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**ASSIGNMENT, NOVATION,  
AND  
FIRST AMENDMENT AGREEMENT**

BETWEEN

**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ**

**MURPHY BARANAN OIL Co., LTD.**

AND

**TALISMAN (BLOCK K9) B.V.**

(BARANAN)

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# ASSIGNMENT, NOVATION, AND FIRST AMENDMENT AGREEMENT

## *Preamble:*

This agreement is by and between:

- (1) **THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (the "**Government**");
- (2) **TALISMAN (BLOCK K9) B.V.**, a limited liability company (*Besloten Vennootschap met beperkte aansprakelijkheid*) established and existing under the laws of The Netherlands, whose registered office is at Atrium Building, Strawinskylaan 3159 1077, ZX Amsterdam, The Netherlands ("**Talisman**"); and
- (3) **MURPHY BARANAN OIL CO., LTD.**, a corporation established and existing under the laws of the Commonwealth of Bahamas, whose registered office is at Ocean Centre, Montague Foreshore East Bay Street, P.O. Box SS-19084, Nassau, Bahamas ("**Murphy**")

(each a "**Party**" and collectively the "**Parties**").

## RECITALS

- A. The Government and Talisman are parties to a Production Sharing Contract dated 17 June 2009 in respect of the Baranan block in the Kurdistan Region of Iraq (the "**Contract**"), to which Colwyn Investments Limited was also a party until on or before the date hereof. Pursuant to the Assignment and Novation agreement between Talisman, Colwyn Investments Limited, and the Government Colwyn Investments Limited assigned and novated all of its entire rights, interests, and obligations under the Contract to Talisman.
- B. The Contract entitles the Government to assign the Third Party Interest, and the Government wishes to assign the Third Party Interest to Murphy.
- C. The Government and Talisman are each satisfied that Murphy has the financial and technical capability to perform its obligations under the Contract.
- D. The Parties affirm their ongoing commitment and adherence to the Principles and Criteria of the Extractive Industries Transparency Initiative (EITI).
- E. Talisman and Murphy have agreed the terms of a Joint Operating Agreement, and the Government has confirmed that the terms of such Joint Operating Agreement are acceptable to the Government.
- F. Murphy and Murphy Oil Corporation have delivered a Letter of Representations and Warranties to the Government (the "**Murphy Letter of Representations and Warranties**"); and Talisman and Talisman Energy Inc. have delivered a Letter of Representations and Warranties (the "**Talisman Letter of Representations and Warranties**") to the Government.

- G. This agreement sets forth:
- (1) the Government's assignment of the Third Party Interest to Murphy, Murphy's acceptance of such Third Party Interest, and Talisman's confirmation of its consent to the assignment and novation of the Third Party Interest to Murphy; and
  - (2) amendments to the Contract to: (a) confirm Murphy as a Party and a Contractor Entity with a 20% participating interest; (b) provide for the payment by Murphy of the Murphy Capacity Building Bonus to the Government; (c) obligate Murphy and future holders of all or part of the participating interest herein assigned to pay Capacity Building Payments to the Government; and (d) provide for other agreed changes.
- H It is the intention of the Parties that the Murphy Capacity Building Bonus and the Murphy Capacity Building Payments will: (i) be the exclusive obligation of Murphy and its successors and permitted assigns, and (ii) not be cost recoverable as a Petroleum Cost.
- I. Murphy, as the Third Party Participant, acknowledges that Murphy will be obligated under the Contract to pay to Talisman an amount equivalent to the proportion of Petroleum Costs incurred by Talisman that is attributable to the Third Party Interest.
- J. Subject to audit adjustments, Talisman and Murphy have agreed that:
- (1) the estimated, unaudited Petroleum Costs paid by Talisman up to and including 30 April 2011 (the "**Cost Determination Date**") are US\$19,048,800 (the "**Estimated Past Costs**"); and
  - (2) the amount of such Estimated Past Costs attributable to the Third Party Interest and payable to Talisman, as of the Cost Determination Date and as the sole Contractor Entity, is US\$3,809,760 (the "**First Reimbursement Payment**").
- K. Talisman has confirmed to Murphy, and Murphy is satisfied, that neither of the following have been included in the calculation of Estimated Past Costs: (1) the Talisman Capacity Building Bonus and the Talisman Signature Bonus paid by Talisman, or (2) any Petroleum Costs attributable to the Government interest.

## 1. DEFINITIONS AND INTERPRETATION

1.1 Unless otherwise defined, capitalised terms have the meanings ascribed to them in the Contract as amended by this agreement. As used in this agreement:

"**Agreement Date**" is defined in the clause 6.12.

"**Contract**" is defined in recital A.

"**Cost Determination Date**" is defined in Recital J(1).

"**First Reimbursement Payment**" is defined in Recital J(2).

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

"**International Banking Day**" means:

- (a) in respect of the payment by Murphy to the Government pursuant to clause 4.1, a day on which banks are open for general business in London, United Kingdom and New York City, United States of America;

and

- (b) in respect of a payment by Murphy to Talisman pursuant to clause 4, a day on which banks are open in Amsterdam, The Netherlands, and New York City, United States of America.

"Murphy" is defined in the preamble.

"Murphy Letter of Representations and Warranties" is defined in Recital G.

"Party" and "Parties" are defined in the preamble.

"Talisman" is defined in the preamble.

"Talisman Letter of Representations and Warranties" is defined in Recital G.

- 1.2 Descriptive headings in this agreement are for convenience only.
- 1.3 Reference to a "clause" is a reference to a clause of this agreement.
- 1.4 Reference to an "Article" is a reference to an Article of the Contract.
- 1.5 Reference to a "participating interest" means an undivided interest in the Petroleum Operations in respect of the entire Contract Area.

## 2. ASSIGNMENT AND NOVATION

- 2.1 The Government assigns and novates the entire Third Party Interest to Murphy.
  - 2.1.1 Murphy accepts such assignment and novation of the Third Party Interest.
  - 2.1.2 Talisman consents and agrees to such assignment and novation of the Third Party Interest to Murphy.
- 2.2 As a consequence of clause 2.1 and this agreement:
  - (a) the entire Third Party Interest is assigned and novated to Murphy;
  - (b) Murphy (i) is a Party, the Third Party Participant, a Contractor Entity with a 20% participating interest, and a constituent of the Contractor; (ii) has all of the rights, liabilities, and duties of a Party, the Third Party Participant, a Contractor Entity, and a constituent of the Contractor as if Murphy had been a Party, a Contractor Entity, the Third Party Participant, and a constituent of the Contractor on and from the Effective Date; and
  - (c) subject to clause 6.6, all rights of the Government to assign a Third Party Interest are fully exercised and extinguished.
- 2.3 The Contract, as amended by this agreement, continues in full force and effect, the rights and obligations of the Parties having only changed in accordance with such amendments.

### 3. AMENDMENTS TO CONTRACT

3.1 The Contract is amended as provided in this clause 3.

3.2 The preamble is deleted and restated in its entirety:

"BETWEEN

**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (the "**Government**");

**TALISMAN (BLOCK K9) B.V.**, a limited liability company (*Besloten Vennootschap met beperkte aansprakelijkheid*) established and existing under the laws of The Netherlands, whose registered office is at Atrium Building, Strawinskylann 3159 1077, ZX Amsterdam, The Netherlands ("**Talisman**"); and

**MURPHY BARANAN OIL CO., LTD.**, a corporation established and existing under the laws of the Commonwealth of the Bahamas, whose registered office is at Ocean Centre, Montague Foreshore East Bay Street, P.O. Box 55-19084, Nassau, Bahamas ("**Murphy**")."

3.3 The recitals are amended by adding new paragraphs "G" and "H":

"(G) Pursuant to an Assignment and Novation Agreement, Colwyn Investments Limited assigned and novated its entire participating interest under the Contract to Talisman; and

(H) This Contract was amended pursuant to the Assignment, Novation, and First Amendment Agreement between the Parties in June 2011."

3.4 In Article 1.1, the definitions of "**CONTRACTOR**", "**CONTRACTOR Entity**", and "**Production Bonus**" are deleted in their entirety and restated as follows:

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

**CONTRACTOR Entity** means each of Talisman and Murphy and their respective successors and permitted assignees pursuant to Article 39. A holder of the Government Interest is not a **CONTRACTOR Entity**.

**Production Bonus** means any bonus payable by a **CONTRACTOR Entity** pursuant to Articles 32.19 through 32.22."

3.5 New definitions are added in Article 1.1 in the appropriate alphabetical order as follows:

"**Agreed Rate**" means interest compounded on a monthly basis, at the rate per annum equal to the one - month term, London Interbank Offered Rate (LIBOR) for U.S. dollar deposits, as published in London by the *Financial Times* (London Edition) or if not published, then by *The Wall Street Journal* (New York Edition), plus 3.00% applicable on the first day prior to the due date of payment and thereafter on the first day of each succeeding calendar month to, but not including, the date paid. If the aforesaid rate is contrary to any applicable usury Law, the rate of interest to be charged shall be the maximum rate permitted by such applicable Law.

**Annual Reconciliation Statement** is defined in Article 32.7.

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

**Capacity Building Account** means a bank account in the name of, and maintained by, the **GOVERNMENT** at a reputable bank selected by the **GOVERNMENT**.

**Capacity Building Payment** means each obligation of a Charged Interest Holder to pay an amount equal to the Capacity Building Value attributed to such Charged Interest Holder as provided by Articles 32.4 through 32.17.1.

**Capacity Building Value** means, in respect of any time and period of determination for a Charged Interest Holder, the amount in Dollars equal to the value, established in accordance with Article 27, of fifteen per cent (15%) of the Profit Petroleum attributed to such Charged Interest Holder as at such time and for such period of determination.

**Charged Interest** means all or any part of the undivided twenty per cent (20%) participating interest held by Murphy as of the Effective Date.

**Charged Interest Holder** means (i) Murphy and its successors and permitted assignees, and (ii) any other **CONTRACTOR** Entity to the extent it becomes a holder of all or any part of a Charged Interest.

**Charged Interest Holders Monthly Statement** is defined in Article 32.5.

**Dispute** means any dispute, controversy, or claim (in each case of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) arising out of or relating to this Contract or the operations carried out under this Contract, including any dispute, controversy, or claim as to the construction, validity, interpretation, enforceability or breach of this Contract.

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

**Murphy Capacity Building Bonus** is defined in Article 32.3.

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

**Rights Sale** means a sale, assignment, transfer, encumbrance, or other form of disposal of the **GOVERNMENT**'s rights to receive all or any part of the Capacity Building Payments payable by a Charged Interest Holder on whichever terms and duration as may be determined by the **GOVERNMENT**.

**Talisman Capacity Building Bonus** is defined in Article 32.1.

**Talisman Signature Bonus** is defined in Article 32.2."

**3.6** In Article 1.2, a new clause is added following clause (d):

“(e) Any reference to a Party includes a reference to that Party’s successors and permitted assignees.”

**3.7** Article 2.1 is amended:

(a) by adding the following after the last sentence of the third paragraph:

“The obligations of the **CONTRACTOR** constitute joint and several obligations of the **CONTRACTOR** Entities, except as provided in Articles 28, 31, 32, 36.7, 36.8, and 39. Any operations conducted as exclusive operations of less than all **CONTRACTOR** Entities, whether or not such operations have been approved by the Management Committee or the **GOVERNMENT**, will not relieve the **CONTRACTOR** Entities (or any of them) of their joint and several liability.”;

and

(b) by adding the following at end of the text:

“As of the Effective Date, Talisman and Murphy, as **CONTRACTOR** Entities, each own an undivided interest in Petroleum Operations in respect of the entire Contract Area in the following percentages:

Talisman	60%
Murphy	20%.

The balance of the interest in Petroleum Operations in respect of the entire Contract Area is the Government Interest as set forth in Article 4.1.”

**3.8** In Article 4.2, the following sentence is deleted from the first paragraph in its entirety:

“For the avoidance of doubt, the Public Company shall contribute its share of Production Bonuses attributable to the Government Interest and payable pursuant to Articles 32.4 and 32.5.”

**3.9** In Article 4.10(b) each reference to “Signature Bonus” is replaced with “Talisman Signature Bonus”; and each reference to “Capacity Building Bonus” is deleted and replaced with “Talisman Capacity Building Bonus”.

**3.10** In the first sentence of Article 16.14 following the words “The **GOVERNMENT** and”, the following is inserted:

“, subject to Articles 32.12 and 32.13,”.

**3.11** In Article 26.9, the following sentence is added after the final sentence of the Article:

“Notwithstanding the other provisions of this Article 26.9, where a Charged Interest Holder is in breach of any of its obligations in respect of the payment of Capacity Building Payments under Articles 32.4 through 32.17.1, the **GOVERNMENT** will have the rights set forth in Articles 32.12 through 32.14.”

**3.12** Articles 27.1 and 27.2 and Paragraphs 7 and 8 are amended by adding, after the word

"Quarter" in each instance in each Article and Paragraph, the words "and Month".

**3.13** In Paragraph 7.2, the words "twenty-one (21)" are deleted and replaced by: "ten (10)".

**3.14** Article 27.4 is deleted and restated in its entirety:

"By the tenth (10<sup>th</sup>) day of each Month, the **CONTRACTOR** shall provide a statement to the **GOVERNMENT** showing the **CONTRACTOR**'s calculations of the value of Petroleum produced and sold from the Contract Area for the previous Month. Such statement shall include the following information:

- (a) quantities of Crude Oil sold by the **CONTRACTOR** Entities during the preceding Month constituting Arm's Length Sales together with corresponding sale prices;
- (b) quantities of Crude Oil sold by the **CONTRACTOR** Entities during the preceding Month that do not fall in the category referred to in paragraph (a) above, together with sale prices applied during such Month;
- (c) inventory in storage belonging to the **CONTRACTOR** Entities at the beginning and at the end of the Month; and
- (d) quantities of Natural Gas sold by the **CONTRACTOR** Entities and the **GOVERNMENT** together with sale prices realised.

Concurrently with the delivery of the monthly statement, the **CONTRACTOR** shall deliver the Charged Interest Holders Monthly Statement to the **GOVERNMENT** as provided in Article 32.5."

**3.15** Article 29.1 is deleted and restated in its entirety:

"29.1 A Party making a payment to the **GOVERNMENT**, including to the Capacity Building Account or to any revenue sharing account as agreed between the Government and the government of the Republic of Iraq, shall: (i) make such payment in Dollars on or before the date when due in cleared funds by wire transfer from a reputable bank in accordance with wire instructions provided by the **GOVERNMENT**; and (ii) shall pay all payments without (and free and clear of any deduction for) set-off or counterclaim.

29.1.1 If any payment is due to be paid to the **GOVERNMENT** on a day that is either not a banking day in either the place where the **GOVERNMENT** maintains the relevant account to which such payment is to be made, or the location of the financial institution through which a Party will make such payment, then the payment will be due on the next following banking day. A "banking day" is a day (other than a Saturday, Sunday, or public holiday) on which banks are open for general business in the specified locations.

29.1.2 If a Party fails to make any payment to the **GOVERNMENT**



when due, such Party shall pay interest on such unpaid amount, compounded monthly, at the Agreed Rate from the date when due to, but not including, the date when paid.

- 29.1.3 Each **Contractor** Entity acknowledges and accepts that a fundamental principle of this Contract is that the **CONTRACTOR** and each **CONTRACTOR** Entity (including Charged Interest Holders) must pay amounts owed by it as and when required (including, in respect of Charged Interest Holders, the Capacity Building Payments).
- 29.1.4 Each **CONTRACTOR** Entity, and, in respect of its obligations under Articles 32.4 through 32.17.1, each Charged Interest Holder, waives any right to raise by way of set off or invoke as a defence to its obligations to make any payments to the **GOVERNMENT** as required by this Contract, whether in law or equity, any failure by the **GOVERNMENT** or any **CONTRACTOR** Entity to pay amounts due and owing under the Contract or to any claim that such Charged Interest Holder may have against the **GOVERNMENT**, Operator, other **CONTRACTOR** Entity, or any other Person, whether such claim arises under or relates to this Contract or otherwise.
- 29.1.5 The making of any payment to the **GOVERNMENT**, or the acceptance or use of any payments by the **GOVERNMENT**, does not impair the rights of the **CONTRACTOR**, any **CONTRACTOR** Entity, or the **GOVERNMENT** under Article 15 or English law."

3.16 In Article 29.3 and Paragraph 1.7.2, the words "compounded monthly at the rate of LIBOR plus two (2) percentage points" are deleted and replaced with "at the Agreed Rate".

3.17 Article 32 is deleted and restated in its entirety:

**"ARTICLE 32 - BONUSES; CAPACITY BUILDING PAYMENTS**

**Talisman Signature Bonus**

32.1 Talisman shall pay to the **GOVERNMENT** a signature bonus of five million Dollars (US\$5,000,000) (the "**Talisman Signature Bonus**"), which Talisman shall pay to the **GOVERNMENT** within thirty (30) days of the Effective Date, receipt of which is acknowledged by the **GOVERNMENT**.

**Talisman Capacity Building Bonuses**

32.2 Talisman shall pay forty five million Dollars (US\$45,000,000) (the "**Talisman Capacity Building Bonus**") to the **GOVERNMENT**:

(a) a first instalment of twenty million Dollars (US\$20,000,000), which Talisman shall pay to the **GOVERNMENT** within thirty (30) days of

the Effective Date; and

- (b) a second instalment of twenty five million Dollars (US \$25,000,000), which Talisman shall pay to the **GOVERNMENT** within eighteen (18) Months of the Effective Date.

The **GOVERNMENT** acknowledges receipt of both instalments of the Talisman Capacity Building Bonus.

#### **Murphy Capacity Building Bonus**

- 32.3 Murphy shall pay twenty five million US dollars (US\$25,000,000 to the **GOVERNMENT** (the "**Murphy Capacity Building Bonus**"), which Murphy shall pay to the **GOVERNMENT** on demand.

#### **Capacity Building Payments**

- 32.4 Each Charged Interest Holder is bound by the provisions of Articles 32.4 through 32.17.1.

- 32.4.1 The obligations of a **CONTRACTOR** Entity, to the extent it is a Charged Interest Holder, as set forth in Articles 32.4 through 32.17.1, attach to, and may not be severed from, the Charged Interest.

- 32.4.2 As of the Effective Date: (i) Murphy is the only Charged Interest Holder; and (ii) Talisman is not a Charged Interest Holder, unless it acquires a Charged Interest or becomes a Charged Interest Holder as provided in Article 32.17.

- 32.4.3 If a Charged Interest Holder assigns and novates all or any part of its Charged Interest, the assignee will be a Charged Interest Holder to the extent of such assignment and novation.

- 32.5 On or before the tenth (10<sup>th</sup>) day of each Month in the Development Period, the **CONTRACTOR** shall provide to the **GOVERNMENT**, together with the monthly production statement prepared by the **CONTRACTOR** in accordance with Article 27.4 and Paragraph 6.1, and the monthly valuation statement in accordance with Article 25 and Paragraph 7.1, a statement (the "**Charged Interest Holders Monthly Statement**") setting out the **CONTRACTOR**'s calculation of the Capacity Building Value attributable to each Charged Interest Holder for the preceding Month.

- 32.5.1 In each Charged Interest Holders Monthly Statement, the **CONTRACTOR** shall detail each item taken into account in making its calculation of the amounts due from each Charged Interest Holder, the quantities of Profit Petroleum produced during the Month covered by such Charged Interest Holders Monthly Statement, the volumes of such production sold, the Capacity Building Value attributed to such sales, and the Capacity Building Payment required to be paid with respect thereto by each Charged Interest Holder.

32.6 Except as provided in Articles 32.6.1 and 32.6.2, and subject to Article 29.1, on the same date on which the **CONTRACTOR** provides the Charged Interest Holders Monthly Statement to the **GOVERNMENT** in accordance with Article 32.5, each Charged Interest Holder shall pay to the Government the Capacity Building Payment stated as owed by such Charged Interest Holder in the Charged Interest Holders Monthly Statement.

32.6.1 If:

(a) a Charged Interest Holder has sold its Profit Petroleum to (i) the **GOVERNMENT** or a Public Company (or a company or an entity owned and controlled, directly or indirectly, by a Public Company or the **GOVERNMENT**), (ii) the State Oil Marketing Organisation (SOMO) or any Person owned or controlled by the Government of Iraq;

and if

(b) any such Person as identified in (a) has not paid the Charged Interest Holder for the Petroleum lifted by such Charged Interest Holder;

then:

(c) the Charged Interest Holder will only be obligated to pay the Capacity Building Payment when and to the extent the Charged Interest Holder has received payment by such Person identified in (a).

32.6.2 Article 32.6.1 does not apply when a Charged Interest Holder sells its share of Profit Petroleum to any Person not identified in Article 32.6.1(a).

32.7 Within thirty (30) calendar days following the date on which the **CONTRACTOR** delivered the Final End-of-Year Statement to the **GOVERNMENT** for each Calendar Year in accordance with Article 26.13 and Paragraph 10 (*Accounting Procedures*), and based on the information in such Final End-of-Year Statement, the **CONTRACTOR** shall provide to the **GOVERNMENT**, in respect of each Charged Interest Holder, a reconciliation of the actual aggregate amount of the Capacity Building Value and the actual aggregate of the Capacity Building Payments payable by each Charged Interest Holder for such Calendar Year period (the "**Annual Reconciliation Statement**").

32.8 If: (i) the results of an Annual Reconciliation Statement show that a Charged Interest Holder was, in the aggregate over the Calendar Year period covered by the Annual Reconciliation Statement, obligated to pay Capacity Building Payments in an amount less than the actual aggregate Capacity Building Value attributed to such Charged Interest Holder for such Calendar Year period; and (ii) if such Charged Interest Holder has actually paid less than the actual Capacity Building Value attributable to

such Charged Interest Holder; then, (iii) within thirty (30) calendar days following the same date on which the **CONTRACTOR** sent the Annual Reconciliation Statement to the **GOVERNMENT**, such Charged Interest Holder shall pay (subject to the same exceptions as provided in Articles 32.6.1 and 32.6.2)) the amount of the underpayment in the amount equal to as shown in the Annual Reconciliation Statement.

32.9 Subject to Article 32.9.1, if: (i) the results of an Annual Reconciliation Statement show that a Charged Interest Holder was, in the aggregate over the Calendar Year period covered by the Annual Reconciliation Statement, obligated to pay Capacity Building Payments in an amount more than the actual aggregate Capacity Building Value attributed to such Charged Interest Holder for such Calendar Year period; and (ii) such Charged Interest Holder has actually paid more than the actual Capacity Building Value attributable to such Charged Interest Holder; then (iii) such Charged Interest Holder may submit an invoice to the **GOVERNMENT** for reimbursement of excess Capacity Building Payments.

32.9.1 The Charged Interest Holder must send an invoice to the **GOVERNMENT** within sixty (60) days following date of the Annual Reconciliation Statement. If the Charged Interest Holder fails to send an invoice within such sixty (60)-day period, the Charged Interest Holder will be considered to have waived any claim for reimbursement.

32.9.2 Within thirty (30) days of receipt of such invoice, the **GOVERNMENT** shall either: (i) pay such invoice in full, or (ii) notify the Charged Interest Holder that the Charged Interest Holder will be entitled to deduct fifteen per cent (15%) of the amount otherwise payable from the next following payments of Capacity Building Payments until the amount of the invoice has been paid in full.

32.9.3 The right to receive payment under this Article 32.9, either in full or by way of set-off against future Capacity Building Payments as provided in Article 32.9.2, will be a Charged Interest Holder's only remedy in respect of any overpayment of Capacity Building Payments, and the **GOVERNMENT** will have no obligation to make any reimbursement or other compensating payments to the Charged Interest Holder.

32.10 The **GOVERNMENT** may enter into one or more Rights Sales without the consent of the **CONTRACTOR** or any **CONTRACTOR** Entity.

32.10.1 The **GOVERNMENT** shall provide timely notice to a Charged Interest Holder of a Rights Sales to the extent that such Rights Sale may require that Charged Interest Holder to make Capacity Building Payments to an account other than the **GOVERNMENT** or the Capacity Building Account.

- 32.11 Each Charged Interest Holder is separately liable (and not jointly and severally liable with any other Charged Interest Holder) to the **GOVERNMENT** for its obligations, duties and liabilities under Articles 32.4 through 32.17.1.
- 32.11.1 A Party that is not a Charged Interest Holder will have no liability to the **GOVERNMENT** for any claim by the **GOVERNMENT** arising out of or related to the breach of any Charged Interest Holder's obligations under Articles 32.4 through 32.17.1.
- 32.12 Subject to Article 32.13, and notwithstanding any other provision of this Contract, any lifting agreement, any sales or marketing agreement, or any other agreement: if a Charged Interest Holder fails to pay a Capacity Building Payment in full when due, the **GOVERNMENT** will automatically be entitled, on not less than sixty (60) days' prior notice to the defaulting Charged Interest Holder and the **CONTRACTOR** in the case of the first default, and not less than thirty (30) days' in the case of any subsequent default, to:
- (a) lift, at the Delivery Point, such amount of the defaulting Charged Interest Holder's Profit Petroleum as is equal to the value thereof in default; and
- (b) continue to lift up to fifteen per cent (15%) of such defaulting Charged Interest Holder's Profit Petroleum for the remainder of the Development Period.
- 32.13 A defaulting Charged Interest Holder will have a single cure period of thirty (30) days only in respect of its first default.
- 32.13.1 If the defaulting Charged Interest Holder pays the defaulted Capacity Building Payments in full plus interest at the Agreed Rate within such thirty (30) - day cure period, the **GOVERNMENT** shall not exercise its lifting rights under Article 32.12 in respect of such defaulting Charged Interest Holder.
- 32.13.2 In the case of any subsequent default by the same defaulting Charged Interest Holder, the **GOVERNMENT** may exercise its right to lift, whether or not the defaulting Charged Interest Holder cures its default within the thirty (30) - day cure period or otherwise.
- 32.14 The lifting rights of the **GOVERNMENT** pursuant to Article 32.12 are exercisable by way of set-off, without first resort to legal process, and without any liability or claims of the defaulting Charged Interest Holder, the **CONTRACTOR**, the Operator, or any other Person, and notwithstanding any other provision of this Contract, any provision in any lifting agreement, any provision of any Joint Operating Agreement, or any other agreement to which the **CONTRACTOR** or a defaulting Charged Interest Holder is a party.
- 32.14.1 Each Charged Interest Holder shall ensure that all agreements in

- respect of the lifting or sale (including swaps or other sales arrangements) of Profit Petroleum of such Charged Interest Holder sets forth the **GOVERNMENT**'s priority rights as set forth in Articles 32.12 through 32.14.
- 32.13.2 Any Dispute between a Charged Interest Holder and the **GOVERNMENT** in respect of a claim that the **GOVERNMENT**, in exercising its rights under Articles 32.12 through 32.14, will be subject to resolution in accordance with the lifting agreement among the **CONTRACTOR** Entities and the **GOVERNMENT** in the same manner as any other overlift or underlift is to be resolved between the parties thereto.
- 32.15 A defaulting Charged Interest Holder shall indemnify the **GOVERNMENT** from any Loss or Expense that may in any way arise from the exercise by the **GOVERNMENT** of its rights in respect of such defaulting Charged Interest Holder under Articles 32.12 through 32.14.
- 32.15.1 The **GOVERNMENT** will retain control over the defence of, and any resolution or settlement relating to, such Loss or Expense.
- 32.15.2 A defaulting Charged Interest Holder shall cooperate with the **GOVERNMENT** and provide reasonable assistance in defending any claims against the **GOVERNMENT**.
- 32.15.3 A claim set forth in a notice from the **GOVERNMENT** to a defaulting Charged Interest Holder will be conclusively deemed a Loss or Expense if the Charged Interest Holder fails to dispute the **GOVERNMENT**'s liability by the end of a thirty (30) day period following the effective date of the notice from the **GOVERNMENT**. The Charged Interest Holder shall promptly pay the deemed Loss or Expense on demand.
- 32.15.4 The **GOVERNMENT**'s rights under Articles 32.12 through 32.15 are not exclusive and are without prejudice to any other rights or remedies the **GOVERNMENT** may have under law or this Contract.
- 32.16 Any Dispute between the **GOVERNMENT** and a Charged Interest Holder in respect of the calculation of Capacity Building Value and the Capacity Building Payment due with respect thereto is subject to Article 15.9.
- 32.17 Subject to Article 32.17.1, if
- (a) either (i) a Charged Interest Holder withdraws as a **CONTRACTOR** Entity, or (ii) the **GOVERNMENT** terminates a Charged Interest Holder as a **CONTRACTOR** Entity; and
  - (b) all or part of the Charged Interest of the Charged Interest Holder is either (i) assigned and novated, or (ii) reverts to the remaining **CONTRACTOR** Entities as provided in Article 45;

then, in either case as set forth in clause (b), such assignee or each remaining **CONTRACTOR** Entity, as the case may be, will be a Charged Interest Holder to the extent of such assignment and novation or reversion, as applicable.

32.17.1 A withdrawing or terminated Charged Interest Holder under clause 32.17(b) will be solely liable for any unpaid Capacity Building Payments attributable to its Charged Interest prior to the date of withdrawal or termination.

#### **Capacity Building Account**

32.18 To the extent permitted by Laws of the Kurdistan Region or as otherwise agreed with the Government of Iraq, the **GOVERNMENT** will:

- (a) maintain the Capacity Building Account;
- (b) instruct the **CONTRACTOR** and the **CONTRACTOR** Entities, as applicable, to make all Capacity Building Bonuses and Capacity Building Payments to the Capacity Building Account in accordance with wire instructions therefor provided by the **GOVERNMENT**;
- (c) apply funds from the Capacity Building Account to fund infrastructure and capacity building projects in the Kurdistan Region selected by the **GOVERNMENT** in its sole discretion; and
- (d) periodically publish reports of the **GOVERNMENT**'s application of funds from the Capacity Building Account in sufficient detail to identify the projects to which the **GOVERNMENT** has applied the funds therein.

#### **Production Bonuses**

32.19 The **CONTRACTOR** Entities shall pay Production Bonuses as provided in Articles 32.20 through 32.22 separately for each Production Area. The obligations of each **CONTRACTOR** Entity under Articles 32.20 through 32.22 are: (i) separate as to each **CONTRACTOR** Entity, and (ii) not joint and several with any other Party.

32.20 For purposes of calculating the cumulative amount of production in order to determine whether a Production Bonus is payable pursuant to Articles 32.21 and 32.22, Natural Gas BOE: (i) does not include Natural Gas used for Petroleum Operations (including re-injection), but (ii) does include flared gas.

- 32.21 In respect of production of Crude Oil and Natural Gas from each Production Area which has been designated by the Management Committee as Crude Oil Production Area, each **CONTRACTOR** Entity shall pay, *pro rata* the relevant percentage of its participation interest in the Contract in relation to the other **CONTRACTOR** Entities, the following Production Bonuses to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:
- (a) One million Dollars (US\$1,000,000) on First Production of Crude Oil from each such Production Area;
  - (b) Ten million Dollars (US\$10,000,000) when production from such Production Area reaches a cumulative amount of ten million (10,000,000) Barrels of Crude Oil and Natural Gas BOE;
  - (c) Fifteen million Dollars (US\$15,000,000) when production from such Production Area reaches a cumulative amount of twenty five million (25,000,000) Barrels of Crude Oil and Natural Gas BOE; and
  - (d) Twenty-five million Dollars (US\$25,000,000) when production from such Production Area reaches a cumulative amount of fifty million (50,000,000) Barrels of Crude Oil and Natural Gas BOE.
- 32.22 In respect of each Production Area which has been designated by the Management Committee as Non-Associated Natural Gas Production Area, each **CONTRACTOR** Entity shall pay, *pro rata* the relevant percentage of its participation interest in the Contract in relation to the other **CONTRACTOR** Entities, the following Production Bonuses to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:
- (a) One million Dollars (US\$1,000,000) on First Production of Non-Associated Natural Gas from such Production Area;
  - (b) Five million Dollars (US\$5,000,000) when production of Non-Associated Natural Gas from such Production Area reaches a cumulative amount of ten million (10,000,000) Natural Gas BOE;
  - (c) Ten million Dollars (US\$10,000,000) when production of Non-Associated Natural Gas from such Production Area reaches a cumulative amount of twenty five million (25,000,000) Natural Gas BOE; and
  - (d) Fifteen million Dollars (US \$15,000,000) when production of Non-Associated Natural Gas from such Production Area reaches a cumulative amount of fifty million (50,000,000) Natural Gas BOE.



**No Cost Recovery**

- 3.2.23 No Capacity Building Bonus, Capacity Building Payment, Production Bonus, or other payment payable by the a **CONTRACTOR** Entity or Charged Interest Holder pursuant to this Article 32 will be recoverable as a Petroleum Cost.”
- 3.18 In Article 39.6, the following is added at the end of the sentence following the words “Article 4”:
- “and Article 32.10.”
- 3.19 In Article 41, the following is added at the end of the Article:
- “Notwithstanding the foregoing, this Article 41 will not apply to the **GOVERNMENT** in respect of any Dispute arising out of or related to the exercise of rights by the **GOVERNMENT** as set forth in Articles 32.12 through 32.14, in respect of which the **GOVERNMENT** expressly reserves all sovereign immunities.”
- 3.20 In Article 42.1, the first paragraph is deleted in its entirety and replaced with:
- “This Article 42.1 does not apply to any Dispute arising out of, or relating to, the exercise of rights by the **GOVERNMENT** as set forth in Articles 32.12 through 32.14, which Disputes will be subject to the exclusive jurisdiction of the courts of the Kurdistan Region located in Erbil, except only as provided in Article 29.1.5.”
- 3.21 In Article 41.(c)(iv), the following words are deleted “Arbitration shall take place in London, England.” The following words inserted in place of the foregoing:
- “The seat of the arbitration will be London, England.”
- 3.22 Article 44.1 is amended by adding below the notice information for Talisman:
- “MURPHY:**
- |            |   |
|------------|---|
| Attention: | Vice President, International Operations, Harry Howard  |
| Address:   | Murphy Baranan Oil Co., Ltd.<br>c/o Murphy Exploration and Production Company<br>International<br>16290 Katy Freeway, Suite 600<br>Houston, TX 77094<br>USA |
| Email:     | harryhoward@murphyoilcorp.com   |
- 3.23 In Article 45.6, after “31,” the following is added: “32.15,”.
- 3.24 In Paragraph 3.1.9, the words “with the exception of Taxes described in Article 31.2) and bonus payments” are deleted and replaced with:
- “with the exception of Taxes, Capacity Building Bonuses, Capacity Building Payments, Production Bonuses, and any other payments”.

- 3.25 In Paragraphs 4.4 and 13.3.2(h), after the word "bonuses" the following is added in each instance:

" , Capacity Building Bonuses, Capacity Building Payments, or other payments".

- 3.26 A new Article 2.9 is added:

"Each **CONTRACTOR** Entity shall at all times comply, and procure that each Subcontractor complies, with the Kurdistan Region Oil and Gas Law and all other Applicable Law. No provision of this Contract will: (a) excuse the **CONTRACTOR** or a **CONTRACTOR** Entity or any Subcontractor from compliance with Applicable Law, or (b) impair any right or privilege of the **GOVERNMENT** under Applicable Law."

#### 4. PAYMENTS DUE FROM MURPHY

- 4.1 Within 5 International Banking Days following the date Murphy receives wire instructions from the Government, Murphy shall pay to the Government US \$25,000,000 by way of cleared funds in accordance with such wire instructions. The Government shall consider its receipt of such payment as payment in full discharge of the Murphy Capacity Building Bonus. Upon receipt of a request therefor from Murphy, the Government shall provide Murphy with a confirmation of receipt of such payment.
- 4.2 Within 5 International Banking Days following Murphy's receipt of written wiring instructions from Talisman, Murphy shall pay to Talisman the First Reimbursement Payment by way of cleared funds in accordance with such wire instructions. Talisman shall provide Murphy with a confirmation of receipt of such payment.
- 4.3 Talisman and Murphy shall endeavour to agree on the actual Petroleum Costs incurred by Talisman to the Agreement Date (subject to such further adjustments as may be required to reflect the outcome of any Petroleum Cost audit by the Government or agreement between Talisman and Murphy). Talisman shall provide Murphy with access to all of Talisman's books and records establishing Petroleum Costs and relating to Petroleum Operations.
- 4.4 If Murphy and Talisman are unable to agree on actual Petroleum Costs incurred by Talisman to the Agreement Date, Talisman and Murphy agree that either or both of such Parties may refer the Dispute for expert determination in accordance with Article 42.2 of the Contract.
- 4.5 Within 7 International Banking Days after the earlier of the date when (i) Talisman and Murphy have agreed on the amount of actual Petroleum Costs incurred by Talisman to the Agreement Date, or (ii) such actual Petroleum Costs have been determined by an expert in accordance with Article 42.2 of the Contract; Murphy shall promptly pay, by way of cleared funds in accordance with the written wire instructions provided by Talisman to Murphy pursuant to clause 6 (or such other wire instructions as Talisman may provide to Murphy), an amount which is equal to: (x) the proportion of such actual Petroleum Costs that is attributable to the Third Party Interest, minus (y) the First Reimbursement Payment.

- 4.6 Nothing in this agreement will impair the rights of any party to audit Petroleum Costs in accordance with the Contract or, as between Talisman and Murphy, as otherwise agreed between Murphy and Talisman in the Joint Operating Agreement or otherwise. Following any audit (or any Government audit of the Petroleum Costs), Murphy and Talisman shall promptly make such payments to each other as may be necessary by way of equitable adjustment.
- 4.7 Murphy acknowledges its obligations in respect of Petroleum Costs on and from the Agreement Date under the Contract and, as between Murphy and Talisman, as agreed in any Joint Operating Agreement entered into between Talisman and Murphy.

## 5. REPRESENTATIONS AND WARRANTIES

- 5.1 Murphy makes the representations and warranties to the Government as set forth in the Murphy Letter of Representations and Warranties.
- 5.2 Talisman makes the representations and warranties to the Government as set forth in the Murphy Letter of Representations and Warranties.
- 5.3 Murphy represents to Talisman, and Talisman represents to Murphy:
  - 5.3.1 Its entry into and performance of this agreement has been authorised by all necessary action, whether corporate or otherwise.
  - 5.3.2 It has all necessary power and authority to sign and perform this agreement and the Contract.
  - 5.3.3 This agreement and the Contract constitute a legal, valid, and binding obligation of it.
  - 5.3.4 It has received all authorisations and consents necessary for the entry into and performance by it, and the validity and enforceability against it, of this agreement and the Contract.
  - 5.3.5 Except as provided in the next sentence, there is no law applicable to it or an agreement to which it is a party which (i) conflicts with or prevents it from performing this agreement and the Contract in accordance with its terms, or (ii) affects the validity and enforceability against it of this agreement or the Contract in accordance with its terms. No representation is made by Murphy or Talisman in respect of the Laws of the Kurdistan Region or the Republic of Iraq.
  - 5.3.6 It is not a party to any administrative or judicial proceeding, litigation, or arbitration that could affect the validity or enforceability of this agreement or the Contract as to it.
- 5.4 The Government:
  - 5.4.1 warrants to Murphy and Talisman that, as of the Agreement Date, no other Person has any claim or right to the Third Party Interest, except for Murphy pursuant to this agreement;

5.4.2 represents to Murphy that the Government has neither made nor threatened to initiate any administrative proceedings or official enquiries in respect of the Contract or the Contract Area.

**5.5** Talisman and the Government each individually represents to Murphy:

5.5.1 The Contract is in full force and effect and it is not in breach of any of its obligations thereunder.

5.5.2 Except for this agreement and the agreements identified in Annex 1, there is no agreement in effect to which Talisman and the Government are parties that pertains to Petroleum Operations in the Contract Area.

5.5.3 Talisman has paid and discharged its obligation to pay the Talisman Signature Bonus and the Talisman Capacity Building Bonus.

5.5.4 It has neither made, nor threatened to make, any claim against the other party arising out of or related to the Contract or the Contract Area.

## **6. GENERAL PROVISIONS**

**6.1** This agreement does not create any right under the Contracts (Rights of Third Parties) Act 1999 that is enforceable by any Person that is not a Party. The Parties may rescind or vary the terms of this agreement without notice to, or the consent of, any Person that is not a Party.

**6.2** The Parties may amend a provision of this agreement only by an agreement of the Parties that identifies itself as an amendment to this agreement.

6.2.1 A Party may waive any provision in this agreement as to such Party only by a writing executed by the Party against whom another Party seeks to enforce the waiver.

6.2.2 A waiver or consent: (i) made on one occasion will be effective only in that instance and only for the purpose stated; and (ii) once given is not to be construed as a waiver or consent on any future occasion.

6.2.3 An amendment, waiver, or consent signed by the Minister of Natural Resources of the Kurdistan Region is binding on the Government.

6.2.4 No failure or delay in exercising any right or remedy, or in requiring the satisfaction of any condition, under this agreement by a Party, and no act, omission or course of dealing between any of the Parties, will operate as a waiver or estoppel of any right, remedy, or condition.

6.2.4 No waiver, amendment, or consent in respect of this agreement will constitute a waiver, amendment, or consent of any other agreement between all or any of the Parties.

6.2.5 A Party will not be considered to have waived or otherwise impaired the effectiveness of the representations or warranties of another Party to it, including, in respect of the Government, the representations and warranties

set forth in the Murphy Letter of Representations and Warranties and the Talisman Letter of Representations and Warranties, by reason of any investigation made by or on behalf of such Party or because such Party (or any of its advisors) knew or should have known that a representation of another Party might be inaccurate.

- 6.3** A Party giving any notice or making any request, demand, or other communication to another Party shall do so as provided in the Contract (as amended by this agreement), and such notice, request, demand, or other communication will be deemed sent or received as provided in the Contract.
- 6.4** Each Party agrees that any Dispute arising out of or related to this agreement (including a Dispute relating to any non-contractual obligations arising out of or in connection with this agreement) will be considered a Dispute under the Contract to be finally resolved in accordance with the Contract.
- 6.5** The Parties may execute this agreement in counterparts, each of which constitutes an original, and all of which, collectively, constitute only one agreement. The signatures of all of the Parties need not appear on the same counterpart, and delivery of an executed counterpart signature page by facsimile or email is as effective as signing and delivering this agreement in the presence of the other Parties. This agreement is effective upon delivery of one executed counterpart from each Party to each of the other Parties. In proving this agreement, a Party must produce or account only for the executed counterpart of the Party to be charged.
- 6.6** If this agreement is reasonably proven to have been obtained in violation of Kurdistan Region Laws or the Laws of the Federal Republic of Iraq concerning corruption: (i) this agreement shall be void *ab initio*; and (ii) the period during which the Government may exercise the Option of Third Party Participation will thereupon recommence for a further 180 days from the date that the Government declares this agreement to be void *ab initio*.
- 6.7** This agreement is binding on each Party and its successors and assigns.
- 6.8** Murphy shall not assign any of its rights or obligations under this agreement without the consent of the Government and Talisman. Talisman shall not assign any of its rights or obligations under this agreement without the consent of the Government and Murphy. Any such assignment without such consents will be void.
- 6.9** To the extent the procedures for assigning the Third Party Interest herein and payment of funds associated therewith are at variance with the Contract, the Parties waive the provisions of the Contract and the provisions of this agreement control. Talisman waives the need for the Government to deliver written notice of its intention to exercise the Option of Third Party Participation as set out in Article 4.7 of the Contract.
- 6.10** This agreement constitutes the final, complete and exclusive expression of the Parties' agreement on the matters contained in this agreement.

- 6.10.1 All prior and contemporaneous negotiations and agreements between the Parties on the matters contained in this agreement are expressly merged into and superseded by this agreement.
  - 6.10.2 The provisions of this agreement may not be explained, supplemented or qualified through evidence of trade usage or a prior course of dealings.
  - 6.10.3 In entering into this agreement, each Party warrants it has not relied upon any statement, representation, warranty, or agreement of the other Party, except for those expressly contained in this agreement or, in the case of the Government, as set forth in the Murphy Letter of Representations and Warranties and the Talisman Letter of Representations and Warranties.
  - 6.10.4 There is no condition precedent to the effectiveness of this agreement, and there are no representations or warranties, in each case other than those expressly stated in this agreement.
- 6.11** This agreement (and any non-contractual obligations arising out of or related to this agreement) is governed by English law.
- 6.12** This agreement is effective on the date set forth on the following signature page (the "Agreement Date").

*[Signature page follows.]*

Agreement Date: 26 July 2011

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

By: 

Barham Salih  
Prime Minister  
Kurdistan Regional Government

**On behalf of the Regional Council  
for the Oil and Gas Affairs of the Kurdistan Region - Iraq**

By: 

Ashti Hawrami  
Minister of Natural Resources  
Kurdistan Regional Government

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

**MURPHY BARANAN OIL CO., LTD.**

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

**TALISMAN (BLOCK K9) B.V**

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

[Signature page to Assignment, Novation and First Amendment Agreement - Baranan]

Agreement Date: 26 July 2011

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

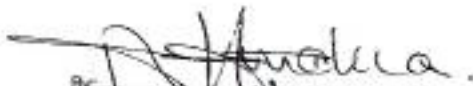
By: .....

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

By: .....

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

**MURPHY BARANAN OIL CO., LTD.**

  
By: .....

Name: **DAN PIANCHERA**  
Its: **VICE PRESIDENT**

**TALISMAN (BLOCK K9) B.V**

By: .....

Name: .....

Its: .....

[Signature page to Assignment, Novation and First Amendment Agreement - Baranan]



Agreement Date: 26 July 2011

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

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By:.....

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

**MURPHY BARANAN OIL CO., LTD.**

By:.....

Name: .....

Its: .....

**TAUSMAN (BLOCK K9) B.V**

By: [Signature]  
Name: RON ACHTYMICHUK  
Its: DULY AUTHORIZED ATTORNEY

[Signature page to Assignment, Novation and First Amendment Agreement - Baranan]

## **Annex 1**

### **Agreements Pertaining to Contract Area**

1. Production Sharing Contract dated 15 June 2009.
2. Assignment and Novation Agreement between Talisman, the Government, and Colwyn Investments Limited dated on or before the date hereof.