

PRODUCTION SHARING CONTRACT

MIRAN BLOCK

KURDISTAN REGION

BETWEEN

THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ

AND

HERITAGE ENERGY MIDDLE EAST LIMITED

19h.

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PRODUCTION SHARING CONTRACT

BETWEEN

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

AND

HERITAGE ENERGY MIDDLE EAST LIMITED, a company established and existing under the laws of Nevis, whose registered office is at P.O. Box 693, Hamilton Estate, Charlestown, Nevis, duly represented by Anthony Buckingham;

(hereafter referred to as the "**CONTRACTOR**")

WHEREAS

- (A) The **GOVERNMENT** wishes to develop the petroleum wealth of the Kurdistan Region (as defined in this Contract) in a way that achieves the highest benefit to the people of the Kurdistan Region and all of Iraq, using the most advanced techniques of market principles and encouraging investment, consistent with the Constitution of Iraq including Article 112 thereof;
- (B) In accordance with the Constitution of Iraq, the prevailing law of the Kurdistan Region is the Kurdistan Region Law (as defined in this Contract), except with regard to a matter wholly within the exclusive jurisdiction of the Government of Iraq;
- (C) The National Assembly of the Kurdistan Region approved the Oil and Gas Law of the Kurdistan Region - Iraq (Law No. 22 of 2007) which law regulates Petroleum Operations, including production sharing contracts;
- (D) The **GOVERNMENT** intends to present to the National Assembly of the Kurdistan Region a law to authorise the **GOVERNMENT**, by contract or other authorisation, to exempt investors in long term projects relating to the conduct of petroleum operations in the Kurdistan Region from Kurdistan Region taxation, to indemnify such holders against liability to pay such taxation, and/or to guarantee the stability of the applicable legal, fiscal and economic conditions of such projects;
- (E) The **CONTRACTOR** intends to develop, construct, finance and partly own an interest in a petroleum refinery in the Kurdistan Region, in which the **GOVERNMENT** also holds an interest, pursuant to the terms of the agreement contained in Annex C; and
- (F) Each **CONTRACTOR** Entity is a company,
 - (i) with the financial capability, and the technical knowledge and technical ability, to carry out Petroleum Operations in the Contract Area (as defined in this Contract) under the terms of this Contract;

- (ii) having a record of compliance with the principles of good corporate citizenship; and
- (iii) willing to cooperate with the **GOVERNMENT** by entering into this Contract, thereby assisting the **GOVERNMENT** to develop the Kurdistan Region petroleum industry, thereby promoting the economic development of the Kurdistan Region and Iraq and the social welfare of its people.

NOW, THEREFORE, THE PARTIES HAVE AGREED AS FOLLOWS

ARTICLE 1 – DEFINITIONS

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

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

Access Authorisation is defined in Article 17.9.

Accounts is defined in Article 15.1.

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

Adjacent Contract Area is defined in Article 34.1.

Adjustment Date is defined in Article 27.6.

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

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

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

Agreed Terms is defined in Article 14.10(a).

Appraisal Area means the area defined in Article 12.2.

Appraisal Work Program and Budget is defined in Article 12.2.

Appraisal Report is defined in Article 12.4.

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

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

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

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

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

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

Available Associated Natural Gas is defined in Article 25.1.

Available Crude Oil is defined in Article 25.1.

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

Available Petroleum is defined in Article 25.1.

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

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

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

Chairman is defined in Article 8.1.

Commercial Discovery means a Discovery which is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out appraisal works or similar operations, including recoverable

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reserves of Petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with prudent international petroleum industry practice.

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

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

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

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

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

CONTRACTOR includes and comprises each and all **CONTRACTOR** Entities, including any Public Company nominated by the **GOVERNMENT** pursuant to Article 4, and/or any assignee of all or part of the rights and obligations under this Contract in accordance with Article 39.

CONTRACTOR Entity means any Person which is for the time being a component of the **CONTRACTOR**, and/or any assignee of all or part of the rights and obligations of such Person under this Contract in accordance with Article 39.

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

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

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

Decommissioning Plan is defined in Article 38.7.

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

Deductible Amount is defined in Article 35.12.

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

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

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

Development Period is defined in Article 6.

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

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

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

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

Dispute is defined in Article 42.1.

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

Effective Date means the date on which the conditions referred to in Article 47 have been fulfilled.

Environment Fund is defined in Article 23.9.

Equipment and Materials is defined in Article 19.1.

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

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

Exploration Period is defined in Article 6.

Exploration Rental is defined in Article 6.3.

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

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

Export Crude Oil is defined in Article 24.2.

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

Export Petroleum is defined in Article 24.2.

First Commercial Declaration Date is defined in Article 4.1.

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

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

Force Majeure is defined in Article 40.2.

Gas Development is defined in Article 14.10.

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

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

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

Government Interest is defined in Article 4.1.

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

International Market Price is defined in Article 27.2.

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

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

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

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

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

Law means all applicable laws including the following: constitutional law, civil law, common law, international law, equity, treaties, statutes, decrees, edicts, codes, orders, judgements, rules, ordinances and regulations of any local, municipal, territorial, provincial, federated, national or any other duly constituted governmental authority or agency.

LCIA is defined in Article 42.1(b).

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

Management Committee is defined in Article 8.

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

Minimum Exploration Obligations is defined in Article 10.1.

Minimum Financial Commitment means:

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

Month means a calendar month according to the Gregorian calendar.

Natural Gas means all gaseous Petroleum and inerts.

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

Notice of Dispute is defined in Article 42.1.

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

Option of Government Participation is defined in Article 4.1.

Option of Third Party Participation is defined in Article 4.8.

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

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

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

Petroleum means:

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

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

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

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

Pipeline Costs is defined in Article 33.5.

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

Production Bonus means any bonus due pursuant to Article 32.3 or 32.4.

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

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

Production Rental is defined in Article 13.10.

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

Profit Crude Oil is defined in Article 26.1.

Profit Natural Gas is defined in Article 26.1.

Profit Petroleum is defined in Article 26.1.

Proposed Contract is defined in Article 14.10(a).

Public Company means a public company duly registered and incorporated in the Kurdistan Region and regulated by the GOVERNMENT under the Kurdistan Region Oil and Gas Law.

Public Officer means a civil servant, including a member or employee of a public entity, a member of the Kurdistan National Assembly or a member of the GOVERNMENT.

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

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

"R" Factor is defined in Article 26.4.

Royalty is defined in Article 24.

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

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

Senior Representatives is defined in Article 42.1(a).

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

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

Taxes means all current or future levies, duties, payments, charges, impositions, imposts, withholdings, fees, taxes (including value added tax or other sales or transaction based tax, corporation tax, income tax, capital gains tax, stamp duty, land tax, registration tax, capital and wealth tax, profit tax, dividend tax or withholdings, transfer tax, customs duties, branch or permanent establishment tax or withholdings, tax on income from movable capital and fixed tax on transfers) or contributions payable to or imposed by the **GOVERNMENT**.

Third Party Interest is defined in Article 4.8.

Third Party Participant is defined in Article 4.9.

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

Vice-Chairman is defined in Article 8.1.

1.2 In this Contract, unless the context otherwise requires or is specifically otherwise stated:

- (a) headings are to be ignored;
- (b) "including" and similar words do not imply any limitations;
- (c) singular includes plural and vice versa; and

- (d) reference to an "Article" is to an article of this Contract and to a "Paragraph" is to a paragraph in the Accounting Procedure.

ARTICLE 2 – SCOPE OF THE CONTRACT

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

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

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

- 2.2 Upon the **CONTRACTOR's** request, the **GOVERNMENT** shall provide and/or procure all Permits relating to the Petroleum Operations required by the **CONTRACTOR** to fulfil its obligations under this Contract, including those relating to any extension and renewal periods and including those required by the Government of Iraq. The **GOVERNMENT** (i) represents and warrants to the **CONTRACTOR** that it has not done and has not omitted to do anything that would cause the cancellation or suspension of this Contract or any Permit granted under this Article 2.2 or pursuant to this Contract; and (ii) covenants that it will not do, or omit to do, anything that would cause the cancellation or suspension of this Contract or any Permit granted under this Article 2.2 or pursuant to this Contract. For the avoidance of doubt, nothing in this Article shall affect the rights and obligations of the Parties pursuant to Article 43.
- 2.3 The **CONTRACTOR** shall conduct all Petroleum Operations within the Contract Area at its sole cost, risk and peril on behalf of the **GOVERNMENT**, pursuant to this Contract, including the following operations:

(a) **Technical Services**

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

(b) **Financial Services**

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

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

(c) **Administrative Services**

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

- 2.4 During the term of this Contract, the **CONTRACTOR** shall be responsible to the **GOVERNMENT** for the conduct of Petroleum Operations within the Contract Area pursuant to the terms of this Contract.
- 2.5 Natural resources other than Petroleum shall be excluded from the scope of this Contract, even if the **CONTRACTOR** discovers any such resources when executing its obligations pursuant to this Contract.
- 2.6 The **CONTRACTOR** shall only be entitled to recover Petroleum Costs incurred under this Contract in the event of a Commercial Discovery. Recovery of Petroleum Costs shall occur within the limits provided under Article 25.
- 2.7 During the term of this Contract, Profit Crude Oil and/or Profit Natural Gas produced from Petroleum Operations shall be shared between the Parties in accordance with the provisions of Article 26.
- 2.8 For the execution of Petroleum Operations under this Contract, the **CONTRACTOR** shall have the right to:
- (a) freely access and operate within the Contract Area, as well as any facilities associated with the Petroleum Operations, wherever they may be located;
 - (b) freely use access roads located within the Contract Area and outside the Contract Area for the construction, installation, maintenance, operation and removal of pipelines and other facilities required for the Petroleum Operations;
 - (c) freely use sand, water, electricity and any other natural resources located inside or outside the Contract Area for the Petroleum Operations;
 - (d) use any qualified foreign and local personnel and/or Subcontractors required for the conduct of Petroleum Operations in accordance with Articles 22 and 23. Any foreign personnel working in the Kurdistan Region shall require prior authorisation of the **GOVERNMENT** (such authorisation not to be unreasonably delayed or withheld) and the **GOVERNMENT** shall obtain any authorisation required by the Government of Iraq;
 - (e) import any goods, materials, equipment and/or services required for the Petroleum Operations in accordance with Articles 19, 22 and 30; and
 - (f) freely use land or property belonging to the Kurdistan Region, and the **GOVERNMENT** will assist the **CONTRACTOR** with facilitating the use by the **CONTRACTOR** of any private property in the Kurdistan Region.
- 2.9 In addition to production-sharing arrangements with respect to Petroleum Operations the Contract Area, this Contract defines in Annex C the terms and conditions under

which the **CONTRACTOR** shall develop, construct, finance and own a petroleum refinery in the Kurdistan Region. For the avoidance of doubt, the costs associated with the refinery shall not be recoverable under this Contract.

ARTICLE 3 – CONTRACT AREA

The initial Contract Area covers the Miran Block and extends over an area of one thousand and fifteen square kilometres (1015 km²), as detailed and indicated on the map attached in Annex A and is delimited by the following coordinates:

Point	Latitude (deg min sec)	Longitude (deg min sec)	X (mE)	Y (mN)
A	35 54 09	44 59 05	498 628	3973 147
B	35 50 31	45 04 44	507 123	3966 422
C	35 33 16	45 20 31	531 002	3934 583
D	35 27 32	45 25 00	537 799	3924 011
E	35 21 02	45 18 58	528 718	3911 965
F	35 28 22	45 12 49	519 366	3925 488
G	35 47 18	44 51 55	487 823	3960 471

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

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

ARTICLE 4 – OPTIONS OF GOVERNMENT PARTICIPATION AND THIRD PARTY PARTICIPATION

Government Interest

- 4.1 The **GOVERNMENT** shall have the option of participating through a Public Company in this Contract, in respect of the entire Contract Area, as a **CONTRACTOR** Entity, with an undivided interest in the Petroleum Operations and all the other rights, duties, obligations and liabilities of the **CONTRACTOR** (save as provided in and subject to this Article 4) under this Contract in respect of the Contract Area, of up to twenty-five per cent (25%), and not less than five per cent (5%) (the "**Government Interest**"), such option being referred to herein as the "**Option of Government Participation**". The **GOVERNMENT** shall be entitled to exercise the Option of Government Participation by notifying the **CONTRACTOR** in writing of such election and the size of the Government Interest.
- 4.2 The **GOVERNMENT** may exercise the Option of Government Participation at any time in the period commencing on the Effective Date and ending one hundred and eighty (180) days after the date on which **CONTRACTOR** declares the first Commercial Discovery (which date of declaration is referred to herein as the "**First Commercial Declaration Date**"), by nominating to the **CONTRACTOR**, in writing, a Public Company. If the **GOVERNMENT** does not notify the **CONTRACTOR** of

such election within such period, the Option of Government Participation shall be deemed to have been waived.

4.3 If the **GOVERNMENT** exercises the Option of Government Participation in accordance with Articles 4.1 and 4.2:

- (a) the effective date of such participation shall be the date of the notice by which the **GOVERNMENT** exercises its Option of Government Participation or the First Commercial Declaration Date, whichever is the earlier;
- (b) the Public Company shall participate as a **CONTRACTOR** Entity under this Contract from such effective date, with all its rights, duties, obligations and liabilities under this Contract, save as provided in and subject to the provisions of this Article 4;
- (c) the Public Company shall not have any liability to the other **CONTRACTOR** Entities to contribute its Government Interest share of all Petroleum Costs incurred before the First Commercial Declaration Date and its Government Interest share of such Petroleum Costs shall be the responsibility of the other **CONTRACTOR** Entities, provided always that such other **CONTRACTOR** Entities shall be entitled (through the **CONTRACTOR**) to recover all such Petroleum Costs in accordance with Article 25;
- (d) if, pursuant to the terms of the Joint Operating Agreement, the Public Company participates in the development of the Commercial Discovery, it shall be liable to the other **CONTRACTOR** Entities to contribute its Government Interest share of all Petroleum Costs incurred on or after the First Commercial Declaration Date, with the exception of the Production Bonuses referred to in Article 32, and shall be entitled (through the **CONTRACTOR**) to recover all such Petroleum Costs in accordance with Article 25, including the Petroleum Costs which it has reimbursed pursuant to Article 4.3 (e);
- (e) if such Option of Government Participation is exercised on or after the First Commercial Declaration Date, the Public Company shall, within thirty (30) days of the date on which the **GOVERNMENT** notified the **CONTRACTOR** of its election, reimburse the other **CONTRACTOR** Entities for all Petroleum Costs for which it is liable pursuant to Article 4.3(d) and which have been incurred by such other **CONTRACTOR** Entities on or after the First Commercial Declaration Date but prior to and including the date of the notice pursuant to which the **GOVERNMENT** exercises its Option of Government Participation. From the date of such notice, the Public Company shall pay the Government Interest share of such Petroleum Costs directly; and
- (f) for the purposes of Article 37 of the Kurdistan Region Oil and Gas Law, the Government Interest so assigned shall be deemed to be held by the **GOVERNMENT** and in accordance with the principle in Article 16.13, the Public Company will be individually and separately liable (and not jointly and severally liable with the other **CONTRACTOR** Entities) to the **GOVERNMENT** for its obligations, duties and liabilities under this Contract as a **CONTRACTOR** Entity and the provisions of Article 4.5 shall apply.

- 4.4 The Public Company may, at its discretion, assign part or all of its Government Interest to a third party or parties which is another Public Company duly authorised by the **GOVERNMENT**, provided that in no event shall a transfer be made which would result in the transferor or transferee holding less than a five per cent (5%) participating interest.

In the event of such an assignment to another Public Company, for the purposes of Article 37 of the Kurdistan Region Oil and Gas Law, the Government Interest so assigned shall be deemed to be held by the **GOVERNMENT** and in accordance with the principle in Article 16.13, the Public Company to which such Government Interest is transferred will be individually and separately liable (and not jointly and severally liable with the other **CONTRACTOR** Entities) to the **GOVERNMENT** for its obligations, duties and liabilities under this Contract as a **CONTRACTOR** Entity and the provisions of Article 4.5 shall apply.

- 4.5 Any failure by the Public Company to perform any of its obligations or to satisfy any of its duties or liabilities under this Contract as a **CONTRACTOR** Entity shall not be considered as a default of the other **CONTRACTOR** Entities and shall in no case be invoked by the **GOVERNMENT** to terminate this Contract or exercise any other rights or remedies in respect of such default that may be available to it.

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

- 4.6 A Public Company may assign part or all of its Government Interest to a third party or parties (not being a Public Company) and for the avoidance of doubt the provisions of Articles 39.1, 39.2 and 39.3 shall not apply. Any such assignee shall be jointly and severally liable with the other **CONTRACTOR** Entities.

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

- 4.7 Where a Joint Operating Agreement has been executed by the **CONTRACTOR** Entities prior to any exercise of the Option of Government Participation pursuant to this Article 4, the Public Company nominated by the **GOVERNMENT** shall become a party to such agreement, with any amendments necessary to be consistent with the principles of this Article 4. Where a Joint Operating Agreement is not in place prior to the exercise of the Option of Government Participation pursuant to this Article 4, the Public Company and the other **CONTRACTOR** Entities shall, within a reasonable period of time, negotiate in good faith and enter into a Joint Operating Agreement and shall during the period between the exercising of the Option of Government Participation and the execution of the Joint Operating Agreement, comply with Article 4.14(a) and (b) as if they were provisions of this Contract.

Third Party Interest

- 4.8 The **GOVERNMENT** shall have the option of nominating a third party, in respect of the entire Contract Area, as a **CONTRACTOR** Entity, with an undivided interest in the Petroleum Operations and all the other rights, duties, obligations and liabilities of the **CONTRACTOR** (save as provided in and subject to this Article 4), under this Contract in respect of the Contract Area, of up to twenty-five per cent (25%) and not less than five per cent (5%) (the "**Third Party Interest**"), such option being referred to herein as the "**Option of Third Party Participation**".
- 4.9 The **GOVERNMENT** may exercise the Option of Third Party Participation at any time prior to the date eight (8) months following the Effective Date by nominating to the **CONTRACTOR**, in writing, the size of the Third Party Interest and a company which has adequate resources and capacity to discharge the obligations of a **CONTRACTOR** Entity under this Contract and a Joint Operating Agreement in respect thereof (such a company to be the "**Third Party Participant**"). For the avoidance of doubt, the **GOVERNMENT** may only exercise the Option of Third Party Participation once, in respect of one Third Party Participant, and after such exercise the resulting Third Party Interest may not be increased under this Article 4.
- 4.10 If the **GOVERNMENT** nominates a Third Party Participant pursuant to and in accordance with Articles 4.8 and 4.9, that Third Party Participant shall have the Third Party Interest.
- 4.11 If the **GOVERNMENT** does not nominate a Third Party Participant pursuant to and in accordance with Articles 4.8 and 4.9 then the Option of Third Party Participation shall be deemed to have been waived.
- 4.12 If the Option of Third Party Participation is exercised in accordance with Articles 4.8 and 4.9:
- (a) the effective date of such participation shall be the Effective Date, notwithstanding that the exercise of the Option of Third Party Participation under Article 4.8 occurs after such date;
 - (b) the Third Party Participant shall, upon signature of a binding and enforceable instrument of assignment and novation in respect of this Contract referred to in Article 39.3, pay to the **CONTRACTOR**, by way of cleared funds to a bank account nominated by the **CONTRACTOR**, an amount equivalent to the proportion of Petroleum Costs incurred by the **CONTRACTOR** up until the date of such payment attributable to the Third Party Interest (which Petroleum Costs, for the avoidance of doubt, do not include bonuses payable under this Contract or costs paid pursuant to Annex C);
 - (c) upon payment pursuant to and in accordance with Article 4.12(b) and the execution of the instrument referred to in Article 4.12(b), the Third Party Participant shall participate as a **CONTRACTOR** Entity under this Contract as if it had been a **CONTRACTOR** Entity from the Effective Date, with all its rights, duties, obligations and liabilities under this Contract; and

- (d) where a Joint Operating Agreement has been executed by the **CONTRACTOR** Entities prior to any exercise of the Option of Third Party Participation pursuant to Article 4.8 and 4.9, the Third Party Participant shall, upon signature of the instrument referred to in Article 4.12(b), become a party to such Joint Operating Agreement on the terms thereof.
- (e) If a Joint Operating Agreement is not in place prior to the **GOVERNMENT** exercising the Option of Third Party Participation, then the Third Party Participant and the other **CONTRACTOR** Entities shall, within a reasonable period of time, negotiate in good faith and enter into a Joint Operating Agreement and shall during the period between the exercising of the Option of Third Party Participation and the execution of the Joint Operating Agreement, comply with Article 4.14(a) and (b) as if they were provisions of this Contract.

Order of Exercising Options

- 4.13 Notwithstanding Articles 4.8 to 4.12, if the **GOVERNMENT** exercises the Option of Government Participation:
- (a) after the **GOVERNMENT** has exercised the Option of Third Party Participation, the Government Interest shall be assigned under this Article 4 to the Public Company by the **CONTRACTOR** Entities pro rata to their respective participating interests under this Contract; and
 - (b) prior to the **GOVERNMENT** exercising the Option of Third Party Participation, then the Third Party Interest shall be reduced by a percentage so as to put the other **CONTRACTOR** Entities (other than the Person holding the Government Interest) and the Third Party Participant in the position they would have been in had the Option of Third Party Participation been exercised before the Option of Government Participation.

Joint Operating Agreement Provisions

- 4.14 Any Joint Operating Agreement entered into in relation to this Contract shall be consistent with the principles of this Article 4 and shall provide as follows:
- (a) all decisions of any operating committee established under such Joint Operating Agreement shall require the affirmative vote of an agreed percentage of participating interests held thereunder, which in any event shall be not more than seventy five per cent (75%); and
 - (b) in the event of a proposed transfer by any **CONTRACTOR** Entity of part of a participating interest under such Joint Operating Agreement, including any Government Interest or Third Party Interest:
 - (i) no transfer may be made which would result in the transferor or transferee holding less than a five per cent (5%) participating interest;
 - (ii) the proposed third party assignee must demonstrate to the reasonable satisfaction of each of the extant **CONTRACTOR** Entities that it has the financial capability to perform its payment obligations under the Contract and under the Joint Operating Agreement; and

- (iii) the proposed third party assignee shall enter into an instrument satisfactory to each of the extant **CONTRACTOR** Entities so as to assume and to perform the obligations of the transferor.

ARTICLE 5 – OPERATOR

- 5.1 The **CONTRACTOR** hereby designates Heritage Energy Middle East Limited to act as the Operator on behalf of the **CONTRACTOR** for the execution of the Petroleum Operations. The **CONTRACTOR** shall at any time have the right to appoint another entity as the Operator, upon giving the **GOVERNMENT** not less than thirty (30) days prior written notice of such appointment.
- 5.2 The **CONTRACTOR** shall submit to the **GOVERNMENT** for comment any agreement regarding or regulating the Operator's appointment and its conduct of Petroleum Operations on behalf of the **CONTRACTOR** pursuant to this Contract prior to execution of such agreement.
- 5.3 In the event of the occurrence of either of the following, the **GOVERNMENT** may require the **CONTRACTOR** to appoint another entity as Operator as soon as is reasonably practicable:
- (a) if an order has been passed in court declaring the bankruptcy, liquidation, or dissolution of the Operator; or
 - (b) if the Operator terminates the activities under this Contract delegated to it by the **CONTRACTOR** or a material proportion thereof, and, as a result the **CONTRACTOR** fails to fulfil its obligations under the Contract.

ARTICLE 6 – TERM OF THE CONTRACT

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

Exploration Period

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

It is understood that the right of the **CONTRACTOR** to accede to the next Sub-Period or any extension thereof shall be subject to fulfilment of the Minimum Exploration Obligations or minimum work obligations applicable to the previous Sub-Period or extension thereof (as the case may be).

- 6.3 During the Exploration Period, the **CONTRACTOR** shall pay to the **GOVERNMENT**, in arrears, an annual surface rental for the Contract Area, as may be reduced by relinquishment from time to time pursuant to Article 7, of ten Dollars (US\$10) per square kilometre per Contract Year ("**Exploration Rental**"). Such Exploration Rental shall be considered as a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 6.4 If the **CONTRACTOR** decides not to enter into the Second Sub-Period, it shall notify the **GOVERNMENT** at least thirty (30) days prior to the expiry of the First Sub-Period and, provided that the data from the First Exploration Well demonstrates that there is no reasonable technical case for drilling the Second Exploration Well in the Contract Area, the Exploration Period shall expire at the end of the First Sub-Period, unless the First Sub-Period has been extended pursuant to Article 6.5 and/or Article 6.6.
- 6.5 If the **CONTRACTOR** has fulfilled its Minimum Exploration Obligations for a Sub-Period of the Exploration Period but considers that additional work is required prior:
- (a) to deciding to submit an Appraisal Work Program and Budget as provided under Article 12.2 in respect of a Discovery, or
 - (b) to deciding to declare a Discovery as a Commercial Discovery in accordance with Article 12.6(a) or 14.5(a), which additional work may include the preparation and/or execution of an Appraisal Work Program and Budget as provided under Article 12.2 and/or Gas Marketing Operations,

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

- 6.6 Without prejudice to Article 6.5, upon expiry of the initial term of the Exploration Period, if it considers it has not completed its exploration evaluation of the Contract Area, the **CONTRACTOR** shall be entitled to an extension of the Second Sub-Period, provided it notifies the **GOVERNMENT** in writing at least thirty (30) days prior to the end of such Sub-Period, together with a proposal for a minimum work obligation for such extension. Any such extension shall not exceed one (1) Contract Year. Upon the expiry of such extension, if it considers it has still not completed its evaluation of the Contract Area, the **CONTRACTOR** shall be entitled to a further extension of one (1) Contract Year provided that it notifies the **GOVERNMENT** in writing at least thirty (30) days prior to the end of the original extension. The right of the **CONTRACTOR** to accede to the further extension shall be subject to fulfilment of the minimum work obligations applicable to the original extension.
- 6.7 Subject to Article 6.4, at any time during the Exploration Period, upon thirty (30) days prior notice to the **GOVERNMENT**, the **CONTRACTOR** shall have the right to withdraw from this Contract provided that the outstanding Minimum Exploration Obligations relating to the then current Sub-Period have been completed in accordance with the Contract, or it has paid to the **GOVERNMENT** the amounts

specified in Article 10.2 or Article 10.3, whichever is applicable to the then current Sub-Period.

- 6.8 If no Commercial Discovery has been made at the end of the Exploration Period (including any extensions thereof) this Contract shall terminate.
- 6.9 If a Discovery is made within the maximum Exploration Period of seven (7) Contract Years (as provided in Article 6.2), and if the **CONTRACTOR** considers it has not had time to complete sufficient Gas Marketing Operations to declare the Discovery a Commercial Discovery pursuant to Article 12.6(a) or 14.5(a), the **CONTRACTOR** shall be entitled to request an extension of the Exploration Period (notwithstanding the maximum period provided in Article 6.2), provided it so requests the **GOVERNMENT** in writing at least thirty (30) days prior to the end of the maximum Exploration Period, together with a proposal for Gas Marketing Operations to be undertaken during such extension. If granted by the **GOVERNMENT**, any such extension shall not exceed two (2) Contract Years. Upon the expiry of such extension, if it considers it has still not completed its Gas Marketing Operations relating to such Discovery, the **CONTRACTOR** shall be entitled to request a further extension of two (2) Contract Years provided that it so requests the **GOVERNMENT** in writing at least thirty (30) days prior to the end of the original extension, together with a proposal for Gas Marketing Operations to be undertaken during such extension.

Development Period

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

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

- (a) five (5) Years for Crude Oil and any Associated Natural Gas, and/or
- (b) five (5) Years for Non-Associated Natural Gas.

- 6.13 The **CONTRACTOR** shall have the right to terminate Production Operations for any Production Area at any time during the term of this Contract, subject to giving notice to the **GOVERNMENT** of at least ninety (90) days. This Contract shall terminate on the expiry date of the last Production Area or when Production Operations for all Production Areas have terminated.

ARTICLE 7 - RELINQUISHMENTS

- 7.1 Subject to the provisions of Articles 7.2 and 7.3, the **CONTRACTOR** shall surrender portions of the Contract Area as follows:
- (a) at the end of the initial term of the Exploration Period referred to in Article 6.2, twenty five per cent (25%) of the net area determined by subtracting the Production Areas from the initial Contract Area;
 - (b) at the end of the first extension period entered into under this Contract after the end of the initial term of the Exploration Period referred to in Article 6.2, an additional twenty five per cent (25%) of the net area determined by subtracting the Production Areas from the remaining part of the Contract Area; and
 - (c) at the end of the Exploration Period (including all extensions thereof), all of the remaining area that is not in a Production Area.
- 7.2 For the application of Article 7.1:
- (a) any areas already relinquished pursuant to Article 7.4 shall be deducted from areas to be surrendered; and
 - (b) the **CONTRACTOR** shall have the right to determine the area, shape and location of the Contract Area to be kept, provided that such surrendered portions of the Contract Area shall be in contiguous blocks.
- 7.3 If the relinquishment referred to in Article 7.1 can only be achieved by including part of an Appraisal Area, then these percentages shall be reduced to exclude such Appraisal Area.
- 7.4 During the Exploration Period, the **CONTRACTOR** may at the end of each Contract Year surrender all or any part of the Contract Area by written notice sent to the **GOVERNMENT** at least thirty (30) days in advance of the proposed date of surrender, subject to the provisions of this Article 7.4. Such voluntary surrenders during the Exploration Period shall be deemed equal to the obligatory relinquishments referred to under Article 7.1. This Contract shall terminate in the event of the surrender of the entire Contract Area.

- 7.5 No surrender provided under Article 7.4 shall exempt the **CONTRACTOR** from its outstanding obligations under this Contract. In the event the **CONTRACTOR** elects to surrender the entire Contract Area without having fulfilled the Minimum Exploration Obligations relating to the then current Sub-Period as provided in Article 10.2 or Article 10.3, the **CONTRACTOR** shall pay to the **GOVERNMENT** the relevant outstanding amount as detailed in Article 10.2 or Article 10.3, as the case may be.
- 7.6 The boundaries of the portion of the Contract Area to be relinquished by the **CONTRACTOR** shall be communicated to the **GOVERNMENT** by written notice at least thirty (30) days in advance of the relevant date for relinquishment, pursuant to Article 7.1.

ARTICLE 8 – MANAGEMENT COMMITTEE

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

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

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

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

- 8.2 The Management Committee shall review, deliberate, decide and give advice, suggestions and recommendations to the Parties regarding the following subject matters:
- (a) Work Programs and Budgets;
 - (b) the **CONTRACTOR**'s activity reports;
 - (c) production levels submitted by the **CONTRACTOR**, based on prudent international petroleum industry practice;
 - (d) Accounts of Petroleum Costs;
 - (e) procurement procedures for potential Subcontractors, submitted by the **CONTRACTOR** in accordance with Article 19.3;

- (f) Development Plan and Budget for each Production Area;
 - (g) any matter having a material adverse affect on Petroleum Operations;
 - (h) any other subject matter of a material nature that the Parties are willing to consider.
- 8.3 Each of the **GOVERNMENT** and the **CONTRACTOR** shall have one (1) vote in the Management Committee. The Management Committee cannot validly deliberate unless each of the **GOVERNMENT** and the **CONTRACTOR** is represented by at least one (1) of its members or its deputy.

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

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

- 8.4 In the event that, during the Exploration Period, no agreement is reached at the second meeting of the Management Committee, as provided for in Article 8.3, or unanimous approval is not obtained, as required pursuant to Article 8.5; then the proposal made by the **CONTRACTOR** shall be deemed adopted by the Management Committee.

- 8.5 Notwithstanding the provisions of Article 8.3, and subject to Article 8.4, unanimous approval of the Management Committee shall be required for:

- (a) approval of, and any material revision to, any Exploration Work Program and Budget prepared after the first Commercial Discovery in the Production Area relating to such Commercial Discovery;
- (b) approval of, and any material revision to, the Development Plan, the production schedule, lifting schedule and Development and Production Work Programs and Budgets;
- (c) establishment of rules of procedure for the Management Committee;
- (d) any insurance issues over which the Management Committee has authority;
- (e) approval of, and any material revision to, procurement procedures for goods and/or services, submitted by the **CONTRACTOR** in accordance with Article 19.3 (unless such procedures have been deemed approved by the Management Committee in accordance with Article 19.3);
- (f) approval of, and any material revision to, any proposed pipeline project, submitted by **CONTRACTOR** in accordance with Article 33.3;
- (g) approval of a first rate bank in which to place the Decommissioning Reserve Fund, in accordance with Article 38.1;

- (h) approval of, and any material revision to, any proposed Decommissioning Plan submitted pursuant to Article 38.7 on any Decommissioning Work Program and Budget or Gas Marketing Work Program and Budget;
 - (i) any Terms of Reference which are required to be prepared and agreed for the purposes of expert determination, pursuant to Article 42.2;
 - (j) approval of any costs in excess of ten per cent (10%) above any Budget; and
 - (k) any matter having a material adverse effect on Petroleum Operations.
- 8.6 Ordinary meetings of the Management Committee shall take place in the Kurdistan Region, alternately at the offices of the **GOVERNMENT** and those of the **CONTRACTOR**, or at any other location agreed between Parties, at least twice a Contract Year prior to the date of the first Commercial Discovery and three times a Contract Year thereafter.
- 8.7 Either the **GOVERNMENT** or the **CONTRACTOR** may call an extraordinary meeting of the Management Committee to discuss important issues or developments related to Petroleum Operations, subject to giving reasonable prior notice, specifying the matters to be discussed at the meeting, to the other Party. The Management Committee may from time to time make decisions by correspondence provided all the members have indicated their approval of such decisions in such correspondence.
- 8.8 Unless at least one (1) member or its deputy of each of the **GOVERNMENT** and the **CONTRACTOR** is present, the Management Committee shall be adjourned for a period not to exceed eight (8) days. The Party being present shall then notify the other Party of the new date, time and location for the meeting.
- 8.9 The agenda for meetings of the Management Committee shall be prepared by the **CONTRACTOR** in accordance with instructions of the Chairman and communicated to the Parties at least fifteen (15) days prior to the date of the meeting. The agenda shall include any subject matter proposed by either the **GOVERNMENT** or the **CONTRACTOR**. Decisions of the Management Committee will be made at the meetings. The **CONTRACTOR** shall be responsible for preparing and keeping minutes of the decisions made at the meetings. Copies of such minutes shall be forwarded to each Party for review and approval. Each Party shall review and approve such minutes within ten (10) days of receipt of the draft minutes. A Party who fails to notify in writing its approval or disapproval of such minutes within such ten (10) days shall be deemed to have approved the minutes.
- 8.10 If required, the Management Committee may request the creation of a technical sub-committee or any other sub-committee to assist it. Any such sub-committee shall be composed of a reasonable number of experts from the **GOVERNMENT** and the **CONTRACTOR**. After each meeting, the technical sub-committee or any other sub-committee shall deliver a written report to the Management Committee.
- 8.11 Any costs and expenditure incurred by the **CONTRACTOR** for meetings of the Management Committee or any technical sub-committee or any other sub-committee shall be considered as Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

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ARTICLE 9 – GUARANTEES

- 9.1 Each **CONTRACTOR** Entity shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice received by the **CONTRACTOR** Entity within thirty (30) days of the Effective Date, with a corporate guarantee in a form as shall be agreed in good faith between the **GOVERNMENT** and each **CONTRACTOR** Entity not later than ninety (90) days after the Effective Date, provided that such corporate guarantee shall be given only in respect of the Minimum Financial Commitment for the First Sub-Period and shall expire automatically upon completion of the performance of the Minimum Exploration Obligations set out in Article 10.2(d) and (e) or expenditure of such Minimum Financial Commitment, whichever is the earlier.
- 9.2 Not later than sixty (60) days after the commencement of the Second Sub-Period, each **CONTRACTOR** Entity shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice received by the **CONTRACTOR** Entity within thirty (30) days of such commencement date, with a corporate guarantee in:
- (a) the form substantially agreed between the **GOVERNMENT** and each **CONTRACTOR** Entity for the First Sub-Period, if any, subject to making the changes necessary in order for the corporate guarantee to apply only to the Second Sub-Period, or
 - (b) if there is no agreed form, in a form as shall be agreed in good faith between the **GOVERNMENT** and each **CONTRACTOR** Entity not later than ninety (90) days after the **GOVERNMENT**'s notice,

and provided in each case that such corporate guarantee shall be given only in respect of the Minimum Financial Commitment for the Second Sub-Period and that such corporate guarantee shall expire automatically upon completion of the performance of the Minimum Exploration Obligations set out in Article 10.3 (b) or expenditure of such Minimum Financial Commitment, whichever is the earlier.

- 9.3 In the event of an assignment by a **CONTRACTOR** Entity in accordance with Article 39, the relevant third party assignee shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice given to such assignee within thirty (30) days of the Effective Date, with a corporate guarantee in the form agreed pursuant to Article 9.1 or 9.2, as applicable to the then current Sub-Period or, in the absence of any such agreed form of corporate guarantee, in a form as shall be agreed in good faith between the **GOVERNMENT** and such assignee not later than ninety (90) days after the effective date of the assignment, provided that such corporate guarantee shall be given only in respect of the Minimum Financial Commitment for the then current Sub-Period, and shall expire automatically upon completion of the performance of the Minimum Exploration Obligations set out in Articles 10.2(d) and (e) or Article 10.3(b), as the case may be, or expenditure of such Minimum Financial Commitment, whichever is the earlier.

ARTICLE 10 – MINIMUM EXPLORATION WORK OBLIGATIONS

- 10.1 The **CONTRACTOR** shall start Exploration Operations within thirty (30) days of Management Committee approval of the Exploration Work Program and Budget in accordance with Article 8. The **CONTRACTOR** shall perform geological, geophysical and/or drilling works as provided under Articles 10.2 to 10.3 (the "**Minimum Exploration Obligations**"). If applicable, the said Minimum Exploration Obligations shall be performed during each Sub-Period in accordance with prudent international petroleum industry practice.
- 10.2 During the First Sub-Period, the **CONTRACTOR** shall:
- (a) carry out geological and geophysical studies, comprising the following:
 - (i) the compilation of a technical database;
 - (ii) the performance of a remote sensing study;
 - (iii) a field visit to verify initial geological and geophysical work and remote sensing results and plan for two dimensional seismic acquisition; and
 - (b) carry out a data search for existing data specific to this Contract Area, comprising the following:
 - (i) well data, if available, for example, electric logs;
 - (ii) seismic data and gravity data, if available; and
 - (iii) reprocess seismic data, if available;
 - (c) perform field work comprising structural, stratigraphic and lithologic mapping and sampling;
 - (d) acquire, process and interpret two hundred and fifty (250) line kilometres of two dimensional seismic data, committing for this purpose a minimum financial amount of one million Dollars (US\$1,000,000); and
 - (e) drill one (1) Exploration Well (the "**First Exploration Well**"), committing for this purpose a minimum financial amount of seven million five hundred thousand Dollars (US\$7,500,000).
- 10.3 During the Second Sub-Period, the **CONTRACTOR** shall:
- (a) acquire, process and interpret further seismic data (being either two dimensional or three dimensional), if the **CONTRACTOR** considers that the results from the First Exploration Well justify the acquisition of further seismic data; and
 - (b) drill one (1) Exploration Well (the "**Second Exploration Well**") committing for this purpose a minimum financial amount of seven million five hundred thousand Dollars (US\$7,500,000), unless the data from the First Exploration

Well demonstrates that there is not a reasonable technical case for drilling the Second Exploration Wells in the Contract Area.

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

- (a) Minimum Exploration Obligations in the Second Sub-Period shall only apply in the event the **CONTRACTOR** has not elected to notify the **GOVERNMENT** that it will not enter into the Second Sub-Period, in accordance with and subject to Article 6.4.
- (b) Subject to Article 10.4(a), the **CONTRACTOR** shall be required to meet its Minimum Exploration Obligations for the applicable Sub-Period, even if this entails exceeding the Minimum Financial Commitment for such Sub-Period. If the **CONTRACTOR** has satisfied its Minimum Exploration Obligations without having spent the total Minimum Financial Commitment for such Sub-Period, it shall be deemed to have satisfied its Minimum Exploration Obligations for such Sub-Period.
- (c) Each Exploration Well shall be drilled to the depth agreed by the Management Committee unless:
 - (i) the formation is encountered at a lesser depth than originally anticipated;
 - (ii) basement is encountered at a lesser depth than originally anticipated;
 - (iii) in the **CONTRACTOR**'s sole opinion continued drilling of the relevant Exploration Well presents a hazard due to the presence of abnormal or unforeseen conditions;
 - (iv) insurmountable technical problems are encountered rendering it impractical to continue drilling with standard equipment; or
 - (v) petroleum formations are encountered whose penetration requires laying protective casing that does not enable the depth agreed by the Management Committee to be reached.

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

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

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

ARTICLE 11 – EXPLORATION WORK PROGRAMS AND BUDGETS

- 11.1 Within forty-five (45) days following the Effective Date, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget relating to Exploration Operations (the "**Exploration Work Program and Budget**") for the remainder of the Calendar Year. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit a proposed Exploration Work Program and Budget to the Management Committee for the following Calendar Year.
- 11.2 Each Exploration Work Program and Budget shall include details of, but not be limited to, the following:
- (a) work to be undertaken;
 - (b) materials, goods and equipment to be acquired;
 - (c) cost estimate of services to be provided, including services by third parties and/or Affiliated Companies of any **CONTRACTOR** Entity; and
 - (d) estimated expenditures, broken down by cost centre in accordance with the Accounting Procedure.
- 11.3 The Management Committee shall meet within sixty (60) days following its receipt of **CONTRACTOR**'s proposal to examine and approve the Exploration Work Program and Budget.
- 11.4 If the **GOVERNMENT** requests any modification to the Exploration Work Program and Budget, the Management Committee shall meet to discuss the Exploration Work Program and Budget and proposed modifications thereto within the sixty (60) day period referred to in Article 11.3. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 11.5 The **CONTRACTOR** shall be authorised to make expenditures not budgeted in an approved Exploration Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten per cent (10%) of the approved Exploration Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt all excess expenditures shall be

recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditures above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.

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

ARTICLE 12 – DISCOVERY AND DEVELOPMENT

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

Appraisal Work Program and Budget

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

The Appraisal Work Program and Budget shall include the following:

- (a) an appraisal works program and budget, in accordance with prudent international petroleum industry practice;
- (b) an estimated time-frame for completion of appraisal works; and
- (c) the delimitation of the area to be evaluated, the surface of which shall not exceed twice (2 x) the surface of the geological structure or prospect to be appraised (the "Appraisal Area").

- 12.3 If, following a Discovery, a rig acceptable to the **CONTRACTOR** is available to drill a well, the **CONTRACTOR** may drill any additional Exploration Well or any Appraisal Well deemed necessary by the **CONTRACTOR** before or during the Management Committee's review of the Discovery Report provided in accordance with Article 12.1 or its review of the Appraisal Work Program and Budget.

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

Appraisal Report

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

- 12.5 The Appraisal Report shall include the following:

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

Declaration of Commercial Discovery

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

- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery;
- (b) the **CONTRACTOR** has determined that the Discovery is not a Commercial Discovery;
- (c) the **CONTRACTOR** has determined that the Discovery is a significant Discovery, which may become a Commercial Discovery subject to additional exploration and/or appraisal works within or outside of the Appraisal Area; or

- (d) the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may become a Commercial Discovery subject to Gas Marketing Operations, in accordance with Article 14.5.

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

Development Plan

12.8 If the Discovery has been declared a Commercial Discovery by the **CONTRACTOR** pursuant to Article 12.6(a) or Article 14.5(a), the **CONTRACTOR** shall submit a proposed Development Plan to the Management Committee within one hundred eighty (180) days following such declaration. The Development Plan shall be in accordance with prudent international petroleum industry practice. Except with the consent of the **GOVERNMENT**, such Development Plan shall include details of the following as applicable:

- (a) the delimitation of the Production Area, taking into account the results of the Appraisal Report regarding the importance of the Petroleum Field within the Appraisal Area;
- (b) drilling and completion of Development Wells;
- (c) drilling and completion of water or Natural Gas injection wells;
- (d) laying of gathering pipelines;
- (e) installation of separators, tanks, pumps and any other associated production and injection facilities for the production;
- (f) treatment and transportation of Petroleum to the processing and storage facilities onshore or offshore;
- (g) laying of export pipelines inside or outside the Contract Area to the storage facility or Delivery Point;
- (h) construction of storage facilities for Petroleum;
- (i) plan for the utilisation of Associated Natural Gas;
- (j) training commitment in accordance with Article 23;
- (k) a preliminary decommissioning and site restoration plan;
- (l) all contracts and arrangements made or to be made by the **CONTRACTOR** for the sale of Natural Gas;
- (m) to the extent available, all contracts and arrangements made or to be made by Persons in respect of that Natural Gas downstream of the point at which it is to

be sold by the **CONTRACTOR** and which are relevant to the price at which (and other terms on which) it is to be sold by the **CONTRACTOR** or are otherwise relevant to the determination of the value of it for the purposes of this Contract, but not beyond the point at which it is first disposed of in an Arm's Length Sale;

- (n) each **CONTRACTOR** Entity's plans for financing its interest, if any; and
 - (o) any other operations not expressly provided for in this Contract but reasonably necessary for Development Operations, Production Operations and delivery of Petroleum produced, in accordance with prudent international petroleum industry practice.
- 12.9 The Management Committee shall use its best efforts to approve the Development Plan within sixty (60) days after its receipt of such plan. The Development Period for each Commercial Discovery within a Development Plan shall be extended for the number of days in excess of such sixty (60) day period that it takes for the Management Committee to approve the Development Plan. The Development Plan shall be considered approved by the **GOVERNMENT** if the **GOVERNMENT**, through its representatives on the Management Committee, indicates its approval in writing.
- 12.10 If the **GOVERNMENT** requests any modifications to the Development Plan, then the Management Committee shall meet within sixty (60) days of receipt by the **CONTRACTOR** of the **GOVERNMENT**'s written notification of requested modifications accompanied by all the documents justifying such request, and shall discuss such request. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at such meeting or in writing prior to such meeting. Any modification approved by the Management Committee at such meeting or within a further period of thirty (30) days from the date of such meeting shall be incorporated into the Development Plan which shall then be deemed approved and adopted.
- 12.11 If the **CONTRACTOR** makes several Commercial Discoveries within the Contract Area each such Commercial Discovery will have a separate Production Area. The **CONTRACTOR** shall be entitled to develop and to produce each Commercial Discovery and the **GOVERNMENT** shall provide the appropriate Permits covering each Production Area. In case the area covered by the Commercial Discovery extends beyond the boundaries of the Contract Area, and to the extent such area outside the Contract Area is not the subject of a Petroleum Contract (as defined in the Kurdistan Region Oil and Gas Law) with a third party, the provisions of Article 34.2 shall apply.

ARTICLE 13 - DEVELOPMENT AND PRODUCTION WORK PROGRAMS AND BUDGET

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

Approval of Development Works Program and Budget

- 13.2 Within ninety (90) days following approval of the Development Plan by the Management Committee, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget for Development Operations (the "**Development Work Program and Budget**") to be carried out in the Production Area for the duration of the Development Operations. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit to the Management Committee updates in respect of its Development Work Program and Budget. To enable the Management Committee to forecast expenditures, each Development Work Program and Budget shall include details of the following:
- (a) works to be carried out;
 - (b) material and equipment to be acquired by main categories;
 - (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any **CONTRACTOR** Entity; and
 - (d) categories of general and administrative expenditure.
- 13.3 If any modification to the Development Work Program and Budget is requested by the **GOVERNMENT**, the Management Committee shall meet to discuss the Development Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Development Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 13.4 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Development Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten per cent (10%) of the approved Development Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt, all excess expenditures shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditures above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.
- 13.5 In cases of emergency, the **CONTRACTOR** may incur such additional expenditures as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the

avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

Approval of Annual Production Works Programs and Budget

- 13.6 No later than 1 October of the Calendar Year preceding the estimated commencement of production pursuant to an approved Development Plan and thereafter no later than 1 October in each Calendar Year, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget for Production Operations (the "**Production Work Program and Budget**") for the following Calendar Year. To enable the Management Committee to forecast expenditures, the Production Work Program and Budget shall include details of the following:
- (a) works to be carried out;
 - (b) material and equipment to be acquired by main categories;
 - (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any **CONTRACTOR** Entity; and
 - (d) categories of general and administrative expenditure.
- 13.7 If any modification to the Production Work Program and Budget is requested by the **GOVERNMENT**, the Management Committee shall meet to discuss the Production Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Production Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 13.8 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Production Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten per cent (10%) of the approved Production Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, all excess expenditures shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditure above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.
- 13.9 In cases of emergency, the **CONTRACTOR** may incur such additional expenditure as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 13.10 After the commencement of Commercial Production the **CONTRACTOR** shall pay to the **GOVERNMENT**, in arrears, an annual surface rental for the Production Area, of one hundred Dollars (US\$100) per square kilometre per Contract Year

("Production Rental"). Such Production Rental shall be considered as a Petroleum Cost and shall be recovered by the CONTRACTOR in accordance with the provisions of Articles 1 and 25.

ARTICLE 14 – NATURAL GAS

Use for the Petroleum Operations

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

Associated Natural Gas

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

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

Non Associated Natural Gas

- 14.4 Until an approved Natural Gas sales contract is executed in respect of all volumes of Natural Gas expected to be produced, the **CONTRACTOR** shall be entitled during the Exploration Period and the Development Period to carry out Gas Marketing Operations.
- 14.5 If, pursuant to Article 12.6(d), the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may become a Commercial Discovery subject to Gas Marketing Operations, it shall carry out Gas Marketing Operations, at the end of which it shall submit a written statement to the Management Committee specifying that:
- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery; or
 - (b) the **CONTRACTOR** has determined that the Discovery is not a Commercial Discovery.
- 14.6 For the purpose of this Contract, "Gas Marketing Operations" means any activity under this Contract relating to the marketing of Non-Associated Natural Gas, including any evaluation to find a commercial market for such Non-Associated Natural Gas and/or to find a commercially viable technical means of extraction of such Non-Associated Natural Gas and may include activities related to evaluating the quantities of Non-Associated Natural Gas to be sold, its quality, the geographic location of potential markets to be supplied as well as evaluating the costs of production, transportation and distribution of the Non-Associated Natural Gas from the Delivery Point to the relevant market.
- 14.7 All costs and expenditure incurred by the **CONTRACTOR** in the performance of the activities in relation to the Gas Marketing Operations shall be considered Petroleum Costs.
- 14.8 No later than 1 October of the Calendar Year preceding the Calendar Year in which any Gas Marketing Operations are due to occur, the **CONTRACTOR** shall prepare and submit to the Management Committee its Gas Marketing Work Program and Budget for the following Calendar Year. To enable the Management Committee to forecast expenditures, the Gas Marketing Work Program and Budget shall include the following:
- (a) works to be carried out;
 - (b) type of services to be provided, distinguishing between third parties and Affiliated companies of any **CONTRACTOR** Entity; and
 - (c) categories of general and administrative expenditure.

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

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

- 14.9 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Gas Marketing Work Program and Budget provided that the aggregate amount of such expenditure shall not exceed ten per cent (10%) of the approved Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, all excess expenditures shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25, provided that any excess expenditure above the ten per cent (10%) limit shall only be recovered with the unanimous approval of the Management Committee.
- 14.10 If any Non-Associated Natural Gas is discovered within the Contract Area, and the **CONTRACTOR** reasonably considers that the Non-Associated Natural Gas Discovery will only be a Commercial Discovery if certain terms of this Contract are amended, it shall be entitled to request amendments to this Contract, with its reasons. The **GOVERNMENT** shall in good faith give reasonable consideration to the **CONTRACTOR**'s proposed amendment and reasons and the Parties shall in good faith attempt to agree on the necessary amendments to the Contract. If the Parties are unable to agree on such amendments, and the Exploration Period expires without the **CONTRACTOR** having declared such Discovery to be a Commercial Discovery in accordance with Article 12.6(a) or Article 14.5(a), and subsequently within a period of eight (8) years from the end of such Exploration Period, the **GOVERNMENT** reaches agreement with any third party to develop such Discovery (the "Gas Development"), then the following provisions shall apply:
- (a) either before or upon agreement in relation to the Gas Development having been reached (and whether or not such agreement is recorded in a fully termed production sharing and/or operating or other like agreement), but before such agreement is signed (the "**Proposed Contract**") (subject only to the rights of each **CONTRACTOR** Entity to pre-empt such Proposed Contract pursuant to Article 14.10(b) and such conditions as may be applicable), the **GOVERNMENT** shall, as soon as reasonably practicable after the occurrence of such circumstances, serve on each of the **CONTRACTOR** Entities, a notice to that effect and shall with such notice provide such information and main terms of such agreement as the **CONTRACTOR** Entities may reasonably request to determine if they will exercise their rights (the "**Agreed Terms**"), including:
- (i) the identity of such third party;
 - (ii) the effective date of the Proposed Contract;
 - (iii) the applicable commercial terms, including bonuses, royalties, cost recovery, profit sharing, taxation and any other similar terms; and
 - (iv) all and any material conditions to which the Proposed Contract is subject.

(b) Upon a request from any **CONTRACTOR** Entity, the **GOVERNMENT** will provide all the **CONTRACTOR** Entities with such further information and terms as may be reasonably requested by any **CONTRACTOR** Entity. Within one hundred and eighty days (180) days after receipt of a notice and any further information under Article 14.10(a) in relation to a Proposed Contract each of the **CONTRACTOR** Entities shall elect either:

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

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

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

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

Flaring

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

ARTICLE 15 – ACCOUNTING AND AUDITS

- 15.1 The **CONTRACTOR** shall keep in its offices in the Kurdistan Region copies of all books and accounts of all revenues relating to the Petroleum Operations and all Petroleum Costs (the "Accounts"), except during the Exploration Period, when the **CONTRACTOR** shall be entitled to keep the Accounts at its headquarters Abroad. The Accounts shall reflect in detail expenditure incurred as a function of the quantities and value of Petroleum produced, and shall be kept for a period of five (5) years. All Accounts which are made available to the **GOVERNMENT** in accordance with the provisions of this Contract shall be prepared in the English language. The Accounts shall be kept in accordance with prudent international petroleum industry practice and in accordance with the provisions of the Accounting Procedure. The Accounts shall be kept in Dollars, which shall be the reference currency for the purposes of this Contract.
- 15.2 Within ninety (90) days following the end of each Calendar Year, the **CONTRACTOR** shall submit to the **GOVERNMENT** a summary statement of all Petroleum Costs incurred during the said Calendar Year. The summary statement shall also include a profit calculation pursuant to the provisions of Article 26.
- 15.3 The **GOVERNMENT** shall have the right:
- (a) to request an audit of the Accounts with respect to each Calendar Year within a period of two (2) Calendar Years following the end of such Calendar Year (the "Audit Request Period"); and
 - (b) to retain an auditor of international standing familiar with international petroleum industry accounting practice to undertake or assist the **GOVERNMENT** to undertake the audit.

Notwithstanding paragraphs (a) and (b) of this Article 15.3, the **GOVERNMENT** shall have the right to audit the Accounts with respect to each Calendar Year at any time in the case of manifest error or fraud.

- 15.4 The reasonable cost of retaining an auditor pursuant to Article 15.3 shall be borne by the **CONTRACTOR** and treated as a Petroleum Cost for the purpose of cost recovery under Articles 1 and 25.
- 15.5 During the Audit Request Period for any Calendar Year but not thereafter, the **GOVERNMENT**, acting reasonably and in accordance with prudent international petroleum industry practice, may request in writing all reasonably available information and justifications for its audit of Petroleum Costs.
- 15.6 Should the **GOVERNMENT** consider, on the basis of data and information available, that the **CONTRACTOR** made a material mistake or there is any irregularity in respect of the Accounts and considers that any corrections, adjustments or amendments should be made, the **GOVERNMENT** shall make any audit exceptions in writing and notified to the **CONTRACTOR** within six (6) Months of the date of request referred to in Article 15.3, and failure to give such written exception within such time shall be deemed to be an acknowledgement of the correctness of the **CONTRACTOR's** Accounts.
- 15.7 In respect of any audit exception made by the **GOVERNMENT** in accordance with Article 15.6, the **CONTRACTOR** shall then have sixty (60) days to make necessary corrections, adjustments or amendments or to present its comments in writing or request a meeting with the **GOVERNMENT**. The **GOVERNMENT** shall within thirty (30) days of the **CONTRACTOR's** response, notify the **CONTRACTOR** in writing of its position on the corrections, adjustments, amendments or comments. If thereafter there still exists a disagreement between the **GOVERNMENT** and the **CONTRACTOR**, the dispute will be settled in accordance with Article 15.9.
- 15.8 In addition to the annual statements of Petroleum Costs as provided in Article 15.2, the **CONTRACTOR** shall provide the **GOVERNMENT** with such production statements and reports, as required pursuant to Article 16.3.
- 15.9 Any dispute between the Parties under this Article 15 that cannot be settled amicably within sixty (60) days of the **GOVERNMENT's** final notice under Article 15.7, may be submitted to an expert on the request of either the **GOVERNMENT** or the **CONTRACTOR** in accordance with the provisions of Article 42.2. Notwithstanding the provisions of Article 42, in this specific instance the decision of the expert shall not necessarily be final and either Party may decide to submit the matter to arbitration in accordance with the provisions of Article 42.1.

ARTICLE 16 – CONTRACTOR'S RIGHTS AND OBLIGATIONS

Permanent Representative

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

Conduct of Petroleum Operations

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

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

Information and Reports

- 16.3 The **CONTRACTOR** shall provide the **GOVERNMENT** with periodic data and activity reports relating to Petroleum Operations. Said reports shall include details of the following:

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

Requirement for Petroleum Operations

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

Supervision by the GOVERNMENT

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

Upon giving reasonable prior notice to the **CONTRACTOR**, the **GOVERNMENT** may send a reasonable number of representatives to the work-sites or any other facilities of the **CONTRACTOR** in the Kurdistan Region to perform such reviews and verifications. The representatives of the **GOVERNMENT** shall at all times

comply with any safety regulations imposed by the **CONTRACTOR** and such reviews and verifications shall not hinder the smooth progress of the Petroleum Operations.

Access to Facilities

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

Use of Facilities

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

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

Loss or Damage

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

Intellectual Property Rights

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

Litigation

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

Safety

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

Said measures shall include the following:

- (a) supplying first aid and safety equipment for each work area and maintaining a healthy environment for personnel;
- (b) reporting to the **GOVERNMENT** within seventy-two (72) hours of such accident, any accident where personnel has been injured while engaged in Petroleum Operations and resulting in such personnel being unable to return to work;
- (c) implementing a permit-to-work procedure around hazardous equipment and installations;
- (d) providing safe storage areas for explosives, detonators and any other dangerous products used in the operations;
- (e) supplying fire-extinguishing equipment in each work area;
- (f) for the purpose of taking control of any blow out or fire which could damage the environment or Petroleum Field, in accordance with prudent international petroleum industry practice; and
- (g) for the purpose of preventing any involuntary injection of fluids in petroleum formations and production of Crude Oil and Natural Gas at rates that do not conform to prudent international petroleum industry practice.

Production Rates

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

Legal Status

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

Lifting

16.14 The **GOVERNMENT** and each **CONTRACTOR** Entity shall have the right and the obligation to take in kind and separately sell or otherwise dispose of their respective

shares of Petroleum. Upon approval of the Development Plan, the Parties shall meet as soon as practicable to reach a detailed agreement governing the lifting of Petroleum by each such **CONTRACTOR** Entity. Such lifting agreement shall include the following:

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

Kurdistan Region Consumption Requirements

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

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

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

ARTICLE 17 – USE OF LAND AND EXISTING INFRASTRUCTURE

- 17.1 The **GOVERNMENT** shall make available to the **CONTRACTOR** any land or property in the Kurdistan Region required for the Petroleum Operations; provided, however, the **CONTRACTOR** shall not request to use any such land unless there is a real need for it. The **CONTRACTOR** shall have the right to build and maintain, above and below ground, any facilities required for the Petroleum Operations.
- 17.2 If it becomes necessary for conduct of the Petroleum Operations to occupy and use any land or property in the Kurdistan Region belonging to third parties, the **CONTRACTOR** shall endeavour to reach amicable agreement with the owners of such land. If such amicable agreement cannot be reached, the **CONTRACTOR** shall notify the **GOVERNMENT**. On receipt of such notification:

- (a) the **GOVERNMENT** shall determine the amount of compensation to be paid by the **CONTRACTOR** to the owner, if occupation will be for a short duration; or
- (b) the **GOVERNMENT** shall expropriate the land or property in accordance with applicable Kurdistan Region Law, if such occupation will be long lasting or makes it henceforth impossible to resume original usage of such land or property. Any property rights shall be acquired by and recorded in the name of the **GOVERNMENT**, but the **CONTRACTOR** shall be entitled free use of the land or property for the Petroleum Operations for the entire duration of this Contract.

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

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

which is required for its performance of the Petroleum Operations. The **CONTRACTOR** shall have the right to select the location for these facilities.

- 17.6 For its Petroleum Operations, the **CONTRACTOR** shall have the right in the Kurdistan Region, subject to compliance with applicable Kurdistan Region Law, to remove and use the topsoil, fully-grown timber, clay, sand, lime, gypsum, stones (other than precious stones) and other similar substances as required for its Petroleum Operations.

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

- 17.7 The **GOVERNMENT** shall have the right in the Kurdistan Region to build, operate and maintain roads, railways, airports, landing strips, canals, bridges, protection dams, police stations, military installations, pipelines and telecommunications networks in the Contract Area, provided this does not increase the costs, or compromise or have a material adverse effect on the performance of the Petroleum Operations. If the construction, operation and maintenance of such facilities by the **GOVERNMENT** results in increased cost or expense for the **CONTRACTOR** then, for the avoidance of doubt, such cost and expense shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

- 17.8 Upon request of the **CONTRACTOR**, the **GOVERNMENT** shall prohibit the construction of residential or commercial buildings in the vicinity of facilities used for the Petroleum Operations that may be declared dangerous due to the Petroleum Operations and to prohibit any interference with the use of any facilities required for the Petroleum Operations.

- 17.9 Access to the Contract Area may be granted pursuant to an Access Authorisation, as shall be defined in, and consistent with, the Kurdistan Region Oil and Gas Law, to authorised third parties on reasonable terms and conditions (including coordination), including Persons authorised to construct, install and operate structures, facilities and installations, and to carry out other works, provided that nothing in the Access Authorisation or in this Article 17.9 authorises the holder to drill a Well or to perform any Petroleum Operations in Contract Area.

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

ARTICLE 18 – ASSISTANCE FROM THE GOVERNMENT

- 18.1 To the extent allowed by Kurdistan Region Law and Iraqi law and at the specific request of the **CONTRACTOR**, the **GOVERNMENT** shall take all necessary steps to assist the **CONTRACTOR** Entities in, but not limited to, the following areas:

- (a) securing any necessary Permits for the use and installation of means of transportation and communications;
 - (b) securing regulatory Permits in matters of customs or import/export;
 - (c) securing entry and exit visas, work and residence permits as well as any other administrative Permits for each **CONTRACTOR** Entity's, its Affiliate's and its Subcontractors' foreign personnel (including their family members) working in the Kurdistan Region and any other part of Iraq during the implementation of this Contract;
 - (d) securing any necessary Permits to send Abroad documents, data or samples for analysis or processing for the Petroleum Operations;
 - (e) relations with federal and local authorities and administrations, including for the purposes of the remainder of this Article 18.1;
 - (f) securing any necessary environmental Permits;
 - (g) obtaining any other Permits requested by any **CONTRACTOR** Entity for the Petroleum Operations;
 - (h) access to any existing data and information, including data and information relating to the Contract Area held by previous operators or contractors; and
 - (i) providing all necessary security for Petroleum Operations.
- 18.2 Within the scope of services to be provided under this Article 18, reasonable and duly justified expenses incurred by the **GOVERNMENT** or paid to third parties shall be charged to the **CONTRACTOR** and shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** as Petroleum Costs in accordance with the provisions of Articles 1 and 25.

ARTICLE 19 – EQUIPMENT AND MATERIALS

- 19.1 The **CONTRACTOR** shall supply, or procure the supply of, all materials, equipment, machinery, tools, spare parts and any other items or goods required for the Petroleum Operations ("**Equipment and Materials**").
- 19.2 Said Equipment and Materials shall be provided by the **CONTRACTOR** in accordance with the relevant Work Programs and Budgets.
- 19.3 As soon as possible after the Effective Date, the **CONTRACTOR** shall provide the Management Committee with a copy of its procedures for procurement of Equipment and Materials and/or services for the Petroleum Operations as required by the provisions of Article 8.2 (e), including the criteria for tender evaluation, which procedures and criteria shall be in accordance with prudent international petroleum industry practice. If the Management Committee does not request any modifications to the procurement procedures within thirty (30) days after receiving such procedures, the procedures shall be deemed approved by the Management Committee.

- 19.4 The **CONTRACTOR** shall give priority to Equipment and Materials that are readily available in the Kurdistan Region and other parts of Iraq to the extent their price, grade, quality, quantity, specifications, purchase, delivery and other commercial and technical terms are comparable in all material respects with those generally available in the international petroleum industry.

ARTICLE 20 – TITLE TO ASSETS

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

ARTICLE 21 – USE OF THE ASSETS

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

ARTICLE 22 – SUBCONTRACTING

- 22.1 The **CONTRACTOR** shall ensure that any Subcontractors it engages have all the requisite experience and qualifications.
- 22.2 The **CONTRACTOR** shall give priority to Subcontractors from the Kurdistan Region and other parts of Iraq to the extent their competence, rates, experience, reputation, qualifications, specialties, credit rating and terms of availability, delivery and other commercial terms are, in the **CONTRACTOR**'s sole opinion, comparable in all material respects with those provided by foreign companies operating in the international petroleum industry. Such Subcontractors must be bona fide Kurdistan Region companies not related to any Public Officer, directly or indirectly, and must have all necessary resources and capacity.

- 22.3 Selection of Subcontractors shall take place in accordance with the procurement procedures submitted by the **CONTRACTOR** to the Management Committee in accordance with Article 19.3 and approved by the Management Committee.
- 22.4 The **CONTRACTOR** shall provide the **GOVERNMENT** with copies of agreements entered into with Subcontractors, where their amount exceeds the limit set by the Management Committee from time to time.

ARTICLE 23 – PERSONNEL, TRAINING, AND TECHNOLOGICAL ASSISTANCE

Personnel

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

Training

- 23.5 In a planned way, in accordance with the provisions of this Article 23.5 and Articles 23.6 and 23.7, the **CONTRACTOR** shall train all its personnel from the Kurdistan Region and other parts of Iraq directly or indirectly involved in the Petroleum Operations for the purpose of improving their knowledge and professional qualifications in order that such personnel gradually reach the level of knowledge and professional qualification held by the **CONTRACTOR** Entities' foreign workers with an equivalent résumé.

Such training shall also include the transfer of knowledge of petroleum technology and the necessary management experience so as to enable the personnel from the Kurdistan Region and other parts of Iraq to apply advanced and appropriate technology in the Petroleum Operations, to the extent permitted by applicable Law and agreements with third parties, and subject to appropriate confidentiality agreements.

- 23.6 In addition to the requirements of Article 23.1, the recruitment, integration and training of the **CONTRACTOR** Entities' personnel from the Kurdistan Region and other parts of Iraq shall be planned, which plans shall be submitted to the Management Committee for its approval. The training plan shall take into consideration the requirements of Article 23.5 and may include training for the **GOVERNMENT's** personnel, depending on the extent to which the amount allocated to the training plan, as prescribed by Article 23.7, is available after taking into consideration the training of the **CONTRACTOR** Entities' Kurdistan Region and other Iraqi personnel.

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

- 23.7 The training plan referred to in Article 23.6 shall provide for the allocation of the amount of one hundred and fifty thousand Dollars (US\$150,000) for each Contract Year during the Exploration Period and three hundred thousand Dollars (US\$300,000) for each Contract Year during the Development Period.
- 23.8 Each **CONTRACTOR** Entity shall be responsible for the training costs which it may incur in respect of the personnel it employs from the Kurdistan Region and other parts of Iraq. All such reasonable costs shall be considered as Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25. Costs incurred by the **CONTRACTOR** for training programs for the **GOVERNMENT's** personnel shall be borne by the **CONTRACTOR** only to the extent that they are included in the **CONTRACTOR's** training plan, pursuant to Article 23.6 and shall also be considered as Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25. The cost of all other training programs for the **GOVERNMENT's** personnel shall be the **GOVERNMENT's** responsibility.

The Environment Fund

- 23.9 From the date of First Production from the Contract Area, the **CONTRACTOR** shall contribute the amount of one hundred and fifty thousand Dollars (US\$150,000) each Contract Year during the Exploration Period and three hundred thousand Dollars (US\$300,000) for each Contract Year during the Development Period into the environment fund established by the **GOVERNMENT** for the benefit of the natural environment of the Kurdistan Region, pursuant to the Kurdistan Region Oil and Gas Law (the "**Environment Fund**"). Such amounts shall be deemed to be Petroleum Costs and shall be recovered in accordance with Articles 1 and 25.
- 23.10 Any expenditure incurred by the **CONTRACTOR** under this Article 23 shall be considered Petroleum Costs and shall be recovered in accordance with Articles 1 and 25.

Technological and logistical assistance

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

ARTICLE 24 – ROYALTY

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

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

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

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

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

the **Royalty** rate for **Export Crude Oil** shall be ten per cent (10%), which, for the avoidance of doubt, shall apply regardless of the gravity of the oil; and

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

the Royalty rate for Export Non-Associated Natural Gas shall be ten per cent (10%).

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

24.6 If, pursuant to Article 24.3, the **GOVERNMENT** receives the Royalty in kind, and pursuant to Article 28, the **GOVERNMENT** requests assistance for the sale of all or part of the Royalty received in kind, each **CONTRACTOR** Entity shall assist the **GOVERNMENT** in selling all or part of such Royalty received in kind (belonging to the **GOVERNMENT**) in consideration of a commission per Barrel payable to such **CONTRACTOR** Entity, in accordance with Article 28.

24.7 If, pursuant to Article 24.3, the **GOVERNMENT** receives the Royalty in cash:

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

ARTICLE 25 – RECOVERY OF PETROLEUM COSTS

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

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

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

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

25.2 For the purpose of this Article 25:

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

25.3 Subject to the provisions of this Contract, from the First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract, of up to forty per cent (40%) of Available Crude Oil (which, for the avoidance of doubt, shall apply regardless of the gravity of the oil) and Available Associated Natural Gas, produced and saved within any Calendar Year. Available Crude Oil above this percentage or otherwise not used for the recovery of Petroleum Costs shall be Profit Crude Oil.

25.4 Subject to the provisions of this Contract, from First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract of up to fifty per cent (50%) of Available Non-Associated Natural Gas produced and saved within any Calendar Year. Available Non-Associated Natural Gas above this percentage or otherwise not used for the recovery of Petroleum Costs shall be Profit Natural Gas.

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

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

25.6 Total recovery of Petroleum Costs during any Calendar Year, expressed in quantities of Petroleum, shall not exceed the relevant percentages indicated in Articles 25.3 and 25.4. If in any Calendar Year, the Available Crude Oil and/or Available Non-Associated Natural Gas do not allow the **CONTRACTOR** to recover all its Petroleum Costs pursuant to this Article 25, the amount of un-recovered Petroleum Costs in such Calendar Year shall be carried forward indefinitely to the subsequent Calendar Years until all Petroleum Costs are fully recovered, but, save as provided in Articles 14.10 and 38.4, in no other case after the termination of the Contract.

- 25.7 The provisions of Articles 27.7 and 27.8 shall be applied to determine the quantities of Available Crude Oil and/or Available Non-Associated Natural Gas due to the **CONTRACTOR** for the recovery of its Petroleum Costs.
- 25.8 The quantities of Petroleum corresponding to the share of Available Petroleum due to the **CONTRACTOR** for the recovery of its Petroleum Costs shall be delivered to the **CONTRACTOR** at the Delivery Point. Title and risk of loss of such Available Petroleum shall be transferred at the Delivery Point.
- 25.9 Each **CONTRACTOR** Entity shall be entitled to receive, take in kind and to export freely all Available Petroleum to which it is entitled for recovery of its Petroleum Costs in accordance with the provisions of this Contract and to retain Abroad any proceeds from the sale of all such Available Petroleum. Petroleum Costs in each Production Area shall be recovered from Available Petroleum from that Production Area.
- 25.10 Subject to Article 38.4, for the avoidance of doubt, Petroleum Costs under this Contract are not recoverable against other contract areas held by the **CONTRACTOR**.

ARTICLE 26 – SHARING OF PROFIT PETROLEUM

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

26.4 The "R" Factor shall be calculated as follows:

$$R = X/Y$$

where:

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

Y: is equal to Cumulative Costs actually incurred by the **CONTRACTOR**, from the date of the signature of this Contract.

For the purpose of this Article 26.4:

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

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

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

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

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

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

"R" Factor CONTRACTOR's % Share of Profit Crude Oil

$R \leq 1$ 30%

$1 < R \leq 2$ $30 - (30 - 15) * (R - 1) / (2 - 1)$

$R > 2$ 15%

and

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

"R" Factor CONTRACTOR's % Share of Profit Natural Gas

R < or = 1 35%

1 < R < or = 2.75 35 - (35 - 18) * (R - 1) / (2.75 - 1)

R > 2.75 18%

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

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

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

- (a) if the allocation of Profit Petroleum in the previous Semester and the relevant Semester is the same, then no adjustment shall be made; and
- (b) if the allocation of the Profit Petroleum in the two Semesters is different, then the **CONTRACTOR** shall make any adjustments to the Parties' respective shares of Profit Petroleum to restore them to the position that they would have been in had the "R" Factor for the relevant Semester been available from the start of such Semester.

26.8 If at any time an error occurs in the calculation of the "R" Factor, resulting in a change in the **CONTRACTOR's** percentage share of Profit Crude Oil and/or Profit Natural Gas, the necessary correction shall be made and any adjustments shall apply from the Semester in which the error occurred. The Party having benefited from a surplus of Profit Petroleum shall surrender such surplus to the other Party, beginning from the first day of the Semester following the Semester in which the error was recognised. However, each lifting of Petroleum relating to such error by the Party receiving the surplus shall not exceed twenty-five per cent (25%) of the share of Profit Petroleum to which such surrendering Party is entitled. For the avoidance of doubt, if at any time an error occurs in the calculation of the "R" Factor, which does not result in a change in the **CONTRACTOR's** percentage share of Profit Crude Oil and/or Profit Natural Gas, no correction shall be made.

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

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

- 26.10 The share of the Profit Petroleum to which the **GOVERNMENT** is entitled in any Calendar Year in accordance with Article 26.5 shall be deemed to include a portion representing the corporate income tax imposed upon and due by each **CONTRACTOR** Entity, and which will be paid directly by the **GOVERNMENT** on behalf of each such entity representing the **CONTRACTOR** to the appropriate tax authorities in accordance with Article 31.2. The **GOVERNMENT** shall provide the **CONTRACTOR** Entities with all written documentation and evidence reasonably required by the **CONTRACTOR** Entities to confirm that such corporate income tax has been paid by the **GOVERNMENT**.
- 26.11 The quantities of Profit Petroleum due to the **GOVERNMENT** shall be delivered to the **GOVERNMENT** at the Delivery Point. Title and risk of loss of such Profit Petroleum shall be transferred at the Delivery Point.
- 26.12 At least twenty-one (21) days prior to **CONTRACTOR**'s estimated date of First Production and, subsequently, thirty (30) days prior to the beginning of each Semester, the **CONTRACTOR** shall prepare and deliver to the **GOVERNMENT** a production program comprising the production forecast for the next Semester and the forecast of the quantities of Crude Oil and Natural Gas to which each Party shall be entitled during the said Semester.
- 26.13 Within ninety (90) days following the end of each Calendar Year, the **CONTRACTOR** shall prepare and deliver an annual production report to the **GOVERNMENT**, stating the quantities of Crude Oil and Natural Gas to which each Party is entitled, the quantities of Crude Oil and Natural Gas lifted by each Party and the resulting over-lift or under-lift position of each Party, pursuant to the lifting agreement entered into pursuant to Article 16.14.
- 26.14 Any costs or expenditure incurred by the **CONTRACTOR**, its Subcontractors or suppliers relating to the lifting of the **GOVERNMENT**'s share of Petroleum by the **CONTRACTOR** shall not be considered Petroleum Costs and shall be charged to the **GOVERNMENT** according to terms to be mutually agreed between the **CONTRACTOR** and the **GOVERNMENT**.

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

Valuation

- 27.1 For the purpose of this Contract, any Crude Oil produced in the Contract Area shall be valued at the end of each Quarter at the Delivery Point based on the International Market Price, as defined in Article 27.2.
- 27.2 The "International Market Price" referred to in Article 27.1 shall be the weighted average price per Barrel, expressed in Dollars, obtained by the **CONTRACTOR** at

the Delivery Point, by netback if necessary, during the Quarter ending on the date of valuation for Arm's Length Sales of Crude Oil.

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

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

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

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

Accounting Statement

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

Metering

- 27.5 All Export Petroleum shall be metered at the Delivery Point in accordance with prudent international petroleum industry practice and such meters shall be to fiscal meter standards. All metering equipment shall be installed and operated by the **CONTRACTOR**. The **GOVERNMENT** shall, on receipt by the **CONTRACTOR** of reasonable prior written notice, have the right to inspect any such metering equipment installed by the **CONTRACTOR**, as well as all relevant documents and supporting information reasonably necessary to validate the accuracy of such metering. All metering equipment shall be subject to periodic technical inspections in accordance with prudent international petroleum industry practice.
- 27.6 If any metering equipment is defective, the **CONTRACTOR** shall use all reasonable endeavours to repair it within fifteen (15) days or, if deemed necessary by the **CONTRACTOR**, replace it as soon as reasonably practicable from the date the defect became known. The "Adjustment Date" shall be the last date that the metering equipment was known or agreed to have been measuring correctly, or if not known or agreed, the date that is midway between the date the defect was discovered and the last date the equipment was known to have measured correctly. The results from the defective equipment shall be disregarded for the period from the Adjustment Date until the date the defective equipment is repaired or replaced and the measurement for such period shall be estimated:
- (a) if check measuring equipment is installed and registering accurately, then by using the measurements recorded by such check measuring equipment;
 - (b) if check measuring equipment is not installed or not registering accurately, then by correcting the error if the percentage of error is ascertainable by verification, calibration or mathematical calculation; or
 - (c) if neither method is feasible, then by estimating the volume and/or quantity delivered based on deliveries during the preceding comparable period of time when the metering equipment was registered accurately.
- 27.7 Any disputes arising under this Article 27 shall be settled by expert determination in accordance with the provisions of Article 42.2.

ARTICLE 28 – SALE OF GOVERNMENT SHARE

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

ARTICLE 29 – FINANCIAL PROVISIONS

- 29.1 Any payment to be made by a **CONTRACTOR** Entity to the **GOVERNMENT** pursuant to this Contract shall be in Dollars and shall be offset against any outstanding

payments due by the **GOVERNMENT** to the **CONTRACTOR** Entity, or paid into the bank account duly designated by the **GOVERNMENT** in writing and shall be paid within thirty (30) days of the due date, after which interest compounded monthly at the rate of LIBOR plus two (2) percentage points shall be applied.

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

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

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

29.3 Any payment due by the **GOVERNMENT** to a **CONTRACTOR** Entity shall be offset against future payments due by such **CONTRACTOR** Entity to the **GOVERNMENT**, or paid in Dollars to the bank account designated by the **CONTRACTOR** Entity in writing and shall be paid within thirty (30) days of the date of invoice, after which interest compounded monthly at the rate of LIBOR plus two (2) percentage points shall be applied.

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

29.5 The **CONTRACTOR** shall not realise any gain or loss due to exchange rate fluctuations and, consequently, any gain or loss resulting from the exchange of currency shall be either considered as revenue and credited to the Accounts or shall be considered as a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with Articles 1 and 25, as the case may be.

29.6 Each **CONTRACTOR** Entity shall at all times be entitled to freely convert into Dollars or any other foreign currency any Iraqi dinars received in the framework of the Petroleum Operations and to freely transfer the same Abroad. The conversion rate shall be as provided under Article 29.4.

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

ARTICLE 30 – CUSTOMS PROVISIONS

- 30.1 All services, material, equipment, goods, consumables and products imported into the Kurdistan Region and other parts of Iraq by the **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing, for use or consumption in the Petroleum Operations shall be admitted free and exempt from any and all Taxes on import. The **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing shall have the right to re-export from the Kurdistan Region and other parts of Iraq free from all Taxes on export any material, equipment, goods, consumables and products that are no longer required for the Petroleum Operations, except where title has passed to the **GOVERNMENT** in accordance with Article 20, in which case re-export shall be approved by the Management Committee.

- 30.2 The **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing, and their personnel (including their family members) shall have the right to freely import into the Kurdistan Region and other parts of Iraq and re-export from the Kurdistan Region and other parts of Iraq any personal belongings and furniture free and exempt from any Taxes on import or export. The sale in the Kurdistan Region and other parts of Iraq of personal belongings and furniture of expatriate personnel shall comply with Kurdistan Region Law.
- 30.3 Each **CONTRACTOR** Entity and its Affiliates shall be entitled to freely export from the Kurdistan Region and other parts of Iraq, free of any Taxes, any Petroleum to which it is entitled pursuant to the provisions of this Contract.
- 30.4 The **GOVERNMENT** shall indemnify the **CONTRACTOR**, any **CONTRACTOR** Entity, its Affiliates, any Subcontractor or any agent of any of the foregoing, and their personnel (including their family members) for any import or export Taxes referred to in Articles 30.1, 30.2 or 30.3.

ARTICLE 31 – TAX PROVISIONS

- 31.1 Except as expressly provided in this Article 31, and without prejudice to the exemptions expressly provided for in Article 30 and in this Article 31, each **CONTRACTOR** Entity, its Affiliates and any Subcontractor shall, for the entire duration of this Contract, be exempt from all Taxes as a result of its income, assets and activities under this Contract. The **GOVERNMENT** shall indemnify each **CONTRACTOR** Entity upon demand against any liability to pay any Taxes assessed or imposed upon such entity which relate to any of the exemptions granted by the **GOVERNMENT** under this Article 31.1, and under Articles 31.4 through 31.11.
- 31.2 Each **CONTRACTOR** Entity shall be subject to corporate income tax on its income from Petroleum Operations as provided in Article 31.3, which shall be deemed to be inclusive and in full and total discharge of any Tax on income, receipts, revenues, gains or profits of each such entity. Payment of the said corporate income tax shall be made for the entire duration of this Contract directly to the official Kurdistan Region tax authorities by the **GOVERNMENT**, for the account of each **CONTRACTOR** Entity, from the **GOVERNMENT**'s share of the Profit Petroleum received pursuant to Article 26.

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

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

31.3 For the purposes of Article 31.2:

- (a) The rate of corporate income tax to be applied to each **CONTRACTOR** Entity shall be the generally applicable rate prescribed in the Law of Taxation (Law No. 4 of 1999), passed by the National Assembly of the Kurdistan Region, as may be amended from time to time or substituted in respect of Petroleum Operations (as defined under the Kurdistan Region Oil and Gas Law) by a petroleum operations taxation law for the Kurdistan Region, but in no event in excess of forty per cent (40%). The Parties acknowledge and agree that at the Effective Date of this Contract, the corporate income tax rate is forty per cent (40%) for all net taxable profits in excess of nine million Iraqi dinar.
- (b) The **GOVERNMENT** and the **CONTRACTOR** agree that corporate income tax shall be calculated for each **CONTRACTOR** Entity on its net taxable profits under the Contract, as calculated in accordance with the provisions relating thereto in the Accounting Procedure.
- 31.4 Each **CONTRACTOR** Entity, its Affiliates as well as any Subcontractors shall be exempt from any withholding tax applicable on any payments made to them or by them to or from Affiliates or third parties, whether inside or outside the Kurdistan Region and/or Iraq, for the entire duration of this Contract.
- 31.5 Each **CONTRACTOR** Entity and its Affiliates shall be exempt from Additional Profits Tax, as referred to in Article 40 of the Kurdistan Region Oil and Gas Law or any successor Tax.
- 31.6 Each **CONTRACTOR** Entity and its Affiliates shall be exempt from Surface Tax, as referred to in Article 40 of the Kurdistan Region Oil and Gas Law or any successor Tax.
- 31.7 Each **CONTRACTOR** Entity and its Affiliates shall be exempt from Windfall Profits Taxes, as referred to in Article 40 of the Kurdistan Region Oil and Gas Law or any successor Tax.
- 31.8 Each **CONTRACTOR** Entity and any Subcontractor shall be subject to the payment or withholding of the personal income tax and social security contributions for which such entity or Subcontractor is liable to pay or withhold in respect of its employees who are Iraqi nationals, pursuant to the Law of Taxation (Law No. 4 of 1999) passed by the National Assembly of the Kurdistan Region, as may be amended from time to time, in the same manner as the same shall be generally applied to all other industries, except that a **CONTRACTOR** Entity or Subcontractor shall not be liable for such taxes or contributions with respect to employees of another Person.
- 31.9 It is acknowledged that double tax treaties will have effect to give relief from taxes to, but not limited to, the **CONTRACTOR**, **CONTRACTOR** Entities, Subcontractors and employees and other Persons in accordance with the provisions of such double tax treaties, but shall not impose an additional burden of taxation.
- 31.10 Any value added tax ("VAT") shall be considered as a Petroleum Cost and shall be cost recovered in accordance with the provisions of Articles 1 and 25.

- 31.11 Any value added tax ("VAT"), not otherwise recoverable by the CONTRACTOR under VAT law, shall be considered as a Petroleum Cost and shall be cost recovered in accordance with the provisions of Articles 1 and 25.
- 31.12 Notwithstanding any other provision to the contrary in this Contract, the Parties acknowledge and agree that the provisions of this Article 31 shall apply individually and separately to all CONTRACTOR Entities under this Contract and that there shall be no joint and several liability in respect of any liability, duty or obligation referred to in this Article 31.

ARTICLE 32 – BONUSES

Signature Bonus

- 32.1 A signature bonus of ten million Dollars (US\$10,000,000), less five million Dollars (US\$5,000,000) in recognition of work already carried out by the CONTRACTOR in the Contract Area ("Signature Bonus"), shall be payable to the GOVERNMENT by the CONTRACTOR within thirty (30) days of the Effective Date.

Capacity Building Bonus

- 32.2 A capacity building bonus of fifteen million Dollars (US\$15,000,000) ("Capacity Building Bonus") shall be payable to the GOVERNMENT by the CONTRACTOR within thirty (30) days of the Effective Date.

Production Bonuses

- 32.3 In the event of a Crude Oil Commercial Discovery, the CONTRACTOR shall pay the following relevant Crude Oil Production Bonus to the GOVERNMENT within thirty (30) days of the following relevant occurrence:
- (a) two million five hundred thousand Dollars (US \$2,500,000) when First Production of Crude Oil from the Contract Area commences;
 - (b) five million Dollars (US \$5,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of ten million Barrels of Crude Oil (10 mmbo);
 - (c) ten million Dollars (US \$10,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of twenty five million Barrels of Crude Oil (25 mmbo); and
 - (d) twenty million Dollars (US \$20,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of fifty million Barrels of Crude Oil (50 mmbo).
- 32.4 In the event of a Non-Associated Natural Gas Commercial Discovery, the CONTRACTOR shall pay the following relevant Non-Associated Natural Gas Production Bonus to the GOVERNMENT within thirty (30) days of the following relevant occurrence:

- (a) two million five hundred thousand Dollars (US \$2,500,000) when First Production of Non-Associated Natural Gas from the Contract Area commences;
- (b) five million Dollars (US \$5,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of ten million barrels of oil equivalent (10 mmboe);
- (c) ten million Dollars (US \$10,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of twenty five million barrels of oil equivalent (25 mmboe); and
- (d) twenty million Dollars (US \$20,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of fifty million barrels of oil equivalent (50 mmboe).

32.5 For the purposes of this Article 32, a Commercial Discovery shall be declared by the **CONTRACTOR** to be either a Crude Oil Commercial Discovery or a Non-Associated Gas Commercial Discovery and under no circumstances shall a Production Bonus be due in respect of both Crude Oil and Non-Associated Natural Gas for the same Commercial Discovery.

32.6 No bonus due pursuant to this Article 32 shall be deemed to be a Petroleum Cost.

ARTICLE 33 – PIPELINES

33.1 The **GOVERNMENT** shall obtain any required Permits for the transportation of Petroleum in the Kurdistan Region and in Iraq, as well as any necessary Permits and easement rights for the construction of any pipelines and related facilities required for the Petroleum Operations, as provided in Article 33.2.

33.2 The **GOVERNMENT** undertakes to transfer to the **CONTRACTOR** its rights for transportation of Petroleum by pipeline. The **CONTRACTOR** shall have the right to design, construct, operate and maintain pipelines and any related facilities for the transportation of Petroleum produced under this Contract.

33.3 Prior to the construction of any pipeline and related facilities as provided in Article 33.2, the **CONTRACTOR** shall submit following information to the Management Committee:

- (a) proposed pipeline route and related facilities;
- (b) forecasted pipeline flow rate and capacity;
- (c) estimate of financial investment and operating costs of the pipeline and related facilities;
- (d) proposed financing schedule;
- (e) construction schedule;

- (f) general technical description of the pipeline and related facilities;
- (g) construction plans and tests;
- (h) preventive measures for damage to the environment and third parties; and
- (i) any other information relating to the pipeline project.

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

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

under this Article 33 for the transportation of the share of Petroleum to which the **GOVERNMENT** is entitled under this Contract up to the Delivery Point, provided that where the **GOVERNMENT** is participating in its capacity as a **CONTRACTOR** Entity pursuant to Article 4, it shall be liable for its share of Petroleum Costs.

- 33.10 The **CONTRACTOR** shall bear the cost of operation and maintenance of any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 and all risks of accidental loss or damage to such pipeline and related facilities while they are required for Petroleum Operations.

ARTICLE 34 – UNITISATION

- 34.1 In the event a Reservoir extends beyond the Contract Area into an adjacent area which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Oil and Gas Law) (an "Adjacent Contract Area"), or in the event a Reservoir of an Adjacent Contract Area extends into the Contract Area, the provisions of Article 47, Paragraph Second of the Kurdistan Region Oil and Gas Law shall apply and the **GOVERNMENT** shall require the **CONTRACTOR** and the contractor of the Adjacent Contract Area to agree upon a schedule for reaching agreement of the terms of the unitisation of the Reservoir, which terms shall be based on reliable technical, operational and economical parameters, all in accordance with prudent international petroleum industry practice. In the event that the Minister of Natural Resources decides the unitisation pursuant to Article 47, Paragraph Third of the Kurdistan Region Oil and Gas Law, and if the **CONTRACTOR** does not agree with the Minister of Natural Resource's decision, the **CONTRACTOR** shall be entitled to arbitration pursuant to the provisions of Article 42.1.
- 34.2 For clarification and the avoidance of doubt and notwithstanding Article 47 of the Kurdistan Region Oil and Gas Law, in the event that a Reservoir extends beyond the boundaries of the Contract Area into an adjacent area which is not the subject of another Petroleum Contract (as defined by the Kurdistan Region Oil and Gas Law), the **GOVERNMENT** shall, upon the **CONTRACTOR**'s request, take the necessary steps to extend the boundaries of Contract Area so as to include the entire Reservoir within the Contract Area, provided that the **CONTRACTOR** can offer the **GOVERNMENT** a competitive minimum work program for such adjacent area.

ARTICLE 35 – LIABILITY AND INSURANCE

Liability

- 35.1 Subject to the other provisions of this Contract, the **CONTRACTOR**, in its capacity as the entity responsible for the execution of the Petroleum Operations within the Contract Area, shall be liable to third parties to the extent provided under applicable Law for any losses and damage it may cause to them in conducting the Petroleum Operations, and shall defend, indemnify and hold harmless the **GOVERNMENT** with respect to all claims for such loss or damage.
- 35.2 Notwithstanding the other provisions of this Contract, the **CONTRACTOR** and the **CONTRACTOR** Entities shall not be liable to the **GOVERNMENT** or the Public

Company or other government agencies, authorities or bodies, courts or political subdivisions for any damage or loss or claims of any kind resulting from its conduct of the Petroleum Operations unless such damage or loss is the result of wilful misconduct or a material failure to conduct Petroleum Operations in accordance with the terms of this Contract; provided, however, that such liability cannot result in the event of any omissions, errors or mistakes committed in good faith by the **CONTRACTOR** in the exercise of the powers and authorisations conferred upon the **CONTRACTOR** by virtue of this Contract, and further provided that in no event shall the **CONTRACTOR** and the **CONTRACTOR** Entities be liable for any indirect or consequential loss or damage whatsoever or any loss, damages, costs, expenses or liabilities caused (directly or indirectly) by any of the following arising out of, relating to, or connected with this Contract or the Petroleum Operations carried out under this Contract: (i) reservoir or formation damage; (ii) inability to produce, use or dispose of Petroleum; (iii) loss or deferment of income; (iv) special or punitive damages; or (v) other indirect damages or losses whether or not similar to the foregoing.

- 35.3 The **CONTRACTOR** shall indemnify and hold harmless the **GOVERNMENT** against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the **GOVERNMENT** by any employee of the **CONTRACTOR** or of any Subcontractor or by any dependent thereof, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non-performance of this Contract regardless of the fault or negligence in whole or in part of any entity or individual.
- 35.4 Notwithstanding Article 35.1, the **GOVERNMENT** shall indemnify and hold harmless the **CONTRACTOR** and the **CONTRACTOR** Entities against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the **CONTRACTOR** or any **CONTRACTOR** Entity by any employee of the **GOVERNMENT** or of any Public Company or of any subcontractor of the foregoing or by any dependent of any such employee, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non-performance of this Contract regardless of the fault or negligence in whole or in part of any entity or individual.
- 35.5 The **CONTRACTOR** shall take all necessary steps to respond to, and shall promptly notify the **GOVERNMENT** of, all emergency and other events (including explosions, leaks and spills), occurring in relation to the Petroleum Operations which are causing or likely to cause material environmental damage or material risk to health and safety. Such notice shall include a summary description of the circumstances and steps taken and planned by the **CONTRACTOR** to control and remedy the situation. The **CONTRACTOR** shall provide such additional reports to the **GOVERNMENT** as are 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 Article 35.4, at the request of the **CONTRACTOR**, the **GOVERNMENT**, without prejudice and in addition to any indemnification obligations the **GOVERNMENT** may have, shall assist the **CONTRACTOR**, to the extent possible, in any emergency response, remedial or repair effort by making available any labour, materials and equipment in reasonable quantities requested by the **CONTRACTOR** which are not otherwise readily available to the **CONTRACTOR** and by facilitating the measures taken by the **CONTRACTOR** to bring

into the Kurdistan Region personnel, materials and equipment to be used in any such emergency response or remedial or repair effort. The **CONTRACTOR** shall reimburse the **GOVERNMENT's** reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

- 35.7 The **GOVERNMENT** shall indemnify and hold harmless the **CONTRACTOR** and each **CONTRACTOR** Entity from and against all costs (including legal costs) expenses, losses, damages and liability which such Person may suffer or incur, or may result from such Person being denied, hindered or prevented from fully exercising its rights or taking the full benefit of Articles 29.4, and 29.6 to 29.11.

Insurance

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

Such insurance policies may cover:

- (a) loss of and damage to material and equipment used in the Petroleum Operations; and
 - (b) personal injury, damage to third parties and risks of pollution associated with Petroleum Operations for reasonable amounts, within the limits approved by the Management Committee.
- 35.9 Any insurance policy relating to this Contract shall name the **GOVERNMENT** as an additional insured party and shall include a waiver of subrogation protecting the **GOVERNMENT** against any claim, loss and damage resulting from any Petroleum Operation conducted by or on behalf of the **CONTRACTOR** under this Contract, to the extent that the **CONTRACTOR** is liable for such claim, loss or damage under this Contract. The **CONTRACTOR** shall not be liable for and shall not purchase insurance cover for any claims arising from negligence or wilful misconduct of the **GOVERNMENT** or of any Public Company or of any of its or their subcontractors or of any personnel of any of the foregoing.
- 35.10 Upon its written request, the **GOVERNMENT** shall be provided with insurance certificates, including necessary details, for any insurance policy maintained by the **CONTRACTOR** which relates to this Contract.
- 35.11 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 shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 35.12 In any insurance policy maintained by a **CONTRACTOR** Entity which relates to this Contract, the amount for which the **CONTRACTOR** itself is liable (the "**Deductible Amount**") shall be reasonably determined between the **CONTRACTOR** Entity and the insurer and such Deductible Amount shall in the event of any insurance claim be

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considered a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

ARTICLE 36 – INFORMATION AND CONFIDENTIALITY

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

- (c) is required to be furnished in compliance with any applicable Law, by a government agency having jurisdiction over a **CONTRACTOR** Entity, by a court order or any other legal proceedings; 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.

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

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

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

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

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

ARTICLE 37 – ENVIRONMENTAL PROVISIONS

- 37.1 During the performance of the Petroleum Operations, the **CONTRACTOR** shall take reasonable measures to ensure that it, the Operator, its Subcontractors and agents attend to the protection of the environment and prevention of pollution, in accordance with prudent international petroleum industry practice in similar physical and ecological environments and any then applicable Kurdistan Region Law.
- 37.2 Prior to surrendering a portion of the Contract Area, the **CONTRACTOR** shall take reasonable measures to abandon the area to be surrendered in accordance with prudent international petroleum industry practice in similar physical and ecological environments. Such measures shall include removal or closure in place of facilities, material and equipment together with reasonable measures necessary for the preservation of fauna, flora and ecosystems, all in accordance with prudent international petroleum industry practice in similar physical and ecological environments. The **CONTRACTOR** shall only be responsible for site restoration or environmental damage to the extent the same pertains solely and directly to Petroleum Operations conducted pursuant to this Contract.
- 37.3 The **CONTRACTOR** shall take reasonable precautions and measures in accordance with prudent international petroleum industry practice in similar physical and ecological environments to prevent any pollution which may arise directly as a result of the Petroleum Operations and to protect the environment (fauna and flora), water sources and any other natural resources when carrying out Petroleum Operations.
- 37.4 The **CONTRACTOR** shall, in accordance with prudent international petroleum industry practice in similar physical and ecological environments, respect the preservation of property, agricultural areas, and fisheries, when carrying out Petroleum Operations.
- 37.5 The **CONTRACTOR** shall conduct and submit an environmental impact assessment to the **GOVERNMENT** within six (6) months after the Effective Date.

National Parks and Nature Reserve Areas

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

Expenditures

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

Pre-existing Conditions

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

ARTICLE 38 – DECOMMISSIONING

- 38.1 To enable the **CONTRACTOR** to recover the costs associated with future Contract Area Decommissioning Operations under this Contract, the **CONTRACTOR** shall have the right to establish a reserve fund for future decommissioning and site restoration (a "**Decommissioning Reserve Fund**"). The Decommissioning Reserve Fund may be established at any time during the final ten (10) Calendar Years of the term of the Production Operations of a Production Area but, upon the reasonable request by the **CONTRACTOR**, the **GOVERNMENT** shall allow the **CONTRACTOR** to establish such fund over a longer period. Once established, the **CONTRACTOR** shall make regular contributions to the Decommissioning Reserve Fund based upon estimated Petroleum Field decommissioning and site restoration costs in accordance with prudent international petroleum industry practice, and taking into account interest received and future interest expected to be earned on the Decommissioning Reserve Fund. Any contributions by the **CONTRACTOR** to the Decommissioning Reserve Fund shall be made in Dollars and shall be deemed Petroleum Costs when paid into the reserve fund, and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25. Contributions to the Decommissioning Reserve Fund shall be placed with a first rate bank approved by the Management Committee in accordance with Article 8.5.
- 38.2 If, at the end of the term of the Production Operations of the Production Area, the **GOVERNMENT** decides to take over production operations in the Production Area:
- (a) the **GOVERNMENT** shall become liable for its future Decommissioning Operations;
 - (b) the contributions and any interest accumulated in the Decommissioning Reserve Fund, to the extent that such contributions have been recovered as Petroleum Costs, shall be paid to the **GOVERNMENT**; and
 - (c) the **GOVERNMENT** shall release the **CONTRACTOR** and the **CONTRACTOR** Entities from any obligations relating to Decommissioning Operations and shall indemnify the **CONTRACTOR** and the **CONTRACTOR** Entities for any costs, liabilities, expenses, claims or obligations associated therewith.
- 38.3 If the **CONTRACTOR** undertakes the Production Area Decommissioning Operations, the contributions and any interest accumulated in the Decommissioning Reserve Fund shall be paid to the **CONTRACTOR** and shall be used for the Decommissioning

Operations. The **CONTRACTOR** shall undertake any such Decommissioning Operations in accordance with prudent international petroleum industry practice in similar physical and ecological environments.

- 38.4 If the Decommissioning Reserve Fund is paid to the **CONTRACTOR** and the Decommissioning Reserve Fund is not sufficient to cover all Decommissioning Costs for the Contract Area, the balance shall be paid by the **CONTRACTOR** and may be recovered, if applicable, by the **CONTRACTOR** Entities or any of their Affiliates from any other area which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Oil and Gas Law) anywhere in the Kurdistan Region and, to the extent the balance is not recoverable as aforesaid, such remaining balance shall be paid by the **GOVERNMENT** to the **CONTRACTOR**.
- 38.5 If the Decommissioning Reserve Fund is paid to the **CONTRACTOR** and the Decommissioning Reserve Fund exceeds all Decommissioning Costs for the Contract Area, the balance shall be transferred to the **GOVERNMENT**.
- 38.6 Any expenditure incurred by the **CONTRACTOR** in relation with this Article 38, including any contributions to the Decommissioning Reserve Fund, shall be deemed Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 38.7 The **CONTRACTOR** shall submit to the Management Committee for approval in accordance with Article 8.5 a detailed plan for decommissioning the Contract Area facilities and site restoration (the "**Decommissioning Plan**"), such Decommissioning Plan to be submitted no later than twenty four (24) Months prior to the date estimated by the **CONTRACTOR** for the end of Commercial Production from the Contract Area. The Management Committee shall provide comments, if any, on the Decommissioning Plan within ninety (90) days after receipt. The **CONTRACTOR**'s completion of the Decommissioning Operations in accordance, in all material respects, with the Decommissioning Plan for a Production Area approved by the Management Committee shall satisfy all of the **CONTRACTOR**'s obligations with respect to the performance of Decommissioning Operations for such Production Area. In the event the **GOVERNMENT** does not agree that Decommissioning Operations for a Production Area were carried out in accordance with the approved Decommissioning Plan, it must advise the **CONTRACTOR** within six (6) months of **CONTRACTOR**'s completion of such operations.

ARTICLE 39 – ASSIGNMENT AND CHANGE OF CONTROL

Assignment to Affiliates

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

Assignment to Third Parties

- 39.2 Each **CONTRACTOR** Entity shall have the right to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract to any third party (not being an Affiliated Company or another **CONTRACTOR** Entity) with the prior consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld. Any **CONTRACTOR** Entity proposing to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract to any such third party shall request such consent in writing, which request shall be accompanied by reasonable evidence of the technical and financial capability of the proposed third party assignee.
- 39.3 In order for any deed of sale, assignment, transfer or other disposal as provided under Articles 39.1 or 39.2 to be effective, the Parties and the relevant third party, if any, shall enter into a binding and enforceable instrument of assignment and novation, which shall include an undertaking by the transferee or assignee to fulfil the obligations under this Contract which correspond to the interest transferred or assigned.
- 39.4 By way of clarification, and not in limitation of the foregoing provisions of this Article 39, the **GOVERNMENT** shall not be considered to be acting unreasonably in withholding consent to any such assignment if the assignment to such proposed assignee is deemed contrary to the **GOVERNMENT's** interests, as evidenced in writing to that effect signed by the duly authorised representative of the **GOVERNMENT** below.
- 39.5 In the event a **CONTRACTOR** Entity assigns or in any other way transfers its rights and interests under this Contract, including through the exercise of the Option of Government Participation or the Option of Third Party Participation, whether in whole or in part, such assignment or transfer shall not give rise to any Tax, including on the consideration paid or received or on the income or gain therefrom.
- 39.6 The **GOVERNMENT** may not at any time transfer any or all its rights and obligations under this Contract to any Person, including to a Public Company or any other company or entity, except in accordance with Article 4.

Change of Control

- 39.7 "Change of Control" for the purpose of this Article 39.7 means any direct or indirect change of the identity to the Person who Controls a **CONTRACTOR** Entity (whether through merger, sale of shares or of other equity interests, or otherwise) through a single transaction or series of transactions, from one or more transferors to one or more transferees, in which the market value of such entity's participating interest (which shall be as specified in the Joint Operating Agreement relating to this Contract, or where there is only one **CONTRACTOR** Entity, one hundred (100%) per cent) in this Contract represents more than seventy five per cent (75%) of the aggregate market value of the assets of such entity and its Affiliates that are subject to the Change in Control. For the purpose of this definition: "Control" means the direct or indirect ownership or control of the majority of the voting rights of the applicable entity at its shareholders' meetings or their equivalent; and "market value" shall be determined based upon the amount in cash a willing buyer would pay a willing seller in an Arm's Length transaction.

Each **CONTRACTOR** Entity which is or anticipates with a reasonable degree of certainty that it will be subject to a Change in Control, other than to an Affiliated Company or a **CONTRACTOR** Entity, shall notify the **GOVERNMENT** as soon as practicable after it becomes aware of the Change in Control or anticipated Change in Control and request the consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld.

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

ARTICLE 40 - FORCE MAJEURE

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

GOVERNMENT, any minister, ministry, department, sub-division, agency, authority, council, committee, or other constituent element thereof, any corporation owned and/or controlled by the any of the foregoing; and

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

40.3 The intention of the Parties is that Force Majeure shall receive the interpretation that complies most with prudent international petroleum industry practice. Force Majeure affecting a **CONTRACTOR** Entity or an **Affiliated Company** of a **CONTRACTOR** Entity shall be deemed Force Majeure affecting the **CONTRACTOR** if the consequence of such Force Majeure prevents the performance of any of the **CONTRACTOR's** obligations under this Contract.

ARTICLE 41 – WAIVER OF SOVEREIGN IMMUNITY

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

This waiver includes any claim to immunity from:

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

ARTICLE 42 – ARBITRATION AND EXPERT DETERMINATION

Negotiation, Mediation and Arbitration

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

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

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

- (a) In the event that any Notice of Dispute is given in accordance with this Article 42.1, the parties to the Dispute shall first seek settlement of the dispute by negotiation between Senior Representatives. "**Senior Representative**" means any individual who has authority to negotiate the settlement of the Dispute for a party to the Dispute, which for the **GOVERNMENT** shall mean the Minister of Natural Resources. Within thirty (30) days after the date of delivery of the Notice of Dispute, the Senior Representatives representing the parties to the Dispute shall meet at a mutually acceptable date, time and place to exchange relevant information in an attempt to resolve the Dispute. If a Senior Representative intends to be accompanied at the meeting by a legal adviser, each other party shall be given written notice of such intention and its Senior Representative may also be accompanied at the meeting by a legal adviser.
- (b) If the Dispute cannot be resolved by negotiation in accordance with Article 42.1 (a) within sixty (60) days after the date of the receipt by each party to the Dispute of the Notice of Dispute or such further period as the parties to the Dispute may agree in writing, any party to the Dispute may seek settlement of the dispute by mediation in accordance with the London Court of International Arbitration ("**LCIA**") Mediation Procedure, which Procedure shall be deemed to be incorporated by reference into this Article, and the parties to such Dispute shall submit to such mediation procedure.
- (c) If the Dispute is not settled within the earlier of (A) sixty (60) days of the appointment of the mediator, or such further period as the parties to the Dispute may otherwise agree in writing under the mediation procedure under Article 42.1 (b), and (B) one hundred and twenty (120) days after the delivery of the Dispute Notice, any party to the Dispute may refer the Dispute to, and seek final resolution by, arbitration under the LCIA Rules, which Rules shall be deemed to be incorporated by reference into this Article.
 - (i) Any arbitration shall be conducted by three (3) arbitrators.
 - (ii) If the parties to the Dispute are the **GOVERNMENT** and all the **CONTRACTOR** Entities, the **GOVERNMENT** and the **CONTRACTOR** shall each appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT** and more than one, but not all the **CONTRACTOR** Entities, the **GOVERNMENT** shall appoint one (1) arbitrator and such **CONTRACTOR** Entities shall appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT**

and one CONTRACTOR Entity, the GOVERNMENT and such CONTRACTOR Entity shall each appoint one (1) arbitrator.

- (iii) In any event, the two arbitrators so appointed shall, in good faith, use all reasonable endeavours to agree on the appointment of the third arbitrator, who will chair the arbitral tribunal. In case of failure to appoint an arbitrator or to agree on the appointment of the third arbitrator, Rules of the LCIA shall apply.
- (vi) Arbitration shall take place in London, England. The language to be used in any prior negotiation, mediation and in the arbitration shall be English. During the arbitration procedure and until the arbitral decision, the Parties shall continue to perform their obligations and take no actions that would impair the Contract. The arbitral award may be enforced by any court of competent jurisdiction, including in the Kurdistan Region. Any award shall be expressed in Dollars.
- (v) The Parties agree that the arbitral award shall be final and not subject to any appeal, including to the Courts of England on issues of Law.
- (vi) With respect to any matter referred to arbitration under Article 43.4, the arbitral tribunal shall have the authority to amend this Contract to restore the economic position referred to in Article 43.3.

Expert Determination

42.2 Any disagreement between the Parties relating to Articles 15.9, 27.2 and 27.9, as well as any disagreement the Parties agree to refer to an expert, shall be submitted to an expert. The Management Committee shall prepare and agree appropriate terms of reference relating to the disagreement to be submitted to the expert, in accordance with Article 8.5 ("Terms of Reference"), as soon as possible after the Effective Date.

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

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right to review and verify any information he deems useful to assist him in his review of the disagreement.

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

General

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

ARTICLE 43 – GOVERNING LAW, FISCAL STABILITY AND AMENDMENTS

Governing Law

- 43.1 This Contract, including any dispute arising therefrom, thereunder or in relation thereto and the agreement to arbitrate in Article 42, shall be governed by English law (except any rule of English law which would refer the matter to another jurisdiction), together with any relevant rules, customs and practices of international law, as well as by principles and practice generally accepted in petroleum producing countries and in the international petroleum industry.

Fiscal Stability

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

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

Amendments

- 43.7 Any amendment to this Contract shall be the subject of a formal amendment, duly approved in writing by the Parties and subject to the same conditions of validity as this Contract. Notwithstanding the foregoing, the **GOVERNMENT** has the right and authority to waive or modify the application of the provisions of this Contract on a case-by-case basis without having to fulfil the conditions of validity of this Contract.
- 43.8 This Contract constitutes the entire agreement of the Parties and supersedes any and all prior understandings or agreements in respect of the subject matter of this Contract.
- 43.9 Unless otherwise expressly stated elsewhere in this Contract, no failure or delay of any Party to exercise any right, power or remedy under this Contract shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or future exercise thereof or the exercise of any other right, power or remedy.

Validity

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

ARTICLE 44 – NOTICES

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

To the **GOVERNMENT**:

Attention:

His Excellency the Minister of Natural Resources

Address:

Ministry of Natural Resources

Kurdistan Regional Government

Erbil, Kurdistan

Email: mnr@krgoil.com

To the **CONTRACTOR**:

Attention: The Directors

Address: Hirzel Court, St Peter Port, Guernsey, Channel Islands, GY1 2NL

Email: info@heritageoilcorp.com

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

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

ARTICLE 45 – TERMINATION

- 45.1 Subject to the provisions of Article 45.5, the **GOVERNMENT** shall have the right to terminate this Contract in the event the **CONTRACTOR**:
- (a) fails to meet a material financial obligation expressly stated in this Contract; or
 - (b) during the First Sub-Period does not carry out drilling and seismic acquisition, as detailed in Article 10.2 or, during the Second Sub-Period (or earlier), does not carry out drilling and seismic acquisition, as detailed in Article 10.3; or
 - (c) interrupts Production for a period of more than ninety (90) consecutive days with no cause or justification acceptable in accordance with this Contract or under prudent international petroleum industry practice, it being recognised that Force Majeure is an acceptable justification for such interruptions; or
 - (d) intentionally extracts or produces any mineral which is not covered by the object of this Contract, unless such extraction or production is expressly authorised or unavoidable as a result of operations carried out in accordance with prudent international petroleum industry practice; or
 - (e) if the **CONTRACTOR** comprises solely one entity, is declared bankrupt in accordance with applicable Law;
 - (f) wilfully refuses to abide by negotiation, mediation, arbitration or expert decision under Article 42 ; or
 - (g) if a **CONTRACTOR** Entity named as a party to the agreement contained in Annex C fails to meet a financial obligation expressly stated in that annex.
- 45.2 The **GOVERNMENT** may also terminate the Contract only in respect of one **CONTRACTOR** Entity if such entity is subject to a Change of Control for which the **GOVERNMENT** has not given its authorisation in accordance with Article 39.7.
- 45.3 At any time prior to the Development Period, the **CONTRACTOR** shall have the right to terminate this Contract by surrendering the entire Contract Area in accordance with the provisions of Article 7.
- 45.4 During the Development Period, the **CONTRACTOR** shall have the right to terminate this Contract at any time by surrendering all Production Areas, provided its then current obligations have been satisfied in accordance with this Contract.
- 45.5 If the **GOVERNMENT** intends to exercise its right to terminate this Contract pursuant to Article 45.1, it shall first comply with the following provisions:
- (a) The **GOVERNMENT** shall notify the **CONTRACTOR** of its intention to terminate this Contract stating the reasons for such termination and requesting the latter:
 - (i) to remedy the default; or
 - (ii) to propose acceptable compensation.

- (b) If, within three (3) Months after the notice referred to in Article 45.5(a), the **CONTRACTOR** has not remedied the situation complained of by the **GOVERNMENT** to its satisfaction or offered compensation acceptable to the **GOVERNMENT** in each case acting reasonably, the **GOVERNMENT** shall notify the **CONTRACTOR** in writing that the Contract shall be terminated from the termination date detailed in such notice. This Contract shall terminate on such termination date unless the **CONTRACTOR** issues a notice of dispute as provided under Article 42, in which case this Contract shall remain in force until a final settlement of the dispute has been reached in accordance with the dispute resolution provisions of Article 42.

The foregoing provisions of this Article 45.5 are subject to the proviso that, in case of a dispute where there has been breach of this Contract which has been submitted to dispute resolution pursuant to Article 42, the **GOVERNMENT** shall not be entitled to exercise its right to terminate this Contract prior to a final determination under Article 42 in favour of the **GOVERNMENT**.

- 45.6 If the **GOVERNMENT** terminates this Contract pursuant to the provisions of Articles 45.1 and 45.5, the **CONTRACTOR** shall lose all its rights and interests under this Contract. Notwithstanding the foregoing, the provisions of Articles 14.10, 16.7, 30, 31, 35.1, 35.3, 35.4, 35.7, 36, 38.2(c), 41, 42, 43.1 to 43.6 and Annex C shall survive the termination or expiry of this Contract.
- 45.7 If a **CONTRACTOR** Entity breaches Article 46.1 or 46.2 the **GOVERNMENT** or another **CONTRACTOR** Entity may terminate this Contract in respect of the first **CONTRACTOR** Entity.
- 45.8 If the Contract is terminated under Article 45.2 or 45.7, the interest of the relevant **CONTRACTOR** Entity shall be transferred to the other **CONTRACTOR** Entities in the proportions in which their respective percentage interests bear to the aggregate of their respective percentage interests under the relevant Joint Operating Agreement or in such other proportions as such **CONTRACTOR** Entities shall agree between them for the market value thereof (as such term is defined in Article 39.7). Such transfer shall not give rise to any Tax including on the consideration paid or received or on the income or gain therefrom.

ARTICLE 46 – APPLICATION OF CORRUPTION LAWS

- 46.1 If this Contract is reasonably proven to have been obtained in violation of Kurdistan Region Law concerning corruption, this Contract is void *ab initio*.
- 46.2 Each **CONTRACTOR** Entity agrees that if it is, at any time, reasonably proven to be in breach of Kurdistan Region Law concerning corruption the provisions of Article 45.7 apply.

ARTICLE 47 – EFFECTIVE DATE

This Contract shall become effective and be binding on the Parties upon the signature of the Contract by the duly authorised representatives of the **GOVERNMENT** and the **CONTRACTOR**, as provided below.

Entered into in four (4) originals in Erbil, the Kurdistan Region on Tuesday 2 October, 2007.

For the **KURDISTAN REGIONAL GOVERNMENT**

By : 

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

By : 

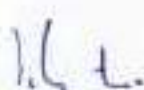
Ashti Hawrami
Minister of Natural Resources
Kurdistan Regional Government
On behalf of the Ministry of Natural
Resources in the Kurdistan Region

For each **CONTRACTOR** Entity

HERITAGE ENERGY MIDDLE EAST LIMITED

By : 

Anthony Buckingham
Chief Executive Officer



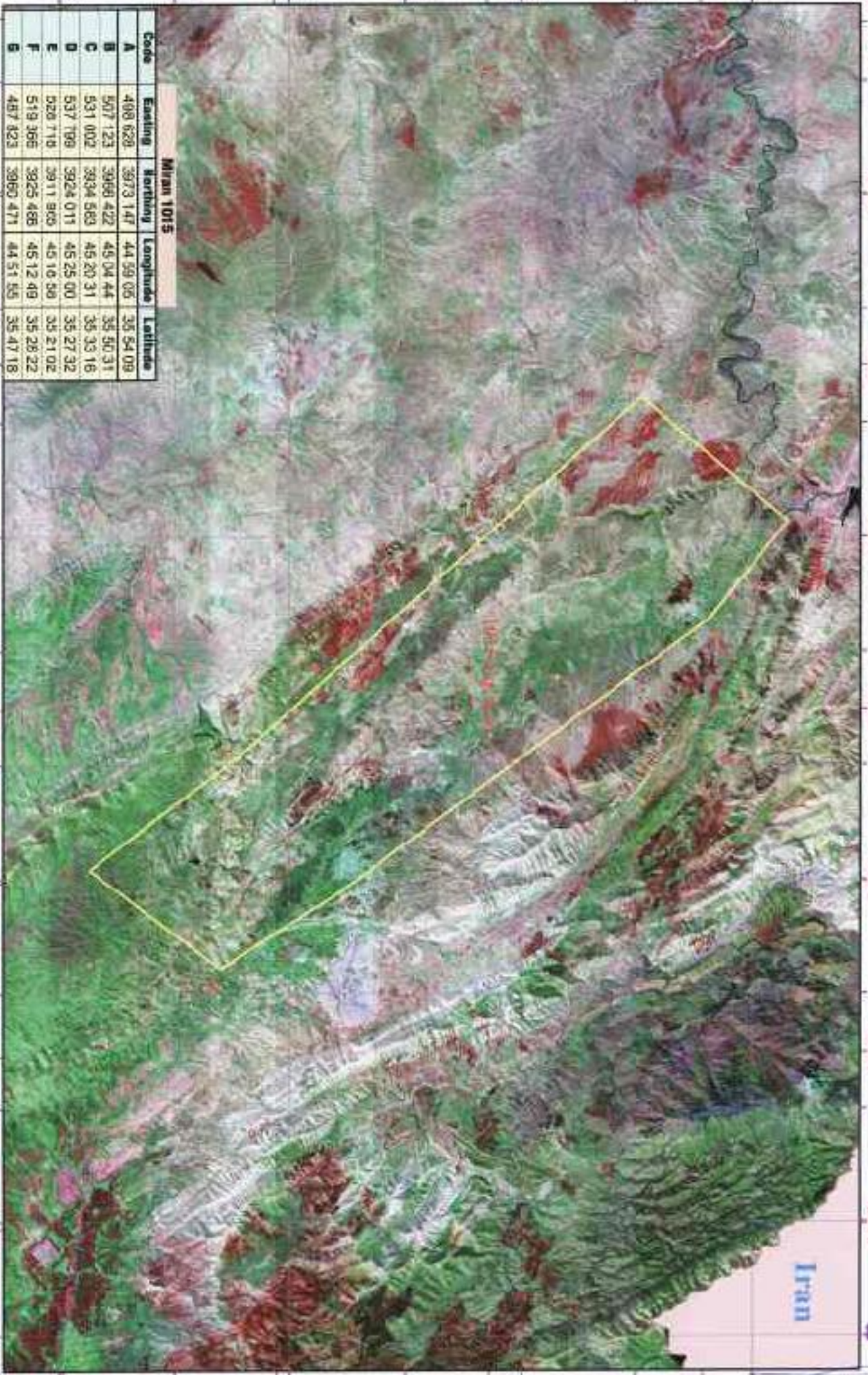




ANNEX A

Miran

Iran



Miran 1015

Code	Easting	Northing	Longitude	Latitude
A	400 620	3973 147	44 59 05	35 54 09
B	507 123	3968 422	45 04 44	35 50 31
C	531 002	3934 583	45 20 31	35 33 16
D	537 109	3924 011	45 25 00	35 27 32
E	526 119	3911 900	45 16 58	35 21 02
F	519 366	3925 488	45 12 49	35 28 22
G	487 323	3960 471	44 51 53	35 47 18

1:200,000

0 5 10 Kilometers

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ANNEX B

ACCOUNTING PROCEDURE

PARAGRAPH 1 – GENERAL PROVISIONS

1.1 Purpose

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

1.2 Definitions

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

1.3 Inconsistency

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

1.4 Accounting Records and Reports

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

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

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

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

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

1.5 Language and Units of Account

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

1.6 Audit and Inspection Rights of the GOVERNMENT

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

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

1.6.4 All agreed adjustments resulting from an audit shall be promptly made in the **CONTRACTOR's** Accounts and any consequential adjustments to payments due to the **CONTRACTOR** or to the **GOVERNMENT**, as the case may be, shall be made promptly.

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

1.7 Payments

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

1.7.1 All payments between the Parties shall, unless otherwise agreed, be in Dollars and be made through a bank designated in writing by each receiving party; and all sums due under the Contract shall be paid within thirty (30) days following the end of the Month in which the obligation to make such payment occurred.

1.7.2 All sums due by one party to the other under the Contract shall, for each day such sums are overdue, bear interest compounded monthly at LIBOR plus two per cent (2%).

1.8 Currency Exchange Rates

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

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

1.9 Accrual Basis, Cash Flow Basis and Reports

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

1.10 Values and Treatments

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

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

2.1 Segregation of Costs and Expenses

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

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

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

2.2 Exploration Costs

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

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

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2.3 Gas Marketing Costs

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

2.4 Development Costs

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

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

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

2.5 Production Costs

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

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[Signature]

2.6 Decommissioning Costs

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

2.7 Service Expenditures

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

2.8 General and Administrative Expenditures

General and administrative expenditures are:

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

Parent Company Overhead will be deemed to cover the actual cost (being salaries, wages and labour burden, employee benefits, travel, hotel and other

normally reimbursable expenses paid by the Affiliate of a **CONTRACTOR** in accordance with its standard personnel policy in force in the relevant period, provision of office accommodation and provision of services reasonably necessary for operation and maintaining such staff offices) incurred for services rendered by those functions of **CONTRACTOR's** Affiliate, such as, but not limited to, international production headquarters, international exploration headquarters, treasury, payroll, taxation, insurance, legal, communications, computer services, controllers, personnel, executive administrative management, research and development, central engineering and process engineering which:

- (a) cannot, without unreasonable effort and/or expenditure or without the release of confidential data proprietary to any of the **CONTRACTOR's** Affiliates, be charged under any other section of this Annex; and
- (b) are properly allocable to Petroleum Operations under the Contract. It is understood, however, that services performed by the departments listed above and other corporate departments which directly benefit Petroleum Operations under the Contract shall be charged as direct costs in accordance with Paragraph 3.

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

2.8.2.1 Exploration Overhead

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

For the first four million Dollars (US\$4,000,000) four per cent (4%)

For the next four million Dollars (US\$4,000,000) three per cent (3%)

Over eight million Dollars (US\$8,000,000) two per cent (2%)

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

2.8.2.2 Development, Production and Decommissioning Operations Overhead

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

- (a) The **CONTRACTOR's** charges must be charged as direct charges whenever possible. Overhead charges exist only to compensate the **CONTRACTOR's** Affiliates for costs which are properly allocable to Petroleum Operations under the Contract but which cannot, without unreasonable effort and/or release of confidential data proprietary to the **CONTRACTOR's** Affiliates, be charged under any other section. Overhead costs are billed monthly. Overhead must be commensurate with services rendered and based on actual cost studies but may not exceed an amount calculated as a percentage of certain annual expenditures excluding Exploration Costs and
 - (b) That percentage as well as the types of expenditures, which affect overhead and those, which do not, shall be agreed among the Parties.
 - (c) The maximum percentage rates may be revised by mutual agreement not more often than annually. The initial maximum percentage rates and the types of expenditures to which they apply shall be agreed as soon as the Parties possess reasonably reliable cost estimates for the relevant Production Area.
 - (d) Overhead charges are not subject to audit by **GOVERNMENT**.
 - (e) The **CONTRACTOR** shall upon request furnish at the end of each relevant Calendar Year to the **GOVERNMENT** a confirmation by its statutory auditor that the overhead costs actually charged do not duplicate any other charges and that the method used in allocating overhead to Petroleum Operations hereunder as opposed to other activities is reasonable and in accordance with generally accepted accounting practices.
 - (f) The **CONTRACTOR** must budget for overhead charges.
- 2.8.3 All general and administrative expenditures shall be regularly allocated as specified in Paragraphs 2.2.5, 2.3, 2.4, 2.5 and 2.6 to Exploration Costs, Gas Marketing Costs, Development Costs, Production Costs and Decommissioning Costs respectively and shall be separately shown under each of these categories.

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

3.1 Costs Recoverable Without Further Approval of the GOVERNMENT

Petroleum Costs incurred by the **CONTRACTOR** pursuant to the Contract as classified under the headings referred to in Paragraph 2 shall be recoverable for the purpose of Article 25 of the Contract (except to the extent provided in Paragraph 4 or elsewhere in this Annex), subject to audit as provided for in Article 15 and in Paragraph 1.6.

3.1.1 Surface Rights

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

3.1.2 Labour and Associated Labour Costs

- (a) *The CONTRACTOR's locally recruited employees based in the Kurdistan Region:* Costs of all **CONTRACTOR's** locally recruited employees who are directly engaged in the conduct of Petroleum Operations under the Contract in the Kurdistan Region. Such costs shall include the costs of salaries, wages, bonuses, overtime, employee benefits and **GOVERNMENT** benefits for employees and levies imposed on the **CONTRACTOR** as an employer, transportation and relocation costs within the Kurdistan Region of the employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice in the Kurdistan Region. If such employees are engaged in other activities in the Kurdistan Region, in addition to Petroleum Operations, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.
- (b) *Assigned Personnel:* Costs of salaries and wages including bonuses of the **CONTRACTOR's** employees directly engaged in the conduct of the Petroleum Operations under the Contract, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Contract, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in Paragraphs 3.1.2(c), (d), (e), (f) and (g), shall be charged and the basis of such pro-rata allocation shall be specified.
- (c) The **CONTRACTOR's** costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under Paragraph 3.1.2(b).
- (d) Expenses or contributions made pursuant to assessments or obligations imposed under Law which are applicable to the **CONTRACTOR's** cost of salaries and wages chargeable under Paragraph 3.1.2(b).
- (e) The **CONTRACTOR's** cost of established plans for employees' group life insurance, hospitalization, pension, stock purchases, savings, bonus, and other benefit plans of a like nature customarily granted to the **CONTRACTOR's** employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under Paragraph 3.1.2(b).

- (f) Actual transportation and travel expenses of employees of **CONTRACTOR**, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to the Kurdistan Region whose salaries and wages are chargeable to Petroleum Operations under Paragraph 3.1.2(b).

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

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

3.1.3 Transportation and Employee Relocation Costs

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

3.1.4 Charges for Services

(a) *Third Parties*

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

(b) *Affiliates of the CONTRACTOR*

- (i) **Professional and Administrative Services Expenses:** cost of professional and administrative services provided by any Affiliates of the **CONTRACTOR** for the direct benefit of Petroleum Operations, including services provided by the production, exploration, legal, procurement, financial, insurance, accounting and computer services divisions other

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than those covered by paragraphs 3.1.4 (b) (ii), 3.1.6 and 3.1.8 (b) which **CONTRACTOR** may use in lieu of having its own employees. Such charges shall reflect the cost of providing their services. Such charges shall not include any element of profit and shall be no more or less favourable than similar charges for other operations carried on by the **CONTRACTOR** and its Affiliates. The chargeout rate shall include all costs incurred by Affiliates incidental to the employment of such personnel including all Labour and Associated Labour Costs and the cost of maintaining and operating offices and providing all support services for such personnel. Costs of travel of such personnel in respect of Petroleum Operations will be directly charged. The charges for such services shall not exceed those prevailing if performed by non-Affiliated third parties, taking into account the quality and availability of such services. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

- (ii) **Scientific or Technical Personnel:** cost of scientific or technical personnel services provided by any Affiliate of the **CONTRACTOR** for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. The chargeout rate shall include all costs incurred by Affiliates incidental to the employment of such personnel including all Labour and Associated Labour Costs and the cost of maintaining and operating offices and providing all support services for such personnel costs of travel of such personnel in respect of Petroleum Operations will be directly charged. The charges for such services shall not exceed those prevailing if performed by non-affiliated third parties, taking into account the quality and availability of such services. Unless the work to be done by such personnel is covered by an approved Work Program and Budget, the **CONTRACTOR** shall not authorize work by such personnel without approval of the **GOVERNMENT**.
- (iii) **Equipment and facilities:** use of equipment and facilities owned and furnished by the **CONTRACTOR's** Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted and shall be on an arm's length basis. On the request of the **GOVERNMENT**, the

CONTRACTOR shall provide the **GOVERNMENT** with evidence of such rates being on an arm's length basis. (If the **GOVERNMENT** considers that any such rate is not on an arm's length basis then the **GOVERNMENT** has the right to refer the matter to an expert pursuant to Article 42.2 of the Contract). The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the **GOVERNMENT**.

3.1.5 Communications

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

3.1.6 Office and Miscellaneous Facilities

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

3.1.7 Ecological and Environment

- (a) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources;
- (b) Costs incurred in environmental or ecological surveys required by regulatory authorities, including an environmental impact assessment commissioned pursuant to Article 37.5 of the Contract and any other costs incurred in complying with the requirements of Article 37;
- (c) Costs to provide or have available pollution containment and removal equipment;
- (d) Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations;
- (e) Costs of restoration of the operating environment incurred pursuant to an approved scheme prepared in accordance with Article 38 of the Contract;
- (f) Any costs incurred for the decommissioning of facilities and site restoration, including any related activity required by the **GOVERNMENT** or other competent authority or by the Contract; and

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- (g) Any contributions made by the **CONTRACTOR** to the Decommissioning Reserve Fund in accordance with Article 38, when such contributions are made.

3.1.8 Material and Equipment Costs

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

- (a) **Acquisition** - the **CONTRACTOR** shall only supply or purchase materials for use in Petroleum Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.
- (b) **Components of costs, arm's length transactions** - except as otherwise provided in paragraph 3.1.8(d), material purchased by the **CONTRACTOR** in arm's length transactions in the open market for use in the Petroleum Operations under the Contract shall be valued to include invoice price less trade and cash discounts (if any), licence fees, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the **CONTRACTOR** has arranged the purchase, coordinated the forwarding and expediting effort, its costs should not exceed those currently prevailing in normal arm's length transactions on the open market and in any case shall not exceed a fee equal to two per cent (2%) of the value of the materials added to the cost of the materials purchased.
- (c) **Accounting** - such material costs shall be charged to the accounting records and books in accordance with the "**First in, First Out**" (FIFO) method;
- (d) Material purchased from or sold to Affiliates of the **CONTRACTOR** or transferred from other activities of the **CONTRACTOR** to or from Petroleum Operations under this Contract shall be valued and charged or credited at the prices specified in Paragraphs 3.1.8(d)(i), 3.1.8(d)(ii) and 3.1.8(d)(iii):
- (i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.

- (i) Used material (Conditions "B", "C" and "D");
 - (A) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy five per cent (75%) of the current price of new material defined in Paragraph 3.1.8(d)(i);
 - (B) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at not more than fifty per cent (50%) of the current price of new material as defined in Paragraph 3.1.8(d)(i). The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning do not exceed the value of Condition "B" material;
 - (C) Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by the **CONTRACTOR**. If material is not fit for use by the **CONTRACTOR** it shall be disposed of as junk.
- (ii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in Paragraph 3.1.8(d)(i).
- (iv) When the use of material is temporary and its service to the Petroleum Operations under the Contract does not justify the reduction in price as provided for in paragraph 3.1.8.(d)(i)(b), such material shall be priced on a basis that will result in a net charge to the accounts under the Contract consistent with the value of the service rendered.
- (v) Premium prices - whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the **CONTRACTOR** has no control, the **CONTRACTOR** may charge Petroleum Operations for the required material at the **CONTRACTOR**'s actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the **GOVERNMENT** of the proposed charge prior to charging Petroleum Operations for such material and the **GOVERNMENT** shall have the right to challenge the transaction on audit.
- (vi) Warranty of material furnished by the **CONTRACTOR** - the **CONTRACTOR** does not warrant the material furnished. In

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case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the **CONTRACTOR** from the manufacturers of the material or their agents.

- (vii) Adjustments arising from material inventories conducted in accordance with Paragraph 5.2.
- (e) Equipment of the **CONTRACTOR** charged at rates not to exceed the average commercial rates of non-affiliated third parties for equipment, facilities, installations and utilities for use in the area where the same are used. On request, the **CONTRACTOR** shall furnish a list of rates and the basis of application. Such rates shall be revised when found to be either excessive or insufficient, but not more than once every six (6) Months.

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

- (f) Use of leased or hired machinery and/or equipment in the Petroleum Operations shall be charged at full cost to the **CONTRACTOR**. This may include mobilisation and de-mobilisation charges, lease and hire fees, as well as other contractual costs.

3.1.9 Rentals and Taxes

All rentals of every kind and nature levied by any **GOVERNMENT** and all Taxes imposed in connection with the **CONTRACTOR**'s assets, income or activities under the Contract and paid directly by the **CONTRACTOR** or any **CONTRACTOR** Entity (save where the contrary is expressly provided in the Contract) with the exception of Taxes described in Article 31.2) and bonus payments made under Article 32.

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

3.1.10 Insurance and Losses

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

CONTRACTOR. Such costs may include repair and replacement of property in the Contract Area resulting from damages or losses incurred by fire, flood, storm, theft, accident or such other cause.

3.1.11 Legal Expenses

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of the Petroleum Operations under the Contract, or sums paid in respect of legal services necessary for the protection of the joint interest of the **GOVERNMENT** and the **CONTRACTOR** shall be recoverable. Such expenditures shall include attorney's fees, court costs, arbitration costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims provided such costs are not covered elsewhere in the Annex. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the **CONTRACTOR** or an Affiliated Company of the **CONTRACTOR**, such compensation shall be included instead under Paragraph 3.1.2 or 3.1.4(b) as applicable.

3.1.12 Claims

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

3.1.13 Training Costs

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

3.1.14 General and Administrative Costs

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

3.1.15 Banking Charges and Currency Exchange Losses

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

3.1.16 Other Expenditures

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

3.2 Credit Under the Contract

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

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

3.3 Duplication of Charges and Credits

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

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

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

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

PARAGRAPH 5 – RECORDS AND VALUATION OF ASSETS

5.1 Records

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

5.2 Inventories

Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and

once every three (3) years with respect to immovable assets. The **CONTRACTOR** shall give the **GOVERNMENT** at least thirty (30) days written notice of its intention to take such inventory and the **GOVERNMENT** shall have the right to be represented when such inventory is taken.

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

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

PARAGRAPH 6 – PRODUCTION STATEMENT

6.1 Production Information

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

- 6.1.1 The quantity of Crude Oil produced and saved.
- 6.1.2 The quality characteristics of such Crude Oil produced and saved.
- 6.1.3 The quantity of Natural Gas produced and saved.
- 6.1.4 The quality characteristics of such Natural Gas produced and saved.
- 6.1.5 The quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage.
- 6.1.6 The quantities of Crude Oil and Natural Gas unavoidably lost.
- 6.1.7 The quantities of Natural Gas flared and vented.
- 6.1.8 The size of Petroleum stocks held at the beginning of the calendar Month in question.
- 6.1.9 The size of Petroleum stocks held at the end of the calendar Month in question.
- 6.1.10 The quantities of Natural Gas reinjected into the Reservoir.
- 6.1.11 In respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Measurement Point. All quantities shown in this Statement

shall be expressed in both volumetric terms (Barrels of oil and cubic meters of gas) and in weight (metric tonnes).

6.2 Submission of Production Statement

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

PARAGRAPH 7 – VALUE OF PRODUCTION AND PRICING STATEMENT

7.1 Value of Production and Pricing Statement Information

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

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

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

7.2 Submission of Value of Production and Pricing Statement

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

PARAGRAPH 8 – COST RECOVERY AND SHARE ACCOUNT STATEMENT

8.1 Cost Recovery Statement

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

- 8.1.1 Recoverable Petroleum Costs carried forward from the previous Quarter, if any.
- 8.1.2 Recoverable Petroleum Costs for the Quarter in question.
- 8.1.3 Credits under the Contract for the Quarter in question.
- 8.1.4 Total Recoverable Petroleum Costs for the Quarter in question (Paragraph 8.1.1 plus Paragraph 8.1.2, net of Paragraph 8.1.3).

8.1.5 Quantity and value of Petroleum applied to cost recovery pursuant to Article 25 taken by the **CONTRACTOR** for the Quarter in question.

8.1.6 Amount of recoverable Petroleum Costs to be carried forward into the next Quarter (Paragraph 8.1.4 net of Paragraph 8.1.5).

8.2. Cumulative Production Statement

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

8.2.1 The cumulative production position at the end of the Quarter preceding the Quarter in question.

8.2.2 Production of Export Petroleum for the Quarter in question.

8.2.4 The cumulative production position at the end of the Quarter in question.

8.2.5 The amount of Petroleum applied to Royalty pursuant to Article 24, cost recovery pursuant to Article 25 and Profit Petroleum pursuant to Article 26 taken by the **GOVERNMENT** and by the **CONTRACTOR**, respectively, during the Quarter in question.

8.2.6 The forecast of production and the share of Petroleum applied to Royalty pursuant to Article 24, cost recovery pursuant to Article 25 and Profit Oil pursuant to Article 26 due to the **GOVERNMENT** and to the **CONTRACTOR**, respectively, for the next succeeding Quarter.

8.3 Preparation and Submission of Cost Recovery and Cumulative Production Statements

8.3.1 Provisional Cost Recovery and Cumulative Production Statements, containing estimated information where necessary, shall be submitted by the **CONTRACTOR** on the last day of each Quarter for the purposes of Article 25 of the Contract.

8.3.2 Final quarterly Cost Recovery and Cumulative Production Statements shall be submitted within thirty (30) days of the end of the Quarter in question.

8.4 Annual Statement

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

PARAGRAPH 9 – STATEMENT OF EXPENDITURE AND RECEIPTS

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

PARAGRAPH 10 – FINAL END-OF-YEAR STATEMENT

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

PARAGRAPH 11 – AUDITS

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

PARAGRAPH 12 – ANNUAL WORK PROGRAM AND BUDGET

- 11.1 Each annual Work Program and Budget to be prepared in accordance with Articles 11, 12 and 14 of the Contract, in respect of Exploration Costs, Gas Marketing Costs, Development Costs and Production Costs respectively will show the following:

- 11.1.1 Forecast expenditures for the budget Calendar Year in question including a quarterly classification of such expenditures.
- 11.1.2 Cumulative expenditures to the end of said budget Calendar Year.
- 11.1.3 A schedule showing the most important individual items of Development Costs (if applicable) for said budget Year.

PARAGRAPH 13 – CONTRACTOR ENTITY INCOME TAX COMPUTATION

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

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

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

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

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

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

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

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

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

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

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ANNEX C

REFINERY JOINT DEVELOPMENT AGREEMENT

Dated Tuesday 2 October, 2007

between

THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ

and

HERITAGE ENERGY MIDDLE EAST LIMITED

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This **REFINERY JOINT DEVELOPMENT AGREEMENT** (this "**Agreement**"), for a refinery to be erected in the Taq Taq / Miran area, is entered into the second day of October, 2007, between:

THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ ("GOVERNMENT"); and

HERITAGE ENERGY MIDDLE EAST LIMITED, a company organised and doing business under the laws of Nevis, having a registered office on the date hereof at P.O. Box 693, Hamilton Estate, Charlestown, Nevis ("**Heritage**").

RECITALS

Capitalised terms used in this Agreement, including in the recitals, shall have the meanings set out in Clause 1.1.

- A. The Oil and Gas Law of the Kurdistan Region - Iraq (Law No. 22 of 2007) applies to petroleum operations in the Kurdistan Region, including the refining of petroleum, and authorises the Ministry of Natural Resources of the Kurdistan Regional Government to regulate refinery infrastructure and to licence petroleum operations to third parties.
- B. The Shareholders are entering into this joint development agreement to record their agreement on certain initial matters relating to their collaboration on the Project.
- C. The Shareholders wish to incorporate a joint venture company (the "**Company**") in a mutually acceptable, tax efficient jurisdiction for the purpose of developing, constructing, financing, owning and operating the Project.
- D. To facilitate the development of the Project through the Company, the Shareholders agree to enter into this Agreement (or a separate definitive shareholders' agreement on substantially the same terms as this Agreement (the "**Shareholders' Agreement**")) to set out their respective rights and obligations in connection with the management, operations and funding of the Company.
- E. The Company will be incorporated within thirty (30) days from the date of this Agreement is entered into (the "**Company Incorporation Date**").
- F. The Shareholders acknowledge that the implementation and operation of the Project will require compliance with the principles and mechanisms set out in this Agreement. The Shareholders agree to cause the Company to participate in the Project on the terms and conditions consistent with the provisions of this Agreement and the Project Documents to which it is, or will be, a party.

NOW THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged by each Shareholder, the Shareholders agree as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

Unless the context of this Agreement otherwise requires:

"Acceptance Notice" has the meaning given to that term in Clause 10.6(b).

"Affiliate" means in relation to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote more than 50 per cent. of the securities having ordinary voting power for the election of directors of such Person or (b) direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Affiliate Transfer" has the meaning given to that term in Clause 10.5.

"Appointing Authority" has the meaning given to that term in Clause 13.2(c).

"By-Laws" means the constitutional documents of the Company as the same may be amended from time to time.

"Business Day" means any day (other than a Saturday, Sunday or public holiday), upon which banks are permitted to be open for business in the Region and New York.

"Capital Expenditures" means expenditures incurred or to be incurred by the Company to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) computed in accordance with IAS.

"Capital Expenditures Budget" means the annual budget for Capital Expenditures for each year falling on or after the Commercial Operation Date to be prepared by the Chief Financial Officer and approved by the Shareholders.

"Commercial Operation Date" means, with respect to the Facility, the date on which such Facility commences commercial operations following the commissioning and testing thereof.

"Company" has the meaning given to that term in Recital B of this Agreement.

"Company Incorporation Date" means the date on which the Company is incorporated for the purposes of, and in accordance with, this Agreement.

"Construction Contractor" means any contractor or supplier retained by the Company in connection with the design, construction and equipping of either Facility.

"Construction Phase" means the period from the Final Decision to Proceed Date until the Commercial Operation Date.

"Construction Phase Budget" means the budget itemising all costs and expenses (including Capital Expenditures) anticipated to be incurred by the Company in connection with activities scheduled to occur during the Construction Phase and indicating the item or type of expenditures, the purpose thereof and the timing of such expenditures, as agreed by the Shareholders and as such budget may be modified from time to time by resolution of the Shareholders in accordance with Clause 6.2(b)(v).

"Construction Phase Financing Plan" means the plan for the sources and amounts of financing for the costs and expenses referred to in the Construction Phase Budget, including a timetable for the uses of funds, as such financing plan may be modified from time to time by resolution of the Shareholders in accordance with Clause 6.2(b)(v).

"Continuing Shareholders" has the meaning given to that term in Clause 10.4(a).

"Defaulting Shareholder" means a Shareholder who defaults in its obligations and fails to remedy such default, as more particularly described in Clause 9.1.

"Development Budget" means the budget for costs and expenses of developing the Project during the Development Phase as such budget may be modified from time to time by resolution of the Shareholders in accordance with Clause 6.2(b)(v).

"Development Costs" means costs and expenses within the Development Budget.

"Development Period Financing Plan" means the plan for the financing of the costs and expenses referred to in the Development Budget by the Shareholders including a timetable for the use of funds, as such financing plan may be modified from time to time by resolution of the Shareholders in accordance with Clause 6.2(b)(v).

"Development Phase" means the period from the date of execution of this Agreement until the Final Decision to Proceed Date.

"Dispute" has the meaning given to that term in Clause 13.1.

"Facility" means the commercial oil refinery to be developed in the Taq Taq / Miran area in the Region.

"Fair Market Value" of any Shares on any particular date means the fair market value of such Shares at the date of a proposed transfer pursuant to Clause 10 as determined by an independent third party appraiser with the requisite experience and qualifications in deciding such matters as selected by the Offering Shareholder (whose fees, costs and expenses in connection with such determination shall be paid by the Offering Shareholder).

"Final Decision to Proceed Date" means the date on which each of the conditions set out below (as the same may be modified or supplemented from time to time by resolution of the Shareholders in accordance with Clause 6.2(b)) has been satisfied:

- (a) the due incorporation of the Company in accordance with this Agreement;
- (b) agreement by the Parties on the Development Budget, the Development Period Financing Plan, the Construction Phase Budget and the Construction Phase Financing Plan;

- (c) the issuance by the Government of a report on the basic design and engineering works (incorporating the form of the call for tender to be submitted in respect of the design and construction of the Facility to prospective contractors and providing a price estimate for the capital cost of the Facility);
- (d) a feasibility study has been carried out by Heritage or, at its option, an independent third party which confirms that the costs of commissioning and implementing the Project and achieve the Commercial Operation Date will not exceed U.S.\$ 140 million;
- (e) a full scoping study has been undertaken by independent consultants incorporating details of the guaranteed feedstock, operations, off-take agreements and financial viability of the Facility; and
- (f) purchase arrangements for oil and gas to be processed at the Facility are in place and in full force and effect.

"Finance Committee" has the meaning given to that term in Clause 5.3(a)(ii).

"Force Majeure Event" has the meaning given to that term in Clause 16.1.

"GNP Implicit Price Deflator" means the Gross National Product Implicit Price Deflator as published from time to time in the United States Department of Commerce Bureau of Economic Analysis publication entitled "Survey of Current Business"; provided that if such Gross National Product Implicit Price Deflator as published from time to time is unavailable, the GNP Implicit Price Deflator shall mean an index, in substance similar thereto, selected by the Shareholders.

"Governmental Authorisation" means any authorisation, consent, concession, support, decree, permit, waiver, benefit, exemption and approval from, or filing with, or notice to any Governmental Authority.

"Governmental Authority" means any government and any ministry, department, political subdivision, instrumentality, agency, authority, board, bureau, administrative or judicial body, corporation or commission of the Kurdistan Regional Government.

"IAS" means the international accounting standards as issued and updated from time to time by the International Accounting Standards Committee.

"Inflated" means, as of any date, with respect to any amount of U.S. Dollars (which amount shall, for the purposes of this definition, be deemed to be expressed in January 1, 2007 U.S. Dollars), such amount adjusted to reflect changes in the GNP Implicit Price Deflator from January 1, 2007 to such date.

"**Law**" means the name of the applicable legislation which governs the Company's incorporation, as amended from time to time or any statutory re-enactment thereof, and wherever the context requires, any statutory rules framed thereunder.

"**Management Committee**" has the meaning given to that term in Clause 5.3(a)(i).

"**Nominee**" means any Person nominated to be a member of the Board of Directors of the Company in accordance with Clause 5.1.

"**Offer**" has the meaning given to that term in Clause 10.6(b).

"**Offering Shareholder**" has the meaning given to that term in Clause 10.4(a).

"**Operating Budget**" means the annual operating budget to be prepared for each year falling on or after the Commercial Operation Date by the Chief Financial Officer and approved by the Shareholders.

"**Parties**" shall mean collectively all the Parties from time to time party to this Agreement and "**Party**" shall mean any such party.

"**Production Sharing Agreement**" or "**PSA**" means a definitive agreement executed on around the date of this Agreement by Heritage and the Government which governs the production sharing arrangement between the Parties in respect of their involvement in the Project, and to which this Agreement constitutes Annex C.

"**Project**" means the development, construction, ownership, testing, commissioning, operation, maintenance and financing (including any refinancing) of the Facility and of all ancillary equipment or facilities related thereto.

"**Project Assets**" means all rights and benefits under any licenses, permits or any available Project Documents all of which are to be legally transferred to the Company in accordance with this Agreement.

"**Project Documents**" means, collectively, all material contracts and agreements relating to the Project to which the Company may be, or becomes, a party.

"**Proposed Transferee Group**" has the meaning given to that term in Clause 10.4(a).

"**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.

"**Share**" means any voting share of the Company, including, as the context may require, any voting share of the Company not yet issued.

"**Shareholder Loan**" means any financial accommodation made available by a Shareholder to the Company on such terms and conditions (including in relation to interest rate, repayment schedule and security) at the time such financial accommodation is to be provided.

"Shareholders" means collectively the Parties being the Government and Heritage, in each case for so long as it owns Shares, and each other holder of Shares from time to time, and "Shareholder" means any of them.

"Shareholders' Agreement" has the meaning ascribed to it in Recital C to this Agreement.

"Shareholding Interest" means, in respect of any Person from time to time, the proportion that the number of that Person's Shares bears to the number of all issued Shares, as adjusted in accordance with this Agreement from time to time. Initially, the Shareholding Interest of each Shareholder shall be as follows:

<i>Shareholder</i>	<i>Initial</i>	<i>Interest</i>	<i>Interest after full cost recovery and financing repayment</i>
The Government	50%		51%
Heritage	50%		49%

"Technical Committee" has the meaning given to that term in Clause 5.3(a)(iii).

"Transferee" has the meaning given to that term in Clause 10.6.

"U.S. Dollars", "\$" and "U.S.\$" means the lawful currency of the United States of America.

1.2 INTERPRETATION

Unless the context of this Agreement otherwise requires:

- (a) words of any gender include each other gender;
- (b) words using the singular or plural number also include the plural or singular number, respectively;
- (c) references to a "Person" include a reference to any individual, corporation, partnership, joint venture, trust, any other legal Person and any Governmental Authority;
- (d) any reference to any Person in any capacity includes a reference to its permitted successors and assigns in such capacity and, in the case of any Governmental Authority, any Person succeeding to its functions and capacities;
- (e) the terms "hereof", "herein", "hereby", "hereto" and similar words refer to this entire Agreement and not any particular Clause or other subdivisions of this Agreement;
- (f) references to "Clause" are to such subdivisions contained in this Agreement;
- (g) the words "include" and "including" shall be deemed to be followed by "without limitation" or "but not limited to" whether or not they are followed by such phrases or words of like import;

- (h) references to any statute or statutory provision shall be construed as a reference to the same as it may have been, or may from time to time be, amended, modified or re-enacted;
- (i) references to any agreement or document (including this Agreement) shall be construed as a reference to such agreement or document as amended, modified or supplemented and in effect from time to time and shall include a reference to any document which amends, modifies or supplements it, or is entered into, made or given pursuant to or in accordance with its terms;
- (j) "this Agreement" and words of similar import shall mean this Agreement;
- (k) the headings contained in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of this Agreement;
- (l) references to "days" shall refer to calendar days unless Business Days are specified; references to "weeks", "months" or "years" shall be to calendar weeks, months or years respectively; and
- (m) all accounting terms used but not expressly defined herein shall have the meanings respectively given to them under IAS.

2. INCORPORATION OF THE COMPANY, FINAL DECISION TO PROCEED AND TRANSFER OF PROJECT ASSETS

2.1 INCORPORATION OF THE COMPANY

Within thirty (30) days from the date of the signing of this Agreement, Heritage, in consultation with the Government, will incorporate the Company under the laws of a jurisdiction to be identified by the Parties as being the optimum choice whether by reason of tax, management or for other reasons agreed upon by the Parties.

The Company will be formed with corporate objectives appropriate for the further operation and development of the Project. The Company shall be incorporated with a capital structure and in a manner consistent with this Agreement which will optimise tax benefits and minimise adverse tax consequences to the Company and the Parties. As at the Company Incorporation Date and subject to Clause 4, the Parties will be the sole shareholders in the Company.

2.2 FINAL DECISION TO PROCEED

Each of the Parties shall use its best endeavours to satisfy each of the conditions which is its obligation to discharge comprising the definition of the "Final Decision to Proceed Date" with the intention that the Final Decision to Proceed Date shall be no more than one hundred and fifty (150) days from the date of this Agreement.

2.3 TRANSFER OF PROJECT ASSETS

Within seven (7) days from the Final Decision to Proceed Date, the Government shall complete the legal transfer of the Project Assets to the Company.

3. GOVERNANCE AND SCOPE OF ACTIVITIES OF THE COMPANY

3.1 GOVERNANCE OF THE COMPANY

Following execution of this Agreement and for the term hereof the Parties shall comply, and at all times act consistently with, the terms and provisions of this Agreement and the Shareholders shall act to cause the Company to comply, and at all times act consistently with, the terms and provisions of this Agreement. Without limiting the foregoing, each Shareholder shall vote and take all other necessary actions to ensure that the By-Laws do not conflict with the provisions of this Agreement and that the provisions of this Agreement are complied with by such Shareholder and the Company.

3.2 BUSINESS OF THE COMPANY

- (a) The business of the Company shall be to implement the Project, including by its entry into, and performance of, all Project Documents. The Company shall (subsequent to the transfer of such assets to the Company) have all right, title and interest in the Project Assets and the Facility.
- (b) The Company shall (if required) enter into, and perform its obligations under, any financing documents, as borrower for the purposes of the Project.
- (c) The Company may generally engage in any activity and endeavour in the pursuit and in conformity with the objectives, activities and purposes mentioned in the two preceding paragraphs and to conduct its activities for its own account or in conjunction with other Persons, all in such manner and form as may be required in accordance with the By-Laws.

3.3 MANAGEMENT OF COMPANY

(a) Management of Company

The Company shall at all times be managed and operated in accordance with sound business principles. The Company shall be managed and use all reasonable endeavours to ensure that all aspects of the Project shall be implemented and maintained: (i) in such a manner as to maximise revenues and economic benefits and minimise costs and taxes to the Company; and (ii) in accordance with good international oil and gas industry practice and business standards.

(b) Compliance with Laws

The Project shall be implemented and conducted in all respects in accordance with all applicable laws and regulations and with high standards of business probity and business ethics, and the Parties shall take all reasonable action within their power that is necessary or desirable to ensure compliance with this Clause 3.3(b). Each Party shall defend, indemnify and hold the other Parties harmless for any breach by it of the obligations set out in this Clause 3.3(b).

(c) Business Principles Policy

The Company shall establish a business principles policy which shall take into account the business principles observed by the Shareholders and reflect the terms and conditions of this Agreement.

3.4 GOVERNMENTAL AUTHORISATIONS

Immediately upon the execution of this Agreement, or as soon as reasonably practical thereafter, the Parties shall take the following actions:

- (a) Apply for each Governmental Authorisation required or desirable to enable the transfer of the Project Assets to the Company.
- (b) Each Party shall obtain all corporate approvals and Governmental Authorisation required or desirable for entering into and performing this Agreement.
- (c) Each Party shall apply for and obtain any required approvals for such Party to make the investments under this Agreement.
- (d) Each Party shall notify the other that it has obtained the required approvals stated in this Clause 3.4.

3.5 ACCOUNTING MATTERS AND FINANCING PLAN

(a) Accounting Policy

- (i) The accounts for the Company shall be prepared in accordance with IAS and, to the extent required by applicable law, the jurisdiction of incorporation of the Company (if applicable), in each case consistently applied and audited by a firm of registered public accountants of international repute appointed by the Shareholders.
- (ii) All books and accounts of the Company shall be kept in English and in U.S. Dollars.
- (iii) At any time, any Shareholder may require by giving reasonable written notice an audit of the Company's accounts by that Shareholder's auditors, which audit shall be carried out at the cost of such Shareholder.

(b) Financial Year

The financial year of the Company shall commence on January 1 of each year and shall end on the following December 31.

(c) Budgets/Financing Plan

- (i) As soon as reasonably practicable following the execution of this Agreement, the Parties shall agree the Development Budget the

Development Period Financing Plan, the Construction Phase Budget and the Construction Phase Financing Plan.

- (ii) The Shareholders shall cause the Chief Financial Officer to prepare and submit to the Shareholders for approval not later than 60 days before the Commercial Operation Date: (i) an annual Capital Expenditures Budget; and (ii) an annual Operating Budget, which annual Operating Budget shall include the following:
 - (A) an estimate of the working capital requirements of the Company;
 - (B) an estimate of proposed maintenance expenditure, including the item or type of expenditure, the necessity therefore and the time of such expenditure;
 - (C) an estimate of proposed expenses of operating the, including the item or type of expenditure, the purpose thereof and the timing of such expenditure;
 - (D) a projected detailed profit and loss account;
 - (E) a review of the projected business; and
 - (F) a summary of business objectives.

3.6 DISTRIBUTION OF INFORMATION

- (a) Each Party (through its appointed representative) shall at all reasonable times during normal business hours at the place where the relevant books and records are kept, have rights of access to all books and records related to the Company and the Project. In addition, each Party shall have the right to seek information relating to any aspect of the Company or the Project from any party involved in that aspect (including third party contractors and suppliers).
- (b) Without prejudicing the generality of the preceding paragraph, the Shareholders shall:
 - (i) ensure that the Board of Directors provides all budgeting and accounting information that a Shareholder may reasonably request;
 - (ii) cause the Chief Financial Officer to ensure the prompt preparation and provision of the following information to the Board of Directors and to each Shareholder:
 - (A) unaudited quarterly and audited annual financial statements of the Company;
 - (B) quarterly and annual budgets, in connection with the costs of the Project;

- (C) a report of any actual or anticipated aggregate expenditures by the Company during a period that exceed the aggregate budget expenditures for such periods by 5 % in the aggregate or more than 10% for any particular item;
 - (D) any anticipated deviations from the estimates set forth in the Development Budget, the Construction Phase Budget or any annual Operating Budget or Capital Expenditures Budget of the amounts and timing of funds that will be required with respect to the agreed expenditures; and
 - (E) copies of all documentation provided to any lenders to the Project,
- (iii) cause the general manager to ensure the prompt preparation and provision to the Board of Directors and to each Shareholder copies of all reports or other material information (both in English) provided to the Company;
 - (iv) cause the project manager to ensure the prompt preparation and provision of the following information to the Board of Directors and to each Shareholder,
 - (A) quarterly and annual construction and operating reports of the Company;
 - (B) a report of any unexpected occurrence which will, or is likely to, materially affect the construction or operation of the Project; and
 - (C) copies of all reports or other material information provided to or by the Construction Contractor or any other major contractor retained for the purposes of the Project.
- (c) The Parties shall cause the Company to use its reasonable endeavours to ensure that all material agreements with third party contractors and suppliers in relation to the Company or the Project contain information rights which mirror the provisions of Clause 3.6(a).

3.7 INSURANCE

The Company shall obtain and maintain insurance to cover its assets and liabilities for the benefit of itself and of the Shareholders at competitive rates at all times during construction and operational phases in accordance with applicable laws, rules and regulations and with good international oil and gas industry practice for similar facilities and activities provided such insurance is available in the market on reasonable, commercial terms.

Such insurances shall be of the type and for amounts in line with the Shareholders' requirements to the extent they are available on the commercial market on reasonable terms and conditions.

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All insurance shall be subscribed:

- (a) in accordance with the Region's laws, rules and regulations;
- (b) with reputable insurers and reinsurers having a financial strength satisfactory in all respects to the Shareholders; and
- (c) in U.S.\$, unless the Shareholders otherwise determine.

3.8 EMPLOYEES/SECONDMENT OF PERSONNEL

- (a) The Company shall employ such number of individuals, having the requisite experience and skills, as shall be necessary for the purposes of the Project.
- (b) The Shareholders shall be entitled to second to the Company a number of senior management personnel in proportion to their respective Shareholding Interests. The Shareholders shall second personnel from its own organisation to the Company on the Company's written request to provide such personnel. If the Company determines by resolution of the Shareholders in accordance with Clause 6.2(b) that any personnel so seconded is not suitable for the type of work to be performed, it may require the relevant Shareholder to withdraw and replace such personnel or to take such steps as the Board of Directors may deem necessary. The detailed terms and conditions for secondment of personnel shall be agreed between the Company and each of the Shareholders.

3.9 PROMOTION OF THE PROJECT

- (a) Each Party shall use its reasonable endeavours to develop, implement and maintain the Project in accordance with good and prudent international oil and gas industry practice.
- (b) Each Party shall take reasonable measures to procure that the Company, without undue delay, enters into the Project Documents on terms acceptable to the Company.
- (c) Each Party shall furnish technical assistance to the Company on the Company's request and the Party's agreement to provide such assistance. The Parties shall cause the Company to request technical assistance from the Party which in the Company's opinion has the best available resources for the task in question. The detailed terms and conditions for technical assistance shall be agreed between the Company and each of the Parties.

4. CAPITALISATION AND FUNDING OF THE COMPANY

4.1 INITIAL SHARE CAPITAL OF COMPANY

The share capital of the Company shall initially be the minimum required by the laws of the jurisdiction of incorporation of the Company. Each Share will entitle the holder thereof to one vote each on each matter presented to the Shareholders of the Company, and each Share will entitle each Shareholder to share equally with each other in the profits of the Company. The holding of Shares shall be evidenced by

share certificates of the Company. Each Shareholder shall be allotted one-half of the issued Shares.

4.2 INCREASED SHARE CAPITAL

The share capital of the Company shall be increased to the equivalent in the currency of the jurisdiction of incorporation of the Company of U.S.\$ 40 million. The entirety of the aforesaid share capital shall be subscribed for by Heritage but each Shareholder shall be allotted one-half of the additional issued Shares. The amount of the contribution shall always be such that when the conversion between U.S. Dollars and the currency of the jurisdiction of incorporation of the Company is made, the number of Shares to be issued to each Shareholder will be a whole number.

4.3 PAYMENT OF ADDITIONAL CAPITAL CONTRIBUTIONS

Following the date of the increase in the Company's share capital (as set out in Clause 4.2 above), the further costs of the Project to achieve the Commercial Operation Date shall be met as follows:

- (i) by Heritage in the form of a Shareholder Loan, paid in instalments up to U.S.\$100 million to cover the ongoing Project costs; and
- (ii) thereafter, by each Shareholder *pro rata* to their Shareholding Interest and in the form of a Shareholder Loan by such means as shall be fixed by the unanimous approval of the Board of Directors and the Shareholders.

4.4 FUNDING REQUIREMENTS OF THE COMPANY

(a) Funding Post-Commercial Operation Date

The Shareholders agree that the costs associated with the Project subsequent to the Commercial Operation Date shall be met with the profits earned by the Company resulting from its involvement in the Project, to the extent that such profits shall be available for the lawful use of the Company.

(b) Bank Accounts and Procedures

As soon as practicable after the Company Incorporation Date, the Shareholders shall ensure that the Company establishes the procedures, bank accounts (which shall be located in a jurisdiction to be agreed upon by the Shareholders) and other facilities necessary for it to receive the funding for the Company in connection with the Project and disburse funds for the purposes of the Project.

(c) Non-Payment of the Funding Requirement for the Company

Where a Shareholder does not pay any of the Company's funding requirements by the due date therefor in accordance with any funding notice received in the manner described in Clause 4.4(e), such Shareholder shall be in default and subject to the provisions of Clause 9.

(d) Shareholder Loans

Other than as provided for in this Clause 4, the Company shall not incur any indebtedness to any Shareholder for a Shareholder Loan except pursuant to a resolution in accordance with Clause 6.2(b) that the Company's funding requirements in connection with the Project are to be met by such loans. All Shareholder Loans shall be made on an interest free basis and shall be pursuant to a Shareholder Loan agreement and related arrangements agreed to in writing by the Company and approved before execution thereof by all of the Shareholders.

(e) Funding Notices

The Shareholders shall cause the Chief Financial Officer to give each Shareholder not less than 60 Business Days notice prior to the date on which any funds are required by the Company, and any such notice shall specify: (i) that the Shareholder shall have absolute discretion as to how to meet such funding obligations; and (ii) the date upon which such funding obligations are due to be paid by the relevant Shareholder.

(f) Third Party Financing

In relation to third party financing for the Project, as and when required, the Company shall use its best endeavours to arrange the best possible financing plan for the Project without any requirement for guarantees or any other backing from, or recourse to, the Shareholders or their respective Affiliates. If the Shareholders agree to provide guarantees or other undertakings in relation to such financing, such guarantees and undertakings shall be provided by each Shareholder on a *pro rata* and several basis. Any Shareholder can directly or through an Affiliate provide third party financing for the Project provided the provision of such financing does not jeopardise and is on terms and conditions no less favourable to the Company than any other third party financing.

(g) Non-Recourse Obligations

The Parties shall use reasonable endeavours to ensure that all Project Documents under which the Company shall incur any indebtedness for borrowed money (including Shareholder Loans) or the deferred purchase price of property (other than trade payables and obligations for the deferred purchase price of property incurred in the ordinary course of business) shall provide specifically that such obligation shall be recourse only to the assets of the Company, as the case requires, and non-recourse as to any Shareholder and as to the assets of any such Shareholder. To the maximum extent permitted by the applicable law, the Shareholders and their respective Affiliates shall have no personal liability for the obligations and liabilities of the Company, including any indebtedness of the Company for borrowed money or the deferred purchase price of property. In addition, no Shareholder:

- (i) need provide any financial accommodation to the Company other than as provided in this Agreement; or
- (ii) shall be required to guarantee, or provide any other form of undertaking in support of, the obligations of the Company from time to time.

(h) Shareholders' Financing

Nothing in this Agreement is intended, nor shall it be construed, to limit the ability of any Shareholder to finance its participation in the Company in any manner such Shareholder sees fit (subject to the restrictions on assigning its Shares contained in this Agreement and under applicable law), provided that such financing shall not require the provision of security or undertakings by, or recourse to, the Company or the other Shareholders.

(i) Issuance of Shares

- (i) During the Development Phase, no Shares shall be issued other than as provided by Clause 4.1.
- (ii) Shares shall not be issued other than in accordance with this Agreement and the By-Laws.

5. MANAGEMENT OF THE COMPANY

5.1 BOARD OF DIRECTORS

(a) Composition and Election of Board of Directors

With effect from the Company Incorporation Date, the Board of Directors of the Company shall consist of four members, such members are to be elected or appointed. The initial Board of Directors shall comprise two individuals nominated by Heritage and two individuals nominated by the Government.

(b) Management by Board of Directors

Subject to Clauses 5.2 and 5.3, the management of the Company shall, in accordance with the By-Laws, be vested in the Board of Directors, except for the rights of Shareholders exclusively reserved to Shareholders as expressly set out in this Agreement and the Law. To the extent that any business (including but not limited to decisions, proposals, appointments and actions) is to be transacted in connection with the Project by the Board of Directors in advance of the Company Incorporation Date, such business shall be transacted by the Management Committee (as described in Clause 5.3) to be agreed by the Shareholders in good faith, and any reference to the "Board of Directors" in this Agreement in such a context shall be deemed to mean the Management Committee.

5.2 OFFICERS

(a) Chairman

- (i) The first chairman of the Board of Directors shall be nominated by the Government, and thereafter the appointment of the chairman shall rotate between the Shareholders on every anniversary of the date hereof.
- (ii) The duties of the chairman shall, within the guidelines and limits established by the Board of Directors, include:
 - (A) presiding over meetings of the Board of Directors and the general meetings of the Shareholders;
 - (B) calling meetings of the Board of Directors as and when he deems it necessary; and
 - (C) making such public announcements, as may be required by applicable law, on behalf of the Company.

(b) General Manager

- (i) Heritage shall have sole discretion to appoint a general manager to be the principal administrative and executive officer of the Company. The general manager shall report in English to the Board of Directors on a quarterly basis (or at such intervals as may be otherwise determined by the Board of Directors) and comply with all decisions and directions of the Board of Directors. The general manager shall have such authority as is delegated to him by the Board of Directors.
- (ii) The general manager shall be responsible for the administration of the Company on a day-to-day basis within the policies laid down by the Board of Directors in respect of the following:
 - (A) representing the Company with respect to all its rights and obligations, within and outside the Region;
 - (B) informing the Chairman and the Management Committee of the relevant day to day activities and decisions in relation to the Company's operations;
 - (C) carrying out or having carried out the decisions of the Board of Directors;
 - (D) signing documents relating to the Company's operations as authorised by the Board of Directors;
 - (E) preparing the work programme for the Project and ensuring the implementation thereof after approval by the Board of Directors, and the Shareholders in accordance with Clause 6.2(b);

- (F) co-ordinating during the Construction Phase with the project manager to ensure the efficient and timely realisation of the Projects;
 - (G) ensuring that the Facility is operated and maintained safely, reliably, efficiently, economically and in accordance with good and prudent operating practices;
 - (H) determining the level of spare parts, chemicals and other stores and equipment to be maintained by Company;
 - (I) making recommendations to the Board of Directors regarding improvements, additions and alterations to the Facility;
 - (J) ensuring that the Company complies with its operational responsibilities under any agreement relating to the use of the Facility;
 - (K) submitting, as requested by the Board of Director, development plans for approval by the Board of Directors covering the requirements of the Company for personnel and the qualifications and numbers of such personnel;
 - (L) selecting and employing, in accordance with the recruitment policies approved by the Board of Directors, all necessary personnel;
 - (M) preparing recommendations to the Board of Directors on matters relating to personnel, including remuneration, other conditions of service, career development and training;
 - (N) ensuring that all the books and records of the Company are properly kept;
 - (O) ensuring that the Company obtains adequate insurance cover, as required by the Board of Directors and in accordance with the provisions of Clause 3.7;
 - (P) obtaining all Governmental Authorisations associated with the implementation of the Project including release of land and rights of way upon which the Facility is located; and
 - (Q) ensuring that the Company obtains unrestricted rights of use in respect of and appropriate parcel or parcels of land convenient for the construction of the Facility and that the Facility shall be timely and properly constructed, as required by the Board of Directors.
- (iii) Unless otherwise agreed by the Shareholders, the general manager shall serve for a minimum term of 3 years and a maximum term of 5 years or, if later, the date on which the Heritage Shareholder Loan (advanced pursuant to Clause 4.3(i)) is repaid in full.

(c) Chief Financial Officer

- (i) Heritage shall have sole discretion to appoint a Chief Financial Officer to be the principal financial officer of the Company. The Chief Financial Officer shall report to the general manager. The Chief Financial Officer shall have, such authority as shall be delegated to him by the Board of Directors.
- (ii) The Chief Financial Officer shall:
 - (A) prepare the annual Capital Expenditures Budget and the annual Operating Budget and ensure the implementation thereof after approval by the Board of Directors and the Shareholders in accordance with Clause 6.2(b).
 - (B) prepare and distribute to the Board of Directors and to each Shareholder the information referred to in Clause 3.6(b)(ii);
 - (C) issue on behalf of the Company any notice of default under Clause 9.1(a);
 - (D) notify each Shareholder of all advances and payments made in connection with all financial agreements on the same date as instructions therefore are given and immediately notify all Parties of any advances or payment not made on the due date with reasons therefore;
 - (E) ensure that the Company complies with its obligations under any financing documents;
 - (F) ensure that effective cost accounting and control systems are established and maintained; and
 - (G) submit to the Board of Directors at quarterly intervals a written progress report covering expenditure to date and forecast expenditure for the current financial year.
- (iii) Unless otherwise agreed by the Shareholders, the Chief Financial Officer shall serve for a minimum term of 3 years and a maximum term of 5 years or, if later, the date on which the Heritage Shareholder Loan (advanced pursuant to Clause 4.3(i)) is repaid in full.

(d) Project Manager

- (i) Heritage shall have sole discretion to appoint a project manager to serve during the Construction Phase (and, if applicable, thereafter). The project manager shall be responsible during the design, engineering, procurement, construction and commissioning phases for the technical aspects of the Project and shall provide assistance during performance testing of the Facility. The project manager shall report to the general manager on a quarterly basis. The project manager shall

have such authority as shall be delegated to him by the Board of Directors.

- (ii) The project manager shall:
- (A) inform the Technical Committee of the relevant day to day activities and decisions in relation to the execution of the Projects;
 - (B) be assisted by two deputy project managers, one of whom shall be responsible for the Facility;
 - (C) exercise general supervision of the services performed by the two project teams under each of the deputy project managers and be responsible for the coordination of such services, including without limitation, debating any possible synergies, giving approval to planning and organisation charts prepared by the project teams, secondment, replacement of seconded personnel and designation and appointment by the Company of personnel to be assigned to the project teams;
 - (D) be responsible for all relationships between the project teams and the Company and be the sole contact within the Company for the project teams;
 - (E) submit to the general manager and the Board of Directors at regular intervals as decided by the general manager and the Board of Directors a written progress report on work performed by each project team during that period;
 - (F) develop and propose to the Board of Directors, after consultation with the general manager/Chief Financial Officer, criteria with respect to the following:
 - (i) finalisation of the project definition for each project team; and
 - (ii) periodic revision of the budget for the Facility handled by each project team,
 - (G) develop, after consultation with the general manager for approval by the Board of Directors, co-ordinating procurement and subcontracting procedures;
 - (H) develop, after consultation with the general manager for approval by the Board of Directors, design policy in relation to environmental issues, operations and maintenance, health, safety and fire criteria;
 - (I) appraise activities and progress of the Facility, establish guidelines for achieving interchangeability and standardisation of machinery, electrical and instrument equipment, advise

operations and maintenance managers of the technical requirements for spare parts and all buildings necessary for operations including workshops, offices and warehouses, and devise a material coding system and prepare operating manuals;

- (J) establish a co-ordination and correspondence procedure including formats for each project team to use in reporting progress on engineering, procurement, construction, cost control and scheduling matters;
- (K) establish and supervise a system for scheduling the use of port facilities by the Project if required;
- (L) co-ordinate allocation of locally readily available resources such as construction material, labour and transport;
- (M) award, sign and administer, within limits of authority set by the Board of Directors, contracts related to support services needed by the Project (marine facilities, trucking, air transportation, material handling and customs clearance, etc.);
- (N) conduct periodic progress meetings with the projects teams with the object of achieving central co-ordination work progress, budgets and scheduling; and
- (O) provide documentation and representation at all meetings required by the Company in connection with all aspects of the Project.

- (iii) The project manager shall serve until the completion of the Construction Phase or, if later, until the date on which the Heritage Shareholder Loan (advanced pursuant to Clause 4.3(i)) is repaid in full.

(e) Other Officers

The other senior staff of the Company shall be appointed by the Board of Directors on the terms and conditions approved by the Board of Directors. Such senior staff shall be responsible for operations, administration, finance and such other areas as the Board of Directors shall deem appropriate. Before the Commercial Operation Date, the Board of Directors shall appoint a plant manager for the operations of the Facility.

5.3 MANAGEMENT COMMITTEE

- (a) The Parties shall establish for the period up to the Company Incorporation Date and thereafter, if required:
 - (i) a management committee comprising one Person nominated by each Party (the "Management Committee");
 - (ii) a finance committee comprising one Person nominated by each Party (the "Finance Committee"); and

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- (iii) a technical committee comprising one Person nominated by each Party (the "Technical Committee").
- (b) The Management Committee, the Finance Committee and the Technical Committee shall each operate in English and:
 - (i) perform such duties as may be delegated to it by the Parties;
 - (ii) have the power to designate and appoint such persons as it thinks appropriate to assist it in its duties; and
 - (iii) comply with all decisions and directions of the Parties.

6. SHAREHOLDERS' ACTIONS

6.1 GENERAL MEETINGS

(a) General

The Shareholders shall have at least one general meeting of Shareholders each year, and shall meet more frequently if required. All general meetings of Shareholders shall be located and conducted in a manner consistent with the By-Laws.

(b) Observers and Advisors

Each Shareholder may invite any Person selected by it to attend a general meeting of Shareholders as its advisor. In addition, the chairman of the Board of Directors may invite observers from any Person, including any Construction Contractor, the Company and other third Parties, to attend any general meetings of Shareholders and to give reports and advice to the Shareholders. Each observer invited to attend a general meeting of Shareholders shall have such participation rights (excluding the right to vote) as may be agreed by the Shareholders at the relevant meeting. Any observer may be requested to absent itself from any deliberations of a general meeting of Shareholders, as thought fit by the Shareholders at the relevant meeting.

6.2 SHAREHOLDER VOTING

Resolutions of the Shareholders shall be adopted on the basis of a unanimous resolution:

- (a) a decision regarding the transfer of Shares or rights in the Project by a Shareholder to a third party, to the extent not otherwise permitted under Clause 10 of this Agreement and the By-Laws, and approval of all terms, conditions and agreements related thereto;
- (b) subject to Clause 6.2(c) below the following matters:
 - (i) ratification of dealings of Directors or officers with the Company;
 - (ii) change in the number of Directors;
 - (iii) amendment of the By-Laws;

- (iv) approval of any dealings or contractual arrangements between the Company and any Shareholder, or any Affiliate, director or officer of any such Shareholder, other than in relation to the matters described in Clause 6.2(b)(xvi);
- (v) establishment and approval of each of the Development Budget, the Development Period Financing Plan, the Construction Phase Budget, the Construction Phase Financing Plan and the annual Capital Expenditures Budget and any modifications thereto or thereof;
- (vi) approval and ratification of the work programme for the Project;
- (vii) any change to the general requirements regarding the method of contribution described in Clause 4 and any subsequent change to any method of contribution which has been implemented in accordance with this paragraph;
- (viii) entry into Shareholder Loan agreements and approval of all related arrangements;
- (ix) the purchase, sale, lease, pledge or other disposition of assets of the Company for a value exceeding in the aggregate for any year, U.S.\$ 1 million (Inflated), other than as specifically contemplated by or provided in a Project Document;
- (x) adoption or implementation of a plan of merger, amalgamation, consolidation or reorganisation of the Company with or into another entity;
- (xi) shortening the corporate term or liquidation or dissolution of the Company;
- (xii) increasing or decreasing the authorised capital (except to the extent required to distribute trapped cash) of, or repurchasing or redemption of shares in, the Company, and the issuance of shares or any other equity capital in the Company;
- (xiii) entry into any Project Document, or any material amendment thereto, by the Company;
- (xiv) entry into by the Company of any business other than the Project;
- (xv) any modification to the dividend distribution policy contemplated by Clause 8;
- (xvi) approval of an agreement to be entered into by a proposed Transferee in connection with its performance of all of the obligations of the relevant transferring Shareholder;
- (xvii) the execution and delivery by the Company of: (A) any agreement outside the ordinary course of business; (B) any agreement within the ordinary course of business, or any series of related agreements within

the ordinary course of business, the value of which (on an individual or aggregate basis, as the case requires) exceeds U.S.\$ 1 million (Inflated) or the equivalent thereof in other relevant currencies at the then applicable commercial rates of exchange; (C) any agreement within the ordinary course of business the value of which, when aggregated with the value of similar agreements entered into in the same financial year, exceeds U.S.\$ 1 million (Inflated), or the equivalent thereof in other relevant currencies at the then applicable commercial rates of exchange; and (D) any loan agreement, debt instrument or guarantee;

- (xviii) the adoption of or any change in any tax or accounting policy of the Company, the appointment of or any change in the Company's auditors;
- (xix) the initiation of arbitration or litigation by the Company and any settlement or compromise of any arbitration or litigation to which the Company is a party;
- (xx) the issuance or redemption of any shares in the Company, other equity securities, debt or convertible securities, warrants or rights by the Company or the grant of options in respect of any such instrument or security;
- (xxi) the creation or acquisition of any subsidiary of the Company or the making of any equity investment by the Company in another Person;
- (xxii) any prepayment under any financing documents relating to the Project;
- (xxiii) identifying internal costs of each Shareholder to be included as part of the Development Costs and the basis for repayment of such costs;
- (xxiv) any modifications of or supplement to the conditions to be satisfied in order to achieve the Final Decision to Proceed Date;
- (xxv) the establishment and approval of the annual Operating Budget and any modifications thereof;
- (xxvi) the approval of the Company's annual report, balance sheet, profit and loss statement;
- (xxvii) the extension of the corporate existence of the Company;
- (xxviii) the establishment of basic guidelines pursuant to which the Company is to operate;
- (xxix) the declaration of dividends as contemplated by Clause 8.1;
- (xxx) withdrawal of seconded personnel as contemplated by Clause 3.8; and
- (xxx i) any other matters from time to time identified in writing by all the Shareholders as requiring the level of approval described in this Clause 6.2(b).

- (c) In relation to any vote involving any contract, agreement, undertaking or other arrangement to which a Shareholder or its Affiliate (other than the Company) is a party, such Shareholder shall be excluded from the applicable vote.

To the extent that the resolution of any business by the Shareholders is required in advance of the Company Incorporation Date, the Shareholders shall negotiate in good faith and agree upon any such resolutions and use their best endeavours to reach a commercially reasonable consensus in a timely manner.

7. RELATIONSHIP OF THE SHAREHOLDERS AND THE COMPANY

7.1 GENERAL

Nothing contained in this Agreement is intended, nor shall it be construed, as creating a partnership, agency or trust relationship between or among the Shareholders. The relationship of the Shareholders to the Company shall be that of shareholders with limited liability. The undertakings of the Shareholders pursuant to this Agreement shall be on a several basis.

7.2 CONFLICT OF INTEREST

Except as expressly stated in this Agreement, there shall be no restriction on the freedom of any Shareholder to conduct its business as it sees fit, and no Shareholder shall owe any fiduciary obligations, directly or indirectly, express or implied, to any other Shareholder solely by reason of being a Shareholder under this Agreement.

7.3 INTERNAL COSTS

All reasonable and proper out-of-pocket costs and expenses incurred by anyone in the Management Committee, Finance Committee or Technical Committee or by a Shareholder acting on behalf of the Company as authorised by the Board of Directors and costs and expenses from time to time identified by the Shareholders pursuant to Clause 6.2(b)(xxiii) shall be considered part of the Development Costs payable in the first instance by the relevant Shareholders, but repayable to each such Shareholder by the Company as determined by the Shareholders in accordance with Clause 6.2(b)(xxiii). Internal costs for management time shall be charged as agreed between the Shareholders. Records of any such costs and expenses shall be prepared on a continuing basis and the Shareholders shall cause the Chief Financial Officer to provide details thereof upon request.

8. DIVIDENDS AND OTHER PAYMENTS

8.1 DIVIDENDS

Each Shareholder shall cause the director(s) nominated by it to vote for the declaration and payment of dividends on the Shares to the maximum extent possible out of legally available funds. From time to time, the Shareholders shall cause the Board of Directors to determine whether the Company has funds available for distribution to the Shareholders by way of dividend, after taking into account the Company's anticipated legal, operating, capital and any debt service requirements and the Company's ability in the future to generate revenues or procure financing. The

Company shall distribute to the Shareholders by way of dividend any such funds which the Board of Directors, subject to the approval of the Shareholders, and applicable law, determines are available for that purpose pursuant to this Clause 8.1.

8.2 OTHER PAYMENTS

To the extent that after any distributions to the Shareholders by way of dividend in accordance with Clause 8.1, and after having taken into account all other matters referred to in Clause 8.1, there remains in the Company available cash for payment to the Shareholders, the Company shall apply such available cash in the following ways and in the following proportions:

- (i) 40 per cent. of such available cash shall be paid first to the Shareholders by way of a *pro rata* repayment of the Shareholder Loans; and
- (ii) 60 per cent. of such available cash shall be paid secondly to the Shareholders in proportion to their Shareholding Interest.

9. DEFAULT

9.1 DEFAULT

(a) Default

Where any Shareholder fails to:

- (i) pay any sums due in respect of a funding notice received pursuant to Clause 4.4(e) by the due date for payment thereon and shall not have made such payment within 60 Business Days of the due date for payment ("**Payment Default**"); or
- (ii) comply with any material obligation under this Agreement and does not remedy its breach of such material obligation within 60 Business Days after being given notice by the Board of Directors or a Shareholder (with a copy to the other Shareholder and the Board of Directors, as the case requires) requiring such remedy if the breach is capable of being remedied within that period or, if not, fails to demonstrate to the reasonable satisfaction of the non-defaulting Shareholder that such remedy is being diligently pursued or, if diligently pursued, such breach is not remedied in any event within 60 Business Days of being given such notice ("**Non-Payment Default**").

(the "**Defaulting Shareholder**"), the Defaulting Shareholder's right to participate in the Company through its ownership of Shares shall be suspended as provided in paragraph (c) below.

(b) Notice of Default

The Company shall cause the general manager to issue a notice of default under Clause 9.1(a)(i) to the Defaulting Shareholder (with a copy to the other Shareholder) on the Business Day immediately following the date of such default; provided that

failure to give any such notice shall not obviate any such default nor relieve any Shareholder from any of its obligations hereunder.

(c) Suspension

During any period of suspension of the rights of the Defaulting Shareholder under this Clause 9.1:

- (i) neither the Defaulting Shareholder nor any of its representatives (by appointment or proxy) shall be entitled to be counted in a quorum or exercise a right to vote at any general meeting of Shareholders or in respect of any matter or decision where Shareholder approval is required or sought (although such representatives shall be entitled to attend all general meetings of Shareholders during the period of suspension as observers);
- (ii) any director who has been elected from the nomination of Defaulting Shareholder shall not be entitled to be counted in a quorum or exercise such director's right to vote at any meeting of the Board of Directors and, in the case of the chairman of the Board of Directors, shall not be entitled to preside over the general meetings of Shareholders; and
- (iii) the Defaulting Shareholder shall not be entitled to receive any dividends or distributions, payments or other returns of any nature on equity or any payment of any amount in respect of Shareholder Loans (including payments of principal and interest thereon) from the Company.

(d) Remedy

A default by the Defaulting Shareholder shall not be deemed remedied for the purposes of this Agreement unless and until, in addition to curing the default, all costs of enforcement or recovery or attempted enforcement or recovery (including in all cases legal fees, stamp duty and other taxes, fees and duties) that have been incurred by the Company or the non-defaulting Shareholder by reason of such default have been paid by the Defaulting Shareholder to the relevant Party.

9.2 REMEDIES ON DEFAULT

(a) Default Transfer

If the Defaulting Shareholder has not remedied the default within 60 Business Days then: (i) in the case of a Non-Payment Default, the non-defaulting Shareholder shall be entitled (by notice, without reservation or condition, to the Defaulting Shareholder with a copy to the Board of Directors) to acquire from the Defaulting Shareholder the latter's Shares. If the non-defaulting Shareholder serves such notice, the Defaulting Shareholder shall promptly transfer all of its rights, title and beneficial interest in and under its Shares to the non-defaulting Shareholder at a price per Share equal to its Fair Market Value or such price as may be agreed by the Shareholders; and (ii) in the case of a Payment Default, the non-defaulting Shareholder shall be entitled to serve notice and have transferred to it the Defaulting Shareholder's Shares as provided above and

the Government shall, in addition, be entitled to exercise its right pursuant to the PSA to terminate the PSA for failure on the part of Heritage to meet its financial obligations under this Agreement.

(b) Further Assurance

The Defaulting Shareholder shall, without delay following any request from the non-defaulting Shareholder, do any and all acts required to be done by applicable law or regulation in order to render any transfer of Shares pursuant to Clause 9.2(a) legally valid, including obtaining all requisite Governmental Authorisations, and shall execute any and all documents and take such other actions as may be necessary in order to effect a prompt and valid transfer of the interests described above. If all requisite Governmental Authorisations are not obtained in a timely manner, the Defaulting Shareholder shall hold its Shares in trust for the non-defaulting Shareholder.

(c) Further Claims

Where a transfer of a Defaulting Shareholder's Shares occurs pursuant to Clause 9.2(a) or 9.2(b), the Defaulting Shareholder shall have no further rights or claims under this Agreement in relation to the Company or the Project and all Parties shall take all action necessary or desirable to effect any requisite changes in the officers of the Company.

(d) Remedy Not Exclusive

Notwithstanding any other provision of this Agreement, the remedies provided to the non-defaulting Shareholder in this Clause 9 are in addition to, and not exclusive of or intended to prejudicially affect the availability or exercise of, any other rights and remedies of the Company and the non-defaulting Shareholder against the Defaulting Shareholder under this Agreement, both at law and in equity.

(e) Power of Attorney

For the purposes of giving effect to the share transfer provisions of this Clause 9, as soon as reasonably practicable upon execution of this Agreement, the Shareholders shall agree upon a forms of power of attorney in favour of the Chief Finance Officer and cause to be executed such agreed powers of attorney promptly thereafter.

9.3 CONTINUING OBLIGATIONS

Any Shareholder which ceases to be a Shareholder pursuant to any of the provisions of this Clause 9 shall nevertheless remain bound by its obligations to keep information confidential as provided in Clause 17.6, regardless of the fact that it no longer holds Shares, for a period of 5 years from the date upon which it ceased to hold Shares.

9.4 INDEMNITY

Any Shareholder which becomes a Defaulting Shareholder shall indemnify the Company and the non-defaulting Shareholder in respect of, and hold each of them harmless from and against, any and all liabilities, losses, damage, claims, expenses,

fines or penalties suffered, incurred or sustained by any of them or to which any of them becomes subject.

10. RESTRICTIONS ON TRANSFER

10.1 GENERAL

(a) Restrictions on Transfer

No Shareholder shall transfer any of its Shares unless:

- (i) such transfer is made in accordance with the terms of the By-Laws and this Agreement;
- (ii) the transfer complies in all respects with the requirements of applicable law, the Project Documents, any financing documents and the transferring Shareholder and proposed recipient have received all necessary Governmental Authorisations for such transfer; and
- (iii) the proposed recipient of such Shares has delivered to the Company: (A) a written acknowledgement that the Shares to be received by it are subject to this Agreement; and (B) an agreement (in form and substance approved by the non-transferring Shareholder, pursuant to Clause 6.2(a)) to the effect that such recipient shall perform all of the obligations of the transferring Shareholder in respect of the Shares being transferred and that such recipient and its successors in interest shall be bound by the terms of this Agreement and any other relevant agreement as agreed to by the Shareholders.

(b) Attempted Transfer Void

Any attempted transfer of Shares in violation of the terms of the By-Laws or this Agreement shall be void and the Company shall refuse to recognise any such transfer and shall not reflect on its records any change in the registered ownership of Shares pursuant to such transfer.

10.2 MINIMUM SHAREHOLDING

Except in the case of a Shareholder transferring all of its Shares, no Shareholder shall transfer any of its Shares if, as a result of such transfer, the transferee or the transferor would own less than 5 per cent. of all issued Shares immediately after giving effect to the proposed transfer.

10.3 DEFAULT

Subject to any transfer of the Shares of a Defaulting Shareholder pursuant to Clause 9.2, each Shareholder agrees that it shall not transfer any of its Shares if, at the time of the transfer, such Shareholder is in default under this Agreement.

10.4 CONSENT OF OTHER SHAREHOLDERS

(a) Notification to Other Shareholders

Except for an Affiliate Transfer, or a transfer from one Shareholder to another (including pursuant to Clause 9.2), upon any Shareholder (an "**Offering Shareholder**") wishing to transfer any Shares, the Offering Shareholder shall by notice in writing to the other Shareholder (the "**Continuing Shareholder**") state its wish to transfer Shares, the number of Shares proposed to be transferred and give reasonable particulars of the proposed Transferee, including its identity, business, financial standing and details of its holding companies and material Affiliates, if any, (such holding companies and material Affiliates, together with the proposed Transferee, being the "**Proposed Transferee Group**") as necessary to permit the Continuing Shareholder to evaluate the Proposed Transferee Group (including in terms of the matters described in paragraph (b) below). An Offering Shareholder shall promptly provide the Continuing Shareholder with such other information about a Proposed Transferee Group as the Continuing Shareholder may reasonably request.

(b) Counter Notice

Within 20 days of such notice of intention to transfer Shares being given (unless it is first withdrawn), the Continuing Shareholder may (by counter notice in writing to the Offering Shareholder) veto the proposed transfer, but only if such Shareholder has reasonable grounds to believe that any of the following apply:

- (i) the proposed Transferee is not an entity duly incorporated and in good standing in the place of its incorporation; or
- (ii) the Proposed Transferee Group does not have the necessary financial resources or ability to raise sufficient finance to meet the proposed Transferee's funding and other obligations under this Agreement if the proposed Transferee were to become a Shareholder; or
- (iii) the Proposed Transferee Group is or is owned, controlled or associated in any way with, any Person or interest which has or has had a reputation in the international community for having any criminal, illegal, fraudulent or otherwise dishonest conduct, which would in the reasonable view of that Continuing Shareholder, if the proposed transfer went ahead, have an adverse effect on the reputation of the Company and/or on any of the Shareholders.

(c) Ability to Proceed

If a counter notice described in Clause 10.4(b) is validly given by the Continuing Shareholder (as the case requires) within such 20-day period, the proposed transfer shall not proceed. Otherwise, if no such notice is given, or if given is subsequently withdrawn then, subject to all applicable provisions of this Agreement, the proposed transfer may proceed.

10.5 TRANSFERS TO AFFILIATES

Subject to compliance with Clause 10.1, a Shareholder may transfer the whole or part of its Shares to an Affiliate (an "Affiliate Transfer"), provided that:

- (a) such Shareholder shall along with the Shares, transfer all the corresponding rights and obligations under this Agreement;
- (b) such Shareholder shall have given 15 days' notice of such transfer and assignment to the other Shareholder;
- (c) such Shareholder shall remain liable to the other Shareholder for the performance of the obligations of such Affiliate under this Agreement if such Affiliate fails to perform any of such obligations to the extent that such obligations are not the subject of any parent company guarantee; and
- (d) if such Affiliate ceases to be an Affiliate of the original Shareholder, then the Shareholder shall procure the re-transfer of Shares and the re-assignment of such rights and obligations to itself (provided it remains an Affiliate of such parent company) or another Affiliate of such parent company.

10.6 RIGHT OF FIRST REFUSAL

Subject to compliance with the other provisions of this Clause 10 and the conditions set out below, a Shareholder may transfer all or part of its Shares along with the corresponding rights and obligations under this Agreement (including all of its rights as a lender under Shareholder Loans, if any) to the other Shareholder or a third party (either being referred to as the "Transferee"). The following conditions shall apply to any such transfer, other than any Affiliate Transfer:

- (a) Where an Offering Shareholder wishes to sell all or part of its Shares to another party (including another Shareholder), in addition to the notice it is required to give pursuant to Clause 10.4 (in the case of a third party), it shall promptly give written notice of the proposed details of such sale, identified in Clause 10.6(b), to the Continuing Shareholder.
- (b) Once the Offering Shareholder and a proposed Transferee have negotiated all the material terms and conditions of a proposed transfer of Shares (including price, terms, representations and warranties, indemnities and covenants), such terms and conditions shall be disclosed in detail to the Continuing Shareholder in a notice (an "Offer") from the Offering Shareholder. The Continuing Shareholder shall have the right to acquire from the Offering Shareholder all (but not part only) of such Shares offered on the same terms and conditions agreed by the proposed Transferee if, within 30 days of the date of the Offer, such Continuing Shareholder delivers to the other Continuing Shareholder and to the Offering Shareholder an acceptance notice (an "Acceptance Notice") stating that it accepts the agreed terms and conditions of the transfer without reservations or conditions; provided that if the Continuing Shareholder wishes to acquire such Shares, such acquiring Continuing Shareholder shall have the right to acquire such Shares *pro rata* in proportion to their respective Shareholding Interests. Failure by any Continuing Shareholders to provide an

Acceptance Notice within such 30-day period shall be deemed a decision not to purchase the offered shares. Each Continuing Shareholder that delivers an Acceptance Notice shall be bound to purchase the Shares, and the Offering Shareholder shall be bound to sell the Shares, on the date specified in the Acceptance Notice, but in no event later than 30 days after the date of the Acceptance Notice.

- (c) If the Continuing Shareholder delivers an Acceptance Notice to the Offering Shareholder in accordance with Clause 10.6(b) or, if the purchase is not consummated within the 30-day period specified in Clause 10.6(b), the Offering Shareholder shall be entitled to proceed with the transfer to the proposed Transferee, under terms and conditions no more favourable to the Transferee than those set out in the Offer; provided that the transfer shall be concluded within 90 days from the date of the Offer, plus such reasonable additional period as may be required to secure third party approvals. If the transfer is not consummated within such 90-day or such additional period, the Offering Shareholder shall not be permitted to transfer all or clause of its Shares without again complying with this right of first refusal procedure set forth in this Clause 10.6.
- (d) If the Offering Shareholder's proposed transfer of Shares involves consideration other than cash or involves other non-cash assets included in a wider transaction (i.e., global package), then the consideration payable for the Shares exclusively shall be allocated a reasonable and justifiable Fair Market Value in hard currency by that Shareholder in its notification to the Continuing Shareholders and such Continuing Shareholders may satisfy the requirements of this Clause 10.6 by agreeing to pay such Fair Market Value in hard currency.

10.7 TRANSFEROR'S CONTINUING OBLIGATIONS

Each transferor of Shares shall remain bound by its obligations to keep information confidential as provided in Clause 17.6, regardless of the fact that it has made a transfer, for a period of 5 years from the date of the assignment.

10.8 RESTRICTIVE LEGEND

The Shareholders shall cause the Company to include on all certificates evidencing the Shares the following restrictive legend:

"THE SALE, ASSIGNMENT, TRANSFER, PLEDGE OR OTHER DISPOSITION OF THE SHARES EVIDENCED BY THIS CERTIFICATE, OR OF ANY INTEREST IN THE SHARES, IS RESTRICTED BY THE TERMS OF THE COMPANY'S BY-LAWS AND A REFINERY JOINT DEVELOPMENT AGREEMENT DATED 2 OCTOBER, 2007 NO SUCH SALE, ASSIGNMENT, TRANSFER, PLEDGE OR OTHER DISPOSITION SHALL BE EFFECTIVE UNLESS AND UNTIL THE TERMS AND CONDITIONS OF THE AFORESAID BY-LAWS AND

JOINT DEVELOPMENT AGREEMENT SHALL HAVE
BEEN COMPLIED WITH IN FULL."

10.9 REGISTRATION OF SHARE TRANSFERS

The Shareholders promptly shall direct the Company to register, and the Company promptly shall register any transfer of Shares which occurs in accordance with the provisions of the By-Laws and this Agreement.

10.10 RESIGNATION OF NOMINEE

Immediately upon completion of the Transfer of all the Shares of any Party pursuant to the provisions of this Clause 10, the Party transferring its Shares shall procure the resignation of any Nominee which it has appointed to the Board of Directors without such director being entitled to any claim for damages or compensation for loss of office of any kind whatsoever.

10.11 INITIAL PUBLIC OFFERING

An initial public offering of Shares may be made at any time with the consent of all Shareholders. Upon such consent, the Parties shall cooperate in the implementation of such offering. Each Shareholder may elect to participate in a public offering of Shares on a *pro rata* basis.

10.12 TRANSFER NOT PERMITTED BY LAW

In the event that a Party is not permitted by law to exercise its preemptive right, then the Party holding the right shall have the right to propose a third party legally qualified purchaser who will be able to acquire the offered Shares.

10.13 GOVERNMENTAL AUTHORISATIONS

In the event that any assignment or transfer of Shares under this Clause 10 shall be subject to any Governmental Authorisation, such assignment or transfer shall not become effective until such validation or approval has been obtained.

11. TERM OF AGREEMENT

11.1 COMMENCEMENT AND TERMINATION

This Agreement shall commence on the date hereof and shall terminate, subject to Clause 12.5, upon the date the Shareholders have each agreed in writing to terminate this Agreement. Subject to Clauses 9.3, 9.4, and 10.7, this Agreement shall no longer apply to any Shareholder upon that Shareholder ceasing to hold Shares.

11.2 SURVIVAL

Without intending to exclude the provisions hereof which by their nature survive, the provisions of Clauses 9, 12, 14 and 15 and Clauses 17.1, 17.6 and 17.14 and this Clause 11.2 shall survive any completion or earlier termination of this Agreement.

11.3 CONSEQUENCES OF TERMINATION

Where this Agreement is terminated, the obligations of the Shareholders up to and including the date of termination shall not be affected. Where a Shareholder ceases its involvement in the Company (by the sale or dilution of that Shareholder's Shareholding Interest), or by its withdrawal during the Development Phase), the obligations of the continuing Shareholders under this Agreement shall not be affected by that event and the obligations of the retiring Shareholder up to and including the date of cessation of its involvement in the Project shall remain unaffected by that event.

12. WINDING UP OF THE COMPANY

12.1 GENERAL

Upon termination of this Agreement pursuant to Clause 11 or upon dissolution of the Company, the Company shall be liquidated in accordance with the laws of the jurisdiction of incorporation of the Company, the requirements of this Clause 12 and the By-Laws.

12.2 APPOINTMENT OF LIQUIDATOR

Subject to applicable law, a third party liquidator (not being an Affiliate of any Shareholder) selected by the Board of Directors shall be appointed who shall use reasonable commercial efforts to sell or otherwise liquidate, or make a custodian arrangement for, the assets of the Company, either as a going concern or as separate items, and shall seek to maximise the proceeds received for such assets and shall use his best efforts to obtain the best prices for such assets. The Shareholders shall be bound by the terms of any sale or disposition effected by a liquidator.

12.3 PURCHASE BY SHAREHOLDERS

Subject to applicable law and the provisions of Clause 12.2, each Shareholder may bid for and purchase the assets of the Company to be sold or disposed of by the liquidator.

12.4 DISTRIBUTION

After establishment of such cash reserves as the liquidator determines to be reasonably necessary to fund any contingent or foreseeable liability or obligation of the Company, the liquidator shall distribute the proceeds of liquidation in the following order, subject to the provisions of any applicable law:

- (a) first, to the payment of the liquidator's reasonable expenses in liquidating the Company;
- (b) second, to the payment of the reasonable expenses in causing the Company to be liquidated or wound up;
- (c) third, to creditors of the Company other than the Shareholders; and

- (d) fourth, to the extent there is any surplus, to the Shareholders in respect of the repayment of Shareholder Loans, if any; and the balance as a return of capital to the Shareholders in proportion to the paid-up nominal value of the total Shares owned by each Shareholder at the time of any such distribution.

If any Shareholder receives from the liquidator proceeds in excess of what it is entitled to receive under this Clause 12.4, it shall hold such excess proceeds in trust for the other Shareholder in proportion to their respective Shareholding Interests and shall promptly distribute such excess proceeds to the other Shareholder.

12.5 TERMINATION ON COMPLETION OF LIQUIDATION

Upon completion of the liquidation of the Company, this Agreement shall be terminated for all purposes, save as provided in Clause 11.2. Termination of this Agreement in accordance with the provisions of this Clause 12.5 shall not affect any rights or obligations which may have accrued to any Shareholder before such termination.

13. DISPUTE RESOLUTION

13.1 AMICABLE SETTLEMENT

The Parties shall attempt in good faith to resolve all disputes arising in connection with the interpretation or application of the provisions of this Agreement or in connection with the determination of any matters which are subject to objective determination pursuant to this Agreement (each, a "Dispute") by mutual agreement in accordance with this Clause 13. If a Dispute arises under this Agreement between two or more Parties, any such Party may request that the Dispute be submitted to the respective chief executive officers of the Parties to the Dispute for resolution. If such chief executive officers fail to resolve the Dispute within 30 days of the date on which the matter was first submitted to the last of them for resolution, then any Party to the Dispute may demand that such matter be resolved by binding arbitration, as provided in Clause 13.2.

13.2 ARBITRATION

(a) Submission to Arbitration

If any Dispute cannot be resolved between the Parties pursuant to Clause 13.1 or otherwise, then such Dispute shall be settled exclusively and finally by arbitration. It is specifically understood and agreed that any Dispute that cannot be resolved between the Parties shall be submitted to arbitration irrespective of the magnitude thereof, the amount in question or whether such Dispute would otherwise be considered justiciable or ripe for resolution by any court or arbitral tribunal. This Agreement and the rights and obligations of the Parties shall remain in full force and effect pending the award in such arbitration proceeding, which award shall determine, if the circumstances so require, whether and when termination of this Agreement shall become effective.

(b) Rules of Arbitration

Each arbitration shall follow the Rules of Arbitration and Conciliation of the International Chamber of Commerce as in effect on the date of this Agreement or such other rules as agreed by the disputing Parties.

(c) Arbitral Tribunal

Each arbitral tribunal shall consist of three independent arbitrators, appointed as follows:

- (i) if there are only two Parties to the Dispute:
 - (A) the claimant shall nominate one arbitrator and shall by notice call on the other Party to the Dispute to nominate a second arbitrator within 30 days of the notice, failing which such arbitrator shall, at the request of the claimant, be appointed by the International Court of Arbitration of the International Chamber of Commerce (the "Appointing Authority"); and
 - (B) the third arbitrator, who shall be the chairman of the arbitration panel, shall be appointed by agreement between the two arbitrators appointed under paragraph (A) above or, in default of agreement within 30 days of the appointment of the second arbitrator, on the nomination of the Appointing Authority at the written request of either or both of the Parties to the Dispute,
- (ii) if there are more than two Parties to the Dispute:
 - (A) each Party to the arbitration shall propose to the other Parties by notice the names of one or more Persons, one or more of whom (up to three in total) would serve as an arbitrator; and
 - (B) if the Parties are unable to agree on all three arbitrators within 30 days of the first notice given under paragraph (A) above, then the Appointing Authority shall appoint the remaining arbitrators at the written request of any Party to the Dispute,
- (iii) Should a vacancy arise because any arbitrator dies, resigns, refuses to act or becomes incapable of performing his functions, the vacancy shall be filled by the method by which the arbitrator was originally appointed.

(d) Location of Arbitration

Each arbitration shall be conducted in London, England and the Parties agree to exclude any right of application to any court or tribunal of competent jurisdiction in connection with any question of law arising in the course of any arbitration.

(e) Language of Arbitration

The language to be used in each arbitration shall be English.

(f) Decision Final and Binding

Any decision or award of an arbitral tribunal appointed pursuant to this Clause 13.2 shall be by majority vote and shall be final and binding upon the Parties. The Parties waive, to the extent permitted by law, any rights to appeal or any review of such award by any court or tribunal of competent jurisdiction. The Parties agree that any arbitration award made may be enforced by a Party against assets of the relevant Party wherever they are located or may be found, and a judgment upon any arbitration award may be entered by any court having jurisdiction thereof. The Parties expressly submit to the jurisdiction of any such court.

(g) Ineligibility to act as Arbitrator

No Person who is, or has been, an employee or agent of, or consultant or counsel to, any Party or any Affiliate of a Party shall be eligible to act as an arbitrator at any time.

(h) Costs

The losing Party shall be accountable for all the expenses incurred in the arbitration. The Parties agree that such arbitration tribunal shall take into account the time value of the disputed amount in determining any amount the arbitration tribunal may award to the prevailing Party.

(i) Cooperation in good faith

Each Party shall cooperate in good faith to expedite to the maximum practicable extent the conduct of any arbitration proceedings commenced under this Agreement. Any Party who believes that another Party has defaulted in its obligation to cooperate under this Clause 13.2 may apply to the arbitrators during the course of the proceedings for a determination to that effect. If the arbitrators determine that a Party has defaulted under this Clause 13.2, the final award shall contain an assessment against the defaulting Party of all costs incurred by the non-defaulting Party in connection with the arbitration resulting from that default, including, without limitation, the reasonable fees and disbursements of its counsel.

14. REPRESENTATIONS AND WARRANTIES

14.1 THE GOVERNMENT'S WARRANTY

The Government warrants and represents to Heritage (and acknowledges and confirms that Heritage is entering into this agreement on the basis of, and reliance upon, such representation) that there are no disputes, litigation proceedings, land claims, tribunals or legal actions, whether pending, current or threatened, by any third party in respect of the Project Assets or the transfer of the Project Assets as contemplated by and in accordance with this Agreement.

14.2 SHAREHOLDERS REPRESENTATIONS AND WARRANTIES

Each Shareholder represents and warrants to each other Shareholder that (to the extent applicable):

- (a) it is duly organised, validly existing as an entity and in good standing under the laws of its constituting jurisdiction and has all requisite power and authority to own its property and assets and conduct its business as presently conducted or proposed to be conducted under this Agreement;
- (b) it has the power and authority to execute, deliver and carry out the terms and provisions of this Agreement, and it is and shall remain subject to civil and private commercial law and suit with respect to its obligations under this Agreement and the Project Documents to which it is, or will be, a party;
- (c) all necessary action has been taken to authorise its execution, delivery and performance of this Agreement, and this Agreement has been duly executed and delivered by it and constitutes its valid, legal and binding obligation enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, reorganisation, moratorium or other similar laws affecting creditors' rights generally;
- (d) no Governmental Authorisation is required for its valid execution, delivery and performance under this Agreement except such as have been duly obtained or made; and
- (e) none of the execution or delivery of this Agreement, the performance of the obligations in connection with the transactions contemplated hereby or the fulfilment of the terms and conditions hereof by that Shareholder will: (i) conflict with or violate any provision of its constituting documents; (ii) conflict with, violate or result in a breach of any law applicable to it and currently in effect; or (iii) conflict with, violate or result in a breach of, constitute a default under, any term or condition of any agreement or instrument to which it is a party or by which it or any of its properties or assets are bound.

15. INDEMNIFICATION AND LIABILITY

15.1 GENERAL LIABILITY AND INDEMNITY

Subject to Clause 15.2, each Shareholder shall indemnify and hold harmless each other Shareholder, its respective Affiliates and the respective directors, employees, servants and agents of such other Shareholder and such Affiliates, against any liability, loss, damage, claim or expense (including reasonable legal fees and expenses) and fines or penalties of whatever nature, arising out of or in connection with, any breach or misrepresentation by the indemnifying Shareholder under this Agreement. This indemnity is in addition to all other rights and remedies a Shareholder may have against each other Shareholder for breach of the defaulting Shareholder's obligations under this Agreement.

15.2 CONSEQUENTIAL DAMAGES

Notwithstanding anything to the contrary set forth elsewhere in this Agreement, no Shareholder shall, in any event, be liable under this Agreement to any other Shareholder for any incidental, indirect, special, punitive, exemplary or consequential loss or damages arising out of, or in connection with, this Agreement, including loss of revenue, loss of profits, loss of product, cost of capital and loss of business reputation or opportunity, whether such liability arises out of contract, tort (including negligence), strict liability, statute or otherwise, and each Shareholder releases the other Shareholder from such liability.

16. FORCE MAJEURE

16.1 FORCE MAJEURE EVENT

"Force Majeure Event" means any act or event that prevents the affected Party from performing its obligations under this Agreement or complying with any conditions required by any other Party under this Agreement if such act or event is beyond the reasonable control of the affected Party and of any Affiliate of the affected Party and not the fault of the affected Party or of any Affiliate of the affected Party, and such Party has been unable to overcome such act or event which falls within one or more of the following categories: flood, tornado, hurricane, typhoon, lightning, earthquake, fire, explosion, civil disturbance, war, riot, rebellion, disastrous maritime collision or sinking, act of God or the public enemy, strikes or labour disputes (of the kinds described in the next sentence) or action of a court or public authority. Strikes and labour disputes of the following kinds only, namely, national strikes and labour disputes not aimed mainly at the affected Party or at an Affiliate of the affected Party (where a trade or labour union has requested or required all or a majority of its members to engage in the relevant strike or labour dispute), shall be considered to be Force Majeure Events. Any other strikes or labour disputes, collective bargaining agreements of any Party or of any Affiliate of any Party resulting in a delay or stoppage of the services and other work hereunder; late delivery of equipment or materials (not caused by a Force Majeure Event); and economic hardship, are explicitly excluded from a Force Majeure Event and are solely the responsibility of the affected Party.

16.2 BURDEN OF PROOF

In the event that the Parties are unable in good faith to agree that a Force Majeure Event has occurred, or the effect thereof, the Parties shall submit the dispute to arbitration pursuant to Clause 13, provided that the burden of proof as to whether a Force Majeure Event has occurred shall be upon the Party claiming a Force Majeure Event.

16.3 EXCUSED PERFORMANCE

If any Party is rendered wholly or partially unable to perform its obligations under this Agreement because of a Force Majeure Event, such Party will be excused from whatever performance is affected by the Force Majeure Event to the extent so affected; provided that:

- (a) the non-performing Party shall give the other Parties prompt notice describing the particulars of the occurrence, including an estimation of its expected duration and probably impact on the performance of such Party's obligations hereunder and continue to furnish timely regular reports with respect thereto during the continuation of the Force Majeure Event;
- (b) the suspension of performance shall be of no greater scope and of no longer duration than is reasonably required by the Force Majeure Event;
- (c) no liability of any Party that arose before the occurrence of the Force Majeure Event causing the suspension of performance shall be excused as a result of the occurrence;
- (d) the non-performing Party shall exercise all reasonable efforts to mitigate or limit damages to the other Parties;
- (e) the non-performing Party shall use its best endeavours to continue to perform its obligations hereunder and to correct or cure the event or condition excusing performance; and
- (f) when the non-performing Party is able to resume performance of its obligations under this Agreement, such Party shall give the other Parties written notice to that effect and shall promptly resume performance hereunder.

16.4 OTHER EXCUSED PERFORMANCE

If by or under the authority of any Governmental Authority, all or a substantial part of the Shares or the shares of a Party which is a private company or the whole or a substantial part of the revenues or assets of the Company or a Party which is a private company is nationalised, confiscated or expropriated then: (i) in the case of the Company, each Party will be excused from the performance of its obligations hereunder; and (ii) in the case of an affected Party, it will be excused from the performance of its obligations hereunder.

17. MISCELLANEOUS

17.1 NOTICES

Except as otherwise specified in this Agreement, any notice, demand for information or documents required or authorised by this Agreement to be given to a Party shall, be given in writing and shall be sufficiently given if transmitted and clearly received by facsimile transmission addressed as set out below, with a confirming copy in writing or if delivered by registered air mail, courier or hand delivered against written receipt to the address set out below or to such other address as such Party may designate from time to time, by notice given in accordance with this Clause 17.1. All notices addressed and sent in accordance with this Clause 17.1 shall be effective upon actual delivery or receipt thereof, provided that all such notices shall be deemed received at the expiration of 5 days from the time the notice is sent (irrespective of method). The address for the delivery of notices, information or documents to each Party and the respective telephone and facsimile numbers are as follows:

THE GOVERNMENT

Address:

Ministry of Natural Resources
Kurdistan Regional Government
Erbil, Kurdistan

Email: mnr@krgoil.com

HERITAGE

Address: Hirzel Court, St Peter Port, Guernsey, Channel Islands, GY1 2NL
Attention: The Directors
Tel: +44 1481 727 664
Fax: +44 1481 724 662

17.2 AMENDMENTS

No amendment of any provision of this Agreement shall be effective unless it is in writing and signed by each Party.

17.3 WAIVER

No waiver of any provision of this Agreement shall be effective unless it is in writing and signed by each Party who is waiving rights or against whom the waiver is claimed and each such waiver shall be effective only in the specific instance and for the specified purpose for which it was given. In addition, no failure on the part of any Party to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy under this Agreement shall operate as a waiver thereof. The rights and remedies provided in this Agreement shall be cumulative and not exclusive of any rights or remedies provided by law.

17.4 ENTIRE AGREEMENT

This Agreement, and the applicable provisions of the PSA, constitute the entire understanding between the Parties and supersedes any and all previous understandings, whether written or oral, between the Parties with respect to the subject matter hereof.

17.5 SEVERABILITY

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall not invalidate or render unenforceable such provision in any other

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jurisdiction, and shall not invalidate or render unenforceable any of the other provisions hereof in any jurisdiction.

17.6 CONFIDENTIAL INFORMATION

- (a) The Parties agree that all information and data acquired or obtained by any Party in relation to the Company and the Project that is either marked "confidential" or is by its nature intended to be for the knowledge of the recipient alone, shall be considered confidential and shall be kept confidential and shall not be disclosed during the term of this Agreement and for a period of 5 years after the expiration or earlier termination of this Agreement to any Person or entity who is not a Party except:
- (i) with the prior written consent of the Party that originally disclosed the confidential information;
 - (ii) to an Affiliate, provided that such Affiliate maintains confidentiality as provided in this Clause 17.6;
 - (iii) to a Governmental Authority when required by applicable law;
 - (iv) to the extent that such data and information is required to be furnished in compliance with any applicable laws or regulations or pursuant to any legal proceedings or because of any order of any court binding upon a Party;
 - (v) subject to Clause 17.6(b), to a *bona fide* prospective Transferee (including an entity with whom a Shareholder is conducting *bona fide* negotiations directed toward a merger, consolidation or the sale of a majority of its or an Affiliate's shares);
 - (vi) subject to Clause 17.6(b), to a third party consultant engaged to prepare a document required for any of the Company's funding requirements;
 - (vii) to a bank or other financial institution, to the extent necessary for a Party arranging for funding of its obligations under this Agreement;
 - (viii) to the extent that such data and information must be disclosed pursuant to any rules or requirements of any government or stock exchange having jurisdiction over such Party or its Affiliates, provided that if any Party desires to disclose information in an annual or periodic report to its or its Affiliates' shareholders and to the public, and such disclosure is not required pursuant to any rules or requirements of any government or stock exchange, then such Party shall comply with this Clause 17.6;
 - (ix) to its respective employees acting in connection with the Company or the Project and to its legal counsel, auditors and other consultants, subject to each Party taking customary precautions to ensure such data and information are kept confidential;

- (x) where any data or information which, through no fault of a Party, becomes part of the public domain;
 - (xi) where any data or information was previously known on a non-confidential basis by such Party; and
 - (xii) where any data or information is later lawfully acquired by such Party from sources other than the Party who originally furnished such confidential information to such Party, which sources are not bound to keep such data confidential.
- (b) Disclosure pursuant to paragraphs (v) and (vi) of Clause 17.6(a) shall not be made unless, before such disclosure, the disclosing Party has obtained a written undertaking from the recipient Party to keep the data and information strictly confidential and not to use or disclose the data and information except for the express purpose for which disclosure is to be made.
 - (c) If this Agreement is terminated, such Party and its Affiliates will, and will use their best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to the Party which originally furnished such confidential information to such Party, upon request, all documents and other materials and all copies thereof, obtained by such Party or its Affiliates in connection with this Agreement that are subject to such confidence. The obligations of each Shareholder under this Clause 17.6 shall survive termination of this Agreement.
 - (d) All confidential information shall be used by the receiving Party only for the purpose of their involvement in the Company.
 - (e) Confidential information is, and shall remain, owned by, and proprietary to, the disclosing Party and its Affiliates. The disclosing Party and its Affiliates reserve the right to disclose, assign, transfer, sell, trade and license its Confidential Information, in whole or in part, at any time and from time to time, to any Person, entity or governmental body in their sole discretion without obtaining any consent from, or providing any notice to, the receiving Party.

17.7 PUBLIC ANNOUNCEMENTS

If a Party wishes to issue or make any public announcement or statement in any way connected with this Agreement, the Company or the Project, it shall not do so unless, before its release, that Party furnishes the other Parties with a copy of such announcement or statement and obtains the approval of the other Parties, except that no Party shall be prohibited from issuing or making any such public announcement or statement if it is necessary to do so in order to comply with the applicable laws, rules or regulations of any Governmental Authority, legal proceedings or stock exchange having jurisdiction over such Party as set out in paragraphs (iii) and (viii) of Clause 17.6(a). In addition, where any proposed public announcement or statement of a type described in this Clause 17.7 identifies or otherwise refers to a Party (other than the proposed issuer of the announcement or statement), such announcement or statement

shall not be made without the prior consent of the Party so identified or otherwise referred to.

17.8 FURTHER ASSURANCES

Each Party agrees to do, or cause to be done, all acts and things and to execute and deliver such further written agreements and instruments, as may from time to time be reasonably required to carry out the terms and provisions of this Agreement.

17.9 SET-OFF

All payments to be made by any Shareholder under this Agreement shall be made without set-off or deduction on any account whatsoever.

17.10 NO THIRD PERSON RIGHTS

This Agreement is not for the benefit of any Person or entity other than the Parties, and no other Person or entity shall be deemed to be a third party beneficiary hereof or entitled to any benefits hereunder.

17.11 CURRENCY OF PAYMENT

Payments to be made by or to any Party shall be denominated and payable in U.S. Dollars, unless otherwise determined by the Parties to be in another freely exchangeable currency, and any payments made prior to this Agreement shall be denominated in U.S. Dollars at the applicable exchange rate then prevailing at the time of such payment. Except where otherwise expressly provided herein, all payments under this Agreement shall be made by transfer or credit of funds to the designated account of the Party entitled to receive such payment.

17.12 COUNTERPARTS

This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original.

17.13 WAIVER OF IMMUNITY

To the extent that any of the Parties may be or hereafter become entitled, in any jurisdiction, to claim for itself or its property, assets or revenues, immunity (for any reason whatsoever) in respect of its obligations under this Agreement from service of process, suit, jurisdiction of any court, judgment, order, award, attachment (before or after judgment or award), setoff, execution of a judgment or other legal process, and to the extent that in any such jurisdiction there may be attributed to such Party or any of its property, assets or revenues such an immunity (whether or not claimed), each Party hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction.

17.14 GOVERNING LAW

This Agreement shall be governed by, construed, interpreted and applied in accordance with the laws of England and the Parties agree to submit to the jurisdiction of the Courts of England.

17.15 CONFLICTS

In the event of any conflict between this Agreement and the By-Laws, the provisions of this Agreement shall prevail. In addition, the Shareholders shall take all action necessary or desirable to effect all amendments to the By-Laws to avoid any such conflicts.

17.16 EXPENSES

Except as otherwise provided herein, all costs and expenses incurred in connection with this Agreement shall be paid by the Party incurring such cost or expense.

17.17 SUCCESSORS AND ASSIGNS

The provisions of this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns; provided that no Party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the prior written consent of the other Parties, except otherwise provided herein.

Jan.

IN WITNESS WHEREOF, the Parties, by their respective officers duly authorised, have caused this Agreement to be duly executed and delivered as of the date hereof.

THE KURDISTAN REGIONAL
GOVERNMENT OF IRAQ

BY 

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

HERITAGE ENERGY MIDDLE
EAST LIMITED

BY 

Name:

Title:

