding Period**") to the Contractor that the Gas Field Holding Period will terminate at the end of such 90-day notice period, unless the

Contractor completes, within such period, all such required work in accordance with the Approved Gas Field Appraisal Work Plan and Budget.

14.14.1 In any such notice of termination, the Government must provide reasonable detail of all work that the Government considers that the Contractor has not completed.

#### GOVERNMENT PRIORITY RIGHTS

14.15 The Government (directly or indirectly through a Public Company or an Affiliate of the Government designated by the Government, or other designee of the Government) has the exclusive right:

- (a) to conduct all Export Gas Marketing Operations with respect to Natural Gas; and
- (b) to purchase for resale to Export Markets the entitlement of each Contractor Entity to Natural Gas.

14.15.1 The Contractor shall not (and each Contractor Entity shall not and is not authorised to:

- (a) conduct any Export Gas Marketing Operations; or
- (b) enter into any agreements for the sale, designation, dedication, commitment, or other disposal of Natural Gas to Export Markets, except to the Government (directly or indirectly through an Affiliate of the Government designated by the Government or other designee of the Government).

14.16 The Government has no obligation to find an Export Market for all or any Natural Gas produced from the Contract Area.

14.16.1 The Government will incur no liability whatsoever to the Contractor or to any Contractor Entity or to any Government Interest Holder, if the Government does not provide a Gas Export Plan that is acceptable to all other Parties.

14.17 Except as provided in clause 14.17.1, all expenses incurred by the Government in respect of Export Gas Marketing Operations are solely for the account of the Government.

14.17.1 The Contractor shall reimburse the Government for all expenses incurred by the Government in its conduct of Export Gas Marketing Operations:

- (a) within 30 days after receipt of an invoice therefor; and
- (b) provided that the Parties have signed a gas sales and purchase agreement.

14.17.2 Payments made by the Contractor to the Government pursuant to clause 14.17.1 will be Cost Recoverable.

14.18 The Contractor shall provide all assistance reasonably requested by the Government with respect to the Government's Export Gas Marketing Operations.

14.18.1 Expenses incurred by the Contractor in providing assistance to the Government in accordance with this clause 14.18 will only be Cost Recoverable if such



expenses are included in an Approved Work Plan and Budget, or, if such expenses are not included in the Approved Work Plan and Budget or exceed the amounts set forth in the Approved Budget, as provided in clauses 14.18.2 or 14.18.3.

- 14.18.2 Individual line-item expenses in any Calendar Year of more than that set forth in the Approved Budget but less than 10% over such line-item amount will be Cost Recoverable, if the Contractor has notified the Government of all such expenses as soon as practical.
- 14.18.3 Individual line-item expenses in any Calendar Year of more than 10% of the line-item amount set forth in the Approved Budget will only be Cost Recoverable only if each such line-item expense of more than 10% is approved by the Government before the expense is incurred, unless the Government otherwise agrees.

#### **DOMESTIC GAS MARKETING OPERATIONS**

- 14.19 The Contractor and the Government:
  - (a) are each entitled to conduct Domestic Gas Marketing Operations; and
  - (b) shall cooperate and coordinate in their Domestic Gas Marketing Operations.
- 14.20 Expenses incurred by the Contractor in its conduct of Domestic Gas Marketing Operations will only be Cost Recoverable if such costs are included in an Approved Domestic Gas Marketing Work Program and Budget.
  - 14.20.1 All expenditure incurred by the Contractor in the performance of Domestic Gas Marketing Operations pursuant to an Approved Domestic Gas Marketing Work Program and Budget will be Cost Recoverable.
  - 14.20.2 The Contractor shall include in each proposed Domestic Gas Marketing Work Program all details as required by Government, including:
    - (a) works to be carried out;
    - (b) type of services to be provided, distinguishing between third parties and Affiliated companies of each Contractor Entity; and
    - (c) categories of general and administrative expenditure.
  - 14.20.3 No later than 1 October of the Calendar Year preceding each Calendar Year in which the Contractor proposes to conduct any Domestic Gas Marketing Operations, the Contractor shall prepare and submit to the Management Committee and the Government a proposed Domestic Gas Marketing Work Program and Budget for the following Calendar Year.
  - 14.20.4 If the Government requests any modification to the Domestic Gas Marketing Work Program and Budget, the Government and the Contractor shall meet to discuss the proposed Domestic Gas Marketing Work Program and Budget and proposed modifications thereto promptly after the Contractor's receipt of the Government's requested modifications of the proposed Domestic Gas Marketing Work Program and Budget. The Contractor must communicate its comments to the Government in respect of any modifications requested by the Government before such meeting.

- 14.20.5** If the Government and the Contractor are not able to agree on the modifications proposed by the Government, expenses incurred by the Contractor will not be Cost Recoverable.
- 14.20.6** Individual line-time expenses in any Calendar Year of more than that set forth in the Approved Budget but less than 10% over such line-item amount will be Cost Recoverable, if the Contractor has notified the Government of all such expenses as soon as practical.
- 14.20.7** Individual line-item expenses in any Calendar Year of more than 10% of the line-item amount set forth in the Approved Budget will only be Cost Recoverable only if each such line-item expense of more than 10% is approved by the Government before the expense is incurred, unless the Government otherwise agrees.
- 14.21** Neither the Government, nor the Contractor:
- (a) has any obligation to find a Domestic Market for Natural Gas produced from the Contract Area; or
  - (b) will incur any liability whatsoever to any Party (or any Government Interest Holder), if such Party does not provide a Domestic Gas Plan that is acceptable to all other Parties.
- 14.22** The Contractor is not obligated or otherwise responsible for any expenditure incurred by the Government in the Government's conduct of any Domestic Gas Marketing Operations.

**CONSIDERATION OF GAS DISPOSITION PLANS – EXPORT AND DOMESTIC**

- 14.23** Neither the Contractor, nor the Government has any obligation to agree to any Gas Export Plan or Domestic Gas Plan proposed by the other Party.
- 14.23.1** The Contractor and the Government must both agree on any Gas Export Plan or Domestic Gas Plan.
- 14.23.2** A Government Interest Holder has no right to evaluate, consider, or otherwise approve a Gas Export Plan or a Domestic Gas Plan, and each Government Interest Holder will be bound by the decision of the Government and the Contractor with respect thereto.
- 14.24** The Government has no obligation to consider any Domestic Gas Plan proposed by the Contractor, unless the Government has designated a Gas Field as exclusively reserved for the Domestic Market.
- 14.24.1** No provision of this Contract prohibits the Government from considering and approving a Domestic Gas Plan proposed by the Contractor.
- 14.25** The Parties may agree on both a Gas Export Plan and a Domestic Gas Plan, or may agree a Domestic Gas Plan on a standby basis in the event the Government does not propose a Gas Export Plan.



#### **GAS EXPORT PLAN**

- 14.26 The Government must provide a proposed gas sale and purchase agreement as part of the Government's proposed Gas Export Plan.
- 14.27 The Contractor will have not less than 90 days from the date that the Government first provides a Gas Export Plan to the Contractor (such 90-day period, as it may be extended by the Government pursuant to clause 14.27.1, the "**Export Plan Evaluation Period**") to evaluate the Gas Export Plan, make any recommendations with respect thereto, and consider the requirements of a Development Plan that would be necessary to enable the Contractor to determine whether Gas Export Plan renders a Gas Field economic for the Contractor to develop.
- 14.27.1 The Government may agree to extend the Export Plan Evaluation Period for such period as the Government sets forth in a notice to the Contractor.
- 14.27.2 If the Export Plan Evaluation Period extends beyond the last day of the Gas Holding Period, the Gas Holding Period will be extended for such excess days.
- 14.28 If, at the conclusion of the Export Plan Evaluation Period, the Contractor and the Government have not agreed a Gas Export Plan as proposed by the Government, the Government may send a notice (a "**Holding Period Early Termination Notice**") to the Contractor that the Gas Field Holding Period will terminate as of the date set forth in such notice.
- 14.28.1 The date set forth in the Holding Period Early Termination Notice may not be earlier than the scheduled expiry of the Gas Field Holding Period and may not be earlier than the 30 days after the date of the notice.
- 14.28.2 If at the conclusion of the notice period as set forth in the Holding Period Early Termination Notice (and any extensions thereto provided by the Government to the Contractor in a subsequent notice), the Contractor and the Government have not agreed on a Gas Export Plan, the Gas Field Holding Period shall terminate and all Gas Fields subject to the Gas Field Holding Period will be then be considered as fully relinquished to the Government.
- 14.28.3 The Contractor and the Government will only be considered to have agreed to a Gas Export Plan proposed by the Government when the Parties (as sellers) have signed a gas sales and purchase agreement with the Government (or any Affiliate of the Government or other Person designated by the Government as contemplated by the Gas Export Plan) as the purchaser.

#### **DOMESTIC GAS PLAN**

- 14.29 If the Government notifies the Contractor that the Government has designated a Gas Field as reserved for Domestic Markets, the Contractor shall:
- (a) propose a Work Program and plan for Domestic Gas Marketing Operations and associated Budget;
  - (b) carry out Domestic Gas Marketing Operations in accordance with an Approved Domestic Gas Marketing Plan and Budget; and
  - (c) propose a Domestic Gas Plan at any time.

- 14.30 If the Government has designated the Gas Field as exclusively reserved for Domestic Markets, the Government shall give reasonable consideration to a Domestic Gas Plan proposed by the Contractor.

#### DEVELOPMENT PLAN

- 14.31 Within 90 days after Government and the Contractor have agreed to a Gas Export Plan or a Domestic Gas Plan, the Contractor shall prepare and deliver a Development Plan for the Development of the Gas Fields in the Contract Area, including the sequencing and timing of the development of the Gas Fields and the expected First Production corresponding to the required delivery requirements under the applicable agreed plan.
- 14.32 If the proposed Development Plan is not satisfactory to the Government, the Government shall so notify the Contractor and meet with the Contractor to discuss the proposed Development Plan.
- 14.33 If the Government has not approved a Development Plan within 180 days following agreement of a Gas Export Plan or Domestic Gas Plan, as applicable, the Government may send the Contractor a notice (the "**Gas Development Period Early Termination Notice**") setting forth a date, which must not be less than 30 days from the date of the Gas Development Period Early Termination Notice, that the Gas Field will be considered relinquished as of the date set forth in such notice unless the Government has accepted a Development Plan for the Gas Field.
- 14.34 If at the conclusion of the 30-day notice period as set forth in the Gas Development Period Early Termination Notice (and any extensions thereto provided by the Government to the Contractor in a subsequent notice), the Government has not accepted a Development Plan proposed by the Contractor, all Gas Fields will be considered as fully relinquished to the Government. If the Contractor is not then entitled to any rights to produce and develop Crude Oil, this Contract will thereupon terminate.
- 14.35 If the Contractor does not develop a Gas Field within the periods as set forth in Approved Development Plan, subject to clause 40 (*Force Majeure*), the Government may send the Contractor a Gas Development Period Early Termination Notice setting forth a date, which must not be less than 30 days from the date of the Gas Development Period Early Termination Notice, that the Gas Field will be considered relinquished as of the date set forth in such notice.

#### GAS DEVELOPMENT PERIOD

- 14.36 The approval of the Development Plan for a Gas Field by the Government will entitle the Contractor to retain its rights in respect of the Gas Field subject to such Development Plan for the duration of the Development Period.

#### SURPLUS ASSOCIATED GAS

- 14.37 The Contractor shall, at the request of the Government on not less than 90 days' prior notice, deliver to the Government all Associated Gas produced that is not (a) used in the Petroleum Operations, (b) re-injected, (c) permitted to be flared in accordance with clause 14.6, or (d) sold in accordance with a Gas Export Plan or a Domestic Market Plan.

- 14.37.1 The Contractor shall separate, gather, compress, and deliver such Associated Gas to the Government at a delivery point at the boundary of the Contract Area or gas processing plant as agreed between the Government and the Contractor, free of charge to the Government.
- 14.37.2 If at any time there is a regional main gas pipeline, the Contractor shall transport and deliver the Associated Gas to such tie-in point as is determined by the Government, meeting pipeline specifications, unless it is uneconomic.
- 14.37.3 All expenditures incurred by the Contractor up to such agreed delivery point, including pipeline construction and operation, compression, treatment, and processing, will be Cost Recoverable.
- 14.38 The Government will be solely (a) responsible for collecting, treating, compressing, and transporting from the agreed delivery point all Associated Gas delivered to the Government pursuant to clause 14.38; and (b) liable for all costs, expenses, and liabilities in respect of such Associated Gas after the agreed delivery point.
- 14.39 Each Contractor Entity's entitlement to Associated Gas from an Oil Field will be governed by the duration allowed for the production of Crude Oil under clause 6.13 and 6.14.

#### **GAS PIPELINES**

- 14.40 The Contractor (and no Contractor Entity or Government Interest Holder) is not entitled to (and shall not) ship or otherwise transport Natural Gas outside of the Contract Area, except on a joint dedicated, common stream basis with each other Contractor Entity and the Government.
- 14.41 The Contractor is not authorised to construct any pipelines for the transportation of Natural Gas to the Export Market or the Domestic Market, except in accordance with a Gas Export Plan or a Domestic Gas Plan, as applicable, and the applicable Approved Development Plan and Approved Work Plan and Budget.

### **CLAUSE 15 – ACCOUNTS; OPERATIONS**

#### **ACCOUNTS**

- 15.1 The Contractor shall maintain in accordance with the Accounting Procedure and accepted accounting practices generally accepted in the international Petroleum industry and, to the extent compatible with such practices, in accordance with US Generally Accepted Accounting Principles or International Financial Reporting Standards, (in either case consistently applied), at its business office in the Kurdistan Region, all records of account and such other records in respect of the work performed under this Contract, the costs incurred, and the amount and value of all Petroleum produced and saved from the Contract Area (the "Accounts").
- 15.1.1 The Accounts must reflect in detail all expenditures incurred and revenues received.

- 15.1.2 The Contractor shall keep copies of the Accounts for the entire term of this Contract.
  - 15.1.3 All Accounts shall be prepared in the English language.
  - 15.1.4 The Contractor shall record and maintain the Accounts in US\$.
  - 15.1.5 The Contractor shall make the Accounts available at its offices in Kurdistan Region at all reasonable times for inspection and audit by representatives of the Government, including independent auditors that may be employed by the Government.
- 15.2 In addition to all other reports required by this Contract, within 90 days following the end of each Calendar Year, the Contractor shall submit to the Government a detailed statement of (a) all Petroleum Costs incurred in respect of such Calendar Year and (b) calculations of Profit Petroleum pursuant to clause 26.
- 15.2.1 The reports must be accompanied by a report of Repsol's ultimate parent company's auditors confirming the accuracy of such statement.
  - 15.2.2 The Contractor shall provide the Government with such production statements and reports as required pursuant to clause 16.4.

**Audit**

- 15.3 The Government is entitled:
- (a) to inspect and audit the Accounts with respect to each Calendar Year at any time within a period of five Calendar Years following the end of such Calendar Year (the "Audit Request Period"); and
  - (b) to appoint an auditor of international standing familiar with international petroleum industry accounting practice to undertake or assist the Government with respect to any audit.
- 15.4 The Contractor shall pay all costs and fees of an auditor appointed by the Government pursuant to clause 15.3(b), which costs and expenses will be Cost Recoverable.
- 15.5 The Contractor shall provide all supporting records and information requested by the Government in support of a Government audit.
- 15.6 If, as a consequence of an audit, the Government considers that there is significant mistake or irregularity in respect of the Accounts, the Government shall notify the Contractor of such mistakes or irregularities within 6 Months following the date the Government completes the audit. If the Government fails to notify the Contractor of any audit exceptions within such six-month period, the relevant Accounts subject to the Government's audit will be presumed to be correct.
- 15.7 Within 60 days of any notification from the Government pursuant to clause 15.6, the Contractor shall either (a) make necessary corrections, adjustments or amendments, or (b) notify the Government of the Contractor's objections, concerns, or other comments with respect thereto.

- 15.7.1 If the Contractor notifies the Government of objections, concerns, or other comments as provided in clause 15.7, the Government shall, within 30 days following receipt of such notice, notify the Contractor of the Government's response to the Contractor's objections, concerns, or other comments.
- 15.8 Any Dispute between the Parties under clauses 15.3 through 15.7 that cannot be settled amicably within 60 days of the Government's final notice under clause 15.7 is subject to resolution by an Expert in accordance with clause 42.

## **CLAUSE 16 – OTHER CONTRACTOR RIGHTS AND OBLIGATIONS**

### **PERMANENT REPRESENTATIVE**

- 16.1 Within 90 days following the Effective Date, each Contractor Entity shall open an office and appoint a permanent representative in the Kurdistan Region.

### **CONDUCT OF PETROLEUM OPERATIONS**

- 16.2 The Contractor shall be responsible for the conduct, management, control and administration of Petroleum Operations in accordance with this Contract.
- 16.3 In conducting its Petroleum Operations, the Contractor may use any Affiliate of each Contractor Entity, its and their Subcontractors, and the employees, consultants, and agents of each of the foregoing.

### **INFORMATION AND REPORTS**

- 16.4 The Contractor shall provide the Government with periodic Data and activity reports relating to Petroleum Operations. The Contractor shall include details of the following in such period Data and activity reports:
- (a) information and Data regarding all Petroleum Operations 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 Assets deployed since the previous report, including all costs associated therewith.

### **REQUIREMENT FOR PETROLEUM OPERATIONS**

- 16.5 The Contractor may freely use any Petroleum produced within the Contract Area for the Petroleum Operations.

### **SUPERVISION**

- 16.6 The Contractor shall at all times provide reasonable assistance as may reasonably be requested by the Government during its review and verification of Accounts and records

and of any other information relating to Petroleum Operations at the offices, worksites or any other facilities of the Contractor.

- 16.6.1 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.
- 16.6.2 The representatives of the Government shall at all times comply with any safety regulations imposed by the Contractor, and the Government shall use reasonable efforts to ensure that such reviews and verifications do not hinder Petroleum Operations.

#### **ACCESS TO FACILITIES**

- 16.7 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**

- 16.8 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.
- 16.9 Notwithstanding clause 16.8, the Government shall indemnify and hold harmless each Contractor Entity against all Losses and Expenses in respect of any claim, demand, action or proceeding brought against any Contractor Entity by any representative of the Government in connection with the access to or use of the facilities by such representatives, except for any Losses or Expenses caused by the gross negligence or wilful misconduct of any Contractor Entity, any of its Subcontractors, or any of their respective employees or agents.

#### **LOSS OR DAMAGE**

- 16.10 The Contractor shall be responsible for any Loss and Expense or other damage caused to third parties by any Contractor Entity or its Subcontractors or their respective personnel in the conduct of Petroleum Operations or otherwise in accordance with Kurdistan Region Laws.

#### **INTELLECTUAL PROPERTY RIGHTS**

- 16.11 The Contractor shall not infringe on any intellectual property rights of any other Person.

#### **LITIGATION**

- 16.12 The Contractor shall as soon as reasonably practicable inform the Government of any litigation relating to Petroleum Operations or this Contract.



#### PRODUCTION RATES

- 16.13** In connection with a general decision to reduce production across Iraq, the Government may require the Contractor to set the production rate of Reservoirs below the MER for such Reservoirs as provided for in the Development Plan.
- 16.13.1** If the Government issues a requirement as provided in clause 16.16, the Government shall allocate any such reduction fairly and equitably among the various production areas then producing in the Kurdistan Region, *pro rata* their respective production rates as of such allocation date, and with a view to prudent allocation among such blocks.

#### LIFTING

- 16.14** The Government and, subject to clauses 32.11(a) and (b), each Government Interest Holder, and each Contractor Entity 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 clauses 25, 26 and 27.
- 16.15** Not less than 12 Calendar Months prior to the Date of start of Commercial Production from any Development Area, Contractor shall submit to the Management Committee and the Government for respective approvals proposed procedures and terms in respect of the scheduling, storage, and lifting of Petroleum by each Contractor Entity, the Government, and each Government Interest Holder from each Production Area, including rights of lifting Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties, and penalties for over and under lifting, safety and emergency procedures. None of the Government, the Contractor, a Contractor Entity, or a Government Interest Holder may lift any Petroleum until such procedures and agreements have been established by agreement of the Contractor and the Government.

#### REGIONAL CONSUMPTION REQUIREMENTS

- 16.16** The Contractor Entities shall sell and deliver to the Government, upon written request of the Government, any amounts of Crude Oil that the Government shall request to meet Kurdistan Region internal consumption requirements.
- 16.16.1** The Government shall pay the International Market Price for such Crude Oil. The Contractor Entities and the Government shall enter into a sales agreement covering such purchase and sale containing normal commercial terms prevailing in the international petroleum industry.
- 16.16.2** The Government shall provide the Contractor Entities with not less than 180 days' advance written notice of its intention to buy such Crude Oil.
- 16.16.3** On such notice, the Government shall specify the volume of Contractor's entitlement required, the particular quality desired (where more than one Petroleum quality is produced in the Contract Area) and the duration for which such Petroleum will be purchased.
- 16.16.4** On such notice, out of the total quantity of Crude Oil to which the Contractor is entitled from the Contract Area in a Calendar Year, each Contractor Entity shall

provide for the period requested by Government up to such Contractor Entity's pro-rata share of Crude Oil.

- 16.16.5 The Government is entitled to trade such Crude Oil, whether for a quality that meets the Government's requirements or otherwise.
- 16.17 In case of war or imminent apprehension of war or grave national emergency, the Government may requisition all or a part of the Petroleum production from the Contract Area and require the Contractor to maximise such production. The provisions of clause 16.16.1 regarding delivery, price, and payment shall also apply to any Crude Oil so requisitioned from the Contractor.
- 16.18 If the Government imposes an obligation on the Contractor or the Contractor Entities to sell to the Government in accordance with clauses 16.16 or 16.17, the Government shall use reasonable endeavours to impose such obligation proportionally among the operators then producing in the Kurdistan Region based on each operator's production rate.

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

### **GENERAL**

- 17.1 The Government shall make available to the Contractor any land in the Kurdistan Region outside of the Contract Area which the Government is satisfied is reasonably required for Petroleum Operations. The Contractor shall have the right to build and maintain, above and below ground, any facilities required for the Petroleum Operations.

### **THIRD PARTY LANDS**

- 17.2 If it becomes necessary for conduct of the Petroleum Operations to occupy and use any land 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.
- 17.2.1 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 Kurdistan Region Law, if such occupation will be long lasting or makes it henceforth impossible to resume original usage of such land or property.
- 17.2.2 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 term of this Contract.
- 17.2.3 The amount of the compensation in clause 17.2(a) shall be fair and reasonable, in accordance with clause 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.



- 17.2.4 All reasonable costs, expenditures and fair and reasonable compensation (as required pursuant to clause 29 of the Kurdistan Region Oil and Gas Law) which results from such expropriation shall be paid by the Contractor and will be Cost Recoverable.

#### INFRASTRUCTURE

- 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 Persons and, unless generally in force, to be agreed.
- 17.4 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 (subject to clauses 14 and 38) 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 such cost and expense will be Cost Recoverable.
- 17.5 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. Any associated costs, expenses or liabilities incurred by the Contractor will be Cost Recoverable.

#### PETROLEUM OPERATIONS

- 17.6 In the conduct of Petroleum Operations, the Contractor has the right in the Kurdistan Region, subject to compliance with applicable Kurdistan Region Law and EHS Standards, 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 has the right to select the location for these facilities.
- 17.7 For the conduct of Petroleum Operations, the Contractor shall have the right in the Kurdistan Region, subject to compliance with applicable Kurdistan Region Law and EHS Standards, 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.

- 17.8 Subject to Applicable Law and compliance with EHS Standards, 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.

#### **ADJOINING PROPERTIES**

- 17.9 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 Petroleum Operations and to prohibit any interference with the use of any facilities required for Petroleum Operations.

#### **ACCESS**

- 17.10 Access to the Contract Area may be granted pursuant to an access authorisation, as 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 clause 17.10 authorises the holder of an access authorisation to drill a Well or to perform any Petroleum Operations in the Contract Area.
- 17.11 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.

### **CLAUSE 18 – GOVERNMENT ASSISTANCE**

- 18.1 To the extent allowed by Applicable 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, import, or 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' Expatriate 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 clause 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 The Contractor shall pay reasonable and justified expenses incurred by the Government with respect to its undertakings under this clause 18 against an invoice received therefor from the Government. Such payments will be Cost Recoverable.

## CLAUSE 19 – ASSETS AND MATERIALS

### GENERAL

- 19.1 The Contractor shall supply, or procure the supply of, Assets, materials, and consumables required for Petroleum Operations (“**Assets and Materials**”).
- 19.2 The Contractor shall provide Assets and Materials in accordance with the relevant Approved Work Program and Budget.

### PROCUREMENT PROCEDURES

- 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 Assets and Materials and services for the Petroleum Operations as required by clause 8.4(e), including the criteria for tender evaluation.
- 19.3.1 Such procedures and criteria must provide for fair and transparent tender evaluation and be in accordance with Best Practices and Applicable Law.
- 19.4 If the Management Committee does not request any modifications to the procurement procedures within 30 days after receiving such procedures, the procedures shall be considered approved by the Management Committee.
- 19.5 The Contractor shall give priority to Assets 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 otherwise available to the Contractor.

## CLAUSE 20 – TITLE TO ASSETS

### TITLE TRANSFER

- 20.1 “**Title Transfer Date**” means the earlier of:
- (a) the first date on which the “R” Factor, as calculated in accordance with clause 26, is equal to 1.00; or
  - (b) the termination of this Contract.

- 20.2 Subject to clause 21, on the Title Transfer Date, all Assets of the Contractor, a Contractor Entity, or the Operator (or any of their respective Affiliates) in the Kurdistan Region will become the property of the Government.
- 20.3 Until the Title Transfer Date, all Assets in the Kurdistan Region are the property of the Contractor, the applicable Contractor Entity, any Affiliate of a Contractor Entity, the Operator, or a Subcontractor, as the case may be.

**LEASED ASSETS; SUBCONTRACTOR ASSETS**

- 20.4 The provisions of clause 20.2 will not apply to any Assets:
- (a) leased by the Contractor, a Contractor Entity, or the Operator in accordance with an operating lease that has been approved by the Management Committee; or
  - (b) belonging to or leased by a Subcontractor or an Affiliate of such Subcontractor.

**CLAUSE 21 – USE OF ASSETS**

**RIGHT**

- 21.1 Whether before or after the Title Transfer Date and whether before or after recovery of the cost of any Assets, the Contractor, each Contractor Entity, and the Operator shall at all times have the exclusive right to use all Assets in the Kurdistan Region for Petroleum Operations free of any charge by the Government.

**NO TRANSFER BY GOVERNMENT**

- 21.2 During the term of this Contract, the Government shall not transfer or otherwise dispose of any Assets without having received prior notice of the Contractor's consent.

**CONTRACTOR REDEPLOYMENTS**

- 21.3 The Contractor may freely move any Assets and Materials from any relinquished portion of the Contract Area to the remaining part of the Contract Area or from any other contract area in the Kurdistan Region with respect to which the Contractor is a party to a production sharing contract with the Government for use in petroleum operations under such contract.

**CLAUSE 22 – SUBCONTRACTORS**

**GENERAL**

- 22.1 The Contractor shall ensure in accordance with Best Practices that each Subcontractor has all requisite experience and qualifications.

**LOCAL PREFERENCE**

- 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, financial capacity, 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.

22.2.1 A Subcontractor will not qualify as "from the Kurdistan Region and other parts of Iraq" unless it is organized under Applicable Law or the Laws of Iraq, domiciled in Iraq, and majority-owned and Controlled by citizens of the Kurdistan Region or Iraq.

#### **PROCUREMENT PROCEDURES**

22.3 The Contractor shall select its Subcontractors in accordance with the procurement procedures approved by the Management Committee pursuant to clause 19.3.

22.3.1 Each contract with Subcontractors must include a provision that obligates such Subcontractor to comply with Corrupt Practices Laws in the Subcontractor's performance of the contract.

22.4 The Contractor shall provide the Government with copies of each contract with Subcontractors where the contract amount exceeds the limit set by the Management Committee from time to time.

### **CLAUSE 23 – PERSONNEL; TRAINING; ASSISTANCE**

#### **EXPATRIATE WORK PERMITS**

23.1 Any Expatriate personnel working in the Kurdistan Region will require issuance of a Permit from the Government (such Permit not to be unreasonably delayed or withheld) and the Government shall obtain any Permit required by the federal government of Iraq.

#### **LOCAL PREFERENCE**

23.2 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 the Contractor, any Contractor Entity, any of its Affiliates, or any of its Subcontractors to violate any Law applicable to it.

23.3 Each Contractor Entity and its Affiliates and Subcontractors have the right to hire Expatriate 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 clause 23.2.

23.3.1 In the event any Expatriate personnel or a member of such Expatriate's family engages in an activity or commits an act in breach Kurdistan Region Law, the Contractor shall, at the request of the Management Committee, take the necessary steps to repatriate such individual(s).

#### MINISTRY CAPACITY BUILDING PAYMENTS AND IN KIND ASSISTANCE

- 23.4 The Contractor shall give reasonable 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. The Government and the Contractor shall agree on terms and conditions for such secondment, and any costs associated therewith will be Cost Recoverable.
- 23.5 For the first five Contract Years, the Contractor shall pay to the Government US\$250,000 in advance each Contract Year for the recruitment 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 will be Cost Recoverable.
- 23.6 The Contractor shall promptly provide to the Government such technological and logistical assistance to the Kurdistan Region petroleum sector as the Minister of Natural Resources may request, up to the value of US\$1,000,000, including geological computing hardware and software and such other equipment. The Contractor and the Government shall agree the form of such assistance. All costs of the Contractor associated therewith will be Cost Recoverable.

#### TRAINING

- 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' Expatriate workers with an equivalent résumé.
- 23.7.1 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.
- 23.8 The Contractor shall submit its plan for the recruitment, integration, and training of personnel from the Kurdistan Region and other parts of Iraq to the Management Committee for its approval. Such training plan: (a) must take into consideration the requirements of clause 23.7; and (b) may include training for the Government's personnel, depending on the extent to which the amount allocated to the training plan in accordance with clause 23.10 is available after taking into consideration the training of the Contractor Entities' Kurdistan Region and other Iraqi personnel.
- 23.9 Within 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.

#### TRAINING EXPENSE ALLOCATION AND PAYMENT

- 23.10 The Contractor shall allocate for training the amount of:

- (a) US\$150,000 for each Contract Year during the Exploration Period; and
  - (b) US\$300,000 for each Contract Year during the Development Period.
- 23.10.1 To the extent any amount allocated for a Contract Year is not utilised in a Contract Year, the Contractor shall pay the unutilised allocation to the Government within 60 days after the end of the applicable Contract Year.
- 23.11 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.
- 23.11.1 All such reasonable costs will be Cost Recoverable.
- 23.11.2 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 approved training plan pursuant to clause 23.8, and will be Cost Recoverable.
- 23.11.3 The cost of all other training programs for the Government's personnel will be the Government's responsibility.

#### ENVIRONMENT FUND PAYMENTS

- 23.12 The Contractor shall pay to the Government:
- (a) US\$150,000 in advance each Contract Year during the Exploration Period; and
  - (b) US\$300,000 in advance for each Contract Year during the Development Period.
- 23.13 The Government will credit all such payments 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").
- 23.14 Payments by the Contractor pursuant to clause 23.12 will be Cost Recoverable.

## CLAUSE 24 – ROYALTY

#### DEFINITIONS

- 24.1 "Royalty Crude Oil" means Crude Oil, regardless of gravity, produced and saved from the Contract Area.
- 24.2 "Royalty Gas" means Gas produced and saved from a Gas Field.
- 24.3 "Royalty Petroleum" means Royalty Crude Oil and Royalty Gas.

#### OBLIGATION

- 24.4 The Contractor shall pay to the Government a portion of Petroleum produced and saved from the Contract Area, either in kind or in cash as directed by the Government, as provided in this clause 24 (such payment, the "Royalty").



- 24.4.1 The Government will be considered to have elected to receive the Royalty in cash, unless the Government has given not less than 90 days' prior notice to the Contractor of the Government's election to receive the Royalty in kind.
- 24.4.2 If the Government has elected to receive the Royalty in kind, the Contractor shall deliver to the Government at the Delivery Point the quantity of Royalty Petroleum equal in value to the Royalty payable with respect thereto. Title and Risk of loss of Royalty paid in kind will transfer to the Government at the Delivery Point.
- 24.4.3 If the Government has elected to receive the Royalty in kind, the Government may require the Contractor to assist in the sale of all or part of the Royalty received in kind pursuant to clause 28.
- 24.5 The Royalty is payable on all Royalty Petroleum.
  - 24.5.1 No Royalty is payable in respect of Associated Gas from an Oil Field.

#### ROYALTY RATE

- 24.6 The Contractor shall calculate the Royalty daily by applying the following rate (as applicable the "Royalty Rate") to the Royalty Petroleum produced and saved on that day for:
  - (a) 10% for Royalty Crude Oil; and
  - (b) 10% for Royalty Gas.

#### DELIVERY

- 24.7 If the Royalty is payable in kind, the Contractor shall deliver to the Government at the Delivery Point each day a volume of Crude Oil or Natural Gas, as applicable, equal to the applicable Royalty Rate multiplied by the applicable quantity of Royalty Petroleum.
- 24.8 If the Royalty is payable in cash, the Contractor is entitled to take delivery at the Delivery Point of the quantity of Royalty Petroleum corresponding to the value of the Royalty Petroleum determined in accordance with clause 24.6.
  - 24.8.1 Subject to clause 14 (*Natural Gas*) in respect of Natural Gas, the Contractor will be entitled to freely sell such Royalty Petroleum.
  - 24.8.2 Title and risk of loss to Royalty Petroleum with respect to which the Contractor has taken delivery under this clause 24.7 will pass to the Contractor Entities at the Delivery Point in accordance with their participating interests.
- 24.9 Disposition of paid-in-kind Royalty Gas by the Government is governed by clause 14 (*Natural Gas*).

#### PAYMENT IN CASH

- 24.10 If the Royalty is payable in cash, the Contractor shall:
  - (a) value Royalty Crude Oil at the International Market Price for each Month and Quarter in accordance with clause 27;
  - (b) value Royalty Gas for each Month and Quarter in accordance with clause 27;

- (c) calculate the Royalty payable based on the valuations of Royalty Crude Oil and Royalty Gas for each Quarter; and
- (d) pay to the Government the applicable Royalty quarterly, in arrears, within 30 days of the end of each Quarter.

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

### **DEFINITIONS**

- 25.1 **"Available Crude Oil"** means all Crude Oil and Associated Gas produced and saved from the Contract Area after deduction of any quantities of Crude Oil to be delivered to the Government for payment of Royalty in kind or delivered to the Contractor in respect of the payment of Royalty in cash pursuant to clause 24.
- 25.2 **"Available Gas"** means all Gas produced and saved from a Gas Field in the Contract Area, except for Gas that is used in Petroleum Operations, re-injected, flared in accordance with clause 14.6, or is not used or sold.
- 25.3 **"Available Petroleum"** means Available Crude Oil and Available Gas.

### **COST RECOVERY**

- 25.4 The Contractor is entitled to:
  - (a) recover Petroleum Costs in accordance with this clause 25 and the Accounting Procedures; and
  - (b) allocate, as between the Contractor Entities, to each Contractor Entity its proportionate share of Available Petroleum in accordance with the respective participating interest of such Contractor Entity in relation to the aggregate participating interests of the other Contractor Entities.
- 25.5 Cost Recovery by the Contractor Entities in any period will be achieved by a Contractor Entity when it has taken delivery of its participating interest share of Available Petroleum from the Contract Area of equivalent value (as determined pursuant to this clause 25) to the Petroleum Costs to be recovered by the Contractor in accordance with this Contract.

### **VALUATION OF AVAILABLE PETROLEUM**

- 25.6 The Contractor shall value Available Crude Oil at the International Market Price obtained at the Delivery Point by the Contractor Entities and the Government.
- 25.7 The Contractor shall value Available Gas at the actual prices obtained at the point of sale in accordance with clause 14.5 in accordance with a Gas Export Plan or Domestic Gas Plan. The "point of sale" will be such point as identified by the Parties in relevant Gas Export Plan or Domestic Gas Plan.

### **CONTRACTOR ENTITLEMENT TO COST OIL**

- 25.8 Subject to the Accounting Procedure, from the First Production from any Production Area in the Contract Area and thereafter from all Production Areas, the Contractor (and

each Contractor Entity) is entitled to recover all Petroleum Costs from up to 40% of Available Crude Oil (such amount, "**Cost Oil**") within any Calendar Year.

25.8.1 Available Crude Oil that is not Cost Oil is "**Profit Oil**".

#### CONTRACTOR ENTITLEMENT TO COST GAS

25.9 Subject to the Accounting Procedure, from First Production from any Production Area in the Contract Area and thereafter from all Production Areas, the Contractor (and each Contractor Entity) is entitled to recover Petroleum Costs from up to 50% of Available Gas (such amount, "**Cost Gas**") produced within any Calendar Year.

25.9.1 Available Gas that is not Cost Gas is "**Profit Gas**".

#### RECOVERY WATERFALL; LIMITATIONS

25.10 Petroleum Costs are Cost Recoverable under clauses 25.8 and 25.9 in the following order:

- (1) Production Costs;
- (2) Exploration Costs (including Appraisal costs within the Contract Area);
- (3) Gas Marketing Costs;
- (4) Development Costs;
- (5) Crude Oil Pipeline Costs; and lastly
- (6) Decommissioning Costs.

25.11 The Contractor is (and the Contractor Entities are) not entitled to recover aggregate Petroleum Costs during any Calendar Year, expressed in quantities of Petroleum, in excess of the percentages of Available Petroleum as set forth in clauses 25.8 and 25.9.

25.11.1 If in any Calendar Year, Cost Oil and Cost Gas (Cost Oil and Cost Gas, together or either, "**Cost Petroleum**") is not sufficient to allow the Contractor Entities to recover all Petroleum Costs for such Calendar Year, the amount of Petroleum Costs not recovered in such Calendar Year may be (a) carried forward indefinitely to subsequent Calendar Years and (b) charged to Cost Petroleum (as applicable) until the earlier of full recovery of all Petroleum Costs or termination of this Contract.

25.11.2 The Government never has any obligation or liability to the Contractor or any Contractor Entity in respect of Petroleum Costs that are not recovered by any Contractor Entity from Cost Petroleum.

25.11.3 Any Petroleum Costs that are subject to Dispute and have not been finally resolved by the Parties shall not be included as Cost Petroleum until finally resolved by the Parties or pursuant to clause 42 (*Dispute Resolution*).

#### DELIVERY

25.12 Each Contractor Entity may take delivery of its proportionate share of Petroleum from the share of Available Petroleum allocable to the Contractor for the recovery of Petroleum Costs at the Delivery Point.

- 25.12.1 Title and risk of loss of such Available Petroleum will transfer to such Contractor Entity at the Delivery Point.

**RING FENCE**

- 25.13 Subject to clause 38.4, Petroleum Costs under this Contract are not recoverable against other areas in the Region in which any Contractor Entity is party to a production sharing contract or has any other interest.

**CLAUSE 26 – PROFIT PETROLEUM**

**DEFINITIONS**

- 26.1 Under this Contract:
- (a) “**Cumulative Costs**” means, as of any time of determination, total Petroleum Costs actually incurred by the Contractor from the Effective Date to such time of determination.
  - (b) “**Cumulative Revenues**” means, as of any time of determination, total Revenues actually received by the Contractor Entities from the Effective Date to such time of determination, howsoever characterised, including Revenues characterised as recovery of Petroleum Costs, Profit Petroleum, or otherwise.
  - (c) “**Profit Petroleum**” means Profit Oil and Profit Gas.
  - (d) “**Revenues**” means funds actually received by the Contractor Entities in respect their respective shares of Petroleum from the Contract Area.
  - (e) “**R Factor**” means a ratio calculated:  
$$R = (x/y)$$

where:

R = the R Factor;

x = Cumulative Revenues; and

y = Cumulative Costs.

**CALCULATION OF R FACTOR**

- 26.2 Within 30 days from the first day of each Semester starting on 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 as of the last day of the preceding Semester and promptly notify the Government thereof.
- 26.3 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.
- 26.4 The Contractor shall include, in its notification in accordance with clause 26.2, comprehensive detail in respect of each element of Cumulative Revenues and Cumulative Costs supporting each calculation of the R Factor.

- 26.5 The calculation of the R Factor will apply to all Production Areas in the Contract Area for until a new R Factor calculation has been made in accordance with clause 26.2.

#### ENTITLEMENTS

- 26.6 From First Production and as and when Petroleum is being produced:
- the Contractor is to be attributed and allocated a percentage share of Profit Petroleum, in consideration for the Contractor's investment in the Petroleum Operations;
  - each Contractor Entity is to be attributed and allocated a percentage share of the Contractor's share of Profit Petroleum in accordance with each Contractor's participating interest;
  - the Government Interest Holders are to be attributed and allocated a percentage share of Profit Petroleum in accordance with the participating interest of the Government Interest; and
  - each Contractor Entity shall pay Capacity Building Payments based on the value of Profit Petroleum attributed to each Contractor Entity.

- 26.7 The total amount of Profit Petroleum which will be attributed and allocated to the Contractor and the Government Interest Holders from First Production in accordance with their respective participating interests is:

- for Profit Oil, an amount 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 Oil within the Contract Area at the corresponding Delivery Point:

"R" Factor	Total Amount
$R \leq 1$	32%
$1 < R \leq 2.25$	$32 - [(32 - 16) \times (R - 1) / (2.25 - 1)]\%$
$R > 2.25$	16%

and

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

"R" Factor	Total Amount
$R \leq 1$	38%
$1 < R \leq 2.75$	$[38 - [(38 - 19) \times (R - 1) / (2.75 - 1)]\%$
$R > 2.75$	19%

- 26.8 Profit Petroleum which is attributed and allocated neither to the Contractor or Government Interest Holder in accordance with clause 26.7 is to be attributed and allocated to the Government.

- 26.9** When 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 Contractor shall apply the allocation of Profit Petroleum applicable to the previous Semester. Upon the calculation of the R Factor for the relevant Semester:
- (a) if the attribution and 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 attribution and allocation of the Profit Petroleum in the two Semesters is different, then the Contractor shall make any adjustments to the Parties' and Government Interest Holders' 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.
- 26.10** Subject to clause 26.10.2, if the Contractor makes an error in the calculation of the R Factor, resulting in a change in the Contractor's percentage share of Profit Oil, Profit Gas, or both, the necessary correction shall be made and any adjustments shall apply from the Semester in which the error occurred.
- 26.10.1** 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.
- 26.10.2** Each lifting of Petroleum relating to such error by the Party receiving the surplus shall not exceed 25% of the share of Profit Petroleum to which such surrendering Party is entitled.

#### **DELIVERY ENTITLEMENTS**

- 26.12** Subject, in the case of Gas, to clause 14 (*Natural Gas*), each Contractor Entity is entitled to receive at the Delivery Point, take in kind, and to export freely its individual share of the Contractor's entitlement to Profit Petroleum in accordance with its participating interest, and to retain Abroad any proceeds from the sale of all such Profit Petroleum.
- 26.13** Subject, in the case of Gas, to clause 14 (*Natural Gas*), each Government Interest Holder is entitled to receive at the Delivery Point, take in kind, and to export freely its individual share of the Government Interest entitlement in accordance with its participating interest, and to retain Abroad any proceeds from the sale of all such Profit Petroleum.
- 26.14** The Contractor shall deliver quantities of Profit Petroleum due to the Government at the Delivery Point.
- 26.15** Title and risk of loss to Profit Petroleum will pass to each Party and Government Interest Holder at the outlet flange of the Delivery Point.
- 26.16** The Government is not entitled to increase the share of Profit Petroleum to which the Government is entitled in any Calendar Year because of the Government's payment of Incomes Taxes on behalf of all or any Contractor Entities pursuant to clause 31.2.2.

#### PRODUCTION ESTIMATES

- 26.17 At least 21 days before Contractor's estimated date of First Production and 30 days before the first day of each Semester thereafter, the Contractor shall deliver to the Government the Contractor's:
- (a) production forecast for the next four Semesters; and
  - (b) forecast of the quantities of Crude Oil and Natural Gas to which each Party and the Government Interest Holders will be attributed and allocated during the next four Semesters.
- 26.18 The Contractor shall endeavour to produce in each Semester not less than the forecast quantity for such Semester.

#### ANNUAL PRODUCTION REPORT

- 26.19 Within 90 days following the end of each Calendar Year, the Contractor shall prepare and deliver an annual production report to the Government.
- 26.19.1 The Contractor shall set forth in such annual production report the quantities of Crude Oil and Natural Gas to which each Party and the Government Interest Holder is entitled to be attributed and allocated, the quantities of Crude Oil and Natural Gas lifted by each Party and Government Interest Holder, and the resulting over-lift or under-lift position of each Party and Government Interest Holder as at the end of such Calendar.

#### COST RECOVERY FOR GOVERNMENT COSTS

- 26.20 Any costs or expenditure incurred by the Contractor in respect to the lifting of the Government's or Government Interest Holder's share of Petroleum will be Cost Recoverable.

### CLAUSE 27 – VALUATION AND METERING

#### VALUATION OF CRUDE OIL

- 27.1 The Contractor shall determine the value of Crude Oil produced in the Contract Area at the end of each Month and each Quarter at the Delivery Point based on the International Market Price.
- 27.2 "International Market Price" means the weighted average price per Barrel, expressed in US\$, obtained by the Contractor at the Delivery Point, by netback if necessary, during the Quarter or Month ending on the date of valuation for Arm's Length Sales of Crude Oil.
- 27.2.1 The Contractor shall provide evidence to the Government that the sales of Crude Oil for purposes of determining International Market Price are Arm's Length Sales.
- 27.2.2 Any Dispute as to whether any sales are or are not Arm's Length Sales may be referred by the Contractor or the Government to an Expert for decision pursuant to clause 42.



- 27.2.3 In the event that there either is no lifting of Crude Oil in the relevant Quarter or Month, or no Arm's Length Sales, the applicable "International Market Price" for such Quarter or Month shall be the weighted average price per Barrel obtained during that Quarter or Month from equivalent sales of Crude Oil of the same or similar gravity and quality from other production areas in the Kurdistan Region 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.
- 27.2.4 For purposes of clause 27.2.3, the Government and the Contractor shall, prior to the start of First Production, agree on a basket of Crude Oil from other producers in the Kurdistan Region comparable to those produced in the Contract Area and sold in the international market.
- 27.2.5 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.

#### VALUATION OF NATURAL GAS

- 27.3 The Contractor shall determine the value of Natural Gas the end of each Month and each Quarter at the Delivery Point based on the actual price received from gas sales contracts entered into in accordance with clause 14 (*Natural Gas*).

#### PRODUCTION STATEMENT

- 27.4 By the 10<sup>th</sup> day of each Month, the Contractor shall provide a statement to the Government (together with the Capacity Building Payment Monthly Statement as required by clause 32.7) showing the Contractor's calculations of the value of Petroleum produced and sold from the Contract Area for the previous Month. Each such statement must include:
- (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 (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 preceding Month; and
  - (d) quantities of Gas sold by the Contractor Entities and the Government together with sale prices realised during the preceding Month.

#### MEASUREMENT

- 27.5 The Contractor shall measure all Petroleum at the Delivery Point in accordance with Best Practices and Applicable Law.
- 27.5.1 The Contractor shall install and operate all metering equipment.
- 27.5.2 The meters must be to fiscal meter standards in accordance with Best Practices.

- 27.5.3 The Contractor shall periodically inspect and test the accuracy of the Contractor's metering equipment using means and methods in accordance with Best Practices.
- 27.5.4 All measurements shall be adjusted to a pressure of 14.73 pounds per square inch and a temperature of 60° Fahrenheit.
- 27.6 The Government may at any time inspect the metering equipment installed by the Contractor and all records, charts, measurements, and test Data at all reasonable times.
- 27.7 If any metering equipment is defective or not functioning properly, the Contractor shall promptly notify the Government upon the discovery thereof and use all reasonable endeavours to repair, adjust, correct, or replace it promptly (and in any event within 15 days).
- 27.7.1 The "Adjustment Date" means 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.
- 27.7.2 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 or quantity delivered (or both) based on deliveries during the preceding comparable period of time when the metering equipment was registering accurately.
- 27.8 The Parties shall resolve any Dispute arising under this clause 27 by Expert determination in accordance with the provisions of clause 42.

#### **CLAUSE 28 – SALES ASSISTANCE**

- 28.1 The Government may at its option and upon at least 90 days' prior notice require the Contractor to market all or part of the Government's share of Crude Oil produced from Oil Fields in the Contract Area. In such event the Government and the Contractor shall enter into an appropriate agency contract with reference to international petroleum practice.
- 28.2 As soon as possible after receipt of any such notice from the Government under clause 28.1, the Contractor shall provide the Government all information available to it concerning possible purchasers of the Government's Crude Oil, the price therefor, and

other terms and conditions of sale. With transmittal of such information Contractor shall specify the time within which the Government must determine whether or not Contractor should proceed with such sale.

- 28.3 The Contractor's obligations in respect of Natural Gas are governed by clause 14 (*Natural Gas*).

## **CLAUSE 29 – CURRENCY; FINANCIAL PROVISIONS**

### **REFERENCE CURRENCY**

- 29.1 The US\$ shall be the unit of currency for all payments (whether revenue or cost), bookkeeping, records, the Accounts, reporting, and all other purposes under this Contract.

### **CURRENCY CONVERSION**

- 29.2 Payments in currencies other than US\$ shall be translated into US\$ at the average daily selling and buying rates of exchange of the Calendar Month preceding the Calendar Month in which the due date for payments falls, as such average rate can be calculated from the aforesaid daily rates of exchange published by the Central Bank of Iraq.
- 29.3 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.
- 29.4 The Contractor shall record any gain resulting from the exchange of currency as revenue and credit such amounts to the Accounts, and any loss will be Cost Recoverable.

### **PAYMENTS; NO OFFSET AGAINST GOVERNMENT**

- 29.5 A Party making a payment to the Government, including to the Capacity Building Account or to any revenue sharing account as agreed between the Government and the government of the Republic of Iraq, shall: (a) make such payment in US\$ on or before the date when due in cleared funds by wire transfer from a reputable bank in accordance with wire instructions provided by the Government; and (b) shall pay all payments without (and free and clear of any deduction for) set-off or counterclaim.
- 29.5.1 If any payment is due to be paid to the Government on a day that is not an International Banking Day, then the payment will be due on the next following International Banking Day.
- 29.5.2 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 Agreed Rate from the date when due to, but not including, the date when paid.

- 29.5.3 Each Contractor Entity acknowledges and accepts that a fundamental principle of this Contract is that the Contractor and each Contractor Entity must pay amounts owed by it as and when required.
- 29.5.4 Each Contractor Entity waives any right to raise by way of set off or invoke as a defence to its obligations to make any payments to the Government as required by this Contract, whether in law or equity, any failure by the Government or any Contractor Entity to pay amounts due and owing under any claim the Operator, a Contractor Entity, or any other Person may have against the Government, whether such claim arises under or relates to this Contract or otherwise.
- 29.5.5 The making of any payment to the Government, or the acceptance or use of any payments by the Government, does not impair the rights of the Contractor, any Contractor Entity, or the Government under clause 15 or English law.
- 29.5.6 Each Party receiving a payment from another Party under this Contract shall, upon receipt of a notice requesting a receipt therefor, endeavour to provide the other Party with a notice of receipt of such payment.

#### PAYMENTS TO FUND FOR REVENUE SHARING

- 29.6 Upon receipt of an instruction and wire instructions therefor from the Government and in the event of the establishment of a fund for revenue sharing between the federal government of Iraq and other regions (including the Kurdistan Region) and governorates of Iraq, the Contractor shall pay into such fund:
  - (a) any Royalty payable in cash due to the Government pursuant to the provisions of clause 24;
  - (b) proceeds from the sale of any Crude Oil undertaken by a Contractor Entity on behalf of the Government pursuant to clause 28 to which the Government is entitled pursuant to clause 26; and
  - (c) all Production Bonuses.

#### CURRENCY ASSURANCES

- 29.7 Each Contractor Entity shall at all times be entitled to freely convert into US\$ 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 clauses 29.2 and 29.3.
- 29.8 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.
- 29.9 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.
- 29.10 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 clauses 29.2 and 29.3.

- 29.11** 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.
- 29.12** 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.
- 29.12.1** Subcontractors and Expatriate personnel shall be obliged to transfer to the Region the amount of foreign currency required for their local needs and shall have the right to repatriate and the proceeds of the sale of their belongings in accordance with the regulations in force in the Region.
- 29.13** 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 clause 29.
- 29.13.1** Where the Contractor, or any subcontractors of Contractor, has guaranteed the full and proper discharge by any Expatriate Employee engaged in Petroleum Operations of his liability to the personal Income Tax under Kurdistan Region Law, that employee will be entitled to receive the whole or any part of his remuneration in the country in which he is normally resident.
- 29.14** In respect of the assurances provided in clauses 29.6 through 29.13, the Contractor shall comply with the procedures and formalities required by Applicable Law in respect of foreign exchange.

## **CLAUSE 30 – CUSTOMS**

- 30.1** All services, Assets and Materials, 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.
- 30.1.1** The Contractor, any Contractor Entity, its Affiliates, its Subcontractors, and 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 Assets and 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 clause 20.
- 30.2** The Contractor, any Contractor Entity, its Affiliates, any Subcontractor, and any agent of any of the foregoing, and the employees of the Contractor, a Contractor Entity or its Affiliates, and Subcontractors (including their family members) shall have the right to freely import into the 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 Expatriates must comply with Kurdistan Region Law.

- 30.3 Each Contractor Entity and its Affiliates shall be entitled to freely export (subject, in the case of Natural Gas, to clause 14) from the Kurdistan Region, 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 clauses 30.1, 30.2 or 30.3.

## **CLAUSE 31 – TAXES**

### **GENERAL**

- 31.1 Except as expressly provided in this clause 31, and without prejudice to the exemptions expressly provided for in clause 30, 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.
  - 31.1.1 The Government shall indemnify each Contractor Entity upon demand against any liability to pay any Taxes assessed or imposed upon such Contractor Entity which relate to any of the exemptions granted by the Government under this clause 31.

### **INCOME TAX**

- 31.2 Each Contractor Entity will be subject to Income Tax on its income from Petroleum Operations.
  - 31.2.1 Each Contractor Entity shall, in accordance with Applicable Law, provide a return to the appropriate Kurdistan Region tax authorities in accordance with Kurdistan Region Law of its income subject to Income Tax, together with a calculation of the amount of Income Tax due.
  - 31.2.2 The Government shall pay all Income Tax directly to the applicable Kurdistan Region authorities for the account of each Contractor Entity in accordance with the Contractor Entity's tax return. The Government shall pay such Income Taxes from the Government's share of Profit Petroleum.
  - 31.2.3 The Government shall, within 90 days after the end of each tax year, provide to each Contractor Entity tax receipts from the appropriate Kurdistan Region authorities confirming the payment in full of the Contractor Entity's Income Tax for such tax year and that no Income Tax is owing.
- 31.3 As of the Effective Date, the Income Tax rate for companies under Kurdistan Region Law is 15% of taxable income.



#### EXEMPTIONS

- 31.4 Each Contractor Entity, its Affiliates, and foreign Subcontractor shall be exempt from any withholding tax on any interest or dividend paid by such Contractor Entity, Affiliate, or Subcontractor.
- 31.5 Each Contractor Entity and its Affiliates shall be exempt from Additional Profits Tax, Surface Tax, and Windfall Profits Taxes, as each of the foregoing is referred to in clause 40 of the Kurdistan Region Oil and Gas Law, or any successor equivalent Tax.

#### WITHHOLDING FOR IRAQ NATIONALS

- 31.6 Each Contractor Entity shall pay or withhold (and shall cause each Subcontractor to pay or withhold) the personal Income Tax and social security contributions for which such Contractor Entity or Subcontractor is obligated to pay or withhold in respect of its employees who are Iraqi nationals, pursuant to the Law of Taxation (Law No. 5 of 1999) and otherwise in accordance with Applicable Law. A Contractor Entity or Subcontractor is only obligated in respect its own employees who are Iraqi nationals, and is not liable under this clause 31.6 with respect to employees of any other Person.

#### DOUBLE TAX TREATIES

- 31.7 Double tax treaties, to the extent recognised by the Government as effective in the Region, will have effect to give relief from Taxes to, but not limited to, the Contractor Entities, Subcontractors, and their respective employees in accordance with the provisions of such double tax treaties, but will not impose an additional burden of taxation on any such Contractor Entity, Subcontractor, or employee.

#### VAT COST RECOVERY

- 31.8 Any Tax that is a value added or similar type of Tax will be considered as a Petroleum Cost and will be Cost Recoverable, if not otherwise recovered under Applicable Law.

#### INDEPENDENT OBLIGATIONS

- 31.9 The provisions of this clause 31 apply individually to each Contractor Entity. There is no liability, duty, or obligation referred to in this clause 31 that is a joint and several liability of the Contractor Entities together.

### CLAUSE 32 – BONUSES; CAPACITY BUILDING PAYMENTS

#### CAPACITY BUILDING BONUS

- 32.1 (a) Within 30 days of the Effective Date the Contractor shall pay US\$10,000,000 (the "Capacity Building Bonus – First Tranche") to the Government for deposit in the Capacity Building Account.
- (b) On or before the earliest of:
- (i) 15 August 2013;
  - (ii) commencement of the drilling of the First Exploration Well; and
  - (iii) the first day of the Development Period;



the Contractor shall pay US\$40,000,000 (the "Capacity Building Bonus" – Second Tranche") to the Government for deposit in the Capacity Building Account.

- (c) If the Contractor does not pay the Capacity Building Bonus – Second Tranche, this Contract will terminate automatically in accordance with Articles 6.9 and 45.

#### PRODUCTION BONUSES

- 32.2 Each Contractor Entity shall pay to the Government the amounts as provided in clauses 32.4 and 32.5 separately for, and in respect of, each Production Area (such payments pursuant to clauses 32.4 and 32.5), each a "Production Bonus", and collectively, "Production Bonuses").
- 32.3 For purposes of calculating the cumulative amount of production in order to determine whether a Production Bonus is payable, Natural Gas BOE: (a) does not include Natural Gas used for Petroleum Operations (including re-injection), but (b) does include flared gas.
- 32.4 In respect of production of Crude Oil and Natural Gas from the Contract Area the Contractor shall pay the following Production Bonuses to the Government within 30 days of the following relevant occurrence:
- (a) US\$2,500,000 on First Production;
  - (b) US\$5,000,000 when production reaches a cumulative amount of 10,000,000 Barrels of Crude Oil and Natural Gas BOE;
  - (c) US\$10,000,000 when production reaches a cumulative amount of 25,000,000 Barrels of Crude Oil and Natural Gas BOE; and
  - (d) US\$20,000,000 when production reaches a cumulative amount of 50,000,000 Barrels of Crude Oil and Natural Gas BOE.

#### CAPACITY BUILDING PAYMENTS

- 32.6 Each Contractor Entity shall pay Capacity Building Payments to the Government in accordance with clauses 32.7 through 32.16(b).
- 32.6.1 Each Contractor Entity is separately liable (and not jointly and severally liable with any other Contractor Entity) to the Government for its obligations, duties and liabilities under clauses 32.7 through 32.16(b).
- 32.7 On or before the 10<sup>th</sup> day of each Month in the Development Period, the Contractor shall provide to the Government, together with the monthly production statement prepared by the Contractor in accordance with clause 27.4 and paragraph 6.1, and the monthly valuation statement in accordance with clause 25 and paragraph 7.1, a statement (the "Capacity Building Payment Monthly Statement") setting out the Contractor's calculation of the Capacity Building Value attributable to each Contractor Entity for the preceding Month.
- 32.7.1 In each Capacity Building Payment Monthly Statement, the Contractor shall detail each item taken into account in making its calculation of the Capacity Building Payments due from each Contractor Entity, the quantities of Profit

Petroleum produced during the Month covered by such Capacity Building Payment Monthly Statement, the volumes of such production sold, the Capacity Building Value attributed to such sales, and the Capacity Building Payment required to be paid with respect thereto by each Contractor Entity.

**32.8** Except as provided in clauses 32.8.1 and 32.8.2, and subject to clause 29.5, on the same date on which the Contractor provides the Contractor Entity's Monthly Statement to the Government in accordance with clause 32.7, each Contractor Entity shall pay to the Government the Capacity Building Payment stated as owed by such Contractor Entity in the Capacity Building Payment Monthly Statement.

**32.8.1** If the Contractor Entity has sold its Profit Petroleum to (a) the Government or a Public Company (or a company or an entity owned and controlled, directly or indirectly, by a Public Company or the Government), or (b) the State Oil Marketing Organisation (SOMO) or any Person owned or controlled by the Government of Iraq, then (c) the Contractor Entity will only be obligated to pay the Capacity Building Payment when and to the extent the Contractor Entity has received payment by such Person.

**32.8.2** Clause 32.8.1 does not apply when a Contractor Entity sells its share of Profit Petroleum to any Person not identified in clause 32.8.1.

**32.9** Within 30 calendar days following the date on which the Contractor delivered the Final End-of-Year Statement (as defined in Paragraph 10 of Annex B) to the Government for each Calendar Year in accordance with clause 26.19 and paragraph 10 of the Accounting Procedure, and based on the information in such Final End-of-Year Statement, the Contractor shall provide to the Government, in respect of each Contractor Entity, a reconciliation of the actual aggregate amount of the Capacity Building Value and the actual aggregate of the Capacity Building Payments payable by each Contractor Entity for such Calendar Year period (the "**Annual Reconciliation Statement**").

**32.9.1** If the results of an Annual Reconciliation Statement show that a Contractor Entity was, in the aggregate over the Calendar Year period covered by the Annual Reconciliation Statement, obligated to pay Capacity Building Payments in an amount less than the actual aggregate Capacity Building Value attributed to such Contractor Entity for such Calendar Year period, within 30 calendar days following the same date on which the Contractor sent the Annual Reconciliation Statement to the Government such Contractor Entity shall pay (subject to the same exceptions as provided in clauses 32.8.1 and 32.8.2) the amount of the underpayment as shown in the Annual Reconciliation Statement.

**32.9.2** Subject to clause 32.9.2.1, if the results of an Annual Reconciliation Statement show that a Contractor Entity has, in the aggregate over the Calendar Year period covered by the Annual Reconciliation Statement, made Capacity Building Payments in excess of the Capacity Building Value attributed to it during such Calendar Year period, such Contractor Entity may submit an invoice to the Government for reimbursement of excess Capacity Building Payments.

**32.9.2.1** The Contractor Entity must send an invoice to the Government within 60 days following the date of the Annual Reconciliation Statement. If the Contractor Entity fails to send an invoice within such 60-day

- period, the Contractor Entity will be considered to have waived any claim for reimbursement.
- 32.9.2.2** Within 30 days of receipt of such invoice, the Government shall either: (a) pay such invoice in full, or (b) notify the Contractor Entity that the Contractor Entity will be entitled to deduct 15% of the amount otherwise payable from the next following Capacity Building Payments until the amount of the invoice has been paid in full.
- 32.9.2.3** The right to receive payment under clause 32.9.2.2, either in full or by way of set-off against future Capacity Building Payments as provided in this clause 32.9, will be a Contractor Entity's only remedy in respect of any overpayment of Capacity Building Payments, and the Government will have no obligation to make any reimbursement or other compensating payments to an affected Contractor Entity.
- 32.10** The Government may enter into one or more Rights Sales without the consent of the Contractor or any Contractor Entity.
- 32.10.1** The Government shall provide timely notice to a Contractor Entity of any Rights Sales to the extent that such Rights Sale may require the Contractor Entity to make Capacity Building Payments to an account other than the Government or the Capacity Building Account.
- 32.10.2** A "Rights Sale" means an Assignment of the Government's rights to receive the Capacity Building Payments.
- 32.11** Subject to clause 32.12, and notwithstanding any other provision of this Contract, any lifting agreement, any sales or marketing agreement, or any other agreement: if a Contractor Entity fails to pay a Capacity Building Payment in full when due, the Government will automatically be entitled, on not less than 60 days' prior notice to the defaulting Contractor Entity and the Contractor in the case of the first default, and not less than 30 days' in the case of any subsequent default, to:
- (a) lift, at the Delivery Point, such amount of the defaulting Contractor Entity's Profit Petroleum as is equal to the value thereof in default; and
- (b) continue to lift up to 35% of such defaulting Contractor Entity's Profit Petroleum for the remainder of the Development Period.
- 32.11.1** The rights of the Government to sell or otherwise dispose of Natural Gas will be subject to clause 14.
- 32.12** A defaulting Contractor Entity will have a single cure period of 30 days only in respect of its first default.
- 32.12.1** If the defaulting Contractor Entity pays the defaulted Capacity Building Payments in full plus interest at the Agreed Rate within such 30-day cure period, the Government shall not exercise its lifting rights under clause 32.11 in respect of such defaulting Contractor Entity.
- 32.12.2** In the case of any subsequent default by the same defaulting Contractor Entity, the Government may exercise its right to lift, whether or not the defaulting Contractor Entity cures its default within the 30-day cure period or otherwise.

- 32.13** The lifting rights of the Government pursuant to clauses 32.11 and 32.12 are exercisable by way of set-off, without first resort to legal process, and without any liability or claims of the defaulting Contractor Entity, the Contractor the Operator, or any other Person, and notwithstanding any other provision of this Contract, any provision in any lifting agreement, any provision of any Joint Operating Agreement, or any other agreement to which the Contractor or a defaulting Contractor Entity is a party.
- 32.13.1** Each Contractor Entity shall ensure that all agreements in respect of the lifting or sale (including swaps or other sales arrangements) of Profit Petroleum of such Contractor Entity sets forth the Government's priority rights as set forth in clauses 32.11 through 32.13.
- 32.13.2** Any Dispute between a Contractor Entity and the Government in respect of a claim that the Government, in exercising its rights under clauses 32.11 through 32.13, will be subject to:
- (a) resolution in accordance with the lifting agreement among the Contractor Entities and the Government in the same manner as any other overlift or underlift is to be resolved between the parties thereto; and
  - (b) clause 14 in respect of Natural Gas.
- 32.14** A defaulting Contractor Entity shall indemnify the Government from any Loss or Expense that may in any way arise from the exercise by the Government of its rights in respect of such defaulting Contractor Entity under clauses 32.11 through 32.13.
- 32.14.1** The Government will retain control over the defence of, and any resolution or settlement relating to, such Loss or Expense.
- 32.14.2** A defaulting Contractor Entity shall cooperate with the Government and provide reasonable assistance in defending any claims against the Government.
- 32.14.3** A claim for a Loss or Expense as set forth in a notice from the Government to a defaulting Contractor Entity will be conclusively deemed to be a Loss or Expense if the Contractor Entity fails to dispute the Government's liability by the end of a 30-day period following the effective date of the notice from the Government. The Contractor Entity shall promptly pay the deemed Loss or Expense on demand.
- 32.14.4** The Government's rights under clauses 32.11 through 32.14 are not exclusive and are without prejudice to any other rights or remedies the Government may have under law or this Contract.
- 32.15** Any Dispute between the Government and a Contractor Entity in respect of the calculation of Capacity Building Value and the Capacity Building Payment due with respect thereto that cannot be settled amicably within 60 days of the Government's final notice under clause 15.7 is subject to resolution by an Expert in accordance with clauses 15.8 and 42.

#### **CAPACITY BUILDING ACCOUNT**

- 32.16** To the extent permitted by Laws of the Kurdistan Region or as otherwise agreed with the Government of Iraq, the Government will:
- (a) maintain the Capacity Building Account;
  - (b) instruct the Contractor and the Contractor Entities, as applicable, to make all Capacity Building Bonuses and Capacity Building Payments to the Capacity Building Account in accordance with wire instructions therefor provided by the Government;
  - (c) apply funds from the Capacity Building Account to fund infrastructure and capacity building projects in the Kurdistan Region selected by the Government in its sole discretion; 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 funds therein.

#### **NO COST RECOVERY**

- 32.17** No Capacity Building Bonus, Production Bonus, or Capacity Building Payment will be Cost Recoverable.

### **CLAUSE 33 – PIPELINES**

#### **CRUDE OIL PIPELINES**

- 33.1** The Government shall obtain any required Permits for the transportation of Crude Oil 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.
- 33.2** The Government undertakes to transfer to the Contractor its rights for transportation of Crude Oil by pipeline, to the extent of available capacity and in the national and regional interest. The Contractor is entitled to design, construct, operate, and maintain pipelines and any related facilities in the Kurdistan Region for the transportation of Crude Oil produced under this Contract.
- 33.3** Prior to the construction of any Crude Oil pipeline and related facilities as provided in clause 33.2, the Contractor shall submit the following information to the Management Committee in respect of any pipeline project:
- (a) proposed pipeline route and related facilities;
  - (b) forecasted pipeline flow rate and capacity;
  - (c) estimate of capital costs 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 90 days, approve or disapprove the proposed pipeline project.

- 33.4** Subject to available capacity, tie-in agreements, and pipeline crude oil minimum quality specifications, the Contractor shall permit third parties to transport their Petroleum through any Crude Oil pipeline constructed by the Contractor on terms to be agreed between the Contractor and such third party.
- 33.4.1** Such terms must be reasonable commercial terms and must not discriminate among potential third party users.
- 33.4.2** The Contractor and the Government shall always have priority of access to such pipelines.
- 33.5** All costs associated with the design, construction, operation, and maintenance of Crude Oil pipelines and related facilities by Contractor upstream of the delivery point of the pipeline under this clause 33 ("**Pipeline Costs**") will be Cost Recoverable.
- 33.6** The Contractor shall have the absolute right, without any exceptions and for the entire duration of this Contract, to use, free of Tax or tariff imposed by the Government, any Crude Oil pipeline and related facilities constructed by the Contractor in accordance with this clause 33 to: (a) transport Crude Oil produced from any Production Area and (b) operate and maintain such Crude Oil pipeline and related facilities.
- 33.7** All tariff and other payments to the Contractor from third party shippers (which include all payments in respect of ship or pay obligations) for use of any pipeline and related facilities under this clause 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 this Contract.
- 33.7.1** The Government will only be entitled to receive tariffs paid by third party shippers for their use of the Crude Oil pipeline and related facilities after Pipeline Costs have been fully recovered by the Contractor.
- 33.7.2** Except as provided in clause 33.7.3, the incremental costs of providing transportation services for third party shippers up to the transportation delivery point will be considered Pipeline Costs and will be Cost Recoverable.
- 33.7.3** Incremental costs will not be Cost Recoverable in respect of payments to shippers for lost or unaccounted for Crude Oil, indemnities, damages for breach of contract, costs and liabilities from Crude Oil purchase contracts, non-contractual liabilities, personal injury, third-party environmental claims, and any other form of expense that is not a direct operating expense.
- 33.8** Upon recovery by the Contractor of all Pipeline Costs, the operating and maintenance costs of any pipeline and its related facilities shall be borne by the Contractor, be considered Petroleum Costs, and will be Cost Recoverable.



- 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 clause 33 for the transportation of the share of Petroleum to which the Government is entitled under this Contract.
- 33.10 The Contractor shall bear the cost of operation and maintenance of any Crude Oil pipeline and related facilities constructed by Contractor under this clause 33 and all risks of accidental loss or damage to such pipeline and related facilities while they are required for Petroleum Operations.
- 33.11 Title to pipelines and related facilities in the Kurdistan Region belongs to the Government.

#### **GAS PIPELINES**

- 33.12 The Contractor has no right and is not authorised to construct Natural Gas pipelines or to ship Natural Gas, except in accordance with an agreed Domestic Gas Plan or an agreed Gas Export Plan and related Approved Development Plan. Pipelines and related facilities for the transportation of Natural Gas are governed by clause 14 (*Natural Gas*).

#### **CLAUSE 34 – UNITISATION**

- 34.1 If a Reservoir extends beyond the Contract Area into an adjacent area (an “**Adjacent Contract Area**”) which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Oil and Gas Law), or in the event a Reservoir of an Adjacent Contract Area extends into the Contract Area, the provisions of clause 47, Paragraph Second, of the Kurdistan Region Oil and Gas Law will apply.
- 34.2 The Contractor must agree with the contractor of the Adjacent Contract Area upon a schedule for reaching agreement of the terms of the unitisation of the Reservoir, based on reliable technical, operational, and economical parameters and in accordance with Best Practices.

#### **CLAUSE 35 – INDEMNIFICATION; 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 Loss and Expense caused to such third parties in the conduct of Petroleum Operations.
- 35.2 Notwithstanding the other provisions of this Contract and except as provided in clause 35.2.1, the Contractor will not be liable to the Government or a Government Interest Holder, or any governmental authorities, bodies, courts, or political subdivisions in the Kurdistan Region for any Loss or Expense resulting from the Contractor’s conduct of Petroleum Operations (other than personal injuries, industrial illness, or death).



- 35.2.1** Clause 35.2 does not apply in respect of any Loss or Expense arising out of or related to (a) the wilful misconduct or gross negligence of the Contractor, or (b) a material failure to conduct Petroleum Operations in accordance with the terms of this Contract.

#### **INDEMNIFICATION**

- 35.3** The Contractor shall indemnify the Government against all Loss and Expense arising under any claim, demand, action, or proceeding brought or instituted against the Government by any:
- (a) 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
  - (b) a with respect to all claims, demands, actions, or proceedings made by third parties arising out of or related to Petroleum Operations.
- 35.4** The Government will retain control over the defence of, and any resolution or settlement relating to, all claims, demands, actions, or proceedings made by third parties, including any employee of the Contractor or of any Subcontractor or by any dependent thereof.
- 35.4.1** The Contractor shall cooperate with the Government and provide reasonable assistance in defending all claims, demands, actions or proceedings made by third parties, including any employee of the Contractor or of any Subcontractor or by any dependent thereof, against the Government.
- 35.4.2** A claim for Loss or Expense in respect of any claim, demand, action, or proceeding made by third parties against the Government (including those made by any employee of the Contractor or any Subcontractor or by any dependent thereof), as set forth in a notice from the Government to the Contractor will be conclusively considered a Loss or Expense payable by the Contractor if: (a) the Contractor consents thereto, or (b) the Contractor fails to dispute the Government's liability, in whole or in part, by the end of a 30-day period following receipt of the notice from the Government to the Contractor. The Contractor shall promptly pay such Loss or Expense on demand.

#### **NOTICE OF INJURIES AND EMERGENCIES**

- 35.5** The Contractor shall take all necessary steps to respond to, and shall promptly notify the Government of, all emergency and other events (including 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.
- 35.1.1** 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.

- 35.6** In the event of emergency situations as set out in clause 35.5 and at the request of the Contractor, the Government shall assist the Contractor to the extent possible in any emergency response, remedial, or repair effort by: (a) making available any labour, materials, and equipment in reasonable quantities requested by the Contractor that are not otherwise readily available to the Contractor and (b) facilitating the measures taken by the Contractor to bring into the Kurdistan Region personnel and Assets and Materials to be used in any such emergency response or remedial or repair effort.
- 35.6.1** The Contractor shall reimburse the Government's reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered Petroleum Costs and will be Cost Recoverable, unless the emergency was caused by the gross negligence or wilful misconduct of the Contractor or a breach of the Contractor's obligations hereunder.
- 35.6.2** Any assistance that the Government provides will be without prejudice and in addition to any indemnification rights the Government may have under this Contract or Applicable Law.

#### **CONSEQUENTIAL DAMAGES LIMITATION**

- 35.7** Except as expressly provided otherwise, no Party will be liable to another Party under the Contract for or in respect of any indirect, incidental, consequential, or exemplary loss or damages, including with respect to the Contractor, any liability or damages with respect to actual or alleged damage to any Reservoir within the Contract Area (and any extension of such Reservoir outside of the Contract Area), and any loss of Petroleum production by the Contractor, unless caused by the wilful misconduct or gross negligence of the Contractor.

#### **INSURANCE**

- 35.8** The Contractor shall obtain and maintain any insurance required by applicable Kurdistan Region Law, in accordance with Best Practices, and any insurance required by the Management Committee; which insurances, at a minimum, must provide sufficient cover for:
- (a) loss of and damage to Assets and Materials; and
  - (b) personal injury, damage to third parties, and pollution caused by or arising from Petroleum Operations.
- 35.9** The Contractor shall ensure that all insurance policies shall name the Government as an additional insured party and include a waiver of subrogation protecting the Government against any Loss or Expense 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 Loss or Expense under this Contract.
- 35.9.1** The Contractor is not obligated to 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.
- 35.10** Upon the Government's written request, the Contractor shall provide the Government with insurance certificates, including necessary details, for any insurance policy maintained by the Contractor.

- 35.11** 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 will be Cost Recoverable.
- 35.12** In any insurance policy which is required by this Contract, the amount for which the Contractor itself is liable will, in the event of any insurance claim, be considered a Petroleum Cost, and will be Cost Recoverable. Political risk insurance is never Cost Recoverable, unless such uninsured amount is contrary to Best Practices or Applicable Law.

## **CLAUSE 36 – RECORDS; CONFIDENTIALITY**

### **INFORMATION**

- 36.1** The Contractor shall keep all records, Data and information relating to the Petroleum Operations in accordance with Kurdistan Region Laws and Best Practices.
- 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 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 with all information, analyses reports, tapes, Data, and other information:
- (a) as it is obliged to provide the Government pursuant to this Contract; and
  - (b) upon the request of the Government and upon termination of this Contract, in respect of Petroleum Operations as requested by the Government.

### **CONFIDENTIAL INFORMATION**

- 36.7** Except as provided in clause 36.8, each Party shall (a) keep all Data and information relating to this Contract and the Petroleum Operations confidential during the entire term of this Contract and (b) not 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 does not apply to information or Data which:

- (a) is or, through no fault of the disclosing Party, becomes part of the public domain (information known to other contractors in the Kurdistan Region or elsewhere is not presumptively in 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 competent governmental authority with jurisdiction over such Party or its Affiliates, by a court order or any other legal proceedings with jurisdiction over such Party or an Affiliate; 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 an Affiliate.

**36.8** Notwithstanding the foregoing in clause 36.7, in accordance with Best Practices and subject to clause 36.8.1, 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 Person with whom a Contractor Entity or an Affiliate of such Contractor Entity are conducting *bona fide* negotiations directed towards a merger, consolidation or the sale of a material portion of its or such Affiliate's equity ownership interests);
- (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 agreement to work for such Party; and
- (g) any other Person or entity with the prior consent of the non-disclosing Party.

**36.8.1** No Contractor Entity may make a disclosure pursuant to clauses 36.8 (c), (d), (e), or (f), unless the recipient has entered into a confidentiality undertaking no less encompassing than the provisions hereof.

**36.9** Any Data and information relating to relinquished or surrendered areas under this Contract shall become the exclusive property of the Government. The Government will have the right to use such Data and information for any purpose, and in particular for the purpose of promoting such relinquished 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.

**NO TRADING**

- 36.10** Subject to the provisions of this clause 36, the Contractor may not sell nor exchange any Data related to 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 Petroleum Operations.

**CLAUSE 37 – ENVIRONMENTAL; WORKER SAFETY AND HEALTH**

**GENERAL**

- 37.1** The Contractor shall carry out Petroleum Operations, and procure that they are carried out, in such a manner as to:
- (a) protect the natural environment and ensure that Petroleum Operations result in minimum ecological damage or destruction;
  - (b) ensure the safety, health and welfare of Persons in or affected by Petroleum Operations;
  - (c) manage the resources in a way which has long-term benefits to the Kurdistan Region and the Contractor;
  - (d) maintain in safe and good condition and repair, the Contract Area and all structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations;
  - (e) on the earlier of: (i) the termination of this Contract; and (ii) when no longer required for Petroleum Operations; and, in either case, except with the consent of the Government; or unless this Contract otherwise provides, abandon, decommission, remove or dispose of the property and other works mentioned in paragraph (d), clean up the Contract Area and make it good and safe, and protect and restore the natural environment;
  - (f) control the flow and prevent the waste or escape of Petroleum, water or any product used in or derived by processing Petroleum;
  - (g) prevent the escape of any mixture of water or drilling fluid with Petroleum;
  - (h) prevent damage to Petroleum-bearing strata in or outside the Contract Area;
  - (i) except with the consent of the Government, keep separate each Reservoir Discovered in the Contract Area, and such of the sources of water discovered in the Contract Area as the Government directs;
  - (j) prevent water or any other matter entering any Reservoir through wells in the Contract Area, except when required by, and in accordance with, the Development Plan and Best Practices and the EHS Standards;
  - (k) minimise interference with pre-existing rights and activities; and
  - (l) remedy in a timely fashion any damage caused to the natural environment.

- 37.2 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 Best Practices ("EHS Standards").
- 37.3 The EHS Standards must be no less stringent than those set out in the relevant World Bank Group Environmental, Health, and Safety Guidelines (<http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>).
- 37.4 The measures the Contractor must take 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 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 Assets and Materials 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) measures for the purpose of taking control of any blow out or fire which could damage the environment or Petroleum Field, in accordance with Best Practices; and
  - (g) measures 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 MER.
- 37.5 Within 90 days from the Effective Date, the Contractor shall propose EHS Monitors to the Government to conduct periodic monitoring of the Petroleum Operations of the Contractor's health, safety, and environment program.
- 37.5.1 The Government may, at any time, appoint such EHS Monitors as it wishes.
- 37.5.2 The Contractor shall pay the reasonable fees and expenses of the EHS Monitors.
- 37.5.3 The fees and expenses of the EHS Monitors will be Cost Recoverable.

#### EIR

- 37.6 Within 180 days of the Effective Date, the Company must deliver a comprehensive and detailed environmental impact report ("EIR") prepared in accordance with Best Practices.
- 37.6.1 The Government may require that such EIR be reviewed and validated by a recognised independent environmental consultant selected by the Government (at the cost of the Contractor, which costs will be Cost Recoverable), and may post the report on the Government's website to invite public comments.



## EIA

- 37.7** The Contractor must provide an environmental impact assessment ("EIA") report together with its Development Plan and a final EIA not less than 180 days before the scheduled start of decommissioning operations or the scheduled expiration of this Contract, whichever is earlier.
- 37.7.1** If the Contractor does not cause the final EIA to be delivered in accordance with this clause 37.7, then the Government will be entitled to produce such EIA and the Contractor shall pay all costs in respect therewith (which costs will be Cost Recoverable).

## EMMP

- 37.8** The Company must provide an environmental management and monitoring plan (the "EMMP") satisfactory in all respects to the Government, before the Government will authorise start of Petroleum Operations.
- 37.8.1** Such EMMP must establish such procedures as may be reasonably necessary to continuously determine and assure that:
- (a) all Petroleum Operations are in compliance with and do not violate the requirements of Applicable Law or this Contract;
  - (b) no hazardous substances or solid wastes are disposed of or otherwise released on or to any property except in compliance with the EHS Standards;
  - (c) no hazardous substance will be released on or to any property in a quantity equal to or exceeding that quantity which would require reporting under Applicable Law or the EHS Standards; and
  - (d) no waste or hazardous substance is released so as to pose an imminent and substantial endangerment to public health or welfare or the environment.

## SELF MONITORING REPORTS

- 37.9** The Contractor shall provide self monitoring reports to the Government following Repsol's standard practice as set forth in the following Repsol documents, each of which has been provided to the Government:
- (a) DGU HSE Due Diligence, dated 1 November 2009;
  - (b) DGU Hazard Identification Study, dated 1 January 2010;
  - (c) DGU HSE Bridging Document, dated 1 January 2010; and
  - (d) DGU Environmental, Social, and Health Impact Assessment, dated 1 July 2009.

## RELINQUISHED AREAS

- 37.10** Prior to relinquishing a portion of the Contract Area, the Contractor shall take reasonable measures to abandon the area to be relinquished in accordance with Best Practices and the EHS Standards in similar physical and ecological environments.
- 37.10.1** Such measures shall include removal or closure in place of facilities and Assets and Materials together with reasonable measures necessary for the preservation of fauna, flora and ecosystems, all in accordance with Best



Practices 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.

#### **NATIONAL PARKS AND NATURE RESERVE AREAS**

- 37.11** The Contractor shall take reasonable measures in accordance with Applicable Law, Best Practices, and the EHS Standards in similar physical and ecological environments to minimise any adverse material impact on national parks and nature reserves which may arise directly as a result of the Petroleum Operations.

#### **EXPENDITURES**

- 37.12** Any reasonable expenditure incurred by the Contractor in relation with this clause 37 will be Cost Recoverable.

#### **PRE-EXISTING CONDITIONS**

- 37.13** The Contractor is not responsible for and will bear no cost, expense or liability for claims, damages or losses arising out of or related to any pre-existing environmental conditions or any acts of unrelated third parties.
- 37.13.1** The Contractor shall submit to the Government, for the Government's approval, a baseline environmental study of the Contract Area within 180 days of the Effective Date.

#### **SUSPENSION OF OPERATIONS**

- 37.14** The Government may, on not less than 24 hours' notice, order the Contractor to suspend all or any part of its operations pending conclusion of a Government investigation into the circumstances of any incident, including possible violations of EHS Standards, involving:
- (a) personal injury to any person in connection with the Project;
  - (b) an emission of hazardous substances or other release of hazardous substances causing damage, injury, claims, or a threat of any of the foregoing constituting a potential violation of EHS Standards;
  - (c) the presence in, on, under, or migrating from any part of the Contract Area (or surface water on or groundwater under the Contract Area) of any substance at a concentration above the concentration at which the substance is normally present in, on or under land in the same locality; or
  - (d) the disposal of hazardous wastes in violation of the EHS Standards.
- 37.15** On not less than 30 days' prior notice to the Contractor, the Government may order the Contractor to suspend all or any part of its Petroleum Operations when the Government has determined that the Contractor has either significantly or persistently failed to satisfy the EHS Standards or is conducting project operations in a grossly negligent manner that could endanger its employees, third parties, or the environment. Any suspension order under this clause 37.15 will not be lifted until the Government is satisfied that the Contractor has a plan (satisfactory in all respects to the Government) to come into full compliance with the EHS Standards.

- 37.16 On not less than 30 days' prior notice to the Contractor, the Government may order the Contractor to suspend all or any part of Petroleum Operations until the Contractor has fully paid all outstanding liabilities arising from or related to significant environmental damages or personal injuries, in either case caused by Petroleum Operations in breach of the Contractor's obligations hereunder or Applicable Law.

## CLAUSE 38 – DECOMMISSIONING

### ACKNOWLEDGEMENT OF FUTURE LAW

- 38.1 The Contractor acknowledges that there will likely be extensive future regulation of Decommissioning Operations under Applicable Law.
- 38.1.1 The Contractor acknowledges and accepts that Applicable Law may obligate the Contractor, and possibly the shareholders and ultimate parent company of each Contractor Entity, to post bonds or guarantees and to be liable for unpaid decommissioning obligations.

### DECOMMISSIONING PLAN AND BUDGET

- 38.2 The Contractor shall undertake Decommissioning Operations in accordance with Best Practices in similar physical and ecological environments. The Contractor shall submit to the Management Committee and the Government for their respective approvals, in accordance with clause 8.4, a detailed plan and work program for decommissioning the Production Area facilities and site restoration (the "**Decommissioning Plan and Work Program**") and forecasted Budget no later than 24 Months before the date estimated by the Contractor for the end of Commercial Production from each Production Area.
- 38.2.1 The Management Committee shall provide comments, if any, on the Decommissioning Plan within 90 days after receipt.
- 38.2.2 The Contractor's completion of Decommissioning Operations in accordance, in all material respects, with the Decommissioning Plan for a Production Area approved by the Management Committee and the Government will satisfy all of the Contractor's obligations with respect to the performance of Decommissioning Operations for such Production Area.
- 38.3 The Management Committee shall meet within 60 days following its receipt of Contractor's proposal to examine and approve the Decommissioning Plan and Budget.
- 38.4 The Contractor shall not undertake Decommissioning Operations unless the Government has approved the Decommissioning Plan, Work Program, and Budget.
- 38.5 The Contractor shall on the first anniversary of the submission of the first Decommissioning Work Program and Budget and annually thereafter (or at such extended periods as may be agreed by the Government) during the term of this Contract, submit to the Government revised Decommissioning Work Programs and Budgets taking into account changes in the Development Plan and advances in Best Practices.

**DECOMMISSIONING RESERVE FUND**

- 38.6** To enable the Contractor to recover the costs associated with Decommissioning Operations, the Contractor shall either establish a segregated fund to fund decommissioning and site restoration (a "**Decommissioning Reserve Fund**") at a financial institution satisfactory to the Government and under such escrow or trust terms as the Government may require, or provide such corporate or third party guarantees or bonds as the Government may require in accordance with Applicable Law.
- 38.6.1** The Decommissioning Reserve Fund must be established before the final 10 Calendar Years of the term of the Production Operations of a Production Area.
- 38.6.2** Once established, the Contractor shall make regular contributions to the Decommissioning Reserve Fund based upon estimated decommissioning and site restoration costs in accordance with Best Practices.
- 38.6.3** The Contractor shall pay its contributions to the Decommissioning Reserve Fund in US\$.
- 38.7** If, at the end of the term of the Production Operations of a Production Area, the Government decides to take over production operations in the Production Area:
- (a) the Government shall become liable for Decommissioning Operations in such Production Area;
  - (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 delivered and paid over 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 to the extent permitted by Applicable Law (including any caps on such liability as may be required by Applicable Law or Government policy).
- 38.8** If the Contractor undertakes Decommissioning Operations in a Production Area, the Contractor may use the contributions and any interest accumulated in the Decommissioning Reserve Fund for the Decommissioning Operations.
- 38.9** 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 Contractor shall pay the balance and the Contractor Entities, or any of their Affiliates, may recover such balance 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.
- 38.10** 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.

- 38.11 Any expenditure incurred by the Contractor in relation with this clause 38, including any contributions to the Decommissioning Reserve Fund, shall be deemed Petroleum Costs and will be Cost Recoverable.

## **CLAUSE 39 – ASSIGNMENT; CHANGE OF CONTROL**

### **GENERAL**

- 39.1 Clauses 39.2 through 39.6 do not apply to Government Interest Holders in respect of the Government Interest. The consent of any Government Interest Holder, in its capacity as Government Interest Holder, is not required for any Assignment by a Contractor Entity.
- 39.2 Except as provided in clause 39.3, no Contractor Entity may Assign to any Person, in whole or in part, any of its rights, privileges, duties or obligations under this Contract without the prior consent of the Government, which consent the Government shall not unreasonably withhold or delay.
- 39.3 Any Assignment of all or any part of a Contractor Entity's rights, obligations, or interests under this Contract without the prior consent of the Government or that otherwise is in breach of this Contract or Applicable Law will be void as to the Assignee and the Assignor will remain liable under this Contract.
- 39.4 No consent of the Government in respect of an Assignment by a Contractor Entity is valid unless in writing and signed by the Prime Minister and the Minister of Natural Resources of the Kurdistan Region.
- 39.5 No Contractor Entity is entitled to make an Assignment when it or the Contractor is in default under any obligation under this Contract.

### **ASSIGNMENT TO AFFILIATES AND OTHER CONTRACTOR ENTITIES**

- 39.6 A Contractor Entity that is not in default under any obligation under this Contract is entitled to Assign its rights, privileges, duties and obligations under this Contract to an Affiliate or to another Contractor Entity, provided the assignee enters into an agreement with the Government, acceptable in form and content to the Government, to be bound by the terms and conditions of this Contract.
- 39.6.1 If a Contractor Entity Assigns any of its rights, privileges, duties or obligations under this Contract to an Affiliate of such Contractor Entity, the Assignor will remain jointly and severally liable with the Assignee for the performance by the assignee of all obligations, duties, and liabilities pertaining to the Assignment.

### **ASSIGNMENTS TO THIRD PARTIES**

- 39.7 A Contractor Entity proposing to Assign all or any part of its rights, obligations, and interests under this Contract shall request the consent of the Government and the other Contractor Entities, and accompany such request with:
- (a) evidence of the technical and financial capability of the proposed third party 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 including a representation that the

proposed assignment will not to the knowledge of such Contractor Entity after reasonably diligent investigation violate any Corrupt Practices Laws applicable to the Contractor Entity; 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 to the knowledge of such Contractor Entity after reasonably diligent investigation violate any Corrupt Practices Laws applicable to the Contractor Entity.

- 39.8** For any Assignment to be effective, the Parties and the relevant third party, if any, must enter into a binding and enforceable instrument of assignment and novation with the Government, which must include an undertaking by the assignee to fulfil the obligations under this Contract which correspond to the assigned participating interest.

#### GOVERNMENT

- 39.9** Except as provided in clause 4 in respect of the Government Interest, and as provided in clauses 32.6 through 32.14, the Government shall not Assign all or any part of its rights and obligations under this Contract to any Person.

#### CHANGE OF CONTROL

- 39.10** "Change of Control" means:

- (a) any direct or indirect change of the identity of 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); where
- (b) "Control" means the power (including contingent powers) to cause Contractor Entity to do, or not do, an act that may otherwise be in the interest of such Contractor Entity to do or not do, and whether such power is exercisable pursuant to shareholders agreements, financing agreements, voting rights agreements, management agreements, board memberships, direct or beneficial ownership, or in any other direct or indirect way. For this purpose, and without limiting the foregoing, any Person that owns 50% of the outstanding voting securities (or equivalent ownership interests), determined after accounting for all securities that are convertible into voting securities, of any other Person will be conclusively considered to control such other Person.

- 39.11** A Contractor Entity shall: (a) promptly notify the Government when such Contractor Entity expects to be subject to a Change in Control and (b) request the consent of Government with respect to such Change of Control.

#### TAXES

- 39.12** If a Contractor Entity Assigns all or part of its rights, obligations, and interests under this Contract, in compliance with this clause 39, or is subject to a Change of Control accomplished with the Government's consent, neither such Assignment nor Change of Control will constitute a taxable event as to the assignor, assignee, or any other Person under Kurdistan Region Law.

## CLAUSE 40 – FORCE MAJEURE

### DEFINITION

- 40.1 "Force Majeure" means any event (1) that is unforeseeable, insurmountable, and irresistible, not caused by any error or omission by the Contractor acting as a reasonable and prudent operator and solely and directly caused by circumstances beyond the control of the Contractor as a reasonable and prudent operator, and (2) which prevents or impedes performance of all or part of the Contractor's obligations under this Contract. Such events include:
- (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; and
  - (f) any acts or orders of any competent foreign governmental authority validly asserting jurisdiction over the Contractor or a Contractor Entity.

### EFFECT

- 40.2 No delay, default, breach or omission of the Contractor or a Contractor Entity in the performance of any of their respective obligations under this Contract will be considered a material breach of this Contract if such delay, default, breach or omission is due to Force Majeure.
- 40.3 The Contractor shall promptly notify the Government of the occurrence of a Force Majeure Event and take all reasonably appropriate measures to perform its obligations under this Contract to the extent possible.
- 40.4 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).
- 40.5 The Government and the Contractor shall meet as soon as possible after the notification of Force Majeure with a view to using reasonable endeavours to mitigate the effects thereof.
- 40.6 An event affecting a Contractor Entity will be considered 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 Kurdistan Region Law or other Laws of the Republic of Iraq, which could result in a criminal or civil penalty or sanction, is not Force Majeure.



- 40.7 The following events or circumstances will not constitute Force Majeure:
- (a) any event or circumstance arising in connection with any Assets and Materials or facilities other than the Assets and Materials and facilities of the Contractor or a Contractor Entity or a Subcontractor;
  - (b) the breakdown or failure of any Assets caused by normal wear and tear or caused by the failure of the Contractor to maintain such Assets or to maintain a suitable stock of spares;
  - (c) any event or circumstance affecting any third party;
  - (d) any event or circumstance which comprises or results from any wilful misconduct or gross negligence of the Contractor, or any act or omission by the Contractor which could have been prevented or overcome by the exercise by the Contractor of the standard of a reasonable and prudent operator acting in accordance with Best Practices;
  - (e) the imposition of sanctions by the Government due solely to the failure of the Contractor to comply with any Applicable Law;
  - (f) change of Applicable Law; and
  - (g) the inability or the failure of the Contractor to raise sufficient financing for the performance of the Contractor's obligations hereunder.
- 40.8 The Contractor will not be entitled to relief in accordance with this clause 40, or having become entitled will cease to be so entitled, to the extent that the Contractor fails to comply with the requirements of this clause 40, unless such failure would itself qualify as Force Majeure.
- 40.9 The Contractor shall, to the greatest extent possible, continue to perform its obligations in accordance with this Contract to the extent not prevented, impeded, or delayed by Force Majeure.
- 40.10 If Force Majeure occurs, the Contractor shall take reasonable endeavours to bring the Force Majeure to an end and to resume full and proper performance of the obligation to which the Force Majeure relates.
- 40.11 The Contractor shall give notice (a "Force Majeure Estimate") to the Government at each of the following times:
- (a) forthwith after the day (the "Relevant Day") upon which the Contractor first knew or ought reasonably to have known of the inability to perform an obligation in accordance with this Contract for which relief is sought;
  - (b) within 7 days from the Relevant Day and on the last day of each subsequent period of 7 days thereafter; and
  - (c) forthwith after the Contractor anticipates that it will be able to resume performance of the covenant or obligation for which relief is sought.
- 40.12 Each Force Majeure Estimate shall contain the Contractor's good faith best estimates of the following information:
- (a) full particulars of and the reasons for the Force Majeure event;



- (b) the expected extent of the Contractor's inability to perform any covenant or obligation in accordance with this Contract;
- (c) the expected duration of the Force Majeure from the Relevant Day and the expected date that performance of the covenant or obligation to which the Force Majeure relates will be resumed (whether incrementally or in whole); and
- (d) the actions which the Contractor proposes to take to bring the Force Majeure event to an end and to resume full and proper performance of the obligation to which the Force Majeure relates and the Contractor's estimate of the expected schedule thereof.

**40.13** The Contractor shall ensure that each subsequent Force Majeure Estimate will contain any of the above information not previously given notice of, a full report confirming or updating and amplifying the information contained in any previous Force Majeure Estimates and such further information as the Government may reasonably request.

#### **CLAUSE 41 – SOVEREIGN IMMUNITY**

- 41.1** This clause 41 does not apply to the Government in respect of any Dispute arising out of or related to: (a) the exercise of rights by the Government as set forth in clauses 32.11 and 32.12; (b) clause 4.13; or (c) clause 4 to the extent the Dispute is between the Government and any holder of a Government Interest. The Government expressly reserves all sovereign immunities in respect of the foregoing Disputes.
- 41.2** Each Party 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 clause 42;
  - (b) any judicial, administrative or other proceedings to aid the expert determination, mediation, or arbitration proceedings commenced pursuant to clause 42; and
  - (c) any effort to confirm, enforce or execute any decision, settlement, award, judgment, service of process, execution order, or attachment (but not any pre-judgment attachment) that results from an expert determination, mediation, arbitration or any judicial, administrative, or other proceedings commenced pursuant to this Contract.

#### **CLAUSE 42 – DISPUTE RESOLUTION**

##### **EXCLUSION**

- 42.1** This clause 42 does not apply to any Dispute arising out of or relating to the exercise of rights by the Government as set forth in clauses 32.11 through 32.13, which Disputes shall be subject to the exclusive jurisdiction of the courts of the Kurdistan Region located in Erbil.

#### NOTICE OF DISPUTE

- 42.2** Subject to the provisions of clause 42.3, a Party who desires to submit a Dispute for resolution which has not been resolved by negotiation shall commence the Dispute resolution process by providing each other Party that is a party to the Dispute with a notice of the Dispute (a "**Notice of Dispute**").
- 42.2.1** A Notice of Dispute must (a) identify the parties to the Dispute, contain a brief statement of the nature of the Dispute, and the relief requested and (b) request negotiations among the senior representatives of the parties to the Dispute as set forth in clause 42.3.

#### NEGOTIATION

- 42.3** The parties to the Dispute shall first seek to settle the Dispute by negotiation between senior representatives with authority to negotiate the settlement of the Dispute. Such senior representatives shall meet at a mutually acceptable date, time, and place to attempt to resolve the Dispute.

#### MEDIATION

- 42.4** If the Dispute is not resolved by negotiation in accordance with clause 42.3 within 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 clause, and the parties to such Dispute shall submit to such mediation procedure.

#### ARBITRATION

- 42.5** If the Dispute is not settled within the earlier of (a) 60 days of the appointment of the mediator, or such further period as the parties to the Dispute may otherwise agree under the mediation procedure under clause 42.4, and (b) 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 are incorporated by reference into this clause 42.5.
- 42.5.1** An election by a Party to refer a Dispute to arbitration shall be construed as meaning such Dispute shall be resolved by binding arbitration under the LCIA Rules.
- 42.5.2** Except as specifically provided otherwise, no Dispute is subject to decision by any court, and the Government specifically does not submit to the jurisdiction of any court outside of the Kurdistan Region.
- 42.5.3** Any arbitration shall be conducted by three arbitrators.
- 42.5.4** If the parties to the Dispute are the Government and all the Contractor Entities, the Government and the Contractor shall each appoint one 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 arbitrator and such Contractor Entities shall appoint one arbitrator. If the parties to the Dispute are

the Government and one Contractor Entity, the Government and such Contractor Entity shall each appoint one arbitrator.

- 42.5.5 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, the Rules of the LCIA shall apply.
- 42.5.6 The seat of arbitration shall be London, England. The language to be used in any prior negotiation, mediation and in the arbitration shall be English. The arbitral award may be enforced by any court of competent jurisdiction. Any award shall be expressed in US\$.
- 42.5.7 The Parties agree that the arbitral award will be final and not subject to any appeal, including to the Courts of England on issues of Law.

#### EXPERT DETERMINATION

- 42.6 Any Dispute between all or any of the Parties in respect of clauses 15.8, 27.2 and 27.7, and any Dispute the disputing parties agree to refer to an Expert, shall be submitted to an Expert in accordance with this clause 42.6.
- 42.7 The Management Committee shall prepare and agree appropriate terms of reference ("**Terms of Reference**") for the Expert in respect to a Dispute to be submitted for resolution by the Expert.
  - 42.7.1 The Terms of Reference must set forth the duties of the Expert.
  - 42.7.2 The Terms of Reference must require the Expert to use reasonable endeavours to issue an opinion within 45 days of the Expert's receipt of the Terms of Reference and the information referred to in clause 42.2.
  - 42.7.3 The Management Committee shall promptly provide the Expert with approved Terms of Reference.
- 42.8 Each Party to the Dispute shall have the right to provide the Expert with any written information which such Party considers relevant, provided such written information is provided to the Expert within 45 days after the Expert's appointment.
  - 42.8.1 Such information shall be provided to each other Party at the same time and each such other Party shall be entitled to provide comments on such information to the first Party and the Expert within 30 days after receiving such information.
  - 42.8.2 The Expert may consider any information the Expert considers useful to reach a decision.
- 42.9 Subject to the provisions of clause 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 or fraud.
- 42.10 Each Party to the Dispute shall pay an equal share of the costs and expenses of the Expert.

## CLAUSE 43 – FISCAL STABILITY

### GENERAL

- 43.1 The Government shall maintain the stability of the fiscal conditions of this Contract, as they result from Applicable Law in force as of the Effective Date, for the entire duration of this Contract in accordance with this clause 43.
- 43.2 The provisions of the clause 43 do not apply to Government Interest Holders.

### ACKNOWLEDGMENT OF FUTURE LAWS

- 43.3 The Contractor acknowledges that the Government has advised it may propose Laws which could have a beneficial or detrimental effect upon the fiscal position of the Contractor, including Laws the primary purpose of which may be:
- (a) the protection of the environment to the standards of the European Union;
  - (b) the promotion of the health and safety of citizens of the Kurdistan Region to the standards of the European Union;
  - (c) the promotion of the health and safety of personnel engaged in Petroleum Operations to the standards of the European Union;
  - (d) the regulation of hazardous substances, including the transportation and disposal thereof, to the standards of the European Union;
  - (e) decommissioning of petroleum facilities, including Wells and refineries, to the standards of the European Union and Alberta, Canada;
  - (f) regulation of pipelines; and
  - (g) the regulation of companies.

The introduction of such Laws will not entitle the Contractor or any Contractor Entity to any rights to any alteration to the terms of this Contract.

### CHANGE OF TAX LAW

- 43.4 If, at any time after the Effective Date:
- (a) there is any change to Regional Tax Laws in force on the Effective Date (a "Change of Tax Law"); and
  - (b) the fiscal position of the Contractor Entities under this Contract is materially either beneficially or detrimentally affected by such Change of Tax Law; then
  - (c) the Contractor and the Government shall negotiate to alter the terms of this Contract so as to place the Contractor Entities in the same overall economic position (taking into account home country taxes) as that which the Original Contractor Entity ("**Original Contractor Entity**" means Repsol) would have been without any Change of Tax Law.
- 43.5 The Government will under no circumstances be liable to any Party or Person for any consequential or indirect losses because of any Change of Tax Law.

## DISPUTES

- 43.6** If a Party believes that a Change of Tax Law has beneficially or detrimentally affected the Contractor Entity as provided in clause 43.4, and upon that Contractor Entity's request, the Government shall meet with the Contractor Entities to decide on any necessary measures or making any appropriate amendments to the terms of this Contract to place the Contractor Entities in the position (taking into account home country Taxes for the Original Contractor Entity) as the Original Contractor Entity was in prior to the occurrence of the Change of Tax Law.
- 43.7** Should the Government not agree with the Contractor in respect of the effect of the Change of Tax Law, within 90 days of the request of the Party referred to in clause 43.6 (or such other period as may be agreed by the Parties), a Party may refer the Dispute to arbitration as provided in clause 42 without first referring the matter to negotiation and mediation.

## CLAUSE 44 – COMMUNICATIONS; NOTICES

- 44.1** A Party giving any notice or making any request, demand, or other communication to another Party (each a "notice") shall do so in writing, express the notice in English, address such notice as provided in clause 44.2, and use one of the following methods to deliver such notice, each of which, for purposes of this Contract is a writing:
- (a) personal delivery;
  - (b) email; and
  - (c) internationally recognised air courier, with all fees prepaid, and, in the case of any notice to the Government, with a reputable international air courier company with an establishment in Erbil in the Kurdistan Region.
- 44.2** Any notice or communication not provided in English is not valid unless acknowledged and accepted by the recipient.
- 44.3** Each Party shall address notices in respect of this Contract:

### 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 a Contractor Entity:**

**REPSOL YPF ORIENTE MEDIO S.A.**

**Attention:** Mr. Martin George Barrowman

**Address:** Al Fattan Plaza, Office 1003. PO Box 75700

Dubai, United Arab Emirates

**Telephone:** + 9714 283 2111

**Fax:** + 9714 283 2100

**Email:** mgbarrowman@repsol.com

- 44.4** A notice is effective only if the Party giving or making the notice has complied with this clause 44 and if the addressee has received the notice.
- 44.4.1** If a notice is delivered to the recipient in person, the notice will be considered received by the addressee by the date set forth in the signed receipt.
- 44.4.2** If a Party sends a notice by an internationally recognised air courier in accordance with this clause 44, the notice will be considered received by the addressee by the date set forth in the signed receipt.
- 44.4.3** If a Party sends a notice by email and the email transmission is followed by delivery of the Notice by air courier in accordance with this clause 44 or is acknowledged by the recipient, the notice will be considered to have been delivered to the addressee when the email departed the gateway of the sender.
- 44.5** A Party may change its address as set forth in clause 44.2 by a prior notice to the other Party in accordance with this clause 44.

## **CLAUSE 45 – TERMINATION**

### **GENERAL**

- 45.1** The Government undertakes to exercise its termination rights under this clause 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 clause 45.
- 45.2** In any notice of termination given by the Government under this clause 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** The Contractor is not entitled to claim Force Majeure as a consequence of the Government's exercise of its rights under this clause 45, and no obligation of the Contractor will be suspended as a consequence of any Dispute with respect to the Government's exercise of its rights under this clause 45.

#### CONTRACTOR TERMINATION RIGHTS

- 45.4 The Contractor may terminate this Contract at any time during the Exploration Period (as it may be extended pursuant to clauses 6.5, 6.6, and 6.7) or the Gas Field Holding Period upon 30 days' prior notice to the Government.

#### AUTOMATIC TERMINATION

- 45.5 This Contract will automatically terminate the end of the Exploration Period (including any extensions as provided in clauses 6.5, 6.6, and 6.7) without notice to the Contractor if, as of the last day of the Exploration Period, if:
- (a) the Development Period has not started in respect of a Discovery of Crude Oil or Gas Field; or
  - (b) no Gas Field Holding Period is applicable with respect to a Gas Field.
- 45.6 In accordance with clause 7.13, this Contract will terminate:
- (a) upon the relinquishment (whether mandatory, considered, or voluntary) of the entire Contract Area; and
  - (b) with respect to all relinquished areas immediately upon relinquishment, and the Contractor shall have no further rights with respect to such areas.

#### CORRUPT PRACTICES LAWS

- 45.7 On not less than 30 days' prior notice to the Contractor, the Government may terminate this Contract if a competent authority has reasonably determined (in a proceeding applying due process):
- (a) that this Contract has been obtained by the Contractor, or any Person acting on behalf of the Contractor, in violation of Corrupt Practices Laws; or
  - (b) 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.
- 45.8 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 the factual circumstances described in clause 45.7(a) or (b) (or both), of a judicial or regulatory authority in the United States of America, England, or a legal jurisdiction where a Contractor Entity or its ultimate parent company is incorporated, with jurisdiction over a Contractor Entity or an Affiliate of such Contractor Entity, will be a reasonable determination for the purposes of clause 45.3 and will be conclusively determinative.
- 45.9 Unless the Government has cancelled a notice of termination this Contract will be terminated as of the end of such 30-day notice period.

#### OTHER GROUNDS FOR TERMINATION

- 45.10 The Government may terminate this Contract, on not less than 90 days' prior notice, if the Contractor:
- (a) fails to meet a material financial obligation in this Contract;



- (b) during the First Sub-Period does not carry out drilling and seismic acquisition, as detailed in clause 10.3 or, during the Second Sub-Period (or earlier), does not carry out drilling and seismic acquisition, as detailed in clause 10.4;
- (c) interrupts Production for a period of more than 90 consecutive days with no cause or justification acceptable in accordance with this Contract or under Best Practices, 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 Best Practices, 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 clause 42.

**45.10.1** If, within the 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.

**45.10.2** If, within such 90-day notice period, the conditions set forth in clause 45.8 have not been satisfied, the Government may, on not less than 30 days' notice, terminate the Contract, and, unless such notice is cancelled by the Government before the end of such 30-day period, this Contract will be terminated as of the termination date set forth in the notice from the Government.

**45.11** This Contract is subject to termination as provided in clause 14.

**45.12** Where the Contractor comprises only one Contractor Entity, the Government may terminate the Contract on not less than 30 days' notice to such Contractor Entity following the occurrence of an Act of Insolvency, unless, within such 30-day period, the Government cancels its notice based on evidence provided by the Contractor Entity that the Insolvency Event has been dismissed, discharged, or otherwise is no longer applicable.

**45.13** The rights and interests of an individual Contractor Entity will be automatically terminated, without prior notice from the Government, if such Contractor Entity:

- (a) is subject to a Change of Control for which the Government has not given its authorisation in accordance with clause 39.11; or
- (b) has made or has purported to make an assignment of all or part of its interests hereunder (including under any provision of a joint operating agreement) without the prior consent of the Government in accordance with clause 39.

**CONSEQUENCES OF TERMINATION**

- 45.14** 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; and
  - (c) the provisions of clauses 16.9, 30, 31, 35.1, 35.3, 35.4, 35.7, 36, 38.7(c), 41, and 42 will survive the termination or expiry of this Contract.
- 45.15** If the Government terminates the participating 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; and
  - (c) as to and in respect of such terminated Contractor Entity, the provisions of clauses, 16.9, 30, 31, 35.1, 35.3, 35.4, 35.7, 36, 38.7(c), 41, and 42 will survive such termination..
- 45.16** If the participating 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.
- 45.16.1** 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.
- 45.17** No assignment, novation, transfer, or other disposition of a terminated Contractor Entity's undivided interests to another Contractor Entity pursuant to this clause 45 will be a taxable event under Applicable Law as to the Contractor Entity receiving the undivided interests of a terminated Contractor Entity.
- 45.18** 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:
- (a) the effective date of the termination of such Contractor Entity; and
  - (b) 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.
- 45.19** 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.

- 45.20 No termination under this Contract, including in this clause 45, limits or impairs a Party's rights under English Law or Applicable Law in respect of termination.

## **CLAUSE 46 – GENERAL PROVISIONS**

### **COUNTERPARTS**

- 46.1 The Contractor Entities and the Government 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 such 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. In proving this Contract, a Party must produce or account only for the executed counterpart of the Party to be charged.

### **AMENDMENTS; WAIVERS**

- 46.2 The Government and the Contractor may amend this Contract only by a written agreement of the Government and the Contractor that identifies itself as an amendment to this Contract.
- 46.2.1 A Government Interest Holder, in such capacity, 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.
- 46.2.2 The Government shall notify Government Interest Holders of any proposed amendments and signed amendments, and the Contractor will have no obligation to notify Government Interest Holders of any proposed amendments and signed amendments.
- 46.3 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 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.
- 46.4 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.
- 46.5 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.

**REGIONAL OIL AND GAS COUNCIL APPROVAL**

- 46.6 The Government warrants that this Contract is approved for the purposes of the Kurdistan Region Oil and Gas Law.

**COSTS**

- 46.7 Each Party shall bear all costs incurred by it in connection with the preparation and negotiation of and entry into this Contract and all documents to be entered into pursuant to it. Such costs will not be recoverable as Petroleum Costs.

**EFFECTIVE DATE**

- 46.8 This Contract is effective as of the date set forth on the signature page (the "Effective Date").

**GOVERNING LAW**

- 46.9 This Contract, including any dispute arising therefrom, thereunder or in relation thereto and the agreement to arbitrate in clause 42, is governed by English law. Except in respect of Government Interest Holders, no term of this Contract is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a Person who is not a Party to this Contract.

**ENTIRE AGREEMENT**

- 46.10 As of the Effective Date, this Contract and the Repsol Letter of Representations constitute the final, complete and exclusive expression of the Parties' agreement on the matters contained in this Contract.
- 46.10.1 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.
- 46.10.2 The provisions of this Contract may not be explained, supplemented or qualified through evidence of trade usage or a prior course of dealings.
- 46.10.3 In entering into this Contract no Party has relied upon any statement, representation, warranty or agreement of any other Party or any other Person, except for those expressly contained in this Contract, in the Repsol Letter of Representations, and the Guarantee.
- 46.10.4 There is no condition precedent to the effectiveness of this Contract (except for signature and delivery by the Government and the Contractor Entities).
- 46.10.5 There are no representations or warranties, in each case other than those expressly stated in this Contract and the Repsol Letter of Representations.

*[Signature page follows.]*

Effective Date: 26 July 2011

For and on behalf of the **GOVERNMENT OF THE KURDISTAN REGION OF IRAQ**

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 the Contractor and each Contractor Entity:

**REPSOL YPF ORIENTE MEDIO S.A.**

.....  
By: .....  
Name: .....  
Its: .....

*[Signature page to Production Sharing Contract – Qala Dze]*

Effective Date: 26 July 2011

For and on behalf of the **GOVERNMENT OF THE KURDISTAN REGION OF IRAQ**

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 the Contractor and each Contractor Entity:

**REPSOL YPF ORIENTE MEDIO S.A.**

By: Margarita E. Mozetic  
Name: Margarita E. Mozetic  
Its: Legal Representative

[Signature page to Production Sharing Contract – Qala Dze]

Annex A

Map showing coordinates of the Qala Dze Contract Area corner points





## **Annex B**

### **Accounting Procedures**

#### **PARAGRAPH 1 – GENERAL PROVISIONS**

##### **1.1 Purpose**

The purpose of this Annex B – Accounting Procedures is to classify expenditures, define further Petroleum Costs (in addition to those defined as such in the clauses of the Contract), and prescribe the manner in which the Accounts shall be prepared and approved.

##### **1.2 Definitions**

Words and phrases to which a meaning has been assigned in clause 1 or other clauses 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 these Accounting Procedures and the main body of the Contract, the provisions of the main body of the Contract will control.

##### **1.4 Accounting Records and Reports**

1.4.1 The Contractor shall maintain the Accounts in accordance with clause 15 and this Accounting Procedure.

1.4.2 Within 60 days of the Effective Date, the Contractor shall submit to and discuss with the Government a proposed outline of charts of Accounts in accordance with generally accepted standards and recognized accounting systems and consistent with normal petroleum industry practice and procedures.

1.4.3 Within 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.

1.4.4 Within 180 days after the Effective Date, the Contractor and the Government shall agree on the outline of charts of Accounts which describe the basis of the accounting system and procedures to be developed and used under this Contract.

1.4.5 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.

1.4.6 Notwithstanding the generality of the foregoing, the Contractor shall provide regular statements relating to the Petroleum Operations:

- (a) Production Statements (Paragraph 6);
- (b) Value of Production and Pricing Statements (Paragraph 7);
- (c) Cost Recovery and Share Account Statements (Paragraph 8);
- (d) Statements of Expenditures and Receipts (Paragraph 9);

- (e) Final End-of-Year Statements (Paragraph 10); and
- (f) Budget Statements (Paragraph 12).

1.4.7 All reports and statements shall be prepared in accordance with the Contract, Applicable Law, and where there are no relevant provisions of either of these, in accordance with Best Practices.

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

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

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

The following provisions shall apply to any audit carried out in accordance with clauses 15.3 to 15.7:

- 1.6.1 For purposes of auditing, the Government, acting reasonably, may examine and verify, at reasonable times upon reasonable prior written notice to the Contractor, all accounting records, including charges and credits relating to the Petroleum Operations, such as records of account, accounting entries, supporting 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 The auditors are entitled 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 Affiliate of a Contractor Entity, the Government shall have the right to obtain an audit certificate for such charges from an internationally recognized firm of public accountants acceptable to both the Government and the Contractor.
- 1.6.4 All agreed adjustments resulting from an audit shall be promptly made in the 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 Accrual Basis, Cash Flow Basis and Reports**

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

#### **1.8 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 – COSTS AND EXPENSES

### 2.1 Segregation of Costs and Expenses

- 2.1.1 Petroleum Costs must be segregated in accordance with the purposes for which such Petroleum Costs are made. The purposes which 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 under the Contract;
  - (c) any other purposes agreed in the Contract; and
  - (d) other items which have been agreed by the Government and the Contractor.
- 2.1.2 All Petroleum Costs recoverable under Paragraph 3 as Petroleum Operations shall be treated as set out in the balance of this Paragraph 2.

### 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:

- (a) aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation and purchased geological and geophysical information;
- (b) stratigraphic test hole drilling and water well drilling;
- (c) 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;
- (d) facilities to the extent used in support of the purposes described in (a), (b), and (c), including access roads;
- (e) 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; and
- (f) any other expenditure 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 in accordance with an Approved Gas Marketing Plan and Budget 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 fair 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:

- (a) drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum reservoir, whether these wells are dry or producing and drilling wells for the injection of water or gas to enhance recovery of Petroleum.

- (b) completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing well or as a well for the injection of water or gas to enhance recovery of Petroleum.
- (c) the costs of Petroleum production, transport and storage facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, Petroleum storage facilities, and access roads for production activities.
- (d) engineering and design studies for the wells and facilities referred to in (a), (b), and (c); and
- (e) 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 2.4.

## **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 clause 38 and, for the purposes of cost recovery, the contributions to the Decommissioning Reserve Fund shall be recoverable in accordance with clause 38.

## **2.7 Service Expenditures**

- 2.7.1** 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 or construct, or both, such facilities as well as the annual costs of maintaining and operating such facilities.
- 2.7.2** All service expenditures shall be regularly allocated as specified in Paragraphs 2.2, 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.
- 2.7.3** 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

2.8.1 General and administrative expenditures are:

- (a) all main office, field office and general administrative expenditures in the Kurdistan Region including supervisory, accounting, procurement and employee relations services; and
- (b) 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 (such overhead charge, "Parent Company Overhead").

2.8.2 Parent Company Overhead will be considered to cover the actual cost (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.

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

### 2.8.3.1 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 2% fee, referred to in Paragraph 3.1.8(b). The sliding scale percentage shall be the following:

- (a) for the first US\$4,000,000: 4%;
- (b) for the next US\$4,000,000: 3%; and
- (c) over US\$8,000,000: 2%.

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

**2.8.1.2 Development, Production and Decommissioning Operations Overhead**

The overhead rates applicable to Development Operations, Production Operations, and Decommissioning Operations shall be agreed between the Parties 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.
- (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, 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**

**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 clause 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 clause 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 the 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 Applicable 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 Applicable 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).
- (1) 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.



(2) **"Transportation and travel expenses"** as used in this sub-paragraph (f) means 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

(1) **Professional and Administrative Services Expenses:** cost of professional and administrative services provided by any Affiliates of the Contractor for the direct benefit of Petroleum Operations, including 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)(2), 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 charge-out 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.

- (2) **Scientific or Technical Personnel:** cost of scientific or technical personnel services provided by any Affiliate of the Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. 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.
- (3) **Equipment and facilities:** use of equipment and facilities owned and furnished by the Contractor's Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted 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 clause 42.2 and 42.6 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 Best Practices.

#### 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 clause 37.7 of the Contract and any other costs incurred in complying with the requirements of clause 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 clause 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 clause 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 Costs** - 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 2% of the value of the materials added to the cost of the materials purchased.
- (c) **FIFO** - 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)(1), 3.1.8(d)(2), and 3.1.8(d)(3):
  - (1) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
  - (2) Used material (Conditions "B", "C" and "D"):
    - (A) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as

- Condition "B" and priced at 75% of the current price of new material defined in Paragraph 3.1.8(d)(1).
- (B) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at not more than 50% of the current price of new material as defined in Paragraph 3.1.8(d)(1). The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning 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.
- (3) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in Paragraph 3.1.8(d)(1).
  - (4) 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)(2)(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.
  - (5) Whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes, or other unusual causes over which the Contractor has no control, the Contractor may charge Petroleum Operations for the required material at the Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Government of the proposed charge prior to charging Petroleum Operations for such material and the Government shall have the right to challenge the transaction on audit.
  - (6) 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.
  - (7) Adjustments arising from material inventories conducted in accordance with Paragraph 5.2.
- (e) Equipment of the Contractor shall not be charged at rates exceeding 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 6 Months.
  - (f) 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.

- (g) 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 demobilisation charges, lease and hire fees, as well as other contractual costs.

**3.1.9 Rentals and Taxes**

- (a) 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 (except where the contrary is expressly provided in the Contract) with the exception of Taxes (described in clause 31.2), bonus payments, Capacity Building Payments, and any other payments made under clause 32.
- (b) 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 Entities or their Affiliates, 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, judgment 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 clause 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

- 4.1 The following costs and expenditures shall not be included in the Petroleum Costs recoverable under clause 25:
- (a) 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;
  - (b) any payment made to the Government by reason of the failure of the Contractor to fulfill its Minimum Exploration Obligations in respect of the relevant Sub-Period under the Contract.
  - (c) the cost of any guarantee required under the Contract;
  - (d) bonuses, Capacity Building Payments, or other payments set out in clause 32 of the Contract;
  - (e) costs of marketing or transportation of Petroleum beyond the Delivery Point (excluding Gas Marketing Costs);
  - (f) attorney's fees and other costs of proceedings in connection with arbitration under clause 42 of the Contract or internationally recognised independent expert determination as provided in the Contract or this Accounting Procedure;
  - (g) 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;
  - (h) any provision for depreciation and/or amortisation, excluding any adjustments in value pursuant to Paragraph 3.1.8;
  - (i) dividends, repayment of equity or repayment of intercompany loans; and
  - (j) fines and penalties imposed under Law.

## PARAGRAPH 5 – RECORDS AND VALUATION OF ASSETS

### 5.1 Records

Contractor shall maintain detailed records of property in use for Petroleum Operations under the Contract in accordance with Best Practices for exploration and production activities.

### 5.2 Inventories

- 5.2.1 Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three years with respect to immovable assets. The Contractor shall give the Government at least 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.



- 5.2.2 Failure of the Government to be represented at an inventory shall bind the Government to accept the inventory taken by the Contractor.
- 5.2.3 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 clause 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:

- (a) the quantity of Crude Oil produced and saved;
- (b) the quality characteristics of such Crude Oil produced and saved;
- (c) the quantity of Natural Gas produced and saved;
- (d) the quality characteristics of such Natural Gas produced and saved;
- (e) the quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage;
- (f) the quantities of Crude Oil and Natural Gas unavoidably lost;
- (g) the quantities of Natural Gas flared and vented;
- (h) the size of Petroleum stocks held at the beginning of the calendar Month in question;
- (i) the size of Petroleum stocks held at the end of the calendar Month in question;
- (j) the quantities of Natural Gas reinjected into the Reservoir; and
- (k) 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 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 clause 25 of the Contract, prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter and each Month. This "Value of Production and Pricing Statement" shall contain the following information:

- (a) the quantities and prices realised therefor by the Contractor in respect of sales of Natural Gas and Crude Oil delivered to third parties made during the Quarter and Month in question; and

- (b) the quantities and prices realised therefore by the Contractor in respect of sales of Natural Gas and Crude Oil delivered during the Quarter and Month in question, other than to third parties.

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

The Contractor shall submit the Value of Production and Pricing Statement for each Quarter and each Month to the Government not later than 10 days after the end of such Quarter and Month.

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

#### **8.1 Cost Recovery Statement**

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

- (a) Recoverable Petroleum Costs carried forward from the previous Quarter and Month, if any;
- (b) Recoverable Petroleum Costs for the applicable Quarter and applicable Month;
- (c) credits under the Contract for the applicable Quarter;
- (d) Total Recoverable Petroleum Costs for the applicable Quarter and applicable Month (Paragraph 8.1(a) plus Paragraph 8.1(b), net of Paragraph 8.1(c));
- (e) quantity and value of Petroleum applied to cost recovery pursuant to clause 25 taken by the Contractor for the applicable Quarter and applicable Month; and
- (f) amount of recoverable Petroleum Costs to be carried forward into the next Quarter and the next Month (Paragraph 8.1(d) net of Paragraph 8.1(e)).

#### **8.2. Cumulative Production Statement**

The Contractor shall prepare with respect to each Quarter and each Month a Cumulative Production Statement containing the following information:

- (a) the cumulative production position at the end of the Quarter preceding the Quarter and Month in question;
- (b) Production of Export Petroleum for the Quarter and Month in question;
- (c) the cumulative production position at the end of the Quarter and Month in question;
- (d) the amount of Petroleum applied to Royalty pursuant to clause 24, cost recovery pursuant to clause 25 and Profit Petroleum pursuant to clause 26 taken by the Government and by the Contractor, respectively, during the Quarter and Month in question; and
- (e) the forecast of production and the share of Petroleum applied to Royalty pursuant to clause 24, cost recovery pursuant to clause 25 and Profit Petroleum pursuant to clause 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** The Contractor shall submit provisional Cost Recovery and Cumulative Production Statements, containing estimated information where necessary, on the last day of each Quarter and Month for the purposes of clause 25 of the Contract.
- 8.3.2** The Contractor shall submit final quarterly Cost Recovery and Cumulative Production Statements within 30 days of the end of the applicable Quarter and applicable Month.

#### **8.4 Annual Statement**

For the purposes of clause 25 of the Contract, the Contractor shall submit an Annual Cost recovery and Cumulative Production Statement within 90 days of the end of each Year. The Annual Statement must 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 of Expenditure and Receipts must 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 of Expenditure and Receipts must show the following:
- (a) actual expenditures and receipts for the Quarter in question;
  - (b) cumulative expenditure and receipts for the budget Calendar Year in question;
  - (c) latest forecast cumulative expenditures at the Calendar Year end; and
  - (d) Variations between budget forecast and latest forecast and explanations thereof.
- 9.2** The Contractor shall submit to the Government a Statement of Expenditure and Receipts for each Quarter no later than 30 days after the end of such Quarter.

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

- 10.1** The Contractor shall prepare a Final End-of-Year Statement containing information as required for the Production Statement, Value of Production and Pricing Statement, Cost Recovery and Cumulative Production Statements, and Statement of Expenditures and Receipts, except based on actual quantities of Petroleum produced and expenses incurred.
- 10.2** The Final End-of Year Statement will be used to make any adjustments that are necessary to the payments made by the Contractor under the Contract.
- 10.3** The Contractor shall submit its Final End-of-Year Statement of each Calendar Year to the Government within 90 days of the end of each Calendar Year.

#### **PARAGRAPH 11 – AUDITS**

Each such report and statement required pursuant to Paragraphs 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 clause 15 of the Contract.

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

Each annual Work Program and Budget to be prepared in accordance with clauses 11, 12, 13, and 14 of the Contract, in respect of Exploration Costs, Gas Marketing Costs, Development Costs, and Production Costs must show:

- (a) forecast expenditures for the budget Calendar Year in question, including a quarterly classification of such expenditures;

- (b) cumulative expenditures to the end of such budget Calendar Year; and
- (c) a schedule showing the most important individual items of Development Costs (if applicable) for such budget Year.

**PARAGRAPH 13 – TAX RECORDS AND FILINGS**

- 13.1** Each Contractor Entity shall timely prepare and file all Tax returns and reports in accordance with Applicable Law. Nothing in this Paragraph 13 limits the obligation of the Government to pay Taxes on income on behalf of a Contractor Entity as provided in the Contract. For the purposes of clause 31.2 of the Contract, the net taxable profits of each Contractor Entity from all Petroleum Operations carried out under the Contract shall be calculated in accordance with this Paragraph 13 and Applicable Law.
- 13.2** Each Contractor Entity shall maintain separate Accounts with respect to the Petroleum Operations to enable the Government to verify and audit Taxes payable by such Contractor Entity for a tax period. Such Accounts shall be prepared and maintained on a cash or accrual basis as required by Applicable Law in respect of Taxes and maintained throughout the term of the Contract and for a period of five years thereafter.
- 13.3** The Accounts of a Contractor Entity shall be credited with such Contractor Entity's share of all revenues from or related to Petroleum Operations, including:
- (a) if the Royalty is paid in cash pursuant to clause 24, revenues arising from the disposal of Royalty volumes;
  - (b) revenues arising from the disposal of any Available Petroleum to which such Contractor Entity is entitled for recovery of its Petroleum Costs in accordance with clause 25;
  - (c) revenues from the disposal of Profit Petroleum to which such Contractor Entity is entitled under clause 26; and
  - (d) revenues arising from the disposal of related Petroleum substances or from the treatment, storage, or transportation of products for third parties.
- 13.4** A Contractor Entity may debit its Accounts for all Petroleum Costs and other costs under this Contract, including:
- (a) the costs of supplies, personnel and manpower expenses, and costs of services provided;
  - (b) if the Royalty is paid in cash pursuant to clause 24, Royalty payments made and as recorded in such entity's Accounts and determined in accordance with clause 24;
  - (c) general and administrative expenditures for Petroleum Operations;
  - (d) depreciation of capital expenditure in accordance with Paragraph 13.6 below;
  - (e) losses of Assets resulting from damage, Assets which are renounced or abandoned during the year, Assets which are transferred under clause 20.2, bad debts, indemnities paid to third parties as compensation for damage;
  - (f) currency exchange losses realised in connection with the Petroleum Operations, bonuses, Capacity Building Payments, and other payments provided in clause 32, the Exploration Rental provided in clause 6.2, the Production Rental provided in clause 13.6, the allocation to training provided in clause 23.10, the allocation to the Environment Fund provided in clause 23.12, the costs specified in clauses 23.5, 23.6, 38.6 and 38.11, and transportation and marketing costs beyond the Delivery Point; and

(g) losses carried forward from previous Tax periods.

**13.5** The net profit of a Contractor Entity shall be equal to the difference between the amounts credited and the amounts debited from its Accounts.

13.5.1 If such difference is negative, it shall constitute a loss against which no income Tax will be payable.

13.5.2 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 clause 31.2, by applying the following formula in order to provide such entity's net taxable profits for corporate income tax purposes:

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

100

**13.6** A Contractor Entity shall not record depreciation or amortization charges, except as permitted by Applicable Law and only with the prior written authorization of the Government.

Annex C  
FORM OF GUARANTEE

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**G U A R A N T E E**

BY

[X]

and

[Y]

IN FAVOUR OF

**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ**

(Qala Dze)

(Second Sub-Period Guaranteed Amount)

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# GUARANTEE

(Second Sub-Period Guaranteed Amount)

This Guarantee, dated \_\_\_\_\_, is by:

(1)  [X] and [Y] ("")

and

(2) [Y] ("Y")

in favour of

(3) **THE KURDISTAN REGIONAL Government of IRAQ** (the "Government").

## 1.1 Definitions; Interpretation

### 1.1 Definitions

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

1.1.2 As used in this Guarantee:

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

"**Demand**" is defined in clause 2.3.

"**Government**" is defined in the preamble.

"**Guaranteed Obligations**" is defined in clause 2.1.

"**Guarantors**" means [X and Y] and "**Guarantor**" means either of [X or Y].

"**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.

### 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 a "clause" is to a "clause" of this Guarantee.

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

## 2. Guarantee

### 2.1 Guaranteed Obligations

The Guarantors guarantee to the Government the due and punctual payment of the Second Sub-Period Guaranteed Amount in the manner and currency prescribed by the Contract for payments by the Contractor together with any interest due with respect thereto as provided in the Contract (the "**Guaranteed Obligations**").

### 2.2 Joint and Several

The liability of each Guarantor under this Guarantee is joint and several. Every undertaking and agreement contained in this Guarantee is to be construed as joint and several obligations of the Guarantors.



**2.3 Demand**

A Guarantor will have no obligation in respect of a Guaranteed Obligation unless the Guarantor has received a written demand for payment (the "Demand"). The Government may submit a Demand to either or both Guarantors. 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 Government has not received payment of the relevant Guaranteed Obligation from the Contractor Entity on the date on which it became due and payable; and
- (d) provide the Government's wire instructions for the payment of the Demand.

**2.4 Payment**

A Guarantor shall make payment to the Government in accordance with a Demand by wire transfer of cleared funds in US\$ in accordance with the Government's wire instructions within 5 Business Days after receipt of a 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 Government is not required to exercise any right, assert any claim or demand, or enforce any remedy whatsoever against the Contractor, a Contractor Entity, or any other Person before, or as a condition to, exercising any of the rights, powers, or remedies conferred upon the Government by this Guarantee or by applicable law. Without limiting the generality of the foregoing, the Government will not be required to (a) take any action or obtain judgment in any court against the Contractor, a Contractor Entity or any other Person, or (b) to make or file any claim or proof in a winding up or dissolution of the Contractor, a Contractor Entity or any other Person.
- 3.3 Except as provided in clause 2.2, each Guarantor hereby expressly waives presentment, demand, protest, and notice of dishonour in respect of each Guaranteed Obligation.
- 3.4 Subject to clause 6, the obligations of the Guarantors:
  - (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 Contractor'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 Contract.
- 3.5 Subject to clause 8, neither the obligations of the Guarantors pursuant to, nor the rights, powers, and remedies conferred upon the Government 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 Contractor or any Contractor Entity 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 Contractor 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 Contractor, 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 Contract or termination of a Contractor Entity's rights under the Contract, or any withdrawal or abandonment by the Contractor or a Contractor Entity of its interests under the Contract;
- (g) any direct or indirect change in the ownership of the Contractor Entity, including by merger, amalgamation, by law, or otherwise;
- (h) any transfer all of any part of the Contractor or a Contractor Entity's interests under or in respect of the Contract;
- (i) any dispute or claim the Contractor or a Contractor Entity may have against the Government;
- (j) the insolvency or bankruptcy of, or similar event affecting, the Contractor or a Contractor Entity; or
- (k) any other circumstance or combination of circumstances which might otherwise constitute a defense available to, or a legal or equitable discharge of, the Contractor or a Contractor Entity.

**3.6** Each Guarantor waives any right to or claim of any defense or setoff, counterclaim, recoupment, or termination by reason of (a) the invalidity, illegality, non-genuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, any Guaranteed Obligation; (b) any claims, set-offs, or liabilities of the Contractor Entity to the Guarantor or the Government; (c) any claims, set-offs, or liabilities of the Guarantor in respect of the Government; or (d) any other reason whatsoever.

**3.7** This Guarantee will continue to be effective or be reinstated, 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 Government upon the insolvency, bankruptcy, or reorganization of the Contractor or a Contractor Entity or otherwise, all as though such payment had not been made. Any settlement or discharge between the Guarantors (or any of them) and the Government will be conditional upon no payment by the Contractor, a Contractor Entity, or any other Person to the Government on the Contractor's behalf being avoided or reduced by virtue of any laws relating to bankruptcy, insolvency, liquidation, or similar laws.

#### **4. Taxes**

**4.1** The Guarantors shall make all payments to the Government free and clear of, and without deduction for, any present or future Taxes 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 a Guarantor is required in respect of any Taxes, then the Guarantors shall:

- (a) pay directly to the relevant authority the full amount required to be so withheld or deducted;

- (b) promptly forward to the Government an official receipt or other documentation satisfactory to the Government evidencing such payment to such authority; and
- (c) pay to the Government such additional amount or amounts as is necessary to ensure that the net amount actually received by the Government will equal the full amount the Government would have received had no such withholding or deduction been required.

**4.3** If any Taxes are directly asserted against the Government with respect to any payment received by the Government from a Guarantor pursuant to this Guarantee, then:

- (a) the Government may pay such Taxes; and
- (b) the Guarantor shall indemnify the Government against any Loss or Expense which the Government 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 Contractor's conduct, any penalties, interest, or expenses) as necessary so that the net amount received by the Government, after the payment of such Taxes (including any Taxes on such additional amount), will equal the amount the Government would have received had such Taxes not been asserted.

## **5. Notices**

### **5.1 Address for notices to Guarantor**

The Government shall:

- (a) make any Demand or provide any notice or other communication to a Guarantor in respect of this Guarantee in writing;
- (b) address such Demand, notice, or other communication as provided in clause 5.1(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: (1) personal delivery; (2) email (followed by delivery of the Demand, notice or communication by air courier); or (3) a reputable, internationally recognised air courier, with all fees prepaid, and sent to the Guarantors:

If to [X]:

[X]

Attention:

Address:

Phone:

Email:

If to [Y]

[Y]

Attention:

Address:

Phone:

Email:

### **5.2 Effectiveness as to Guarantor**

- 5.2.1** A Demand, notice or other communication will be effective as to a Guarantor only if (a) the Government has complied with this clause 5 and (b) such Guarantor has received the Demand, notice, or other communication.

- 5.2.2 If a Demand, notice or other communication is personally delivered to a Guarantor, it will be considered received by the Guarantor by the date set forth in a signed receipt of such delivery.
- 5.2.3 If the Government sends a Demand, notice, or other communication to a Guarantor by a reputable, internationally recognised air courier in accordance with clause 5.1, the Demand, notice, or other communication will be considered received by the Guarantor on the date set forth in a receipt signed by the Guarantor.
- 5.2.4 If the Government sends a Demand, notice, or other communication by email to a Guarantor and the email transmission is followed by delivery of the Demand, notice, or other communication to the Guarantor by air courier in accordance with clause 5.1, the Demand, notice, or other communication shall be considered to have been delivered to the Guarantor when the email is received by the Guarantor.

**5.3 Notices to Government**

A Guarantor shall give all notices or other communications to the Government in the same manner as prescribed in the Contract for notices to the Government.

**5.4 Change of Address**

A Guarantor or the Government may change its address as set forth in clause 5 by a notice to the other parties in accordance with this clause 5.

**6. Term**

- 6.1 This Guarantee is effective as of the date set forth in the preamble.
- 6.2 Subject to clause 3.7, this Guarantee will cease to be effective upon discharge of all of the Guaranteed Obligations.

**7. Representations and Warranties**

Each Guarantor represents and warrants:

- 7.1 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.
- 7.2 This Guarantee is legal, valid, and binding as to such Guarantor.
- 7.3 The Guarantor has received all authorisations and consents necessary for the provision of this Guarantee to the Government, and the validity and enforceability against it, of this Guarantee.
- 7.4 Except as provided in the next sentence, there is no Law applicable to it or agreement to which it is a party that (a) conflicts with or prevents it from performing this Guarantee in accordance with its terms, or (b) 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.
- 7.5 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.

**8. Arbitration; Indemnification**

- 8.1 The Guarantors and the Government shall exclusively refer any dispute, claim, or controversy arising out of or in connection with this Guarantee (including a dispute, claim or controversy relating to any non-contractual obligations arising out of or in connection with this Guarantee) 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.

- 8.2 The language of the arbitration will be English, and any award will be written in the English language.
- 8.3 The seat, or legal place, of the arbitration will be London, England.
- 8.4 The arbitral tribunal will comprise one arbitrator directly appointed by the London Court of International Arbitration.
- 8.5 The Government may seek enforcement of an arbitral award by any court of competent jurisdiction.
- 8.6 Any award must be expressed in US\$.
- 8.7 The arbitral award will be final and not subject to any appeal.
- 8.8 If any question of law arises during the arbitral proceedings or arises out of an award, neither the Government nor either Guarantor may make an application or bring an appeal to any court on a question of law, and both the Government and the Guarantors expressly waive their respective rights to make an application or bring an appeal under the English Arbitration Act 1997.
- 8.9 The Guarantors shall indemnify the Government from and against all costs and expenses (including legal fees and any taxes or duties) incurred by the Government in the enforcement and protection of its rights under this Guarantee.

**9. Benefit; Assignment**

- 9.1 This Guarantee inures to the benefit of the Government and its (and any subsequent) successors and assigns, each of which shall be entitled to enforce this Guarantee against the Guarantors.
- 9.2 No Guarantor is entitled to assign or transfer all or any of its rights, benefits, or obligations under this Guarantee unless the Government provides prior written consent to the Guarantor. The Government is entitled to assign all or any of its rights and benefits hereunder.

**10. 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 (a) the legality, validity or enforceability of the remaining provisions hereof, nor (b) 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.

**11. Variation**

- 11.1 This Guarantee may be amended only by a written agreement of the Government and the Guarantors that identifies itself as an amendment to this Guarantee.
- 11.2 The Government or the Guarantors may waive any provision in this Guarantee only by a writing executed by such party.
- 11.3 A waiver or consent made on one occasion will be effective only in that instance and only for the purpose stated.
- 11.4 No failure or delay in exercising any right or remedy, or in requiring the satisfaction of any condition, under this Guarantee by a Guarantor or the Government, and no act, omission or course of dealing between the Government and a 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.

Date: \_\_\_\_\_

[X]

By: \_\_\_\_\_

Name:

Title:

[Y]

By: \_\_\_\_\_

Name:

Title:

Accepted and received for and on behalf of the  
**GOVERNMENT OF THE KURDISTAN REGION OF IRAQ:**

By: \_\_\_\_\_

Prime Minister

Kurdistan Regional Government

**On behalf of the Regional Council**

**for the Oil and Gas Affairs of the Kurdistan Region - Iraq**

By: \_\_\_\_\_

Minister of Natural Resources

Kurdistan Regional Government

**On behalf of the Ministry of Natural Resources in the  
Kurdistan Region**

*[Signature page to Guarantee of [X] [Y, et al] in favour of the Government of the Kurdistan Region of Iraq (Qala Dze).]*