



COORDINATES OF AGREEMENT AREA

	Latitude	Longitude
1	36 07 06.00N	044 28 03.76E
2	36 05 49.36N	044 31 01.37E
3	36 07 12.00N	044 35 54.35E
4	36 07 12.00N	044 43 12.00E
5	35 55 12.00N	044 43 12.00E
6	35 45 24.20N	044 49 37.95E
7	35 43 24.61N	044 51 21.17E
8	35 42 16.99N	044 50 58.62E
9	35 41 17.04N	044 49 07.80E
10	35 45 17.00N	044 43 30.00E
11	35 55 12.00N	044 30 17.08E
12	35 55 12.00N	044 22 48.00E
13	36 03 57.59N	044 22 48.00E

COORDINATES OF
TAQ TAQ DEVELOPMENT BLOCK

	Latitude	Longitude
1	36 07 06.00N	044 28 03.76E
2	36 05 49.36N	044 31 01.37E
3	36 07 12.00N	044 35 54.35E
4	36 07 12.00N	044 43 12.00E
5	35 55 12.00N	044 43 12.00E
6	35 55 12.00N	044 22 48.00E
7	36 03 57.59N	044 22 48.00E

COORDINATES OF EXPLORATION BLOCK

	Latitude	Longitude
1	35 55 12.00N	044 43 12.00E
2	35 45 24.20N	044 49 37.95E
3	35 43 24.61N	044 51 21.17E
4	35 42 16.99N	044 50 58.62E
5	35 41 17.04N	044 49 07.80E
6	35 45 17.00N	044 43 30.00E
7	35 55 12.00N	044 30 17.08E



ANNEX B

ACCOUNTING PROCEDURE

PARAGRAPH I

GENERAL PROVISIONS

1.1 Purpose

To classify expenditures, define recoverable Costs and Expenses, 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 of the Agreement 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 Agreement, then the other provisions of the Agreement shall prevail.

1.4 Accounting Records and Reports

1.4.1 The Contractor shall maintain at the Contractor's office in Kurdistan Region or in the Company's head office complete accounts, books and records of all revenues, Costs and Expenses relating to all Petroleum Operations hereunder in accordance with generally accepted accounting procedures and standards in the international petroleum industry and in accordance with the charts of accounts agreed under Paragraph 1.4.2 below. Contractor shall keep a certified copy of said accounts books and records at its office in Kurdistan Region at all times.

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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, books, records and reports, 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, books, and records and reports which shall describe the basis of the accounting system and procedures to be developed and used under this Agreement. 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 Agreement.

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 of this Annex).
- b) Value of Production and Pricing Statement (as indicated in Paragraph 7 of this Annex).
- c) Cost Recovery and Share Account Statement (as indicated in Paragraph 8 of this Annex).
- d) Statement of Expenditures and Receipts (as indicated in Paragraph 9 of this Annex).

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- e) Final End-of-Year Statement (as indicated in Paragraph 10 of this Annex).
- f) Budget Statement (as indicated in Paragraph 11 of this Annex).

1.4.4 All reports and statements shall be prepared in accordance with the Agreement, Current Legislation, and where there are no relevant provisions of either of these, in accordance with generally accepted practices in the international petroleum industry.

1.5 Language and Units of Account

All accounts, records, books and reports 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 and records in other currencies.

1.6 Audit and Inspection Rights of the Republic

1.6.1 The Government shall have the right:-

- a) to audit the Contractor's accounts and records maintained under the Agreement with respect to each Calendar Year within two Years from the end of each such Year.
- 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.

1.6.2 The cost of retaining an auditor pursuant to Paragraph 1.6.1 shall be borne by the Contractor and treated as Operation Expenses for the purpose of Cost Recovery under Article 10 of the Agreement.

1.6.3 Any audit exceptions shall be made in writing and notified to the Contractor within one hundred and eighty (180) days, following completion of the



audit in question, and failure to give such written exception within such time shall be deemed to be an acknowledgement of the correctness of the Contractor's books and accounts.

1.6.4 For purposes of auditing, the Government may examine and verify, at reasonable times upon prior 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 considered necessary by the Government to audit and verify the charges and credits. 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 Operations. 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 from an internationally recognized firm of public accountants acceptable to both the Government and the Contractor, which may be the Contractor's statutory auditor.

1.6.5 The Contractor shall answer any notice of exception under paragraph 1.6.3 within one hundred and eighty (180) days of the receipt of such notice. Where the Contractor has, after the said one hundred and eighty (180) days, failed to answer a notice of exception the exception shall prevail.

1.6.6 All agreed adjustments resulting from an audit and all adjustments required by prevailing exceptions shall be promptly made in the Contractor's accounts and any consequential adjustments to payments due to the Government shall be made promptly.

1.6.7 If the Contractor and the Government are unable to reach final agreement on proposed audit adjustments they may, by mutual agreement refer their

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dispute for binding and final resolution by an internationally-recognized firm of public accountants acceptable to both of them. Such referral if agreed shall be in place of Arbitration under Article 29 of the Agreement. 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

1.7.1 All payments between the Parties shall, unless otherwise agreed, be in Dollars and be made through a bank designated by each receiving party. Unless otherwise specified all sums due under the Agreement shall be paid within sixty (60) 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 Agreement shall, for each day such sums are overdue, bear interest compounded daily at the London Interbank Offered Rate for three month deposits in Dollars ("LIBOR") plus two and half percent (2.5%)

1.8 Currency Exchange Rates

1.8.1 It is the intent of this Accounting Procedure that neither the Government nor the Contractor should experience an exchange gain or loss at the expense of, or to the benefit of, the other. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.

1.8.2 Amounts received and Costs and Expenses made in Dollars or in other currencies which are in excess of ten thousand (10,000) Dollars, or the equivalent in other currencies, shall be converted from other currencies into Dollars on the basis of the average of the buying and selling exchange rates between the currencies in

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question, as published by the Central Bank of Iraq, prevailing on the date upon which such amounts are received and costs and expenditures are paid.

1.8.3 Amounts received and Costs and Expenses made in Dollars or in other currencies which do not exceed ten thousand (10,000) Dollars, or the equivalent in other currencies, shall be converted other currencies into Dollars on the basis of the average of the buying and selling exchange rates between the currencies in question, as published by the Central Bank of Iraq, prevailing on the last business day of the month preceding the month in which such amounts are received and Costs and Expenses are made.

1.9 Revision of the Accounting Procedure

By mutual agreement between the Government and the Contractor this Accounting Procedure may be revised from time to time by a document in writing signed by the Parties.

1.10 Accrual Basis, Cash Flow Basis and Reports

All books and accounts shall be prepared on an accrual basis. Revenues shall be attributed to the accounting period in which they are earned, and Costs and Expenses to the accounting period in which they are incurred, without the need to distinguish whether cash is recovered or disbursed in connection with a particular transaction. Costs and Expenses shall be deemed to have been incurred, in the case of physical items, in the accounting period when title thereto passes to the Contractor, and in the case of services, in the accounting period when such services are performed.

1.11 Values and Treatments

Values and treatments proposed by the Contractor relating to all Costs and Expenses 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. Upon



request by the Government or its representative, the Contractor shall present all records and original documents supporting such Costs or Expenses, such as invoices, cash vouchers, debit notes, price lists or similar documentation verifying the values and treatment proposed.

PARAGRAPH 2

CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENSES

2.1 Segregation of Costs and Expenses

Costs and Expenses shall be segregated in accordance with the purposes for which such Costs and Expenses are made. The purposes which shall qualify are those which have been included in the approved Work Programme and Budget for the year in which the Costs and Expenditures are made and other items which have been agreed by the Parties from time to time. All Costs and Expenses recoverable under Paragraph 3 relating to Petroleum Operations shall be classified, defined and allocated as set out below.

2.2. Exploration Expenses

Exploration Expenses are all direct and allocated indirect 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 Agreement Area including:

2.2.1 Aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation.

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 used solely in support of the purposes described in Paragraphs 2.2.1, 2.2.2 and 2.2.3 above, including access roads and purchased geological and geophysical information, all separately identified.

2.2.5 That portion of all Service Expenditures and that portion of all General and Administrative Expenditures allocated to Exploration Expenses as determined by the proportionate share of total Petroleum Operations Expenditures (excluding General and Administrative Expenditures and Service Expenditures) represented by all other Exploration Expenses.

2.2.6 Any other expenditures incurred in the search for and appraisal of Petroleum after the Effective Date but prior to the commencement of Commercial Production and not covered under Paragraph A.2.3.

2.3 Development Expenditures

Development Expenditures shall consist of all expenditures incurred in:

2.3.1 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.

2.3.2 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.



2.3.3 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.

2.3.4 Engineering and design studies for the wells and facilities referred to in Paragraphs 2.3.1, 2.3.2 and 2.3.3.

2.3.5 That portion of all service expenditures and that portion of all general and administrative expenditures allocated to Development Expenditures as determined by the proportionate share of total Petroleum Operations Expenditures (excluding General and Administrative Expenditures and Service Expenditures) represented by all other Development Expenditures.

2.3.6 Any other expenditure incurred in the Development Operations of Petroleum after the Handover Date and not covered under Paragraph 2.3.

2.4 Operation Expenses

Operation Expenses are all Costs and Expenses incurred in Petroleum Operations after the commencement of Commercial Production which are other than Exploration Expenses, Development Expenditures, General and Administrative Expenditures and Service Expenditures. The balance of General and Administrative Expenditures and Service Expenditures not allocated to the Exploration Expenses or Development Expenditures shall be allocated to Operation Expenses.

2.5 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, 2.3.5 and 2.4 to Exploration Expenses, Development Expenditures and Operation Expenses 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 hereunder shall be specified.

2.6 General and Administrative Expenditures

General and Administrative Expenditures are:

2.6.1 All main office, field office and general administrative expenditures in the Kurdistan Region including but not limited to supervisory, accounting and employee relations services.

2.6.2 Where the Contractor or any Contractor Party is a foreign contractor, an annual overhead charge for services rendered (excluding the direct expenditures as referred in Paragraph 3.1.2.(b) below) by the Parent Company or an Affiliate of the Parent Company outside the Kurdistan Region to support and manage Petroleum Operations under the Agreement, or where the Contractor, not being a Foreign Contractor, draws upon the services of a Parent Company or an Affiliate of the Parent Company within the Kurdistan Region, an annual overhead charge for services rendered by such Company to support and manage Petroleum Operations under the Agreement (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 Contractor's Parent Company or an Affiliate of the Parent Company 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 Parent Company, 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 the Contractor's Parent Company be charged under any other section of this Annex; and
- b) are properly allocable to Petroleum Operations under the Agreement. It is understood, however, that services performed by the departments listed above and other corporate departments which directly benefit Petroleum Operations under the Agreement shall be charged as direct costs in accordance with Paragraph 3 of this Annex.

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:

2.6.2.1 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 Expenses during each Calendar Year or fraction thereof less expenditures which have been subjected to the five (5) percent fee, referred to in Paragraph 3.1.8(b). The sliding scale percentage shall be the following:



For the first million (1,000,000) Dollars four percent (4%)

For the next five million (5,000,000) Dollars three percent (3%)

For the next five million (5,000,000) Dollars two percent (2%)

Over eleven million (11,000,000) Dollars one percent (1%)

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

2.6.2.2 Development and Production Operations Overhead

The overhead rates applicable to Development and Production 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 Agreement 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 Expenses. That percentage as well as the types of expenditures, which affect overhead and those, which do not, shall be agreed among the Parties.
- b) 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 Development Area.

- c) Overhead charges are not subject to audit by Government. Contractor's Affiliates must maintain records enabling a cost analysis to be made annually to determine overhead properly chargeable to Petroleum Operations. If the resultant amount is less than the amount actually billed, the difference shall be credited to Petroleum Operations, and if more, the difference shall be debited to Petroleum Operations, but in no case may the final amount be charged by the Contractor exceed the maximum amount as calculated in (b) above.
- d) The Contractor shall upon request furnish 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 standard accounting practices.
- e) The Contractor must budget for overhead charges.

2.6.3 All General and Administrative Expenditures shall be regularly allocated as specified in Paragraphs 2.2.5, 2.3.5 and 2.4 to Exploration Expenses, Development Expenditures and Operation Expenses respectively.

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PARAGRAPH 3

COSTS, EXPENSES, EXPENDITURES AND CREDITS

OF THE CONTRACTOR

3.1 Costs Recoverable Without Further Approval of the Government

Petroleum Operations Expenditures incurred by the Contractor pursuant to the Agreement as classified under the headings referred to in Paragraph 2 shall be recoverable for the purpose of Article 10 the Agreement (except to the extent provided in Paragraph 4 or elsewhere in this Annex), subject to audit as provided for herein.

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 Agreement.

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 Agreement in the Kurdistan Region. Such costs shall include the costs of 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 Agreement, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Agreement, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in 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) above.
- d) Expenses or contributions made pursuant to assessments or obligations imposed under Current Legislation which are applicable to the Contractor's cost of salaries and wages chargeable under Paragraph 3.1.2.(b) above.
- 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) above.
- 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) above.

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) above 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 Agreement 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*

- i) The actual costs of contract services, services of professional consultants, utilities, and other services necessary for the conduct of the Petroleum Operations under the Agreement performed by Third Parties other than an Affiliate of the Contractor provided that the transactions resulting in such costs are undertaken pursuant to Paragraph 1.8 of this Annex.

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 but not limited to services provided by the Production, Exploration, Legal, Financial, Insurance, Accounting and Computer Services Divisions other than those covered by paragraphs 3.1.4 (b) (ii), 3.1.6 and 3.1.8 (b) which Contractor may use in lieu of having its own employees. Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favourable than similar charges for other operations carried on by the Contractor and its Affiliates. The chargeout rate shall include all costs incidental to the employment of such personnel. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged

from the date such personnel leave the home office base where they usually work up to their return thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

- 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. Unless the work to be done by such personnel is covered by an approved Work Programme 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. 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 between the Contract Area and the Contractor's nearest base facility.

3.1.6 Office and Miscellaneous Facilities

Net cost to 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 a contract area, other than the Agreement Area, the net costs thereof shall be allocated on an equitable basis.

3.1.7 Ecological and Environment

- a) Costs incurred in the Agreement 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 Statement commissioned pursuant to Article 22.7 of the Agreement;
- 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, unless such oil spills result directly from the negligence or wilful misconduct of the Contractor;



- e) Costs of restoration of the operating environment incurred pursuant to an approved scheme prepared in accordance with sub-Article 8.8 of the Agreement.

3.1.8 Material Costs

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

- 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) below, material purchased by the Contractor in arm's length transactions in the open market for use in the Petroleum Operations under the Agreement shall be valued to include invoice price less trade and cash discounts (if any), 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 four point five percent (4,5%) 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 Agreement 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) hereof:
 - i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
 - ii) Used material (Conditions "B", "C" and "D");
 - a) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (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 percent (50%) of the current price of new material as defined in 3.1.8(d).(i)

above. 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 Contractor. If material is not fit for use by the Contractor it shall be disposed of as junk.

- iii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in Paragraph 3.1.8.(d).(i) above.

- iv) When the use of material is temporary and its service to the Petroleum Operations under the Agreement does not justify the reduction in price as provided for in paragraph 3.1.8.(d).(ii).(b) hereof, such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the service rendered.

- v) Premium prices - whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge Petroleum Operations for the required material at the Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Government of the proposed charge prior to

charging Petroleum Operations for such material and the Government shall have the right to challenge the transaction on audit.

- vi) Warranty of material furnished by the Contractor - the Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

3.1.9 Rentals, Duties and Other Assessments

All rentals, taxes, levies, charges, fees, contributions and any other assessments and charges of every kind and nature levied by any governmental or taxing authority in connection with the Contractor's activities under the Agreement and paid directly by the Contractor (save where the contrary is expressly provided in the Agreement) with the exception of taxes upon the income or profits of the Contractor or any Contractor Party, and payments made under Article 10.

3.1.10 Insurance and Losses

Insurance premiums and costs incurred for insurance provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliated Companies of the Contractor. Except in cases of failure to insure where insurance coverage is required pursuant to the Agreement, 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, but are not limited to, repair and replacement of property in the Agreement 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 Agreement Area, and in defending or prosecuting lawsuits involving the Agreement Area or any Third Party claim arising out of the Petroleum Operations under the Agreement, 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, without limitation, attorney's fees, court 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) above 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 Kurdistan Regional employees engaged in Petroleum Operations under the Agreement.

3.1.14 General and Administrative Costs

The costs described in Paragraph 2.6.1 and the charge described in Paragraph 2.6.2 of this Annex.

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3.1.15 Other Expenditures

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

3.2 Credit Under the Agreement

The proceeds, other than the proceeds from the sale of Petroleum, received from Petroleum Operations under the Agreement, including but not limited to the items listed below shall be credited to the accounts under the Agreement for the purposes of Article 11 of the Agreement:

3.2.1 The proceeds of any insurance or claim or judicial awards in connection with Petroleum Operations under the Agreement or any assets charged to the accounts under the Agreement where such operations or assets have been insured and the premia charged to the accounts under the Agreement.

3.2.2 Legal costs charged to the accounts under Paragraph 3.1.11 of this Annex 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 Agreement.

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 Agreement.

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 Agreement, but excluding any award granted to the Contractor

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under arbitration or sole expert proceedings referred to in Paragraph 4.2.2(g) of this Annex.

3.2.6 Prices originally charged to the accounts under the Agreement for materials subsequently exported from the Kurdistan Region without being used in Petroleum Operations under the Agreement.

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 Agreement.

3.2.8 Proceeds derived from the sale or license of any intellectual property the development costs of which were incurred pursuant to the Agreement.

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 Agreement.

PARAGRAPH 4

COSTS AND EXPENSES NOT TO BE TREATED AS RECOVERABLE

The following costs and expenditures shall not be included in the Costs and Expenses recoverable under Article 10:—

4.1. Taxes on income or profit paid to any governmental authority;

4.2. Any payment made to the Government by reason of the failure of the Contractor to fulfill its minimum cost and Expenses under the Agreement.



- 4.3. The cost of any letter of guarantee, if any, required under the Agreement;
- 4.4. Costs incurred before the Handover Date unless the amounts concerned are agreed between the Government and the Contractor;
- 4.5. Costs of marketing or transportation of Petroleum beyond the Measurement Point;
- 4.6. Attorney's fees and other costs of proceedings in connection with arbitration under Article 29 of the Agreement or internationally recognised independent expert determination as provided in the Agreement or this Accounting Procedure;
- 4.7. Fines and penalties imposed under Current Legislation.

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 Agreement in accordance with normal practice in exploration and production activities of the international petroleum industry.

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. The Contractor shall clearly inform Government 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 Agreement takes place the Contractor may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.

PARAGRAPH 6

PRODUCTION STATEMENT

6.1 Production Information

Without prejudice to the rights and obligations of the Parties under Clause 22.1 of the Agreement, from the date of Commencement of Commercial production from the Agreement 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 Agreement 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.

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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 Petroleum Reservoir.

6.1.11 In respect of the Agreement 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 11 of the Agreement, prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter.

This 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.

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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 Costs and Expenses carried forward from the previous Quarter, if any.

8.1.2 Recoverable Costs and Expenses for the Quarter in question.

8.1.3 Credits under the Agreement for the Quarter in question.

8.1.4 Total Recoverable Costs and Expenses for the Quarter in question (Subparagraph 8.1.1 plus Subparagraph 8.1.2 above, net of Subparagraph 8.1.3 above).

8.1.5 Quantity and value of Cost Recovery Petroleum taken by the Contractor for the Quarter in question.

8.1.6 Amount of recoverable Costs and Expenses to be carried forward into the next Quarter (Subparagraph 8.1.4 net of Subparagraph 8.1.5 above).

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 Crude Oil 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 Profit Oil taken by the Government and by the Contractor, respectively, during the Quarter in question.

8.2.6 The share of Profit Oil 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 10 of the Agreement.

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 10 of the Agreement, 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 Subparagraphs 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 Costs and Expenses and Cumulative Production.

PARAGRAPH 9

STATEMENT OF EXPENDITURE AND RECEIPTS

9.1 The Contractor shall prepare with respect to each Calendar Quarter a Statement of Expenditure and Receipts under the Agreement. The Statement will distinguish between Exploration Expenses, Development and Production Capital Expenditures and Operation Expenses 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 Year in question.
- 9.1.3 Latest forecast cumulative expenditures at the 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 Calendar Quarter shall be submitted to the Government no later than fifteen (15) days after the end of such Quarter.

PARAGRAPH 10

FINAL END-OF- YEAR STATEMENT

10.1 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 Agreement. 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

ANNUAL WORK PROGRAMME BUDGET

11.1 In accordance with Article 6 of the Agreement, the Contractor shall prepare an Annual Work Programme Budget. This will distinguish between budgeted Exploration Expenses, Development Expenditures, and Operation Expenses and will show the following:-

11.1.1 Forecast expenditures a for the budget Year in question including a quarterly classification of such expenditures.

11.1.2 Cumulative expenditures to the end of said budget Year.

11.1.3 A schedule showing the most important individual items of Development Expenditures for said budget Year.

11.2 The Annual Work Programme Budget shall be submitted to the Government with respect to each budget Year no less than thirty (30) days before the start of such year.

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ANNEX C

NOVATION AGREEMENT

THIS NOVATION AGREEMENT is made the [*] day of [*] 200[*].

BETWEEN:

- (1) **KURDISTAN REGIONAL GOVERNMENT** (hereinafter referred to as the "Government") represented by the Minister of Natural Resources of the Government;

AND

- (2) **GENEL ENERGY INTERNATIONAL LIMITED**, and **ADDAX PETROLEUM INTERNATIONAL LIMITED** in each case together with their respective successors and assigns (hereinafter each referred to as a "Continuing Contractor Party");

AND

- (3) **[GOVERNMENT NOMINATED ENTITY]** (hereinafter referred to as the "Incoming Contractor Party") (whose registered office is at []);

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

WHEREAS

- (1) The Government and Genel Enerji A.S. ("Genel") entered into a Production Sharing Agreement dated 20 January 2004 in connection with an area known as Taq Taq in the Federal Region of Kurdistan (the "Original PSA");
- (2) Pursuant to an Amending Agreement dated 21 November 2006, the Government and the Continuing Contractor Parties agreed to revisions and amendments to the Original PSA which were embodied into a conformed Revised Production Sharing Agreement of even date with such Amending Agreement duly executed by the Government, Genel, and the Continuing Contractor Parties (the "Revised Production Sharing Agreement");
- (3) The Revised Production Sharing Agreement provides for and contemplates, on terms and conditions set out therein, the designation by the Government of one or more additional parties to the Revised Production Sharing Agreement any such additional party defined in the Revised Production Sharing Agreement as a "Government Nominated Entity"; and
- (4) The Government has designated the Incoming Contractor Party to be an additional party to the Revised Production Sharing Agreement.



NOW IT IS HEREBY AGREED as follows:-

1. DEFINITIONS

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

2. NOVATION

2.1 The Incoming Contractor Party confirms that it has read a copy of the Revised Production Sharing Agreement and undertakes to the Government and to the Continuing Contractor Parties with effect from the date hereof to adhere to and to be bound by each and all of the provisions of the Revised Production Sharing Agreement and to perform the obligations of a Contractor Party (being a Government Entity) as stipulated in the Revised Production Sharing Agreement as if the Incoming Contractor Party were a party to the Revised Production Sharing Agreement and named in the Revised Production Sharing Agreement as a Contractor Party.

2.2 The Government and the Continuing Contractor Parties confirm their acceptance of the Incoming Contractor Party as a Contractor Party and undertake to the Incoming Contractor Party with effect from the date hereof to adhere to and to be bound by each and all of the provisions of the Revised Production Sharing Agreement as if the Incoming Contractor Party (being a Government Nominated Entity) were a party to the Revised Production Sharing Agreement and named in the Revised Production Sharing Agreement as a Contractor Party designated by the Government as a Government Nominated Entity.

3. NOTICES

For purposes of Article 27 of the Revised Production Sharing Agreement the address of the Incoming Contractor Party shall be:-

[Incoming Contractor Party]:

Fax:

Attention:

4. GOVERNING LAW

This Novation Agreement will be governed by English Law.

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