

**EXPLORATION AND PRODUCTION
SHARING AGREEMENT**

BETWEEN

OIL & GAS AND PETROCHEMICAL ESTABLISHMENT

OF THE

KURDISTAN REGIONAL GOVERNMENT - IRAQ

AND

HAWLER ENERGY, LTD.


AND

A&T PETROLEUM COMPANY, LTD.

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EXPLORATION AND PRODUCTION SHARING
AGREEMENT

This Exploration and Production Sharing Agreement is made by and between:

- (1) Oil & Gas and Petrochemical Establishment (hereinafter referred to as "OGE") representing the Kurdistan Regional Government of Iraq (hereinafter referred to as "KRG") as the party of the first part;**

- (2) Hawler Energy, Ltd., a company incorporated in the Cayman Islands which is a wholly owned subsidiary of Prime Natural Resources, Inc., an American corporation organized under the laws of Texas, and A&T Petroleum Company, Ltd., a company incorporated in Cayman Islands which is a wholly owned subsidiary of PETOIL Petroleum and Petroleum Products International Exploration and Production Incorporated ("PETOIL"), a Turkish corporation (hereinafter Hawler Energy, Ltd. and A&T Petroleum Company, Ltd. are collectively referred to as "Contractor") as the parties of the second part.**

The OGE and the Contractor may sometimes be referred to as "Party" individually or as "Parties" collectively.

WITNESSETH:

WHEREAS, the Constitution of the Republic of Iraq requires that the Federal Government and the Government of the producing region (KRG) and the Governorates together will draw up the necessary strategic policies to develop oil and gas wealth to bring the greatest benefit for the Iraqi people, relying upon the most modern techniques of market principles and encouraging investment; and



WHEREAS, the people of the KRG have chosen a Regional Assembly through democratic elections; and

WHEREAS, the Kurdistan Assembly has formed a Government for the Kurdistan Region and enacted laws that govern the Kurdistan Region, such as the Law No. 38 of 2004 establishing the Oil & Gas and Petrochemical Establishment ("OGE"); and

WHEREAS, the OGE enters into this Agreement wishing to promote the development of the Agreement Area; and

WHEREAS, Contractor has the requisite technical, managerial and financial capabilities and experience to carry out Petroleum Operations stipulated in this Agreement and desires to assist to and co-operate with the OGE for the exploration and exploitation of Petroleum reserves within the Agreement Area;

NOW, THEREFORE, in consideration of the promises and the mutual covenants and conditions herein contained, it is hereby agreed as follows:

ARTICLE 1

DEFINITIONS

The following words and terms used in this Agreement shall unless otherwise expressly specified in this Agreement have the following respective meanings:

- 1.1 "Accounting Procedure" means the accounting procedure set out in Annex "B" hereto.**
- 1.2 An "Affiliated Company" or "Affiliate" means:**

with respect to a Contractor Party; a company, corporation, partnership or other legal entity:

- i) which owns directly or indirectly fifty percent (50%) or more of the shares, voting rights or otherwise has the right to establish management policy of such Contractor Party; or**
 - ii) in which such Contractor Party owns directly or indirectly fifty percent (50%) or more of the shares, voting rights or otherwise has the right to establish management policy; or**
 - iii) in which fifty percent (50%) or more of the shares or voting rights are owned directly or indirectly by a company or other legal entity, which owns directly or indirectly fifty percent (50%) or more of the shares, voting rights or otherwise has the right to establish management policy of such Contractor Party;**
- 1.3 "Agreement" or "PSA" means this Exploration and Production Sharing Agreement together with all attached Annexes and any variation, extension or modification hereto which may be agreed in writing by all the Parties.**
- 1.4 "Agreement Area" means the area specified in Article 3 hereof and delineated in Annex A.**
- 1.5 "Agreement Year" means a period of twelve (12) consecutive months from the Effective Date within the term of the Agreement.**
- 1.6. "Annex" or "Annexes" means each or all of the Annexes "A" and "B" attached to this Agreement and made a part hereof. In the event of a conflict between the provisions of an Annex and a term in the main body of this Agreement, the provisions of the latter shall**

prevail.

- 1.7 "Appraisal" means all works carried out by Contractor to evaluate and delineate the commercial character of a Discovery of Petroleum in the Agreement Area.**
- 1.8 "Appraisal Program" means a work program submitted by Contractor under which Contractor plans to evaluate and delineate a Discovery of Petroleum in the Agreement Area.**
- 1.9 "Associated Natural Gas" means all gaseous hydrocarbons produced in association with Crude Oil, which Crude Oil itself can be commercially produced and separated therefrom.**
- 1.10 "Authority" means any authorised body of the KRG and Republic of Iraq;**
- 1.11 "Available Crude Oil" means Crude Oil produced and saved from the Agreement Area and not used in Petroleum Operations in accordance with Article 10.2.**
- 1.12 "Available Natural Gas" means Natural Gas produced and saved from the Agreement Area and not used in Petroleum Operations in accordance with Article 10.2.**
- 1.13 "Available Petroleum" means Available Crude Oil and Available Natural Gas.**
- 1.14 "Barrel" means a quantity consisting of forty-two (42) United States gallons liquid measure, corrected to a temperature of sixty degrees (60°) Fahrenheit with pressure at sea level.**
- 1.15 "Budget" means the estimate of the expenditures, listed by category, relating to Petroleum Operations contained in any Work Program proposed by Contractor.**

- 1.16 "Calendar Quarter" or "Quarter" means a period of three consecutive Months beginning on January 1st, April 1st, July 1st and October 1st of each Calendar Year.**
- 1.17 "Calendar Year" means a period of twelve (12) consecutive months beginning on January 1st and ending on December 31st in the same year, according to the Gregorian Calendar.**
- 1.18 "Capital Expenditures" means Development Costs, Exploration Costs and Drilling Costs.**
- 1.19 "Commercial Discovery" means a discovery of Petroleum that the Contractor, after discussion with the Joint Steering Committee, in its sole discretion in accordance with the provisions of Article 8 determines that it is sufficiently profitable such that it commits itself to develop and produce under the terms of the Agreement.**
- 1.20 "Commercial Production" means regular and continuous production of Petroleum from the Agreement Area in such quantities (taking into account any other relevant factors) as are worthy of commercial development.**
- 1.21 "Contractor" means Hawler Energy, Ltd. and A&T Petroleum Company, Ltd., as well as the lawful successors or assigns of Hawler Energy, Ltd. and A&T Petroleum Company, Ltd. Hawler Energy, Ltd. and A&T Petroleum, Ltd. each own 50% of the interest of the Contractor under this Agreement.**
- 1.22 "Contractor Party" a Party which holds some or all of the rights of the Contractor.**

- 1.23 "Coordination Committee" means the committee comprised of members from Contractor, OGE, and representatives of the Iraq Ministry of Oil (Baghdad) established to coordinate with the Ministry of Oil pursuant to the relevant provisions of the Iraqi Constitution.**
- 1.24 "Cost Recovery Petroleum" means Cost Recovery Crude Oil and Cost Recovery Natural Gas.**
- 1.25 "Cost Recovery Crude Oil" is defined as set forth in Article 10.6.**
- 1.26 "Cost Recovery Natural Gas" is defined as set forth in Article 10.6.**
- 1.27 "Costs and Expenses" comprise the Exploration Costs, Development Costs, Operating Expenditures and Drilling Costs whether directly or indirectly incurred by Contractor.**
- 1.28 "Crude Oil" means crude mineral oil, asphalten, ozopherite and all kinds of hydrocarbons whether in a solid, liquid or mixed state at the wellhead or separator or which is obtained from Natural Gas through condensation or extraction.**
- 1.29 "Current Legislation" means laws, legislative acts, and normative documents that are effective on the Effective Date of this Agreement in the KRG area.**
- 1.30 "Customs Duties" means all import (or export) tariffs and duties and other mandatory payments as stipulated by applicable laws, regulations or other legal measures of KRG or the Republic of Iraq with respect to the import or export of materials, equipment, goods and**

any other similar items.

1.31 "Development Costs" means all Costs and Expenses for Development Operations with the exception of Operating Expenditures and Drilling Costs whether directly or indirectly incurred, including but not limited to training, administration, service and related expenses.

1.32 "Development Plan" means the plan to be produced by Contractor in accordance with Article 8.6, following a declaration that Commercial Production may be established.

1.33 "Development" or "Development Operations" means and includes any activities or operations associated with work to develop Petroleum for production and subsequently to produce and render Petroleum marketable for commercial sale and shall include, but not limited to:

- a) all the operations and activities under the Agreement with respect to the drilling of wells, other than Exploration wells, the deepening, reworking, plugging back, completing and equipping of such wells, together with the design, construction and installation of such equipment, pipeline or gathering lines, installations, production units and all other systems relating to such wells and related operations in connection with production and operation of such wells as may be necessary in conformity with sound oil field practices in the international Petroleum industry.**

- b) all operations and activities relating to the servicing and maintenance of pipelines, gathering lines, installations, production units and all related activities for the production and**



management of wells including the undertaking of re-pressurising, recycling and other operations aimed at intensified recovery, enhanced production and oil recovery rate.

- 1.34 "Discovery" means the discovery of Petroleum made by drilling a well that the Contractor, after consultation with the Joint Steering Committee, determines has encountered Petroleum which could justify Commercial Production.**
- 1.35 "Dollar" or "U.S.\$" means the currency of the United States of America.**
- 1.36 "Double Tax Treaty" means any international treaty or convention for the avoidance of double taxation of income and/or capital, which is applicable or will be applicable in the future in the KRG area or Iraq.**
- 1.37 "Drilling Costs" means all expenditures whether directly or indirectly incurred during Exploration and Development for well drilling, completing and reworking operations including, but not limited to, labour, geological design, engineering and other Subcontractors (including all fees, tariffs and charges payable to any such Subcontractors), material and equipment consumed or lost, perforation, formation testing, cementing, well-logging and transportation.**
- 1.38 "Effective Date" means the date on which conditions of Article 32 hereof are fully satisfied.**
- 1.39 "Excess Associated Natural Gas" is defined as set forth in Article 15.1.b.**
- 1.40 "Exploration" or "Exploration Operations"**

means operations conducted under this Agreement in connection with the exploration for previously undiscovered Petroleum, or the appraisal and evaluation of discovered reserves which shall include geological, geophysical, aerial and other survey activities and any interpretation of data relating thereto as may be contained in Exploration Work Programs and Budgets, and the drilling of such shot holes, core holes, stratigraphic tests, Exploratory Wells for the discovery of Petroleum, Appraisal wells and other related operations.

- 1.41 "Exploration Costs" means all Costs and Expenses for Exploration Operations other than Drilling Costs whether directly or indirectly incurred including but not limited to training, administration, service and related expenses and overhead and study costs.**
- 1.42 "Exploratory Well" means any well drilled with the objective of confirming a structure or geologic trap in which Petroleum capable of Commercial Production in significant quantities has not been previously discovered.**
- 1.43 "Field" means a Petroleum reservoir or group of reservoirs within a common geological structure or feature. "Field" may be an "Oil Field" or a "Natural Gas Field" as designated by Contractor.**
- 1.44 "Force Majeure" is defined as set forth in Article 24.2.**
- 1.45 "Foreign Employee" means the employees of the Contactor, Operator and Subcontractors with a nationality other than Iraq.**
- 1.46 "Foreign Subcontractors" means Subcontractors, which are organised outside of Iraq**

and under Current Legislation are not obliged to establish permanent representative offices in Iraq.

- 1.47 "Gas Sales Agreement" is any agreement to be entered into for the sale of Non-associated Natural Gas and Associated Natural Gas in accordance with the provisions of Article 15.
- 1.48 "Kurdistan Regional Government" or "KRG" means the Kurdistan Regional Government, Council of Ministers and all political or other agencies or instrumentality or subdivisions thereof including but not limited to any local government or other representative, agency or authority, which has the authority to govern, legislate, regulate, levy and collect taxes or duties, grant licences, permits, approve or otherwise impact (whether financially or otherwise) directly or indirectly upon any of the Parties' rights, obligations or activities under the Agreement.
- 1.49 "Measurement Point" means the location specified in an approved Development Plan where the Petroleum is metered and delivered to the Parties or such other location as the Parties may agree from time to time prior to the submission of a Development Plan as the circumstances may require.
- 1.50 "Month" or "Calendar Month" means a calendar month in accordance with the Gregorian calendar.
- 1.51 "Natural Gas" means Non-associated Natural Gas and Associated Natural Gas in their natural state.
- 1.52 "Natural Gas Field" means a field from which more than fifty (50) percent of the estimated reserves, on an energy equivalency basis, are

Natural Gas at surface conditions.

- 1.53 "Non-associated Natural Gas" means all gaseous hydrocarbons produced from gas wells, and includes wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.**
- 1.54 "Oil Field" means a field from which more than fifty (50) percent of the estimated reserves, on an energy equivalency basis, comprise Crude Oil.**
- 1.55 "Operating Expenditures" means those costs incurred, whether directly or indirectly, in day-to-day Petroleum Operations including but not limited to all costs, expenses and expenditures associated with the Production, processing and transportation to the Measurement Point of Petroleum, training, administration, service, payments for abandonment and site restoration in accordance with Article 8.8, insurance costs in accordance with Article 22.2. and related expenses.**
- 1.56 "Operator" means the Contractor or a company to be appointed or established by the Contractor, after consultation with the Joint Steering Committee, to conduct Petroleum Operations.**
- 1.57 "Party" or "Parties" means the OGE and the Contractor and their successors and assignees.**
- 1.58 "Petroleum" means Crude Oil and Natural Gas.**
- 1.59 "Petroleum Operations" means Exploration Operations, Development Operations, Production Operations and transportation of Petroleum to the Measurement Point and**

other activities related thereto carried out pursuant to this Agreement.

1.60 "Petroleum Operations Account" shall have the meaning given to it in paragraph 1.4 of section I of the Accounting Procedure.

1.61 "Production" or "Production Operations" means operations and all related activities carried out for Petroleum production after the approval of any Development Plan, including without limitation extraction, injection, stimulation, treatment, transportation, storage, lifting, and associated operations, but does not include any storage or transportation beyond the Measurement Point.

1.62 "Profit Natural Gas" is defined as set forth in Article 10.11.

1.63 "Profit Oil" is defined as set forth in Article 10.11.

1.64 "Profit Petroleum" means Profit Natural Gas and Profit Oil.

1.65 "Joint Steering Committee" means the committee composed of representatives of the OGE and the Contractor and constituted in accordance with Article 6.

1.66 "Subcontractor" means any natural person or juridical entity agreed directly or indirectly by or on behalf of Contractor to supply goods, works or services related to this Agreement.

1.67 "Third Party" or "Third Parties" means one or more of a natural person or juridical entity other than a Party and any Affiliate of a Party.

1.68 "Taxes" means all obligatory payments imposed by the authorities of the KRG or

Republic of Iraq or any of their subdivisions or local Authorities, but excluding the withholding tax as defined in Article 16.6 hereof and minimum service fees, and Tax shall be construed accordingly.

1.69 "VAT" means value added tax applicable in the KRG area or the Republic of Iraq.

1.70 "Work Program" and "Work Program and Budget" means any work program or work program and Budget to be submitted to the Joint Steering Committee by the Contractor in accordance with the provisions of Article 9 and which shall set out the proposed Petroleum Operations to be carried out in the Agreement Area together with the associated Budget as the case may be.

ARTICLE 2

SCOPE OF AGREEMENT AND GENERAL

PROVISIONS

2.1 Subject to the terms and conditions of the Agreement, the KRG hereby in accordance with Current Legislation grants to the Contractor the exclusive rights to conduct Petroleum Operations in the Agreement Area during the term of this Agreement.

2.2 Contractor shall be responsible to the OGE for the execution of such Petroleum Operations in accordance with the provisions of the Agreement.

2.3 In performing Petroleum Operations, Contractor shall provide all financial and technical requirements, unless otherwise provided in this Agreement and conduct all operations in accordance with the standards

generally accepted in the international Petroleum industry.

- 2.4 Contractor shall be compensated for its services, not by way of reimbursement in cash of its expenditures under the Agreement, but by receipt of its share of Petroleum from the Agreement Area to which it may become entitled by way of cost recovery out of Cost Recovery Petroleum and by way of profit out of Profit Petroleum as described in Article 10. If Petroleum produced from the Agreement Area, including Cost Recovery Petroleum and Profit Petroleum, is insufficient to reimburse Contractor for Costs and Expenses incurred by Contractor, Contractor shall bear its own losses in respect of any shortfall.**
- 2.5 This Agreement defines the Parties' rights and obligations, governs their mutual relations and establishes the rules and methods for the Exploration, Development, Production, and sharing of Petroleum between them. The entire interests, rights and obligations of each of the Parties under this Agreement shall be solely governed by the provisions of this Agreement.**
- 2.6 During the period in which this Agreement is in force, all Available Crude Oil and Available Natural Gas resulting from Petroleum Operations, will be shared between the OGE and the Contractor in accordance with the provisions of Article 10 of this Agreement**
- 2.7. It is agreed that the Operator shall initially be one of the Contractor Parties, unless and until changed by the Contractor with another Operator. Operator shall at all times act as the designated non-profit agent of the Contractor for the conduct of Petroleum Operations in accordance with this**

Agreement.

- 2.8. An entity that OGE is prohibited to make business with cannot be appointed by Contractor as Operator.**

ARTICLE 3

AGREEMENT AREA

- 3.1 The Agreement Area includes the Bina Bawi geological structure as set out by the geographic location and coordinates described in Annex "A" attached hereto and delineated in the map, which forms part thereof.**
- 3.2 Except as for all rights and authorisations necessary for the implementation of the provisions of this Agreement, no right is granted to the Contractor or to any other entity, pertaining to the use or disposal of any other natural or man-made resources or aquatic resources or other natural resources with the exception of aquatic resources used directly in Petroleum Operations in accordance with relevant permits which will be obtained through the KRG.**

ARTICLE 4

AGREEMENT TERM

- 4.1 The term of the Agreement shall be deemed to have begun on the Effective Date and shall continue for a total of twenty (20) consecutive Agreement Years, unless the Agreement is sooner terminated in accordance with the provisions of this Agreement.**
- 4.2 If Commercial Production remains possible beyond the initial period of twenty (20) consecutive Agreement Years**

specified in Article 4.1 above, the Contractor, after giving notice to the OGE at least one (1) year prior to the end of any such period, and after obtaining approval by the Joint Steering Committee of a revised Development Plan shall be given priority to have an extension of the term of this Agreement for an additional term of three (3) years or the producing life of the Agreement Area, whichever is lesser.

ARTICLE 5

MINIMUM OBLIGATORY WORK PROGRAM

5.1 Within the first three (3) Agreement Years as a minimum obligatory work program, Contractor shall:

- a) conduct a geological field study covering the whole Agreement Area, which has an estimated cost of \$50,000;**
- b) conduct a gravity and magnetic survey over the Agreement Area, which has an estimated cost of \$150,000;**
- c) drill one Exploratory Well, which has an estimated cost of \$2,500,000;**
- d) if the Exploratory Well results in a Commercial Discovery, acquire, process and interpret two hundred (200) kilometres of 2D, which has an estimated cost of \$2,000,000 or one hundred (100) square kilometres 3D seismic data, which has an estimated cost of \$2,000,000; and**
- e) conduct training of personnel of the OGE which, over the first three (3) Agreement Years, has an estimated cost of \$75,000.**

5.2 If Contractor fails to complete any of the items of the minimum obligatory work program described in 5.1 above within the first three (3) Agreement Years, then the

Agreement shall automatically terminate and the Contractor shall be obliged to pay the OGE for any incomplete item of the minimum obligatory work program an amount of money equal to the sum of the following:

- a) An amount equal to the difference between the amount actually spent on item 5.1(a) and its estimated cost;**
- b) An amount equal to the difference between the amount actually spent on item 5.1(b) and its estimated cost;**
- c) An amount equal to the difference between the amount actually spent on item 5.1(c) and its estimated cost;**
- d) If the Exploratory Well results in a Commercial Discovery, the difference between the amount spent under item 5.1(d) for 2D seismic and its estimated cost, if the Contractor ran a 2D seismic survey, or the difference between the amount spend under item 5.1(d) for a 3D seismic survey, if the Contractor ran a 3D seismic survey. If the Contractor ran neither a 2D seismic survey nor a 3D seismic survey, then the Contractor shall pay an amount of money equal to the estimated cost of the 2D seismic survey.**
- e) An amount equal to the difference between the amount actually spent on item 5.1(e) and its estimated cost.**

Such payment shall be made within sixty (60) days of the expiry of the said three (3) Agreement Years.

5.3 Contractor, upon obtaining the approval of the OGE, may conduct certain Petroleum Operations and incur relevant expenditures before the Effective Date. Such Petroleum Operations shall be credited against the

Minimum Obligatory Work Program and the costs and expenditures incurred by Contractor in respect of such Petroleum Operations shall be deemed as recoverable Costs and Expenses for all purposes under this Agreement.

ARTICLE 6

JOINT STEERING COMMITTEE

- 6.1 For the purpose of providing the overall supervision and direction of and ensuring the performance of the Petroleum Operations, OGE and Contractor shall establish a Joint Steering Committee within fifteen (15) days of the Effective Date.**
- 6.2 The Joint Steering Committee shall comprise four (4) members. The OGE shall appoint two (2) representatives and Contractor shall appoint two (2) representatives to form the Joint Steering Committee. All the aforesaid representatives shall have the right to attend and present their views at meetings of the Joint Steering Committee. Each representative shall have the right to appoint an alternate who shall be entitled to attend all meetings of the Joint Steering Committee but who shall have no vote except in the absence of the representative for whom he is the alternate.**
- 6.3 The first Chairman of the Joint Steering Committee shall be one of the representatives designated by the OGE (or his alternate), and the first Vice Chairman shall be one of the representatives (or, his alternate) designated by the Contractor. The Chairman and Vice Chairman shall be appointed for a term of two (2) years. The Chairman of the Joint Steering Committee shall preside over meetings of the**

Joint Steering Committee and in the absence of the Chairman (or his alternate); the Vice-Chairman shall preside. The Parties may designate a reasonable number of advisers who may attend, but shall not be entitled to vote, at Joint Steering Committee meetings.

6.4 A regular meeting of the Joint Steering Committee shall be held at least twice every year in Erbil or in such other place as the Joint Steering Committee may decide. The Secretary to be designated pursuant to Article 6.8 shall be responsible for calling such regular meetings of the Joint Steering Committee and shall do so at the request of the Chairman by sending a notice to the Parties. Other meetings, if necessary, may be held at any time at the request of one of the Parties or Operator. In each case the secretary shall give the Parties at least fifteen (15) days notice (or such shorter period as the Parties may agree) of the proposed meeting date, the time and location of the meeting.

6.5 The Parties hereby empower the Joint Steering Committee to:

- a) review, examine and approve any Work Program and Budget proposed by the Contractor and any amendment thereto;**
- b) review, examine and approve each proposed Development Plan and any amendments or modifications thereto;**
- c) approve or confirm the following items of procurement and expenditures:**
 - i) approve procurement of any item within the Budget with a unit price exceeding one million Dollars (U.S.\$ 1,000,000) or any single purchase order of total monetary value exceeding one million Dollars (U.S.\$ 1,000,000);**

- ii) **approve lease of equipment, or an engineering agreement or a service agreement within the Budget worth more than one million Dollars (US\$ 1,000,000) in total; and**
 - iii) **approve excess expenditures pursuant to Article 9.5 hereof and the expenditures pursuant to Article 9.6 hereof;**
- d) **review and approve the insurance program proposed by the Contractor and emergency procedures on safety and environmental protection; in addition to all material programmes and budgets which are in connection with environmental protection;**
 - e) **review and approve personnel policies, selection and training programs of Operator. Without prejudice to the foregoing, it is accepted that part of the personnel policy of Operator shall be to give preference to local citizens, provided that the conduct of Petroleum Operations shall not be adversely affected;**
 - f) **discuss, review, decide and approve other matters that have been proposed by either Party or the Operator;**
 - g) **review and discuss the development work and technological regimes proposed by the Contractor;**
 - h) **appoint sub-committees to meet from time to time to review any aspect of Petroleum Operations, which the Joint Steering Committee thinks fit; and**
 - i) **perform such duties and responsibilities as provided for in this agreement.**

6.6 Meeting quorum of the Joint Steering Committee shall require the presence of at least two representatives from each of the

Parties. Decisions of the Joint Steering Committee shall be made by unanimous vote of the representatives present and entitled to vote. All decisions made unanimously shall be deemed as formal decisions and shall be conclusive and equally binding upon the Parties.

- 6.7 A matter, which requires urgent handling, may be decided by the Joint Steering Committee without convening a meeting, with the Joint Steering Committee making decisions through electronic means or the circulation of documents.**
- 6.8 The Joint Steering Committee shall nominate a Secretary to record minutes of the meetings of the Joint Steering Committee and may establish technical and other advisory sub-committees. The Secretary shall take a record of each proposal and whether it was adopted or not by the Joint Steering Committee. Each representative of the Parties shall sign and be provided with a copy of such record at the end of such meeting. The Secretary shall provide each Party with a copy of the minutes of each meeting of the Joint Steering Committee within fifteen (15) days after the end of such meeting. Each Party shall thereafter have a period of fifteen (15) days to give notice of any objections to the minutes to the Secretary. Failure to give notice within the said fifteen (15) days period shall be deemed approval of those minutes. In any event the record of proposals voted on to be provided at the end of each meeting shall be conclusive and take precedence over the minutes.**
- 6.9 All costs and expenses incurred with respect to the activities of the Joint Steering Committee shall be paid or reimbursed by the Contractor and charged to Operating**

Expenditures in accordance with the Accounting Procedure.

ARTICLE 7

OPERATOR'S RESPONSIBILITIES

7.1 The Operator shall have the following obligations:

- a) to perform the Petroleum Operations reasonably, economically and efficiently in accordance with directions received from the Joint Steering Committee;**
- b) to conduct (implement) the Work Programs and Budgets approved or deemed approved by the Joint Steering Committee;**
- c) to be responsible for purchasing facilities, equipment and miscellaneous material and enter into subcontracts and service contracts with service providers and vendors related to the Petroleum Operations, in accordance with approved Work Programs and Budgets;**
- d) to prepare and submit for approval a personnel training program and its annual budget and carry out the same as approved by the Joint Steering Committee;**
- e) to establish and maintain complete and accurate accounting records regarding its costs and expenditures for the Petroleum Operations in accordance with the Accounting Procedure and this Agreement;**
- f) to make necessary preparation for regular meetings of the Joint Steering Committee, and to submit to the Joint Steering Committee information and studies related to the matters to be reviewed and approved by the Joint**

- Steering Committee;**
- g) to provide reports to the Joint Steering Committee on Petroleum Operations conducted under this Agreement; and**
 - h) to represent Contractor in the implementation of Petroleum Operations.**

7.2 Operator and its Affiliates shall not be responsible for any activities (including Petroleum activities) that have adversely affected the Agreement Area prior to the Effective Date.

7.3 The Operator shall provide both Parties with copies of all relevant data and reports pertaining to Petroleum Operations (including, but not limited to, geophysical, geological, operational or financial) required by such Parties.

7.4 Operator shall at all times maintain good relations with the local community in the Agreement Area and shall take their local customs into consideration.

ARTICLE 8

COMMERCIAL DISCOVERY, COMMERCIAL PRODUCTION AND APPROVAL OF DEVELOPMENT PLANS

8.1 If, at any time Contractor concludes that a Discovery is worthy of Appraisal, that is, Commercial Production (or significant additional Commercial Production if Commercial Production has previously been established) from the Field of Discovery may be feasible, it shall notify the OGE within fifteen (15) days of reaching such a conclusion.

- 8.2 On the even date of such notice, Contractor shall present to the Joint Steering Committee for approval a proposed Appraisal Program which shall be deemed approved if no written objections are raised by any member of the Joint Steering Committee within fifteen (15) days following receipt thereof. The proposed Appraisal Program shall specify in reasonable detail the appraisal work including seismic, drilling of wells, production testing and studies to be carried out and the estimated time frame within which the Contractor shall commence and complete the program and the relevant budget.**
- 8.3 Thereafter Contractor shall carry out the Appraisal Program approved by the Joint Steering Committee. As soon as possible but within no more than ninety (90) days after completion of such Appraisal Program, Contractor shall submit to the Joint Steering Committee a comprehensive Appraisal report. Such Appraisal report shall include, but not be limited to: geological conditions, such as structural configuration; physical properties and extent of reservoir rocks; pressure, volume and temperature analysis of the reservoir fluid; fluid characteristics, including gravity of liquid hydrocarbons, sulphur percentage, sediment and water percentage, and product yield pattern; Natural Gas composition; production forecasts (per well and per Field); and estimates of recoverable reserves.**
- 8.4 Together with the submission of the Appraisal report, Contractor shall submit to the Joint Steering Committee a written declaration including one of the following statements:**
- a) that the Discovery previously notified to**

the OGE pursuant to Article 8.1 is a Commercial Discovery;

- b) that such Discovery is not a Commercial Discovery (contrary to the notice containing Contractor's initial expectations); or**
- c) that the decision as to whether the Discovery is a Commercial Discovery will depend upon the outcome of further specified work that the Contractor commits to carry out under a further Appraisal Program in specified areas within or outside the relevant Discovery area.**

8.5 In the event the Contractor makes a declaration under Article 8.4(c) above, Contractor shall be entitled to complete the further work committed under that Article, at which time the Contractor shall advise the Joint Steering Committee of its conclusion as to whether or not there is in fact a new Commercial Discovery and the provisions of Article 8.4(a) or (b) shall be applied accordingly.

8.6 If the Contractor declares pursuant to Article 8.4(a) that the Discovery is a Commercial Discovery, Contractor shall, within six (6) Months of such declaration, submit to the Joint Steering Committee a proposed Development Plan in respect of the relevant Commercial Discovery (containing the matters specified in Article 8.7 and 8.8) which shall be subject to the Joint Steering Committee's approval. Such approval shall not be unreasonably withheld or delayed, provided that it shall be deemed approved as submitted if no written objections are presented thereto by any member of the Joint Steering

Committee within thirty (30) days of receipt. Upon approval being granted or deemed provided under this Article 8.6, Operator shall proceed promptly and diligently to implement the Development Plan in accordance with good oilfield practices, to install all necessary facilities and to commence Commercial Production.

8.7 Contractor's proposed Development Plan to be submitted pursuant to Article 8.6 shall detail the Contractor's proposals for Development and operation of the Field. It will detail any facilities and infrastructure, which may be required up to the Measurement Point, either inside or outside of the Agreement Area. Any Development Plan shall set forth production parameters, number and spacing of wells, the facilities and infrastructure (including proposed locations) to be installed for production, storage, transportation and loading of Petroleum, an estimate of the overall cost of the Development, and estimates of the time required to complete each phase of the Development Plan, a production forecast and any other factor that would affect the economic or technical feasibility of the proposed Development.

8.8 Any Development Plan shall also include an abandonment and site restoration program together with a funding procedure for such program. Each abandonment plan shall describe removal and abandonment measures deemed necessary following completion of Production from the Agreement Area together with an estimate of the costs thereof. The abandonment plan shall provide for the removal of facilities and equipment used in Petroleum Operations or their in place abandonment, if appropriate, in the Agreement Area and the return of used areas

to a condition that reasonably permits the use of such areas for purposes similar to those uses existing prior to the commencement of Petroleum Operations hereunder. All expenditures incurred in abandonment and site restoration shall be treated as Costs and Expenses and recoverable from Cost Recovery Petroleum in accordance with Article 10 and the Accounting Procedure. All funds collected pursuant to the funding procedure shall be dedicated to site restoration and abandonment and will be placed in a special interest bearing account by Contractor, which shall be held in the joint names of the OGE and the Contractor or their nominees. Contractor's responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual, contingent, possible and potential activity associated with the environmental condition of the Agreement Area shall be limited to the obligation to place the funds agreed to be paid in accordance with the said funding procedure in the approved account in accordance with generally accepted international Petroleum industry practice. Deposits in approved accounts shall be made on a quarterly basis in arrears commencing with the first Calendar Quarter in which there is Available Petroleum. All such payments deposited by Contractor shall be treated as Costs and Expenses and shall be recoverable as Operating Expenditures in accordance with Article 10 of this Agreement. No Taxes shall be imposed on any amounts paid into, received or earned by or held in the special interest bearing account. The OGE shall be solely responsible for the implementation of the abandonment plan.

8.9 Any significant changes to an approved

Development Plan or proposals related to extension of a Field or for enhanced recovery projects shall be submitted to the Joint Steering Committee.

- 8.10 Subject to the terms of this Agreement the Contractor shall carry out, at its own expense and financial risk, all the necessary Petroleum Operations to implement an approved Development Plan. However, if the Contractor in its sole discretion determines exploitation turns out not to be commercially profitable, Contractor shall not be obligated to continue Development or Production and will in such circumstances submit a revised development plan that is commercially profitable to the Joint Steering Committee. If such Plan is accepted by the Joint Steering Committee, Contractor shall proceed to implement such Plan. If the Joint Steering Committee cannot reach an agreement on such Plan, then the Contractor shall relinquish the Agreement Area and this Agreement shall terminate.**
- 8.11 Where there is a perceived need recognised by the Parties to improve the economic effectiveness of the Petroleum Operations by constructing and operating certain common facilities with other organisations (including for example roads, pipelines, compression and pumping stations and communication lines) the Parties shall use their best efforts to reach agreement between themselves and other appropriate enterprises as to the construction and operation of such facilities with all costs, tariffs and investments made by the Contractor to be recoverable as Operating Expenditures in accordance with Article 10 hereof and the Accounting Procedure.**

ARTICLE 9

ANNUAL WORK PROGRAMS AND BUDGETS

- 9.1 Contractor shall be responsible for the procurement of installations, equipment and supplies and entering into contracts for the purchase of goods and services with Subcontractors including Foreign Subcontractors and others arising out of Petroleum Operations, all in accordance with approved Work Programs and Budgets as provided in Article 7.1(c).**
- 9.2 Contractor shall submit to the Joint Steering Committee a Work Program and Budget for the then current year within thirty (30) days following the Effective Date.**
- 9.3 Before the 31st October of each Calendar Year, the Contractor shall prepare and submit to the Joint Steering Committee for its review a proposed annual Work Program and Budget for the next Calendar Year. If the Joint Steering Committee agrees to modifications in an annual Work Program and/or Budget, the Contractor shall promptly make such modifications to the Work Program and/or Budget and resubmit the modified Work Program and Budget to the Joint Steering Committee. The Joint Steering Committee shall approve each Work Program and Budget within forty five (45) days after receipt of it. If the Joint Steering Committee fails to notify the Contractor of its approval or disapproval of the Work Program and Budget within said forty-five (45) days after its receipt, the annual Work Program and Budget proposed by the Contractor together with any modifications timely requested by the Joint Steering Committee, shall be deemed to have been approved by the Joint Steering Committee.**




- 9.4 In connection with the review and approval of the annual Work Program and Budget, the Contractor shall submit to the Joint Steering Committee such supporting data as reasonably requested by the Joint Steering Committee.**
- 9.5 The Contractor may, in accordance with the following provisions, incur expenditures in excess of the approved Budget or expenditures outside the approved Budget in carrying out the approved Work Program, provided that the objectives in the approved Work Program are not substantially changed:**
- a) In carrying out an approved Budget, the Contractor may, if necessary, incur excess expenditures of no more than ten percent (10%) of the approved Budget in any specified budgetary category. The Contractor shall report quarterly the aggregate amount of all such excess expenditures to the Joint Steering Committee for confirmation.**
 - b) Excess expenditures under this Article 9.5 shall not exceed five percent (5%) of the approved or modified total annual Budget for the Calendar Year. If the aforesaid excess is expected to be in excess of said five percent (5%) of the total annual Budget, the Contractor shall present its reasons therefor to the Joint Steering Committee and obtain its approval prior to incurring such expenditures.**
- 9.6 In case of emergency (where there is an immediate threat to life, property or environment), the Contractor may incur emergency expenditures for the amount actually needed but shall report such**

expenditures to the Joint Steering Committee as soon as they are made. The said emergency expenditures shall not be subject to Article 9.5 above and shall be deemed as Costs and Expenses recoverable in accordance with Article 10 hereof.

- 9.7 Unless otherwise provided in this Agreement, Petroleum Operations will only be performed in accordance with the approved or modified annual Work Programs and Budgets.

ARTICLE 10

ROYALTY, BONUS, COST RECOVERY AND PRODUCTION SHARING

- 10.1 Contractor shall provide or procure the provision of all funds required to conduct Petroleum Operations under this Agreement, except as otherwise provided in this Agreement, and Contractor shall be entitled to recover its Costs and Expenses from Petroleum produced from the Agreement Area as provided below.
- 10.2 Contractor and/or Operator shall have the right to use free of charge Petroleum produced from the Agreement Area to the extent required for Petroleum Operations under the Agreement. The amount of Petroleum which Contractor and/or Operator shall be entitled to use for Petroleum Operations shall not exceed the amount, which would be expected to be used in accordance with international Petroleum industry practice. For the avoidance of doubt, the use of such Petroleum shall only be for the benefit of Petroleum Operations and not the personal gain of any Party.
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10.3 Available Petroleum shall be measured at the applicable Measurement Point and allocated as set forth hereinafter.

10.4 Contractor shall pay bonuses to the KRG according to the following schedule:

- a) **Upon a Commercial Discovery, a bonus of \$2.5 million.**
- b) **Upon the cumulative Available Petroleum achieving the following levels:**

Cumulative Available Petroleum Production (Barrels)	Bonus (million US \$)
75,000,000	\$2.5
150,000,000	\$2.5
300,000,000	\$5.0
500,000,001	\$10.0

10.5 A percent of Available Petroleum shall be allocated to the KRG as Royalty as follows:

Cumulative Available Petroleum Production (Barrels)	Royalty Share %
0 - 100,000,000	5.0%
100,000,001 - 175,000,000	6.5%
175,000,001 - 325,000,000	9.0%
more than 325,000,000	11.0%

10.6 Contractor shall be entitled to recover all



Costs and Expenses incurred in respect of Petroleum Operations in a following manner:

- a) **Operating Expenditures will firstly be recovered from the Available Petroleum remaining after the deduction of Royalty;**
- b) **Capital Expenditures will be recovered from forty percent (40%) of the Available Petroleum remaining after deduction of Royalty and following the recovery of Operating Expenditures (hereinafter referred to as "Cost Recovery Crude Oil" or "Cost Recovery Natural Gas" and collectively "Cost Recovery Petroleum").**

Costs and Expenses shall be recovered in a manner consistent with the Accounting Procedure and Article 10.7.

- 10.7 Costs and Expenses shall be recoverable from Available Petroleum on a first in, first out basis (i.e. Costs and Expenses will be recovered according to the date they were incurred, earliest first). Recovery of Costs and Expenses will commence as soon as there is Available Petroleum.**
- 10.8 To the extent that in a Calendar Quarter outstanding recoverable Costs and Expenses related to the Agreement Area exceed the value of (i) in case of Operating Expenditures, all Available Petroleum from the Agreement Area for such Calendar Quarter, or (ii) in case of Capital Expenditures, all Cost Recovery Petroleum for such Calendar Quarter, the excess shall be carried forward for recovery in the succeeding Calendar Quarters until fully recovered, but in no case after termination of the Agreement.**
- 10.9 Recovery of Costs and Expenses shall be achieved by transferring to the Contractor at**



the Measurement Point title to quantities of Available Petroleum of equivalent value (determined in accordance with Article 11) to the Costs and Expenses to be recovered in accordance with this Article 10.

10.10 To the extent that the value of Available Petroleum received by the Contractor from the Agreement Area during a Calendar Quarter is greater or lesser than the Contractor was entitled to receive for that Calendar Quarter, an appropriate adjustment shall be made in the following Calendar Quarter in accordance with the Accounting Procedure.

10.11 Following recovery of Costs and Expenses from Available Petroleum in accordance with the provisions of this Article 10, the remaining Petroleum (hereinafter referred to as "Profit Oil" or "Profit Natural Gas" and collectively "Profit Petroleum") including any portion of Cost Recovery Petroleum not required for recovery of Capital Expenditures shall be allocated between the Parties in accordance with the following sliding scale percentages, over each Calendar Quarter:

Cumulative Available Petroleum Production (Barrels)	KRG Share %	Contractor Share %
0 - 100,000,000	82%	18%
100,000,001 - 175,000,000	84.25%	15.75%
175,000,001 - 325,000,000	87.5%	12.5%
more than 325,000,000	90%	10%

If the average benchmark price of West Texas Intermediate Crude should exceed \$70 for two consecutive Calendar Quarters, the parties shall meet and make a good faith attempt to agree to an adjustment to the sharing percentages of Profit Petroleum. The adjustment shall increase the percentage of Profit Petroleum being received by the KRG during times of high prices. A revised sharing ratio shall be effective after the end of the second Calendar Quarter mentioned above. In the absence of any agreement, the sharing percentages stated above shall continue to be applied.

If the average benchmark price of West Texas Intermediate Crude should be less than \$30 for two consecutive Calendar Quarters, the parties shall meet and make a good faith attempt to agree to an adjustment to the sharing percentages of Profit Petroleum. The adjustment shall increase the percentage of Profit Petroleum being received by the Contractor during times of low prices. A revised sharing ratio shall be effective after the end of the second Calendar Quarter mentioned above. In the absence of any agreement, the sharing percentages stated above shall continue to be applied.

- 10.12 Contractor shall prepare and provide the OGE not less than ninety (90) days prior to the beginning of each Calendar Quarter a written forecast setting out the total quantity of Petroleum that Contractor estimates can be produced and saved hereunder during each of the next four (4) Calendar Quarters in accordance with accepted international Petroleum industry practices and the Work Program established in accordance with Article 9.**

- 10.13** Crude Oil shall be measured at the Measurement Point for purposes of the Agreement and delivered to the OGE and Contractor and each such Party as owners shall take in kind, assume risk of loss and separately dispose of their respective entitlements.
- 10.14.** OGE, by notifying Contractor at least three (3) months before the beginning of each Calendar Year, may request Contractor to sell OGE's share of Profit Oil and pay OGE in cash the amount that corresponds to the value of such Profit Oil. Any Natural Gas produced from the Agreement Area shall be sold by the Contractor in accordance with the principles of the Agreement.
- 10.15** For the avoidance of any doubt, title to their relevant shares of Petroleum shall pass to the Parties at the Measurement Point.
- 10.16** The Parties shall agree on procedures for taking volumes of Crude Oil corresponding to their respective entitlements on a regular basis and in a manner that is appropriate having regard to the respective destinations and uses of the Crude Oil, all in accordance with the provisions of this Agreement. If necessary the Parties will enter into a lifting agreement setting out the agreed procedures for taking volumes of Crude Oil, and such agreement shall comply with the principles of accepted international Petroleum industry practice.
- 10.17** To determine the number of Available Petroleum barrels produced in a Calendar Quarter when both Available Oil and Available Natural Gas have been produced and sold, the volume of Available Natural Gas shall be converted into the equivalent value in barrels

of Available Oil. Such conversion shall be on the basis of the value of Available Natural Gas determined under Article 11.3 and the value of Available Oil on the basis of Article 11.1

ARTICLE 11

DETERMINATION OF CRUDE OIL PRICE

11.1 The valuation of Crude Oil for purposes of determining the Cost Recovery Crude Oil and sharing of Profit Oil in any Calendar Quarter shall be the net back value calculated as follows:

- a) Where there have been sales of Crude Oil from the Agreement Area by the Contractor in arm's length transactions during the Calendar Quarter, the weighted average per unit price realized in all such sales at the point of sale, adjusted for costs incurred by the Contractor of transporting the Crude Oil to such point of sale, including, but not limited to, pipeline tariffs, transit fees, transit losses, terminal fees, tanker costs and pipeline, to arrive at a value of Crude Oil at the Measurement Point ("Net Back Value") shall be applied to such Crude Oil.**
- b) For Crude Oil sold in non-arm's length sales, the average price quoted for such Crude Oil in Platt's Oilgram during the Calendar Quarter shall be applied. If no such price is quoted, then the average of per unit F.O.B. price quotations for three (3) representative crude oils to be agreed by the Parties, as published by Platt's Oilgram in the Calendar Quarter, adjusted for quality, grade, quantity, costs of transporting the Crude Oil to the point of sale, as provided in (a) above, to**

arrive at a Net Back Value, shall be applied to such Crude Oil. In the event Platt's Oilgram ceases to be published, or is not published for fifteen (15) days in the period required, then the required data shall be taken from an available alternative publication internationally recognized by the Petroleum industry. If the Parties cannot agree the three (3) representative crude oils by the date of commencement of Commercial Production or fail to agree on any alternative publication, the matter shall be referred for final decision to an internationally recognized expert agreed by the Parties. If the Parties cannot agree, within thirty (30) days of the appearance of the dispute, on the appointment of such expert, then such appointment shall be made by the President of the Stockholm Chamber of Commerce (Sweden) on the application of the OGE or the Contractor. The expert shall be a person internationally recognized as having experience in the marketing of Petroleum and shall report in writing his/her determination within thirty (30) days of his/her appointment.

11.2. For the purposes of Article 11.1 above, an "arm's length sale" shall mean a sale or exchange of Petroleum between a willing and non-affiliated buyer and seller on the international market in a tender process in an effort to get the best price in exchange for payment in a freely convertible foreign currency generally accepted in the international banking community, excluding a sale involving barter, sales from government to government and other transactions motivated in whole or in part by considerations other than the usual economic

incentives involved in Petroleum sales on the international market.

11.3. Natural Gas shall be valued at the actual revenues received less transportation, storage, treatment, processing, marketing, distribution, liquefaction and all other associated costs incurred by Contractor beyond the Measurement Point in supplying Natural Gas to customers beyond the Measurement Point.

11.4. The provisions of Article 11.1, 11.2 and 11.3 will also be applicable in case the OGE decides that the Contractor will sell OGE's share of Profit Oil or Profit Natural Gas.

ARTICLE 12

ADDITIONAL RIGHTS OF THE CONTRACTOR AND OPERATOR

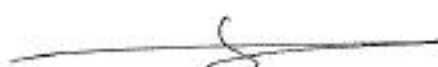
12.1 OGE shall provide or otherwise obtain access to Contractor to all existing facilities and infrastructure in the Agreement Area owned or controlled by the KRG for the purpose of carrying out its Petroleum Operations during the term of the Agreement. Such access shall be on terms and tariffs no less favourable than those offered to other persons or entities.

12.2. Contractor shall have the right to use, produce, reprocess and export all existing geoscience, engineering, environmental and geodetic data (including magnetic tapes and films) maps, surveys, reports, and studies it deems necessary to carry out Petroleum Operations hereunder including, but not limited to: magnetic surveys, seismic surveys, well logs and analysis, core analysis, well files, geologic and geophysical maps

and reports, reservoir studies, reserve calculations, accurate geodetic co-ordinates for the location of all wells and seismic lines and all other pertinent data relative to the Agreement Area, which are owned or controlled by the KRG. Contractor shall pay copying and handling charges associated with the above, if any.

12.3 Contractor shall have the right to conduct all geoscience, engineering, environmental and geodetic studies it deems necessary to carry out Petroleum Operations under approved Work Programs. Said studies may include, but are not limited to: seismic surveys, gravity surveys, magnetic surveys, geochemical surveys, global positioning surveys, aerial photography (obtaining relevant permits), collection of soil/water/oil/rock samples for scientific and environmental studies. Contractor shall be granted access to and/or permission to fly subject to obtaining appropriate consents (which will not be unreasonably withheld or delayed) over the Agreement Area to conduct said studies. Contractor shall have the right to import equipment and supplies necessary to conduct said studies as well as the right to export data, film, tapes and samples to laboratories outside Iraq to conduct such studies.

12.4 Contractor and/or Operator shall have the right to clear the land, to dig, pierce, drill, construct, erect, locate, supply, operate, manage and maintain pits, tanks, wells, trenches, excavations, dams, canals, water pipes, factories, reservoirs, basins, primary distillation units, separating units for first oil extraction, sulphur factories and other Petroleum producing installations, as well as pipelines, pumping stations, generator units, power plants, high voltage lines, telephone,



telegraph, radio and other means of communication (including satellite communication systems), plants, warehouses, offices, shelters, personnel housing, hospitals, schools, premises, underwater piers and other installations, means of transportation, roads, bridges, and other means of transportation, garages, hangers, workshops, maintenance and repair shops and all the auxiliary services which are necessary or useful to Petroleum Operations or related to them and, more generally, everything that is or could become necessary or accessory to carry out the Petroleum Operations but for the avoidance of any doubt, always in accordance with the Current Legislation.

12.5 The agents, employees and personnel of the Contractor, Operator or Subcontractors may enter or leave the Agreement Area and have free access, within the scope of their functions, to all installations put in place by the Contractor or Operator or otherwise utilised in Petroleum Operations.

12.6 Contractor shall have the right to utilise the upper soil, mature timber, clay, sand, lime, gypsum and stones other than precious stones, and any other similar substances, necessary for the performance of Petroleum Operations in accordance with the Current Legislation. Contractor may utilise the water necessary for Petroleum Operations, on condition that reasonable efforts are taken to minimise potentially adverse effects on irrigation and navigation, and that land, houses and the watering places are not adversely affected.

12.7 Subject to availability, Contractor shall have the right to use existing pipeline and terminal facilities belonging to or under the control of

the KRG. The OGE shall assist in making these facilities available to the Contractor on terms and tariffs that are no less favourable than those made available to others.

ARTICLE 13

ASSISTANCE PROVIDED BY THE OGE

- 13.1 To enable the Contractor to properly carry out the Petroleum Operations, the OGE shall have the obligation to assist the Contractor upon request to:
- a) provide the approvals or permits needed to conduct Petroleum Operations and to carry out associated business activities and to open local and foreign bank accounts (for both local and foreign currency) in Iraq;
 - b) arrange for Foreign Exchange to be converted in accordance with the principles set out in Article 18.8 of this Agreement;
 - c) locating office space, office supplies, transportation and communication facilities and make arrangements for accommodations as required;
 - d) assist with any custom formalities;
 - e) provide entry and exit visas and work permits for employees and their family members of Operator, Contractor, their Affiliated companies and Foreign Subcontractors, who are not citizens of Iraq and who come to KRG to implement the Agreement and to provide assistance for their transportation, travel and medical facilities whilst in KRG;
 - f) provide necessary permits to send abroad documents, data, tapes and samples for analysis or processing

- during the Petroleum Operations;
- g) contact and instruct appropriate departments and ministries of the KRG and any other bodies controlled by the KRG to do all things necessary to expedite Petroleum Operations;
 - h) provide right of way, permits, approvals, and land usage rights requested by Contractor and/or Operator for the construction of bases, facilities and installations for use in conducting Petroleum Operations;
 - i) provide the Contractor qualified security personnel to insure a safe operating environment.

ARTICLE 14

MEASUREMENT OF PETROLEUM

- 14.1 All Petroleum produced, saved and not used in the Petroleum Operations in accordance with Article 10.2 shall be measured at the Measurement Point approved in the Development Plan.
- 14.2 The Measurement Point shall be the very final facility among all facilities the cost of which is included as a Cost and Expense recoverable from Cost Recovery Petroleum under the Agreement.
- 14.3 All Petroleum shall be measured in accordance with standards generally acceptable in the international Petroleum industry. All measurement equipment shall be installed, maintained and operated by the Operator. The installed measurement equipment will have certificates of standards of international organisations. The Parties shall be entitled periodically to inspect the measuring equipment installed and all charts

and other measurement or test data at all reasonable times. The accuracy of measuring equipment shall be verified by tests at regular intervals and upon request by either Party, using means and methods generally accepted in the international Petroleum industry.

14.4 Should a meter malfunction occur, Operator shall immediately have the meter repaired, adjusted and corrected and following such repairs, adjustment or correction shall have it tested or calibrated to establish its accuracy. Upon the discovery of a metering error, Operator shall have the meter tested immediately and shall take the necessary steps to correct any error that may be discovered and after each case, obtain the approval of the OGE on using such meter.

14.5 In the event a measuring error is discovered, the Parties shall use all reasonable efforts to determine the correct production figures for the period during which there was a measuring error and correct previously used readings. Contractor shall submit to the Joint Steering Committee a report on the corrections carried out. In determining the correction, Contractor shall use, where required, the information from other measurements made inside or outside the Development Area. If it proves impossible to determine when the measuring error first occurred, the commencement of the error shall be deemed to be the point in time halfway between the date of the previous test and the date on which the existence of the measuring error was first discovered.

14.6 All measurements for all purposes in this Agreement shall be adjusted to standard conditions of pressure at sea level and temperature at sixty degrees Fahrenheit

(60°F).

14.7 Contractor shall compensate the OGE in full should Petroleum be lost through the negligence or wilful misconduct of the Contractor.

ARTICLE 15

NATURAL GAS

15.1 Associated Natural Gas

- a) **Associated Natural Gas produced within the Agreement Area shall be used primarily for purposes related to the Petroleum Operations and production enhancement including, without limitation, oil treating, gas injection, gas lifting and power generation.**

- b) **Based on the principle of full utilisation of the Associated Natural Gas and with no impediment to normal production of the Crude Oil, any Development Plan shall include a plan of utilisation of Associated Natural Gas. If there is any excess Associated Natural Gas remaining in any Oil Field after utilisation pursuant to Article 15.1.a above (hereafter referred to as "Excess Associated Natural Gas"), the Contractor shall carry out a feasibility study regarding the commercial utilisation of such Excess Associated Natural Gas.**
 - i) **If the Parties agree that Excess Associated Natural Gas has no commercial value, then Operator shall act under the plan approved by Joint Steering Committee, so that not to interfere with normal**

- Crude Oil production.**
- ii) **If the Parties agree that Excess Associated Natural Gas has commercial value, they will endeavour to enter into gas sales agreement(s) and/or other commercial and/or technical arrangements with Third Parties for developing such Natural Gas. Investments in the facilities necessary for production, transportation and delivery of Excess Associated Natural Gas shall be made by the Contractor. The construction of facilities for such Production and utilisation of the Excess Associated Natural Gas shall be carried out at the same time as the Development Operations, or at any time as may be agreed to by the Parties.**
- iii) **If either Party considers that Excess Associated Natural Gas has commercial value while the other considers that Excess Associated Natural Gas has no commercial value, the one who considers Excess Associated Natural Gas to have commercial value may utilise such Excess Associated Natural Gas, at its own cost and expense and without impeding the Production of Crude Oil and without affecting the shares of Crude Oil and Natural Gas otherwise to be allocated under the other provisions of this Agreement, but if such Excess Associated Natural Gas is not so utilised at any time or from time to time, then such Excess Associated Natural Gas shall be disposed of by**

the Operator in accordance with Article 15.1b.i.

- c) The price of Associated Natural Gas produced from the Agreement Area shall be determined by the Parties based on generally accepted pricing principles taking into consideration such factors as sales prices of internationally transported gas delivered in Western Europe, quality and quantity of the Associated Natural Gas (including the equivalent substitute energy value) and the economics of Development. Unless otherwise agreed, the Parties shall participate in all gas sales agreements entered into for the sale of Associated Natural Gas produced from the Agreement Area in proportion to their allocation rights under Article 10. Gas sales prices shall be denominated in U.S.\$.**
- d) Investments made in conjunction with the joint utilisation of both Associated Natural Gas and Excess Associated Natural Gas, together with investments incurred after approval of a Development Plan in carrying out feasibility studies on the joint utilisation of Excess Associated Natural Gas, shall be charged to Operating Expenditures.**

15.2 Non-associated Natural Gas

When any Non-associated Natural Gas is discovered within the Agreement Area, the Parties shall implement, within six (6) months, a new agreement regarding the Appraisal and possible development and marketing of the Non-associated Natural Gas in the domestic and international markets.

ARTICLE 16

TAXES

- 16.1 Hawler Energy, Ltd. and A&T Petroleum Company, Ltd., as the initial Contractor Parties, together with any Contractor Party holding rights under an assignment made and approved in compliance with the terms hereof as well as the Operator and Subcontractors and Foreign Employees shall be exempt from Taxes that may arise under this Agreement in accordance with the Current Legislation. Each Contractor Party, Operator and their Subcontractors and Foreign Employees shall further be entitled to full and complete exemption from all Taxes promulgated after the signing date of this Agreement except as otherwise provided for in this Agreement.**
- 16.2 It is acknowledged that Double Tax Treaties will have effect to give relief from Taxes to Operator, Contractor, Contractor Parties, Foreign Subcontractors and Foreign Employees in accordance with the provisions of such Double Tax Treaties, but not otherwise.**
- 16.3 Each Contractor Party shall maintain its Tax books and records both in local currency and in U.S.\$.**
- 16.4 By 30 April following each Calendar Year, OGE shall furnish to each Contractor Party a proper official letter that evidence such Contractor Party's grossed up Tax liability for such Calendar Year and that such liability is fully satisfied.**
- 16.5 Contractor shall be subject to withholding tax on the work and services of its Foreign Subcontractors performed within the KRG, at**

a rate of 5% of the total cost of such work and services. Contractor shall withhold such tax from the payments and shall pay such withheld tax to the KRG within the Month following the Month in which the payment to the Foreign Subcontractor is made.

16.6 The Parties agree that Contractor's Cost Recovery Petroleum and the allocation of Profit Petroleum have been negotiated so as to be net of the local Taxes owing by Contractor in the host country. The share of oil allocated to the KRG includes these Taxes.

ARTICLE 17

ACCOUNTING, FINANCIAL REPORTING AND AUDIT

17.1 Contractor shall maintain books and accounts of Petroleum Operations in accordance with the Accounting Procedure attached hereto as Annex B. These shall be maintained in local currency of Iraq and in U.S.\$ in accordance with generally accepted international Petroleum industry accounting principles. All books and accounts, which are made available to the Authorities in accordance with the provisions of the Accounting Procedure, shall be prepared in English language.

17.2 The Accounting Procedure specifies the procedure to be used to verify and establish promptly and finally Contractor's Costs and Expenses under Article 10 of this Agreement.

17.3 Sales revenues, expenditures, financial results, tax liabilities, and loss carry-forwards of each Contractor Party shall be determined in accordance with the rules, rights, and obligations set forth in this Agreement in so far as such sales revenues, expenditures,

financial results, tax liabilities, and loss carry-forwards are related to Petroleum Operations under this Agreement.

- 17.4 On an annual basis, Contractor shall submit to the OGE an internationally recognised auditor's report on Costs and Expenses incurred that are under Article 10 should be compensated by Available Petroleum. The report shall also include profit calculation pursuant to provisions of Article 16 of this Agreement.

ARTICLE 18

CURRENCY, PAYMENTS AND EXCHANGE CONTROL

- 18.1 Contractor and each Contractor Party, and their Affiliates, Subcontractors and Operator shall have the right to open, maintain, and operate Foreign Exchange bank accounts both in and outside of KRG and local currency bank accounts inside KRG. Such operations performed in KRG will comply with Current Legislation.
- 18.2 Contractor and each Contractor Party, their Affiliates and Foreign Subcontractors shall have the right to transfer all funds received in and/or converted to Foreign Exchange in KRG without payment of Taxes or duties, to bank accounts outside KRG.
- 18.3 Contractor and each Contractor Party, and their Affiliates and Foreign Subcontractors shall have the right to hold, receive and retain outside KRG and freely use all funds received and derived from Petroleum Operations by them outside KRG without any obligation to repatriate or return the funds to KRG, including but not limited to all payments received from export sales of Contractor's

share of Petroleum and any sales proceeds from an assignment of their interest in this Agreement.

- 18.4 Contractor and each Contractor Party, and their Affiliates, Foreign Subcontractors and Operator shall have the right to import into KRG funds required for Petroleum Operations under this Agreement in Foreign Exchange.**
- 18.5 Contractor and each Contractor Party and their Affiliates, Operator and Foreign Subcontractors shall have the right to pay outside of KRG for goods, works and services of whatever nature in connection with the conduct of Petroleum Operations under this Agreement without having first to transfer to KRG the funds for such payments.**
- 18.6 Whenever such a need arises Contractor and each Contractor Party and their Affiliates, Foreign Subcontractors and Operator shall be entitled to purchase local currency with Foreign Exchange and convert local currency into Foreign Exchange in accordance with provisions stipulated in Current Legislation.**
- 18.7. Contractor and each Contractor Party and their Affiliates, and Operator shall have the right to pay, wages, salaries, allowances and benefits of their foreign personnel working in KRG in Foreign Exchange partly or wholly outside of KRG.**
- 18.8 Conversions of currency shall be recorded at the rate actually experienced in that conversion. Expenditures and sales revenues in currencies other than the U.S.\$ shall be translated to U.S.\$ at the rates officially announced by JPMorgan Chase Bank, N.A. (or any other reputable bank agreed upon by the Joint Steering Committee) at the close of**

business on the first business day of the current month.

18.9 All payments under this Agreement shall be made in United States Dollars, unless otherwise agreed, and within ten (10) days after the end of the month in which the obligation to make the payment is incurred to a bank specified by the Party to whom the payment is due.

18.10 Any amount not paid in full when due shall bear interest, compounded on a monthly basis, at a rate per annum equal to one (1) month term, London Interbank Offer Rate (LIBOR) for United States Dollar deposits, as published in London by the Financial Times or, if not so published, then as published in New York by The Wall Street Journal, current from day to day, plus five (5) percentage points, on and from the due date for payment until the amount, together with interest thereon, is paid in full.

ARTICLE 19

IMPORT AND EXPORT

19.1 Contractor, each Contractor Party, their Affiliates and Operator shall have the right to freely and without being subject to Taxes, duties, levies or other fees, import into, export and re-export from Iraq all equipment, materials, accessories, spare parts and other goods directly or indirectly related to Petroleum Operations.

19.2 Contractor, each Contractor Party, their customers and their carriers shall have the right to freely export Contractor's share of Petroleum. No Taxes, duties, levies or other fees shall be imposed on Contractor for such

export of Petroleum produced and saved from the Agreement Area.

- 19.3 Foreign Employees and family members of Contractor and its Affiliates, its agents and Foreign Subcontractors shall have the right to import into and re-export from Iraq household goods and personal property at any time free of Taxes, duties, levies or other fees.**

ARTICLE 20

EXPORT OF HYDROCARBONS

AND TRANSFER OF TITLE

- 20.1 The Contractor, Contractor Parties, any purchaser from such parties and their respective carriers shall, for the duration of this Agreement, have the right to export from any export point selected by the Contractor for such purpose, the share of Petroleum to which the Contractor is entitled under this Agreement provided that access to such export point is not restricted generally on the grounds of safety or national security and/or Current Legislation. Access to export points shall be given to the above parties on a non discriminatory basis and at rates no less favourable than those available in the country, or granted to others by the Republic of Iraq or KRG.**

- 20.2. The transfer of title to each Party of its share of Petroleum shall be effective upon the lifting of that share by such Party at the Measurement Point or, at the Parties' option, at some other point, approved by Joint Steering Committee.**

20.3 The Parties shall each be entitled to designate (at their own cost) an employee, independent company or consultant who shall check the lifting of Petroleum from the Measurement Point or at such other point as may be designated in accordance with Article 20.2.

ARTICLE 21

OWNERSHIP OF ASSETS

21.1 Ownership of any asset, whether fixed or moveable, acquired by or on behalf of Contractor in connection with Petroleum Operations hereunder shall vest in the OGE without consideration if both (i) the costs of such asset have been recovered by Contractor under this Agreement, and (ii) either the Agreement has come to an end or, if earlier, when the asset is no longer required for Petroleum Operations by the Contractor. Contractor shall enjoy continued free, exclusive and unrestricted use of all assets at no cost or loss of benefit to the Contractor until the termination of this Agreement or if earlier until they are no longer required for Petroleum Operations. Contractor shall bear the custody and maintenance of such assets and all risks of accidental loss or damage thereto while they are required for Petroleum Operations, provided however that all costs necessary to operate, maintain and repair such assets and to replace or repair any damage or loss shall be recoverable as Operating Expenditures from Available Petroleum in accordance with the provisions of Article 10.

21.2 The provisions of Article 21.1 shall not apply to materials or other property that are rented or leased to Contractor, its Affiliates or

Operator or which belong to employees of Contractor, its Affiliates or Operator.

ARTICLE 22

INSURANCE, ENVIRONMENT, HEALTH,

SAFETY AND LIABILITY

22.1 Contractor shall obtain and maintain such types and amounts of insurance for the Petroleum Operations as are reasonable and available and such that they comply with the Current Legislation and accepted international Petroleum industry practice and standards.

22.2 The insurance, which may be obtained, may cover:

- a) destruction and damage to any property held for use during Petroleum Operations and classified as fixed capital and/or leased or rented property and/or interests in pipelines operated by the Contractor;**
- b) destruction of Crude Oil in storage;**
- c) liability to third Parties;**
- d) liability for pollution and expenses for cleaning up in the course of Petroleum Operations;**
- e) expenses for wild well control;**
- f) liability incurred by the Contractor in hiring land drilling rigs, vessels and aircraft serving the Petroleum Operations; and**
- g) losses and expenses incurred during the transportation and storage in transit of goods shipped from areas outside the Agreement Area.**

22.3 The premiums of any insurance agreements regarding Petroleum Operations, for which

the Contractor itself is liable, shall in the event of any insurance claim be considered as Operating Expenditures recoverable from Available Petroleum.

22.4 It is understood that, in order to meet their insurance obligations, insurance providers used by Contractor may conclude reinsurance and co-insurance agreements with any other insurance enterprises and organisations.

22.5 Notwithstanding the other provisions of this Agreement, the Contractor shall indemnify and hold harmless the KRG and the OGE against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the KRG or the OGE by any employee of the Contractor or any Subcontractor or dependent thereof, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non-performance of this Agreement regardless of the fault or negligence in whole or in part of any entity or individual; provided, however, that such losses, damages and liabilities are not caused by or do not arise out of the performance or non-performance of this Agreement by the KRG or the OGE and the KRG or the OGE, as the case may be, shall indemnify and hold the Contractor (including for this purpose any Affiliate, the Operator and all Subcontractors) harmless against all such damage, losses and liabilities.

22.6 Contractor (including for this purpose any Affiliate, the Operator and all Subcontractors) shall indemnify the KRG for any loss or damage to the environment or any cultural or national monument arising out of conduct of the Petroleum Operations; provided, however,

that the Contractor (including for this purpose any Affiliate, the Operator and all Subcontractors) shall have no liability hereunder if and to the extent any loss and damage is caused by or arises out of any breach of this Agreement (and any other agreements that may be entered into by and between the Contractor and the OGE in respect of the Petroleum Operations) or breach of duty by the KRG or the OGE. Notwithstanding the foregoing, the Contractor (including for this purpose any Affiliate, the Operator and all Subcontractors) shall not be liable to the KRG or the OGE for any punitive or exemplary damages or any other indirect or consequential damages.

22.7 Contractor shall not be responsible to the KRG or the OGE for, and shall bear no cost, expense or liability of the KRG or the OGE for any claim, damage or loss to the extent such claim, damage or loss does not arise out of a failure to conduct Petroleum Operations. In amplification of the foregoing, Contractor shall not be responsible for any environmental condition or damage existing in the Agreement Area prior to the commencement of Petroleum Operations or caused by a Force Majeure event during the term of this Agreement. Existing environmental conditions will be evidenced by an independent Third Party through environmental baseline study of existing environmental conditions, at Contractor's own cost and expense (which shall be included as Costs and Expenses for the purposes of determining Cost Recovery Petroleum) and shall be completed prior to the commencement of the relevant Petroleum Operations in accordance with good oilfield practices and Current Legislation related to the environmental issues. Such baseline study

shall be submitted to the OGE and shall be incorporated in the Environmental Impact Assessment to be prepared by the Contractor in accordance with the environmental legislation which are or may be applicable under the Current Legislation. If in the course of the Petroleum Operations, the OGE provides other areas for Contractor's activities, then new environmental baseline studies shall be included in the Development Plan that includes these areas. The OGE shall indemnify the Contractor against any claim, damage or loss arising from such pre-existing environmental condition or damage.

22.8 In conducting Petroleum Operations, Contractor shall operate according to good oilfield practices and use best endeavours to minimise potential disturbances to the environment, including the surface, subsurface, sea, air, flora, fauna, other natural resources and property. The order of priority for actions shall be protection of life, environment and property.

22.9 Contractor shall take all necessary steps to respond to, and shall promptly notify the OGE of, all emergency and other events (including explosions, leaks and spills), occurring in relation to the Petroleum Operations which are causing or likely to cause material environmental damage or material risk to health and safety. Such notice shall include a summary description of the circumstances and steps taken and planned by the Contractor to control and remedy the situation. Contractor shall provide such additional reports to the OGE as are necessary in respect of the effects of such events and the course of all actions taken to prevent further loss and to mitigate deleterious effects.



22.10 In the event of emergency situations as set forth in 22.9, above, at the request of the Contractor, the KRG and the OGE, without prejudice and in addition to any indemnification obligations the KRG or the OGE may have hereunder, shall assist the Contractor, to the extent possible, in any emergency response, remedial or repair effort by making available any labour, materials and equipment in reasonable quantities requested by the Contractor which are not otherwise readily available to the Contractor and by facilitating the measures taken by Contractor to bring into KRG area personnel, materials and equipment to be used in any such emergency response or remedial or repair effort. Contractor shall reimburse the KRG's reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered as Costs and Expenses.

22.11 The Contractor shall not be liable to the KRG or the OGE or Third Parties for any damages caused by contamination entering the Agreement Area as a result of KRG or Third Party activities beyond or within the boundaries of the Agreement Area. The KRG shall be legally and financially responsible for any loss, damage and liability, including remediation of environmental conditions which may be required for safe conduct of the Petroleum Operations, caused by the KRG's activities beyond or within the Agreement Area.

22.12 The Contractor shall not be liable for any loss or damage, including but not limited to spillage, explosion, contamination or similar environmental damage, in respect of any storage facilities, pipelines or means of transportation which are not under the direct

possession and control of the Contractor or its Affiliates or its Subcontractors or the Operator. In addition to the foregoing, the Contractor shall not be liable for any damage whatsoever in respect of the OGE's share of Petroleum, storage or transportation thereof once OGE has taken custody of such Petroleum.

22.13 The KRG shall use best efforts to ensure the safety and security of the Contractor's property and personnel in Iraq and to protect them from loss, injury and damage resulting from war (declared or undeclared), civil conflict, sabotage, blockade, riot, terrorism, unlawful commercial extortion, or organised crime. Contractor agrees that it shall have no claim for legal or equitable relief for failure of the KRG to comply with the provisions of this Article 22.13, if such failure is due to reasons beyond KRG's control.

22.14 Except as set forth in Article 28 hereof, it is understood and agreed that the KRG shall not seek or declare any cancellation or termination of this Agreement as a result of the occurrence of any emergency event described in this Article 22.

ARTICLE 23

PERSONNEL

23.1 Contractor shall be entitled to bring Foreign Employees into Iraq in connection with the performance of Petroleum Operations. The entry into KRG and Iraq of such personnel is hereby authorised, and the relevant KRG Authority shall issue at the Contractor's request the required documents, such as entry and exit visas, work permits and residence cards. At Contractor's request, the

KRG shall facilitate all immigration formalities at the points of exit and entry into Iraq for the employees and family members of the Contractor, its Affiliates, Subcontractors and Operator. The Contractor (or Operator on its behalf) shall contact the appropriate offices of the KRG to secure the necessary documents, and to satisfy the required formalities.

23.2 The employees working within the scope of Petroleum Operations shall be placed under the authority of the Contractor, its Affiliates, its Subcontractors or the Operator, each of which shall act individually in their capacity as employers. The work hours, wages, and all other conditions relating to their employment shall be determined by the relevant employer of such employees. In relation to employees who are citizens of KRG or Iraq their employment shall be in accordance with the Current Legislation. To the extent that any expatriate personnel are engaged under an agreement subject to the Current Legislation, that agreement shall comply with the provisions of the Current Legislation. The Contractor, its Affiliates and its Subcontractors however shall, with respect to Petroleum Operations carried out within the KRG, consult OGE in the selection and assignment of their employees and shall give preference to KRG citizens as long as they are capable in terms of knowledge, technical qualities and experience.

ARTICLE 24

FORCE MAJEURE

24.1 If as a result of Force Majeure, Contractor is rendered unable, wholly or in part, to carry out its obligations under this Agreement, other than the obligation to pay any amounts due,

then the obligations of Contractor, so far as and to the extent that the obligations are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused, but for no longer period. Contractor shall notify the OGE of the Force Majeure situation within seven (7) days of becoming aware of the circumstances relied upon and shall keep the OGE informed of all significant developments. Such notice shall give reasonably full particulars of the said Force Majeure, and also estimate the period of time, which Contractor will probably require to remedy the Force Majeure. Contractor shall use all reasonable diligence to remove or overcome the Force Majeure situation as quickly as possible in an economic manner. The period of any such non-performance or delay, together with such period as may be necessary for the restoration of any damage done during such delay, shall be added to the time given in this Agreement for the performance of any obligation dependent thereon (and the continuation of any right granted) and to the term of this Agreement.

24.2 For the purposes of this Agreement, "Force Majeure" shall mean a circumstance, which is irresistible or beyond the reasonable control of Contractor and which substantially hinders the Contractor or the Operator to perform, or any other hindrance of Contractor's performance not due to its fault or negligence.

Handwritten signature and scribble at the bottom right of the page.

ARTICLE 25

ASSIGNMENTS AND GUARANTEES

25.1 No assignment, mortgage or charge or other encumbrance shall be made by a Party of its rights obligations and interests arising under this Agreement other than in accordance with the provisions of this Article 25. Any purported assignment made in breach of the provisions of this Article 25 shall be null and void.

25.2 A Contractor Party may assign all or part of its rights, obligations and interests arising from this Agreement to a Third Party, an Affiliate or to another Contractor Party provided that Contractor has consulted OGE prior to entering into negotiations with such party and further provided that such party:

- a) has the technical and financial ability to perform the obligations to be assumed by it under the Agreement; and**
- b) as to the interest assigned to it, accepts and assumes all of the terms and conditions of the Agreement.**

Any such assignment shall be subject to the prior written consent of the OGE which consent shall not be unreasonably withheld or delayed.

The notification of an intended assignment shall be accompanied by a copy of the proposed deed of assignment and related documentation with respect to the proposed assignee, including certified financial statements and other evidence to the OGE's reasonable satisfaction. In the event of the transfer of rights and obligations under the Agreement to a Third Party, Contractor shall pay all costs associated with such transfer

and any tax or charge due on such transfer under the Current Legislation.

25.3 Each reference in this Agreement to the Contractor shall be treated as including each assignee to which an assignment has been made pursuant to this Article 25. Each reference in this Agreement to OGE shall be treated as including each assignee to which an assignment has been made by OGE pursuant to this Article 25.

25.4 OGE may assign all of its rights, obligations and interests arising from this Agreement to another KRG authority legally capable of exercising OGE's powers, fulfilling its obligations and liabilities hereunder and having full jurisdiction over the Agreement Area, with the prior consent of the Contractor. OGE may assign all or part of its rights pertaining to OGE's share of Profit Petroleum to a Third Party without the consent of the Contractor.

25.5 Subject to the approval of the OGE in the event of there being any proposed assignment in accordance with the terms of this Article 25 then to the extent of the interest assigned the assignor shall be released from all further obligations and liabilities arising under the Agreement after the effective date of the assignment. The assignee shall thereafter be liable for the obligations arising from such interest in the Agreement except to the extent provided in the Agreement.



ARTICLE 26

**AGREEMENT ENFORCEMENT AND STABILISATION,
REPRESENTATIONS AND WARRANTIES**

- 26.1** In the course of performing the Petroleum Operations, the Operator and the Parties shall be subject to all applicable laws, decrees and regulations.
- 26.2** The KRG agrees and commits to Contractor, for the duration of this Agreement, to maintain the stability of the legal, tax, financial, customs and import and export conditions of this Agreement.
- 26.3** The Parties agree to co-operate in every possible way in order to achieve the objectives of this Agreement. The KRG and its subdivisions shall facilitate the exercise of Contractor's activities by granting it all decrees, permits, resolutions, licenses and access rights and making available to it all appropriate existing facilities and services under the control of the KRG so that the Parties may derive the greatest benefit from Petroleum Operations for their own benefit and for the benefit of the KRG.
- 26.4** If at any time after this Agreement has been signed there is a change in the applicable laws, regulations or other provisions effecting Current Legislation which to a material degree positively or negatively affect the economic position of the Contractor or any Contractor Party under this Agreement, the terms and conditions of this Agreement shall be altered so as to restore the Contractor to the same overall economic position as that which the Contractor would have been in had this Agreement been given full force and effect without amendment



26.5 If a Party believes that its economic position has been positively or negatively affected under Article 26.4 it may give notice to the Joint Steering Committee and to the other Party describing how Contractor's position has been so affected and the Parties shall thereafter promptly meet with a view to reaching agreement on the remedial action to be taken.

26.6 The KRG within the Current Legislation and its capacities warrants to the Contractor as follows:

- a) The KRG has taken the appropriate steps necessary to authorise the OGE to execute this Agreement on behalf of the KRG and has the power to do so;
- b) The signatory to this Agreement on behalf of the OGE (in each of its capacities hereunder) is duly authorised to bind the KRG and the OGE;
- c) OGE has been legally vested by the KRG with the necessary power to authorise Petroleum Operations in the Agreement Area and to compensate the Contractor by allocating to it a share of the Petroleum produced in accordance with the terms of this Agreement.
- d) Upon completion of the matters and procedures set out in Article 32 there is no other entity or authority whose approval or authorisation is required to permit the Contractor to enjoy and enforce its rights hereunder.

26.7 Contractor represents and warrants that:

- a) It possesses the technical expertise, financial resources and management capabilities to fulfil the obligations of Contractor under this Agreement;




- b) The execution, delivery and performance by Contractor of this Agreement are within the corporate powers of Contractor;
- c) Contractor has obtained all corporate consents, approvals, authorizations and resolutions in accordance with its corporate statutes and the applicable laws to empower Contractor to execute this Agreement and to undertake all of the obligations of Contractor hereunder.

ARTICLE 27

NOTICES, CONFIDENTIALITY, AND PUBLIC ANNOUNCEMENTS

27.1 Except as otherwise specifically provided, all notices authorized or required between the Parties by any of the provisions of this Agreement, shall be in writing in English and delivered in person or by registered mail or by courier service or by any electronic means of transmitting written communications which provides confirmation of complete transmission, and addressed to such Parties as designated below. The originating notice given under any provision of this Agreement shall be deemed delivered only when received by the Party to whom such notice is directed, and the time for such Party to deliver any notice in response to such originating notice shall run from the date the originating notice is received. The second or any responsive notice shall be deemed delivered when received. "Received" for purposes of this Article with respect to written notice delivered pursuant to this Agreement shall be actual delivery of the notice to the address of the Party to be notified specified in accordance with this Article. Each Party shall have the right to change its address at

any time and/or designate that copies of all such notices be directed to another person at another address, by giving written notice thereof to all other Parties. The addresses for service of notices on each of the parties are as follows:

Contractor:

Hawler Energy, Ltd.

**Address: 2500 City West Blvd.
Suite 1750**

Houston, TX 77042, USA

Phone: +1-713-953 3210

Facsimile: +1-713-953 3200

E-mail: randerson@primenri.com

Contact person: W. Richard Anderson

and

A&T Petroleum Company, Ltd.

**Address: Koza Sokak No:43, GOP
06700 Ankara, Turkey**

Phone: +90 312 4408482

Facsimile: +90 312 441 6026 / 441 6027

E-mail: ak@petoil.com.tr

Contact person: M. Ali Ak, Director

OGE:

Address: Office of the Prime Minister

Phone: 00 32 247 30016

Facsimile: 00 87 3762 4850970

E-mail: krgpm@aol.com

Contact person: Sarbaz Hawrami

27.2 Subject to the provisions of the Agreement, the Parties agree that all information and data acquired or obtained by any Party in respect of Petroleum Operations shall be considered confidential and shall be kept confidential and

not be disclosed during the term of the Agreement to any person or entity not a Party to this Agreement, except:

- a) To an Affiliate, provided such Affiliate maintains confidentiality as provided herein;
- b) To an Authority or other entity when required by the Agreement;
- c) To the extent such data and information is required to be furnished in compliance with any applicable laws or regulations, or pursuant to any legal proceedings or because of any order of any court binding upon a Party;
- d) To prospective or actual Subcontractors, consultants and attorneys employed by any Party where disclosure of such data or information is essential to such Subcontractor's, consultant's or attorney's work;
- e) To a prospective transferee of a Party's participating interest (including an entity with whom a Party or its Affiliates are conducting bona fide negotiations directed toward a merger, consolidation or the sale of a majority of its or an Affiliate's shares);
- f) To a bank or other financial institution to the extent appropriate to a Party arranging for funding;
- g) To the extent that any data or information which, through no fault of a Party, becomes a part of the public domain.

27.3 Disclosure pursuant to Article 27.2 (d), (e), and (f) shall not be made unless prior to such disclosure the disclosing Party has informed the other Party with respect to such disclosure and has obtained a written undertaking from the recipient party to keep

the data and information strictly confidential for at least five (5) years and not to use or disclose the data and information except for the express purpose for which disclosure is to be made.

27.4 Except with the consent of the KRG, or as required by law or the rules of a recognised stock exchange, an Operator or Contractor shall not make any public statement about this agreement or the Petroleum Operations. In no event shall such a public statement state or imply that the KRG approves or agrees with its contents.

ARTICLE 28

TERMINATION AND BREACH

28.1 At any time, if in the opinion of Contractor, circumstances, including technical or economic circumstances, do not warrant continuation of the Petroleum Operations, Contractor may, by giving written notice to that effect to the OGE relinquish its rights and be relieved of its obligations pursuant to this Agreement, except such rights and obligations as related to the period prior to such relinquishment. Neither this Agreement nor any of the rights granted hereunder may be terminated as a result of any act or omission of Operator save in the case where Operator has carried out an act or omitted to do something at the specific request of the Contractor and Operator has previously advised the Contractor prior to carrying out the act or omitting to do something that to carry out that act or to omit to do the relevant thing may result in this Agreement being terminated.

28.2 The OGE and/or the KRG is entitled to terminate this Agreement by giving ninety (90) days advance written notice thereof to all Parties, when Contractor commits a material breach in relation with its obligations indicated in the Agreement or if Contractor has not accomplished its warranties according to Article 26.7. The termination notice will be effective at the end of the arbitration procedure in case the claim of material breach is applied to arbitration as stipulated in Article 29.

ARTICLE 29

DISPUTE RESOLUTION

29.1 Any dispute in relation to or arising out of this Agreement, including a dispute as to Contractor's declaration of a Force Majeure event, shall be first referred to the Joint Steering Committee for an amicable solution. With respect to a dispute that cannot be resolved amicably by the Joint Steering Committee, the Parties hereby consent to submit their dispute to arbitration as provided in this Article 29.

29.2 Unless otherwise agreed by the Parties to the dispute, the arbitration shall be held in London, England and conducted in the English language in accordance with the Rules of Conciliation and Arbitration of the International Chamber of Commerce (the "Rules"). In the event of no specific provisions being provided under the Rules, the arbitration tribunal shall establish their own procedure.



29.3 The arbitration shall be initiated by either Party to the dispute ("First Party") giving written notice to the other Party to the dispute ("Second Party") that it elects to refer the dispute to arbitration and has appointed an arbitrator who shall be identified in said notice. The Second Party shall notify First Party in writing within forty-five (45) Days identifying the arbitrator that has been selected and appointed by such Party.

29.4 If the Second Party does not so appoint its arbitrator, the First Party shall have the right to apply to the Court of Arbitration of the International Chamber of Commerce to appoint a second arbitrator. The two (2) arbitrators shall, within thirty (30) Days, select a third arbitrator failing which the third arbitrator shall be appointed by the Court of Arbitration of the International Chamber of Commerce at the request of either the First Party or the Second Party.

29.5 The third arbitrator shall not be a citizen of Iraq or of a country in which any of the Contractor Parties is incorporated, but shall be a citizen of a country which has diplomatic relations with the aforesaid countries, and shall not have any economic interest in the oil business of Iraq or of any party to the dispute.

29.6 The Parties hereto shall extend to the arbitration tribunal all facilities (including access to the Petroleum Operations) for obtaining any information required for the proper determination of the dispute. The absence or default of any Party to the arbitration shall not be permitted to prevent or hinder the arbitration proceeding in any or all of its stages.

29.7 Pending the decision or award of the

arbitration tribunal, the Petroleum Operations or activities which have given rise to the arbitration need not be discontinued. In the event the decision or award recognizes that the complaint was justified, provisions may be made therein for such reparation as may be appropriately made in favor of the complainant.

29.8 Judgment on the award rendered may be entered in any court having jurisdiction or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.

29.9 The provisions of this Agreement relating to arbitration shall continue in force notwithstanding the termination of this Agreement.

ARTICLE 30

TEXT

30.1 This Agreement shall be executed in six (6) originals in the English language.

ARTICLE 31

COORDINATION COMMITTEE

31.1 OGE, Contractor, and representatives of the Ministry of Oil (Baghdad) shall establish a Coordination Committee. The purpose of the Coordination Committee shall be to coordinate with the competent department of the Ministry of Oil concerning the project and status of the Work Program.

31.2 The Coordination Committee shall comprise six (6) members. The OGE shall appoint two (2) representatives, Contractor shall appoint two (2) representatives, and the Ministry of Oil

shall appoint two (2) representatives. All the aforesaid representatives shall have the right to attend and present their views at meetings of the Coordination Committee.

31.3 The Coordination Committee shall, by rules jointly adopted, determine the manner in which meetings shall be conducted.

31.4 A regular meeting of the Coordination Committee shall be held at least twice every year in Erbil or in such other place as the Coordination Committee may decide. The secretary shall be responsible for calling such regular meetings of the Coordination Committee. Other meetings shall be held at any time at the request of the Operator or at least three (3) of the members of the Coordination Committee. In each case the secretary shall give the Parties at least fifteen (15) days notice (or such shorter period as the Parties may agree) of the proposed meeting date, the time and location of the meeting.

31.5 The Parties hereby empower the Coordination Committee to

- a) review and examine any Work Program and Budget proposed by the Contractor and progress of implementation thereof;
- b) review reports on all material aspects of the project; and
- c) review and discuss the development work and technological regimes proposed by the Contractor;

31.6 The Coordination Committee shall nominate a secretary to record minutes of the meetings of the Coordination Committee. The secretary shall take a record of each meeting.

31.7 Matters which are within the exclusive

purview of the Joint Steering Committee shall not be matters to be considered by the Coordination Committee.

ARTICLE 32

EFFECTIVE DATE

32.1 This Agreement shall enter into force and effect in its entirety on the date the later of the following occurs:

- a) execution of this Agreement by the duly authorized representatives of the Parties;
- b) approval and certification of this Agreement by the Kurdistan Regional Government;
- c) the constitution for the Republic of Iraq approved by plebiscite in 2005 becomes effective.


By execution hereof, the OGE, acting in its capacity as the sovereign representative of the KRG pursuant to the Current Legislation and the Contractor join as Parties to the foregoing Production Sharing Agreement and consent to the provisions thereof.

Signed and sealed this 29th day of March, 2006 in six (6) copies in English language.

For OGE

By: 

**Sarbaz Hawrami
Chief Executive
Officer and
Chairman of OGE**



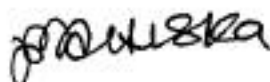
For Contractor

**HAWLER ENERGY, LTD.,
a Cayman Islands
company wholly owned
by Prime Natural
Resources, Inc., an
American company**

Witnesses



M. Ali Ak



Erdal Ahiska



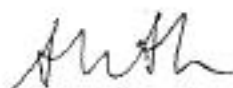
**By: W. Richard Anderson
Director,
President of Prime
Natural Resources,
Inc.**

and

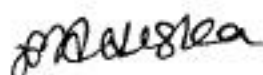
For Contractor

**A&T PETROLEUM
COMPANY, LTD., a
Cayman Islands company
wholly owned by
PETOIL, a Turkish
company**


Witnesses



M. Ali Ak



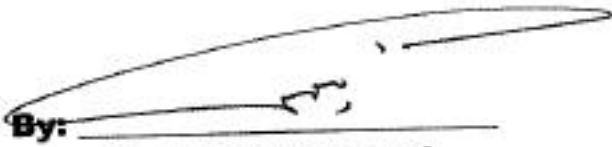
Erdal Ahiska



**By: H. Guntekin Koksal
Director,
Chairman of PETOIL**



**Approved and certified on behalf of the
Kurdistan Regional Government**



By:
Nechirvan Barzani
Prime Minister
Kurdistan Regional Government



ANNEX A

AGREEMENT AREA

As of the date of execution of this Agreement, the Agreement Area is the area inside the perimeter constituted by the straight lines connecting the geographical coordinates set forth below and as separately identified on the map attached hereto.

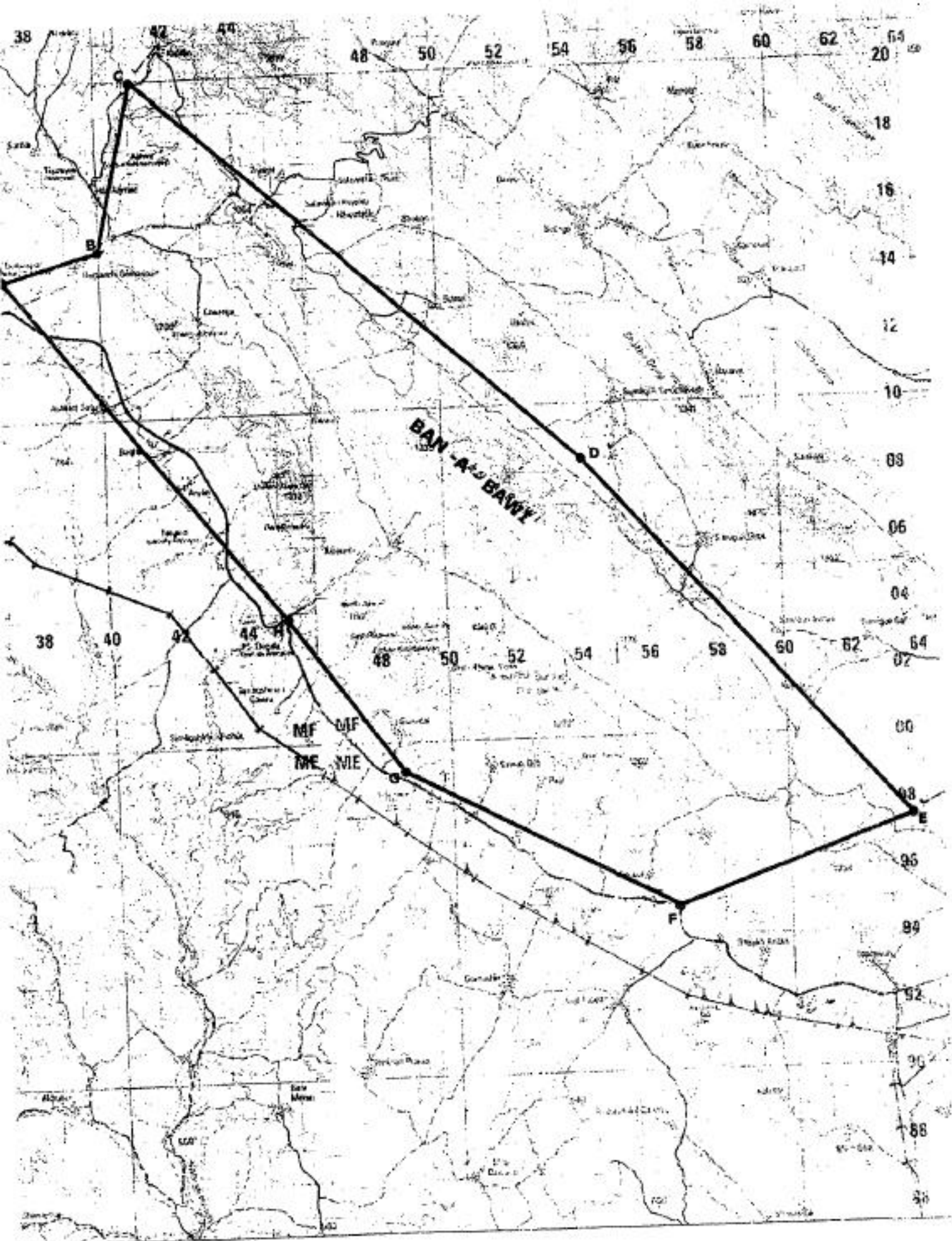
Point	Geographic	
	Latitude (North)	Longitude (East)
A	36° 16' 15"	44° 18' 50"
B	36° 16' 42"	44° 19' 54"
C	36° 19' 22"	44° 20' 33"
D	36° 13' 11"	44° 29' 22"
E	36° 07' 18"	44° 35' 48"
F	36° 05' 53"	44° 31' 06"
G	36° 08' 09"	44° 25' 46"
H	36° 10' 38"	44° 23' 24"

MAP OF AGREEMENT AREA

S

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ANNEX B

ACCOUNTING PROCEDURE

Attached to and made part of the Exploration and Production Sharing Agreement by and between Oil & Gas and Petrochemical Establishment of the Kurdistan Regional Government - Iraq and Hawler Energy, Ltd. and A&T Petroleum Company, Ltd.

SECTION I **GENERAL PROVISIONS**

1.1 Purpose.

The purpose of this Accounting Procedure is to establish equitable methods for determining charges and credits applicable to operations under the Agreement which reflect the costs of Petroleum Operations to the end that no Party shall gain or lose in relation to other Parties.

It is intended that approval of the Work Program and Budget as provided in the Agreement shall constitute approval of the rates and allocation methods used therein to currently charge the Petroleum Operations Account, but subject to verification by audit at a later date as provided in this Accounting Procedure.

1.2 Conflict with Agreement. In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the Agreement to which this Accounting Procedure is attached, the provisions of the Agreement shall prevail.

1.3 Definitions. The definitions contained in Article 1 of the Agreement to which this Accounting Procedure is attached shall apply to this Accounting Procedure and have the same meanings when used herein. Certain terms used herein are defined as follows:

"Country of Operations" shall mean KRG and Iraq.

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"Joint Property" shall mean, at any point of time, all wells, facilities, equipment, material, supplies, information, funds and property held for the Petroleum Operations Account.

"Material" shall mean personal property including, but not limited to, all facilities together with equipment and supplies acquired and held for use in Petroleum Operations.

1.4 Petroleum Operations Account Records and Currency Exchange.

- 1.4.1** Operator shall at all times maintain and keep true and correct records of the production and disposition of all Petroleum, and of all costs and expenditures under the Agreement, as well as other data necessary or proper for the settlement of accounts between the Parties hereto in connection with their rights and obligations under the Agreement and to enable Contractor to comply with its applicable income tax and other laws.
- 1.4.2** Operator shall maintain accounting records pertaining to Petroleum Operations in accordance with generally accepted accounting practices used in the international petroleum industry and any applicable statutory obligations of the Country of Operations as well as the provisions of the Agreement.
- 1.4.3** Petroleum Operations Account records shall be maintained by Operator in the English language and in United States of America ("U.S.") currency and in such other language and currency as may be required by the laws of the Country of Operations. Conversions of currency shall be recorded at the rate actually experienced in that conversion. Currency translations for expenditures and receipts shall be recorded at the rates officially

published by the KRG at the close of business on the first business day of the current month.

1.4.4 Any currency exchange gain or losses shall be credited or charged to the Petroleum Operations Account, except as otherwise specified in this Accounting Procedure.

1.4.5 The accrual basis for accounting shall be used in preparing accounts concerning the Petroleum Operations. If a "cash" basis for accounting is used, Operator shall show accruals as memorandum items.

1.5 Statements and Billings.

1.5.1 Unless otherwise agreed by the Parties, Operator shall submit monthly to each Party, on or before the 10th Day of each month, statements of the costs and expenditures incurred during the prior month, indicating by appropriate classification the nature thereof and the corresponding budget category.

These statements, as a minimum, shall contain the following information:

- advances of funds setting forth the currencies received from the Contractor
- the current account balance of the Contractor
- summary of costs, credits, and expenditures on a current month, year-to-date, and inception-to-date or other periodic basis, as agreed by Parties
- details of unusual charges and credits in excess of U.S. dollars \$10,000 (U.S.\$ ten thousand).

- 1.5.2** Operator shall, upon request, furnish a description of the accounting classifications used by it.
- 1.5.3** Amounts included in the statements and billings shall be expressed in U.S. currency and reconciled to the currencies advanced.
- 1.5.4** Contractor shall be responsible for preparing its own accounting and tax reports to meet the requirements of the Country of Operations and of all other countries to which it may be subject. Operator, to the extent that the information is reasonably available from the Petroleum Operations Account records, shall provide Contractor in a timely manner with the necessary statements to facilitate the discharge of such responsibility.
- 1.6** Payments and Advances. Upon approval of any Work Program and Budget, Operator shall provide Contractor with required estimated cash requirements for the succeeding month's operations.
- 1.7** Audits.
- 1.7.1** The Parties, upon at least sixty (60) Days advance notice in writing to Operator, shall have the right to audit the Petroleum Operations Accounts and records of Operator relating to the accounting hereunder for any Calendar Year within the twenty-four (24) month period following the end of such Calendar Year. The cost of each such audit shall be borne by the Party carrying out the audit. It is provided, however, that any Party must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Operator and the Parties shall make every effort to resolve any claim resulting from an audit within a reasonable period of time.

- 1.7.2** Any information obtained by the auditing Parties under the provisions of this Section 1.7 which does not relate directly to the Petroleum Operations shall be kept confidential and shall not be disclosed to any party, except as would otherwise be permitted by Article 27.2 of the Agreement.
- 1.7.3** In the event that the Operator is required by law to employ a public accounting firm to audit the Petroleum Operations Account and records of Operator relating to the accounting hereunder, the cost thereof shall be a charge against the Petroleum Operations Account, and a copy of the audit shall be furnished to each Party.
- 1.8** Allocations. If it becomes necessary to allocate any costs or expenditures to or between Petroleum Operations and any other operations, such allocation shall be made on an equitable basis. Upon request, Operator shall furnish a description of its allocation procedures pertaining to these costs and expenditures.

SECTION II DIRECT CHARGES

Operator shall charge the Petroleum Operations Account with all costs and expenditures incurred in connection with Petroleum Operations. It is also understood that charges for services normally provided by an operator such as those contemplated in Section 2.7.2 which are provided by Operator's Affiliates shall reflect the cost to the Affiliate, excluding profit, for performing such services, except as otherwise provided in Section 2.6, Section 2.7.1 and Section 2.5.1 if selected.

The costs and expenditures shall be recorded as required for the settlement of accounts between the Parties hereto in connection with the rights and obligations under this Agreement and for purposes of complying with the tax laws of the Country of Operations and of such other countries to which any of the Parties may be subject. Without in any way limiting the generality

of the foregoing, chargeable costs and expenditures shall include:

2.1 Licenses, Permits, Etc.

All costs, if any, attributable to the acquisition, maintenance, renewal or relinquishment of licenses, permits, contractual and/or surface rights acquired for Petroleum Operations when paid by Operator in accordance with the provisions of the Agreement.

2.2 Salaries, Wages and Related Costs.

2.2.1 Salaries and wages of the employees of Operator and its Affiliates in the Country of Operations directly engaged in Petroleum Operations whether temporarily or permanently assigned.

2.2.2 Salaries and wages of the employees of Operator and its Affiliates outside the Country of Operations directly engaged in Petroleum Operations whether temporarily or permanently assigned, and not otherwise covered in Section 2.7.2.

2.2.3 To the extent not included in salaries and wages, the Petroleum Operations Account shall also be charged with the cost to Operator of holiday, vacation, sickness, disability benefits, living and housing allowances, travel time, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder, as well as costs to Operator for employee benefits, including but not limited to employee group life insurance, group medical insurance, hospitalization, retirement, and other benefit plans of a like nature applicable to labor costs of Operator. Operator's employees participating in Country of Operations benefit plans may be charged at a percentage rate to reflect payments or accruals made by Operator applicable to such employees.

2.2.4 Expenditures or contributions made pursuant to assessments imposed by Authority for payments with respect thereto or on account of such employees.

2.2.5 Salaries and wages charged in accordance with Operator's usual practice, when and as paid or accrued, or on a basis of the Operator's average cost per employee for each job category; and the rates to be charged shall be reviewed at least annually. In determining the average cost per employee for each job category, expatriate and national employee salaries and wages shall be calculated separately. During a given period of time it is understood that some costs for salaries and wages may be charged on an actual basis while the remaining costs for salaries and wages are charged at a rate based upon the above described average cost.

2.2.6 Reasonable expenses (including related travel costs) of those employees whose salaries and wages are chargeable to the Petroleum Operations Account under Sections 2.2.1 and 2.2.2 of this Section II and for which expenses the employees are reimbursed under the usual practice of Operator.

2.2.7 If employees are engaged in other activities in addition to the Petroleum Operations, the cost of such employees shall be allocated on an equitable basis.

2.3 Employee Relocation Costs.

2.3.1 Except as provided in Section 2.3.3, Operator's cost of employees' relocation to or from the Agreement Area vicinity or location where the employees will reside or work, whether permanently or temporarily assigned to the Petroleum Operations. If such employee works on other activities in

addition to Petroleum Operations, such relocation costs shall be allocated on an equitable basis.

2.3.2 Such relocation costs shall include transportation of employees and families, personal and household effects of the employee and family, transit expenses, and all other related costs in accordance with Operator's usual practice.

2.3.3 Relocation costs from the vicinity of the Agreement Area to another location classified as a foreign location by Operator shall not be chargeable to the Petroleum Operations Account unless such foreign location is the point of origin of the employee.

2.4 Offices, Camps, and Miscellaneous Facilities.

Cost of maintaining any offices, sub-offices, camps, warehouses, housing, and other facilities of the Operator and/or Affiliates directly serving the Petroleum Operations. If such facilities serve operations in addition to the Petroleum Operations the costs shall be allocated to the properties served on an equitable basis.

2.5. Material.

Cost, net of discounts taken by Operator, of Material purchased or furnished by Operator. Such costs shall include, but are not limited to, export brokers' fees, transportation charges, loading, unloading fees, export and import duties and license fees associated with the procurement of Material and in-transit losses, if any, not covered by insurance. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for, and the cost thereof charged to, the Petroleum Operations Account as may be required for immediate use.

2.5.1 Purchasing Fee. When economical to do so, and required for the benefit of the Petroleum Operations, Operator

may request its Affiliates to provide purchasing, expediting and traffic coordination services. Charges to the Petroleum Operations Account for the provision of these purchasing services shall be based on a rate agreed to by the Joint Steering Committee.

2.6 Exclusively Owned Equipment and Facilities of Operator and Affiliates.

Charges for exclusively owned equipment, facilities, and utilities of Operator and its Affiliates at rates not to exceed the average commercial rates of non-affiliated third parties then prevailing for like equipment, facilities, and utilities for use in the area where the same are used hereunder. On request, Operator shall furnish the Parties a list of rates and the basis of application. Such rates shall be revised from time to time if found to be either excessive or insufficient, but not more than once every six months.

Drilling tools and other equipment lost in the hole or damaged beyond repair may be charged at replacement cost less depreciation, computed in accordance with generally accepted accounting principles practiced in the international petroleum industry, plus transportation costs to deliver like equipment to the location where used.

2.7 Services.

2.7.1 The cost of services provided by third parties including Affiliates of Operator other than those services covered by Section 2.7.2. Such charges for services by Operator's Affiliates shall not exceed those currently prevailing if performed by non-affiliated third parties, considering quality and availability of services.

2.7.2 The cost of services performed by Operator's Affiliates technical and professional staffs not located within the Country of Operation. The charges

for such services shall not exceed those currently prevailing if performed by non-affiliated third parties, considering the quality and availability of such services.

Examples of such services include, but are not limited to, the following:

Geologic Studies and Interpretation
Seismic Data Processing
Well Log Analysis, Correlation and Interpretation
Laboratory Services
Well Site Geology
Project Engineering
Source Rock Analysis
Petrophysical Analysis
Geochemical Analysis
Drilling Supervision
Development Evaluation
Accounting and Professional Services
Other Data Processing

Costs shall include salaries and wages of such technical and professional personnel, lost time, payroll taxes, employee benefits, and reasonable expenses. Costs shall also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited to, rent, utilities, support staff, drafting, telephone and other communications expenses, computer support, supplies, and depreciation.

2.8 Insurance. Premiums paid for insurance required by law or the Agreement to be carried for the benefit of the Petroleum Operations.

2.9 Damages and Losses to Property.

2.9.1 All costs or expenditures necessary to replace or repair damages or losses incurred by fire, flood, storm, theft (documented as required under the laws of Iraq), accident, or any other

cause. Operator shall furnish the Parties written notice of damages or losses incurred in excess of Twenty Five thousand U.S. dollars (U.S. \$ 25,000) as soon as practical after report of the same has been received by Operator. All losses in excess of ten thousand U.S. dollars (U.S. \$ 10,000) shall be listed separately in the monthly statement of costs and expenditures.

2.9.2 Credits for settlements received from insurance carried for the benefit of Petroleum Operations and from others for losses or damages to Joint Property or Materials.

2.9.3 Expenditures incurred in the settlement of all losses, claims, damages, judgments pursuant to a court decision, and other expenses for the account of Petroleum Operations.

2.10 Legal Expenses.

The costs and expenses of legal services necessary for the protection of the Petroleum Operations under this Agreement as follows:

2.10.1 Legal services necessary or expedient for the protection of the Petroleum Operations, and all costs and expenses of court proceedings, arbitration or other alternative dispute resolution procedure, including reasonable attorneys' fees and expenses, together with all judgments obtained against the Parties or any of them arising from the Petroleum Operations.

2.10.2 If the Parties hereunder shall so agree, actions or claims affecting the Petroleum Operations hereunder may be handled by the legal staff of one or any of the Parties hereto; and a charge commensurate with the reasonable costs of providing and furnishing such services rendered may be made by the Party providing such service to

Operator for the Petroleum Operations Account, but no such charges shall be made until approved by the Parties.

2.10 Taxes and Duties.

All taxes, duties, assessments and governmental charges, of every kind and nature, assessed or levied upon or in connection with the Petroleum Operations, other than any that are measured by or based upon the revenues, income and net worth of the Contractor. If Operator or an Affiliate is subject to income or withholding tax as a result of services performed at cost for the operations under the Agreement, its charges for such services may be increased by the amount of such taxes incurred (grossed up).

2.12 Other Expenditures. Any other costs and expenditures incurred by Operator for the necessary and proper conduct of the Petroleum Operations in accordance with approved Work Programs and Budgets and not covered in this Section II or in Section III.

SECTION III
OVERHEAD CHARGES

3.1 Purpose. To the extent shown on the Budget approved by the Joint Steering Committee, Operator shall charge the Petroleum Operations Account monthly for the cost of indirect services and related office costs of Operator and its Affiliates not otherwise provided in this Accounting Procedure. Indirect costs chargeable under this Section III represent the cost of general counseling and support services provided to Operator by its Affiliates. These costs are such that it is not practical to identify or associate them with specific projects but are for services which provide Operator with needed and necessary resources which Operator requires and provide a real benefit to Petroleum Operations. No cost or expenditure included under Section II shall be included or duplicated under this Section III.

3.2 Amount. The charge under Section 3.1 above for each Calendar Year shall be a percentage of the

annual expenditures, calculated on the following scale (U.S. Dollars):

Annual Expenditures

\$0 to \$1,000,000 of expenditures = 4 %

Next \$5,000,000 of expenditures = 3 %

Excess above \$6,000,000 of expenditures = 2 %

- 3.3 Exclusions.** The expenditures used to calculate the monthly overhead charge shall not include the overhead charge, rentals on surface rights acquired and maintained for the Petroleum Operations Account, guarantee deposits, pipeline tariffs, Taxes paid under the Agreement, payments to third parties in settlement of claims, and other similar items.

Credits arising from any government subsidy payments, disposition of Material, and receipts from third parties for settlement of claims shall not be deducted from total expenditures in determining such overhead charge.

- 3.4 Overhead Charge for Projects.** As to major construction projects (such as, but not limited to, pipelines, gas reprocessing and processing plants, and final loading and terminal facilities) when the estimated cost of each project amounts to more than U.S. \$ 15,000,000, a separate overhead charge for such project shall be set by the Joint Steering Committee at the time of approval of the project.

SECTION IV
ACQUISITION OF MATERIAL

- 4.1 Acquisitions.** Materials purchased for the Petroleum Operations Account shall be charged at net cost paid by the Operator. The price of Materials purchased shall include, but shall not be limited to export broker's fees, insurance, transportation charges, loading and unloading fees, import duties, license fees, and demurrage (retention charges) associated with the procurement of Materials, and applicable taxes, less all discounts taken.

4.2 Materials Furnished by Operator. Materials required for operations shall be purchased for direct charge to the Petroleum Operations Account whenever practicable, except the Operator, with the approval of the Joint Steering Committee, may furnish such Materials from its stock under the following conditions:

4.2.1 New Materials (Condition "1"). New Materials transferred from the warehouse or other properties of Operator shall be priced at net cost determined in accordance with Section 4.1 above, as if Operator had purchased such new Material just prior to its transfer.

Such net costs shall in no event exceed the then current market price.

4.2.2 Used Materials (Conditions "2" and "3").

4.2.2.1 Material which is in sound and serviceable condition and suitable for use without repair or reconditioning shall be classed as Condition "2" and priced at seventy-five percent (75%) of such new purchase net cost at the time of transfer in accordance with the 1982 Onshore COPAS Accounting Procedure.

4.2.2.2 Materials not meeting the requirements of Section 4.2.2.1 above, but which can be made suitable for use after being repaired or reconditioned, shall be classed as Condition "3" and priced at fifty percent (50%) of such new purchase net cost at the time of transfer in accordance with the 1982 Onshore COPAS Accounting Procedure. The cost of reconditioning shall also be

charged to the Petroleum Operations Account provided the Condition "3" price, plus cost of reconditioning, does not exceed the Condition "2" price; and provided that Material so classified meet the requirements for Condition "2" Material upon being repaired or reconditioned.

4.2.2.3 Material which cannot be classified as Condition "2" or Condition "3", shall be priced at a value commensurate with its use.

4.2.2.4 Tanks, derricks, buildings, and other items of Material involving erection costs, if transferred in knocked-down condition, shall be graded as to condition as provided in this Section 4.2.2 of Section IV, and priced on the basis of knocked-down price of like new Material.

4.2.2.5 Material including drill pipe, casing and tubing, which is no longer useable for its original purpose but is useable for some other purpose, shall be graded as to condition as provided in this Section 4.2.2 of Section IV. Such Material shall be priced on the basis of the current price of items normally used for such other purpose if sold to third parties.

4.3 Premium Prices. Whenever Material is not readily obtainable at prices specified in Sections 4.1 and 4.2 of this Section IV because of national emergencies, strikes or other unusual causes over which Operator has no control, Operator may charge the Petroleum Operations Account

for the required Material at Operator's actual cost incurred procuring such Material, in making it suitable for use, and moving it to the Agreement Area, provided that notice in writing, including a detailed description of the Material required and the required delivery date, is furnished to the Parties at least 15 Days (or such shorter period as may be specified by Operator) before the Material is projected to be needed for operations and prior to charging the Petroleum Operations Account for such Material the cost of which exceeds One Hundred thousand U.S. dollars (U.S. \$ 100.000).

- 4.4 Warranty of Material Furnished by Operator.** Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Petroleum Operations Account until adjustment has been received by Operator from the manufacturers or their agents.

SECTION V DISPOSAL OF MATERIALS

- 5.1 Disposal.** Operator shall have the right to dispose of Materials but shall advise and secure prior agreement of the Joint Steering Committee of any proposed disposition of Materials having an original cost to the Petroleum Operations Account either individually or in the aggregate of One Hundred Thousand U.S. Dollars (U.S. \$ 100.000) or more. When Petroleum Operations are relieved of Material charged to the Petroleum Operations Account, Operator shall advise Contractor of the original cost of such Material to the Petroleum Operations Account so that the Contractor may eliminate such costs from their asset records. Credits for Material sold by Operator shall be made to the Petroleum Operations Account in the month in which payment is received for the Material. Any Material sold or disposed of under this Section shall be on an "as is, where is" basis without guarantees or warranties of any kind or nature. Costs and expenditures incurred by Operator in the disposition of Materials shall be charged to the Petroleum Operations Account.

- 5.2 Material Purchased by a Party or Affiliate.** Material purchased from the Joint Property by a

Party or an Affiliate thereof shall be credited by Operator to the Petroleum Operations Account, with new Material valued in the same manner as new Material under Section 4.2.1 and used Material valued in the same manner as used Material under Section 4.2.2, unless otherwise agreed by the Joint Steering Committee.

5.3 Division In Kind. Division of Material in kind, if made between the Contractor Parties, shall be in proportion to their respective interests in such Material. Each Contractor Party will thereupon be charged individually with the value (determined in accordance with the procedure set forth in Section 5.2) of the Material received or receivable by it.

5.4 Sales to Third Parties. Material purchased from the Joint Property by third parties shall be credited by Operator to the Petroleum Operations Account at the net amount collected by Operator from the buyer. If the sales price is less than that determined in accordance with the procedure set forth in Section 5.2, then approval by the Joint Steering Committee shall be required prior to the sale. Any claims by the buyer for defective materials or otherwise shall be charged back to the Petroleum Operations Account if and when paid by Operator.

SECTION VI **INVENTORIES**

6.1 Periodic Inventories - Notice and Representation. At reasonable intervals, but at least annually, inventories shall be taken by Operator of all Material on which detailed accounting records are normally maintained. The expense of conducting periodic inventories shall be charged to the Petroleum Operations Account. Operator shall give the Parties written notice at least thirty Days (30) in advance of its intention to take inventory, and the Parties, at their sole cost and expense, shall each be entitled to have a representative present. The failure of any Party to be represented at such inventory shall bind such Party to accept the inventory taken by Operator, who shall in that event furnish each Party with a reconciliation of overages and shortages. Inventory adjustments to the

Petroleum Operations Account shall be made for overages and shortages. Any adjustment equivalent to Fifty Thousand U.S. Dollars (U.S.\$ 50,000) or more shall be brought to the attention of the Joint Steering Committee.

- 6.2 Special Inventories. Whenever there is a sale or change of interest in the Agreement, a special inventory may be taken by the Operator provided that, the seller and/or purchaser of such interest agrees to bear all of the expense thereof. In such cases, both the seller and the purchaser shall be entitled to be represented and shall be governed by the inventory so taken.**



MEMORANDUM OF AGREEMENT

This Memorandum of Agreement is made and entered into by and between:

- (1) Oil & Gas and Petrochemical Establishment (hereinafter referred to as "OGE") representing the Kurdistan Regional Government of Iraq (hereinafter referred to as "KRG") as the party of the first part;**

- (2) Hawler Energy, Ltd., a company incorporated in the Cayman Islands which is a wholly owned subsidiary of Prime Natural Resources, Inc., an American corporation organized under the laws of Texas, and A&T Petroleum Company, Ltd., a company incorporated in Cayman Islands which is a wholly owned subsidiary of PETOIL Petroleum and Petroleum Products International Exploration and Production Incorporated ("PETOIL"), a Turkish corporation (hereinafter Hawler Energy, Ltd. and A&T Petroleum Company, Ltd. are collectively referred to as "Contractor") as the parties of the second part.**

The OGE and the Contractor may sometimes be referred to as "Party" individually or as "Parties" collectively.

W I T N E S S E T H :

WHEREAS, the Parties have executed an Exploration and Production Sharing Agreement Contract covering the Bina Bawi geological structure within the area of the Kurdistan Regional Government of the State of Iraq (the "PSA"); and

A handwritten signature in black ink, consisting of a long horizontal line followed by a stylized, cursive-like mark.

WHEREAS, the Parties have certain understandings they wish to memorialize;

NOW, THEREFORE, the Parties agree as follows:

1. Scholarship

The KRG has advised the Contractor that in appreciation of the sacrifices made by the United States Armed Forces in Iraq, at its discretion it will use a portion of monies it receives under this Agreement to fund college scholarships for the children of American military and government personnel killed or permanently disabled while serving in Iraq.

2. Substitute Field

If the Contractor timely and properly completes the minimum obligatory work program required under Article 5 of the PSA and no Commercial Discovery is made, the KRG and the OGE will offer Contractor a production sharing agreement on substantially the same terms as the PSA covering an area considered to be prospective of oil.



Signed and sealed this 29th day of March, 2006.

For OGE

For Contractor

HAWLER ENERGY, LTD.

By: 

**Sarbaz Hawrami
Chief Executive Officer
and Chairman of OGE**

By: 

AND

**A&T PETROLEUM COMPANY,
LTD.**

By: 

**Approved and certified on behalf of the
Kurdistan Regional Government**

By: 

**Nechirvan Barzani
Prime Minister
Kurdistan Regional Government**