

PRODUCTION SHARING AGREEMENT

BETWEEN

INTERIM JOINT REGIONAL ADMINISTRATION OF NORTHERN  
IRAQ

REPRESENTED BY

REGIONAL GOVERNMENT (SULAIMANIYAH)

AND

PET OIL  
PETROLEUM AND PETROLEUM PRODUCTS INTERNATIONAL  
EXPLORATION  
AND PRODUCTION INC.

DATED

JANUARY 14<sup>th</sup>, 2003

## TABLE OF CONTENTS

Preamble	.....	4
Article 1	Definitions.....	4
Article 2	Scope of Agreement and General Provisions .....	11
Article 3	Agreement Area .....	12
Article 4	Agreement Term.....	12
Article 5	Relinquishments .....	12
Article 6	Co-ordination Committee .....	13
Article 7	Operator Responsibility.....	15
Article 8	Procedure for Determination of Commerciality and Approval of Development Plans.....	16
Article 9	Annual Work Programs and Budgets.....	18
Article 10	Allocation of Production, Recovery of Costs and Expenses, Production Sharing and Right of Export.....	20
Article 11	Crude Oil Valuation.....	22
Article 12	Ancillary Rights of the Contractor and Operator .....	23
Article 13	Assistance Provided by the Governorate .....	25
Article 14	Measurement of Petroleum.....	25
Article 15	Natural Gas .....	26
Article 16	Tax/Fiscal Regime .....	28
Article 17	Accounting, Financial Reporting and Audit.....	29
Article 18	Currency, Payments and Exchange Control .....	29
Article 19	Import and Export .....	30
Article 20	Export of Hydrocarbons, Transfer of Ownership and Regulations for Disposal.....	31
Article 21	Ownership of Assets.....	31
Article 22	Insurance, Environment, Health, Safety and Liability .....	32
Article 23	Personnel .....	35
Article 24	Force Majeure .....	36
Article 25	Assignments and Guarantees.....	36
Article 26	Agreement Enforcement and Stabilisation and Representations and Warranties .....	38
Article 27	Notices and Confidentiality .....	40
Article 28	Termination and Breach.....	41
Article 29	Dispute Resolution.....	42
Article 30	Text .....	42



Article 31	Effective Date and the Commencement of Operations .....	42
ANNEX A	AGREEMENT AREA .....	Total (1) page
ANNEX B	ACCOUNTING PROCEDURE .....	Total (15) pages

A handwritten signature or mark consisting of several overlapping, diagonal strokes, possibly representing the letter 'K' or a similar symbol.

## PRODUCTION SHARING AGREEMENT

This Agreement is made and entered into on January 14th, 2003 by and between:

- (1) Regional Government of Sulaimaniyah (hereinafter referred to as "Governorate"), of the Interim Joint Regional Administration of Northern Iraq (hereinafter referred to as "Northern Iraq Administration") as the party of the first part;
- (2) as party of the second part, PetOil Petroleum and Petroleum Products International Exploration and Production Inc. (hereinafter referred to as "Contractor").

The Northern Iraq Administration and/or Governorate and the Contractor may sometimes be referred to as "Party" and collectively as the "Parties".

### **WITNESSETH:**

WHEREAS, Patriotic Union of Kurdistan and Kurdistan Democratic Party together with the Department of State of the United States of America entered into the Final Statement on September 17, 1998 in Washington D.C. (hereinafter referred to as "Final Statement")

WHEREAS, the Final Statement is determining the administration of the Northern Iraq as well as the governmental rights,

WHEREAS, Northern Iraq Administration; in the context of its commitment to Iraq's territorial integrity; enters into this Agreement wishing to promote the development of the Agreement Area and Contractor desires to join and assist in the exploration, development and production of the potential resources within the Agreement Area;

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

WHEREAS, Governorate is the current holder of the oil and gas usage right in respect of the Agreement Area; and

WHEREAS the Parties have agreed that in order to promote the development of hydrocarbon resources in Northern Iraq Administration and to promote international investment in Northern Iraq Administration, Petroleum Operations should be carried out pursuant to the terms of this Agreement.

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) in which a Contractor Party owns directly or indirectly more than fifty percent (50%) of the shares, voting rights or otherwise has the right to establish management policy; or
  - ii) in which at least fifty percent (50%) of the shares or voting rights are owned directly or indirectly by a company or other legal entity, which owns directly or indirectly more than fifty percent (50%) of the shares, voting rights or otherwise has the right to establish management policy of a Contractor Party;
- 1.3 "Agreement" or "PSA" means this 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, as reduced or enlarged from time to time in accordance with the provisions of this Agreement.
- 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 Northern Iraq Administration and/or Governorate;
- 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 10.3.



- 1.12 "Available Natural Gas" means Natural Gas produced and saved from the Agreement Area and not used in Petroleum Operations.
- 1.13 "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.
- 1.14 "Budget" means the estimate of the expenditures, listed category-by-category, relating to Petroleum Operations and contained in any Work Program proposed by Contractor.
- 1.15 "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.
- 1.16 "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.
- 1.17 "Capital Expenditures" means Development Expenditures, Exploration Expenditures and Drilling Costs.
- 1.18 "Commercial Discovery" means a discovery of Petroleum that the Contractor in its sole discretion in accordance with the provisions of Article 8 commits itself to develop and produce under the terms of the Agreement.
- 1.19 "Commercial Production" means regular and continuous production of Petroleum from a Development Area in such quantities (taking into account any other relevant factors) as are worthy of commercial development.
- 1.20 "Contractor" means PetOil Petroleum and Petroleum Products International Exploration and Production Inc.
- 1.21 "Co-ordination Committee" means the committee composed of representatives of the Contractor and the Governorate constituted in accordance with Article 6.
- 1.22 "Cost Recovery Petroleum" means Cost Recovery Crude Oil and Cost Recovery Natural Gas.
- 1.23 "Cost Recovery Crude Oil" is defined as set forth in Article 10.4.
- 1.24 "Cost Recovery Natural Gas" is defined as set forth in Article 10.4.
- 1.25 "Costs and Expenses" comprise the Exploration Expenditures, Development Expenditures, Operation Expenses and Drilling Costs together with Finance Costs whether directly or indirectly incurred by Contractor.
- 1.26 "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.



- 1.27 "Cumulative Production" means the cumulative total crude oil production less Reserved Crude Oil from the Agreement Area commencing from the date of the Transfer of the Operations of the Field to the Contractor.
- 1.28 "Current Legislation" means laws, legislative acts, and normative documents that are effective on the Effective Date in the Northern Iraq Administration.
- 1.29 "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 Northern Iraq Administration with respect to the import or export of materials, equipment, goods and any other similar items.
- 1.30 "Development Area" means all or any part of the Agreement Area specified in an approved Development Plan.
- 1.31 "Development Expenditures" means all Costs and Expenses for Development Operations with the exception of Operation Expenses and Drilling Costs whether directly or indirectly incurred, including but not limited to training, administration, service, Finance Costs 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" or "Development Work" 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 a well that the Contractor 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 Northern Iraq Administration.



- 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 all Parties have signed this Agreement.
- 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 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 Expenditures" 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, Finance Costs 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 "Finance Costs" or "Interest Costs" shall include all amounts of interest, fees and charges paid in respect of any debt incurred in carrying out the Petroleum Operations and any refinancing of such debts, providing that in the case of Affiliate debt, it shall include interest only to the extent that it does not exceed a rate which would have been agreed upon between independent parties in similar circumstances and such interest is not limited by which assets or services are purchased by the loan principal.
- 1.45 "Force Majeure" is defined as set forth in Article 24.2.
- 1.46 "Foreign Employee" is the employees of the Contractor Party, Operator and Subcontractor with a nationality other than Iraq.
- 1.47 "Foreign Subcontractors" means Subcontractors, which are organised outside of Northern Iraq Administration and under Current Legislation are not obliged to establish permanent representative offices in Northern Iraq Administration.
- 1.48 "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 15.2.





- 1.49 "Gas Field" means a field from which more than fifty (50) percent of the estimated reserves comprise of Natural Gas.
- 1.50 "Joint Operating Agreement" or "JOA" means the agreement to be concluded if necessary between the Contractor and the third parties, which shall be supplementary to and consistent with the provisions of this Agreement and which shall regulate the terms under which Petroleum Operations will be conducted.
- 1.51 "LIBOR" means the three (3) months U.S. Dollars London Interbank fixing offer rate quoted daily in the London Financial Times.
- 1.52 "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.
- 1.53 "Month" or "Calendar Month" means a calendar month.
- 1.54 "Natural Gas" means Non-associated Natural Gas and Associated Natural Gas in their natural state.
- 1.55 "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.
- 1.56 "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.
- 1.57 "Northern Iraq Administration" or "Government" means the Northern Iraq Administration, 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; the word "Governmental" shall be construed accordingly.
- 1.58 "Oil Field" means a field from which more than fifty (50) percent of the estimated reserves comprise Crude Oil.
- 1.59 "Operation Expenses" means those costs incurred in day-to-day Petroleum Operations, whether directly or indirectly incurred 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.
- 1.60 "Operator" means the Contractor or a company to be established by the Contractor to conduct Petroleum Operations.



- 1.61 "Party" or "Parties" means the PetOil Petroleum and Petroleum Products, International Exploration and Production Inc. and the Governorate and their successors and assignees.
- 1.62 "Payment Date" has the meaning as defined in 10.9.
- 1.63 "PetOil Petroleum and Petroleum Products International Exploration and Production Inc." means the legal entity established in accordance with the laws of the Republic of Turkey.
- 1.64 "Petroleum" means Crude Oil and Natural Gas.
- 1.65 "Petroleum Operations" means the Exploration Operations; the Development Operations, Production Operations, and transportation to the Measurement Point and other activities related thereto carried out pursuant to this Agreement and the JOA.
- 1.66 "Petroleum Operations Account" shall have the meaning given to it in paragraph 4.1 of section I of the Accounting Procedure.
- 1.67 "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.
- 1.68 "Profit Natural Gas" is defined as set forth in Article 10.9.
- 1.69 "Profit Oil" is defined as set forth in Article 10.9.
- 1.70 "Profit Petroleum" means Profit Natural Gas and Profit Oil.
- 1.71 "Study Area" means the part of the Agreement Area, which will be defined in a Study Program.
- 1.72 "Study Program" means the program to be produced and carried out by the Contractor in accordance with Article 8 following the conclusion that Commercial Production is feasible.
- 1.73 "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.
- 1.74 "Third Party" or "Third Parties" means one or more of a natural person or juridical entity other than a Party hereto and any Affiliate of a Party.
- 1.75 "Taxes" means all levies, duties, payments, fees, taxes or contributions payable to or imposed by Governmental agencies, Governmental subdivisions or republican, municipal or local authorities within the Government of Northern Iraq Administration or within the government of Iraq and Tax shall be construed accordingly.
- 1.76 "Transfer of Operation" means the day, the Petroleum Operations in the Field are transferred to the Contractor on the date the Contractor completes the



mobilisation of its office and personnel, within 45 (forty five) days following the fulfilment of the conditions indicated in Article 31.2.

- 1.77 "VAT" means Northern Iraq Administration value added tax.
- 1.78 "Work Program" and "Work Program and Budget" means any work program and work program and Budget to be submitted to the Co-ordination 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 The approval of this Agreement by the Governorate should not be deemed as a challenge of the territorial integrity of Iraq and Governorate hereby ratifies the rights in the Agreement Area according to the Current Legislation.
- 2.2 Subject to the terms and conditions of the Agreement, the Northern Iraq Administration 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.
- 2.3 Contractor shall be responsible to the Governorate for the execution of such Petroleum Operations in accordance with the provisions of the Agreement.
- 2.4 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.
- 2.5 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 Profit Petroleum as described in Article 10. If Petroleum produced from Development Areas within the Agreement Area developed by Contractor, Cost Recovery Petroleum under Article 10 and Profit Oil and Profit Natural Gas is insufficient to reimburse Contractor for Costs and Expenses incurred by Contractor, Contractor shall bear its own losses in respect of any shortfall.
- 2.6 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.
- 2.7 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 Governorate and the Contractor in accordance with the provisions of Article 10 of this Agreement



- 2.8. It is agreed that the Operator shall be the Contractor unless changed by the Contractor with a nother Operator. That a ppointment s hall b e effective from the date it is notified to all concerned Parties. Following the appointment the Operator shall act as the designated non-profit agent of the Contractor for the conduct of Petroleum Operations in accordance with this Agreement and any future JOA to be entered into.

### ARTICLE 3

#### AGREEMENT AREA

- 3.1 The Agreement Area includes the Chiasorkh, Kifri and Cemcernal Fields as set out by the geographic location and co-ordinates described in Annex "A" attached hereto and delineated in the map, which forms part thereof. The total area of the Agreement Area may hereafter be reduced only in accordance with the provisions of this Agreement.
- 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, any other entity 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 Northern Iraq Administration.

### ARTICLE 4

#### AGREEMENT TERM

- 4.1 The term of the Agreement shall be deemed to have begun on the Transfer of Operations Date and shall continue for a total of forty (40) consecutive Agreement Years, unless the Agreement is sooner terminated in accordance with Article 28 of this Agreement.
- 4.2 If in respect of any Development Area, Commercial Production remains possible beyond the initial period of forty (40) consecutive Agreement Years specified in Article 4.1 the Contractor, after giving notice to the Governorate at least one (1) year prior to the end of any such period, and after obtaining approval by the Co-ordination Committee of a revised Development Plan shall be given priority to have an extension of the term of this Agreement with respect to such Development Area for an additional term of five (5) years or the producing life of the Development Area, whichever is lesser, subject to the approval of the Governorate, and such approval shall not be unreasonably withheld.

### ARTICLE 5

#### RELINQUISHMENTS

- 5.1 Contractor may at any time relinquish voluntarily all or any part of the Agreement Area without any further liability. The area designated under Article 5.1 for relinquishment shall consist as far as practicable of rectangular blocks bounded by lines running due north and south and due east and west

and shall not be less than five (5) square kilometres. The area designated for relinquishment need not consist of one contiguous area.

## ARTICLE 6

### COORDINATION COMMITTEE

- 6.1 For the purpose of providing the overall supervision and direction of and ensuring the performance of the Petroleum Operations, Governorate and Contractor shall establish a Co-ordination Committee within forty-five (45) days of the Effective Date.
- 6.2 The Co-ordination Committee shall comprise a maximum total of four (4) members. The Governorate shall appoint a total of two (2) representatives and Contractor shall appoint two (2) representatives to form the Co-ordination Committee. All the aforesaid representatives shall have the right to attend and present their views at meetings of the Co-ordination Committee. Each representative shall have the right to appoint an alternate who shall be entitled to attend all meetings of the Co-ordination 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 Co-ordination Committee shall be one of the representatives designated by the Governorate (or his alternate), and the first Vice Chairman shall be the chief representative designed by the Contractor. (or his alternate). The Chairman and Vice Chairman shall be appointed for a term of two (2) years. The Chairman of the Co-ordination Committee shall preside over meetings of the Co-ordination Committee and in the absence of the Chairman (or his alternate); the Vice-Chairman shall preside. Such Parties may designate a reasonable number of advisers, who may attend, but shall not be entitled to vote at, Co-ordination Committee meetings.
- 6.4 A regular meeting of the Co-ordination Committee shall be held at least twice every year. The Secretary to be designated pursuant to Article 6.9 shall be responsible for calling such regular meetings of the Co-ordination 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 Co-ordination Committee to:
- a) review and examine any Work Program and Budget proposed by the Contractor and any amendment thereof;
  - b) determine the commerciality of each proposed Development Plan;
  - 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 Five Hundred Thousand U.S.\$ (U.S.\$

500,000) or any single purchase order of total monetary value exceeding One Million U.S. \$ (U.S.\$1,000,000);

- ii) approve a lease of equipment, or an engineering sub agreement or a service agreement within the Budget worth more than Five Hundred Thousand U.S. \$ (US\$500,000) in total; and
- iii) approve excess expenditures pursuant to Article 9.5 hereof and the expenditures pursuant to Article 9.6 hereof;
- d) demarcate boundaries of a Development Area;
- e) review and approve the insurance program proposed by the Contractor and emergency procedures on safety and environmental protection; in addition all programmes and budgets which are in connection with environmental protection;
- f) review and approve personnel policies, selection and training programs for 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 affected;
- g) discuss, review, decide and approve other matters that have been proposed by either Party or the Operator;
- h) review and discuss the development work and technological regimes proposed by the Parties; and
- i) appoint sub-committees to meet from time to time to review any aspect of Petroleum Operations, which the Co-ordination Committee thinks fit.

6.6 Meeting quorum of the Co-ordination Committee shall require the presence of at least one representative from each of the Parties. Decisions of the Co-ordination Committee shall be made by unanimous decision of the representatives present and entitled to vote. Each representative will have one 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 Co-ordination Committee without convening a meeting, with the Co-ordination Committee making decisions through electronic means or the circulation of documents.

6.8 The Co-ordination Committee shall nominate a Secretary, to record minutes of the meetings of the Co-ordination Committee, and may establish technical and other advisory sub-committees. The Secretary shall take a record of each proposal voted on and the results of such vote at each meeting of the Co-ordination 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 Co-ordination 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 a 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 Co-ordination Committee shall be paid or reimbursed by the Contractor and charged to Operation Expenses in accordance with the Accounting Procedure.

## **ARTICLE 7**

### **OPERATOR RESPONSIBILITY**

- 7.1 The Parties agree that the Contractor shall act as the Operator for Petroleum Operations within the Agreement Area in accordance with approved Work Programs and Budgets unless otherwise stipulated in this Article 7, until the appointment of an Operator by the Contractor.
- 7.2 The Operator shall have the following obligations:
- a) to perform the Petroleum Operations reasonably, economically and efficiently in accordance with directions received from the Co-ordination Committee;
  - b) to conduct (implement) the Work Programs and Budgets approved by the Co-ordination Committee;
  - c) to be responsible for purchasing facilities, equipment and miscellaneous material and enter into subcontracts and service contracts at Contractor's instruction with service providers and vendors related to the Petroleum Operations, in accordance with approved Work Programs and Budgets and instructions from Contractor;
  - d) to prepare and submit for approval a personnel training program and its annual budget and carry out the same as approved by the Co-ordination 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 Co-ordination Committee, and to submit to the Co-ordination Committee information related to the matters to be reviewed and approved by the Co-ordination Committee;
  - g) to provide reports to the Co-ordination Committee on Petroleum Operations conducted under this Agreement.



- 7.3 Operator and its shareholders shall not be responsible for any activities (including Petroleum activities) affecting the Agreement Area prior to the Effective Date.
- 7.4 The Operator shall provide both Parties with copies of all relevant data and reports pertaining to Petroleum Operations (including but not be limited to geophysical, geological, technological, operational, accounting or other material) required by such Parties.
- 7.5 The Parties agree to use their best endeavours to agree and execute a Joint Operating Agreement should the Parties consider it necessary after appointment of an Operator other than the Contractor. Any Joint Operating Agreement to be entered into shall be based on the Association of International Petroleum Negotiators Model International Joint Operating Agreement then current and shall be subject to, wholly consistent with and shall not detract from the provisions of this Agreement.

## **ARTICLE 8**

### **PROCEDURE FOR DETERMINATION OF COMMERCIALITY AND APPROVAL OF DEVELOPMENT PLANS**

- 8.1 If, at any time Contractor concludes that Commercial Production (or significant additional Commercial Production if Commercial Production has previously been established) from the Agreement Area is feasible, it shall notify the Northern Iraq Administration within forty-five (45) days of reaching such a conclusion.
- 8.2 Within forty-five (45) days of receipt of such notice, Contractor shall in the first instance present to the Co-ordination Committee for approval a proposed Study Program which shall be deemed approved if no written objections are raised by any member of the Co-ordination Committee within thirty (30) days following receipt thereof. The proposed Study Program shall specify in reasonable detail the appraisal work including seismic, drilling of wells and studies to be carried out and the estimated time frame within which the Contractor shall commence and complete the program and also appropriate budgets.
- 8.3 Thereafter the Contractor shall carry out the Study Program approved by the Co-ordination Committee. Within ninety (90) days after completion of such Study Program, the Contractor shall submit to the Co-ordination Committee a comprehensive evaluation report on the Study Program. Such evaluation 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 evaluation report, the Contractor shall submit to the Co-ordination Committee a written declaration including one of the following statements:





- a) that the Commercial Production previously notified to the Northern Iraq Administration pursuant to Article 8.1 is feasible;
  - b) that such Commercial Production is not feasible (contrary to the notice containing Contractor's initial expectations); or
  - c) that Commercial Production will be conditional on the outcome of further specified work that the Contractor commits to carry out under a further Exploration or Study Program in specified areas within or outside the relevant Study Area.
- 8.5 In the event the Contractor makes a declaration under Article 8.4(c) above, Contractor shall be entitled to retain the relevant Study Area pending the completion of the further work committed under that Article, at which time the Contractor shall advise the Co-ordination 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 Commercial Production is feasible, the Contractor shall submit to the Co-ordination Committee (a) a proposed Development Plan in respect of the relevant Commercial Discovery (containing the matters specified in Article 8.7 and 8.8) and (b) a proposed designation of the Development Area, both of which shall be subject to the Co-ordination Committee's approval. Such approval will not be unreasonably withheld or delayed, provided that each shall be deemed approved as submitted if no written objections are presented thereto by any member of the Co-ordination Committee within forty-five (45) days of receipt. Upon approval being granted or deemed as provided under this Article 8.6, the Contractor, with any requested assistance from the 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 The 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 Development Area. It will detail any facilities and infrastructure, which may be required up to the Measurement Point, either inside or outside of the Development 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 relevant Development 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 Development 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 Governorate 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 Development 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 recoverable as Operation Expenses from Cost Recovery Petroleum 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 Governorate 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 Co-ordination 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, the 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 Co-ordination Committee or relinquish the Development Area.
- 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, non-import/non-export 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 Operation Expenses in accordance with Article 10 of the Agreement and 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 Sub Contractors including Foreign Sub Contractors and others arising out of Petroleum Operations, all in accordance with approved Work Programs and Budgets. Operator shall assist the Contractor when requested in respect of the matters set out in the previous sentence, and shall implement domestic procurement operations as provided in Clause 7.2.(c) in accordance with approved Work Programs and Budgets.

- 9.2 Contractor shall submit to the Co-ordination Committee a minimum Work Program for the year 2003 and the corresponding Budget within thirty (30) days following the Transfer of Operation.
- 9.3 Before the 31st October of each Calendar Year, the Contractor shall prepare and submit to the Co-ordination Committee for its review a proposed annual Work Program and Budget for the next Calendar Year. If the Co-ordination 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 Co-ordination Committee. The Co-ordination Committee shall approve each Work Program and Budget within forty five (45) days after receipt of it. If the Co-ordination 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 Co-ordination Committee, shall be deemed to have been approved by the Co-ordination Committee.
- 9.4 In connection with the review and approval of the annual Work Program and Budget, the Contractor and Operator shall submit to the Co-ordination Committee such supporting data as reasonably requested by the Co-ordination 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 Co-ordination Committee for confirmation.
  - b) For the efficient and as required operative performance of Petroleum Operations, the Contractor may, without approval, undertake certain individual projects which are not included in the Work Program and Budget, for a maximum expenditure of One Hundred Thousand U.S.\$ (U.S.\$100,000), but shall, within ten (10) days after such expenditures are incurred, report to the Co-ordination Committee for confirmation.
  - c) 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 Co-ordination Committee and obtain its approval prior to incurring such expenditures.



- 9.6 In case of emergency (as in where there is an immediate threat to life or property), the Contractor may incur emergency expenditures for the amount actually needed but shall report such expenditures to the Co-ordination Committee as soon as they are made. The said emergency expenditures shall not be subject to Article 9.5 above.
- 9.7 Petroleum Operations will only be performed in accordance with the approved or modified annual Work Program and Budget, otherwise they will not be deemed to be Costs and Expenses and will not be treated as Cost Recoverable.

#### ARTICLE 10

#### ALLOCATION OF PRODUCTION, RECOVERY OF COSTS AND EXPENSES, PRODUCTION SHARING, AND RIGHT OF EXPORT

- 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. An appropriate paper shall be executed for the use of such Petroleum.
- 10.3 Available Crude Oil and Available Natural Gas (hereinafter referred to collectively as "Available Petroleum") after reducing the Petroleum used for Petroleum Operation in accordance with Article 10.2 shall be measured at the applicable Measurement Point and allocated as set forth hereinafter.
- 10.4 Contractor shall be entitled to recover all Costs and Expenses incurred in respect of Petroleum Operations in a following manner:
- a) Operations Expenses will firstly be recovered from the Available Petroleum;
  - b) Capital Expenditures will be recovered from remaining Available Petroleum (hereinafter referred to as "Cost Recovery Crude Oil" and "Cost Recovery Natural Gas" and collectively "Cost Recovery Petroleum" as appropriate), following the recovery of Operations Costs, in the percentages as defined below:
    - (i) During the phase where Available Petroleum can not be exported but only sold in the local market in the Northern Iraq



Administration, such phase as determined by the Co-ordination Committee, ninety percent (90%); and

- (ii) During the phase where Available Petroleum can be exported to other markets, such phase as determined by the Co-ordination Committee, eighty percent (80%).

Costs and Expenses shall be recovered in a manner consistent with the Accounting Procedure and Article 10.5.

- 10.5 Costs and Expenses shall be recoverable from Available Petroleum on a first in, first out basis (ie. 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.
- 10.6 To the extent that in a Calendar Year outstanding recoverable Costs and Expenses related to the Agreement Area exceed the value of all Available Petroleum from the Agreement Area for such Calendar Year, the excess shall be carried forward for recovery in the next succeeding Calendar Years until fully recovered, but in no case after termination of the Agreement.
- 10.7 Recovery of Costs and Expenses shall be achieved by transferring to a Party 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.
- 10.8 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.
- 10.9 Following recovery of Costs and Expenses from Available Petroleum in accordance with the provisions of this Article 10, the remaining Petroleum including any portion of Cost Recovery Petroleum not required for recovery of Capital Expenditures (hereinafter referred to as "Profit Oil" or "Profit Natural Gas" and collectively "Profit Petroleum") shall be allocated between the Parties in the following proportions, over each Calendar Quarter:

The Profit Petroleum will be shared between:

Governorate's Share - fifty one percent (51%)

Contractor's Share - forty nine percent (49%)

- 10.10 Contractor shall prepare and provide the Governorate 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.
- 10.11 Crude Oil shall be measured at the Measurement Point for purposes of the Agreement and delivered to the Governorate and Contractor and each such Party as owners shall take in kind, assume risk of loss and separately dispose of their respective entitlements of Cost Recovery Oil and Profit Oil. All Cost

Recovery Natural Gas and Profit Natural Gas shall be sold by the Contractor in accordance with the principles of the Agreement. The Northern Iraq Administration may agree that All Cost Recovery Oil and Profit Oil shall be sold by the Contractor on behalf of the Governorate within the same principles.

- 10.12. For the avoidance of any doubt, title to their relevant shares of Petroleum shall pass to the Governorate and to the Parties as appropriate at the Measurement Point.
- 10.13 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.

#### ARTICLE 11

##### CRUDE OIL VALUATION

- 11.1 Parties agree that the value of Petroleum should reflect the actual price received by the Contractor for the said Petroleum. Given that the Contractor can demonstrate that Petroleum is being sold to an independent third party on an arms length basis, then the Crude Oil shall be valued as the actual revenues received by the Contractor for sales of Crude Oil at the Measurement Point (adjusted if necessary for transportation, storage and processing costs). If however such an independent third party sale cannot be demonstrated, or at the discretion of the Contractor, then the Parties agree that the value of the Crude Oil, if sold on International Markets, shall be adjusted to the international market price for Crude Oil from time to time. In this case, for the purpose of determining the value of the Petroleum taken and disposed of by the Parties and/or their assignees under this Agreement during each Calendar Quarter, the Parties shall, prior to the date of Commercial Production, agree upon the basket of Crude Oil freely traded in international markets and referred to in subparagraph a) below and the value of the Petroleum shall be adjusted to reflect the weighted average of daily f.o.b. prices for Agreement term of sales from Petroleum producing countries in international markets for the same Calendar Quarter of such basket of crude oil, it being understood that the following principles will apply:
- a) The weighted average of the basket shall be such that the average gravity of the basket and the average gravity of the Crude Oil produced under this Agreement are equal; and
  - b) The prices for individual referenced crude oil markers used within the basket shall be based upon the numerical average of a daily report of the actual price for each referenced crude oil marker as published in agreed internationally recognised publications; and
  - c) Adjustment provisions will be incorporated into the basket formula to take account of transportation costs involved in Crude Oil produced



under this Agreement arriving at a designated sales point (where the sales point is not the Measurement Point) and to take account of gravity variation beyond a pre-agreed range; and

- d) Unless agreed otherwise, the last calculated weighted average basket price shall serve as the provisional price for a Calendar Quarter until a new price is determined.
- 11.2. In the event that the Parties are unable to agree upon the basket of Crude Oil envisaged in Article 11.1 above, or the principles relating thereto, then either of the Parties may refer the question for a final, non-revisable determination by an independent expert designated by the UK Institute of Petroleum. Pending such determination, the price shall be as determined in Article 11.1(d) above.
- 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 provision in Article 11.1, 11.2 and 11.3 will also be applicable in case the Governorate decides that the Contractor will sell its Profit Oil or Profit Natural Gas for the actual payment to be paid by the Contractor.

## **ARTICLE 12**

### **ANCILLARY RIGHTS OF THE CONTRACTOR AND OPERATOR**

- 12.1 In addition to the rights to carry out Petroleum Operations within the Agreement Area, the Governorate shall provide or otherwise procure access to Contractor to all existing facilities and infrastructure in the Agreement Area owned by the Northern Iraq Administration for the purpose of carrying out its Petroleum Operations during the term of the Agreement. Such access shall be on terms as regards access and tariffs no less favourable than those offered to other persons or entities, in addition, in any case within the Petroleum Law. The Contractor will reimburse the value determined, for the supporting facilities utilised by the operation personnel (excluding Petroleum Production facilities), decided to be used by the Contractor. Such determination will be made within two (2) months following the Transfer of the Operations, by the Co-ordination Committee and the reimbursement to be made within one (1) year in equal instalments. .
- 12.2. Provided that, the Governorate are submitted information below, the 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 by the Governorate. In the event that any information is to be sold on confidential basis to any third party by the Parties

(consent on which is required from the Parties) profit shall be distributed in accordance with the share of Profit Oil under the Article 10.

- 12.3 The Contractor shall have the right to conduct all geoscience, engineering, environmental and geodetic studies it deems necessary to carry out Petroleum Operations under the Work Program. Said studies may include, but are not limited to: seismic surveys, magnetic 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 and samples to laboratories outside the Northern Iraq Administration to conduct such studies.
- 12.4 Subject to (i) prior approval by the Co-ordination Committee; and (ii) prior consent and/or permit with any necessary local administration or governmental bodies or Governorate and relevant landowners, the 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, maritime storage facilities and such, 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 in accordance with the Current Legislation.
- 12.5 The agents, employees and personnel of both Contractor and 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 Subject to prior consent of any appropriate local governmental bodies and the relevant landowners the 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 only in accordance with the Current Legislation. The 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 The Contractor shall have the right to use existing pipeline and terminal facilities belonging to or under the control of the Northern Iraq Administration. The Governorate shall assist in making these facilities available to the





Contractor on terms with regard to access and tariffs that are no less favourable than those made available to others.

### **ARTICLE 13**

#### **ASSISTANCE PROVIDED BY THE GOVERNORATE**

- 13.1 To enable the Contractor to properly carry out the Petroleum Operations, the Governorate 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 Northern Iraq Administration;
  - b) arrange for Foreign Exchange to be converted in accordance with the principles set out in Article 18.9 of this Agreement;
  - c) use 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 Northern Iraq Administration and who come to Northern Iraq Administration to implement the Agreement and to provide assistance for their transportation, travel and medical facilities whilst in Northern Iraq Administration;
  - f) provide necessary permits to send abroad documents, data and samples for analysis or processing during the Petroleum Operations;
  - g) contact and instruct appropriate departments and ministries of the Northern Iraq Administration and any other bodies controlled by the Northern Iraq Administration 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; and
  - i) provide to the Contractor data and samples if such data and samples exist concerning the Agreement Area other than those produced as a result of Petroleum Operations.

### **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 organisation. 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 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 approval of the Governorate on using the meter is necessary.
- 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 Co-ordination 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).

## 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 Production 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 Co-ordination Committee, so that not to interfere with normal oil production. Besides, in order to avoid any doubt, both the plan and the Operator's activities under the plan shall exclude pollution and correspond to relevant standards effective in Current Legislation
  - 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 required to develop 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 15.1 b) i).
- c) The price of Associated Natural Gas produced from the Agreement Area shall be determined by the Parties based on general 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 Article 10 allocation rights. Gas sales prices shall be denominated in U.S.\$.



- d) Investments made in conjunction with the 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 utilisation of Excess Associated Natural Gas, shall be charged to Operation Expenses.

#### 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

#### TAX/FISCAL REGIME

- 16.1 This Article shall apply to each Contractor Party individually.
- 16.2 Each Contractor Party, Operator and their Subcontractors and Foreign Employees shall be subject to Taxes in accordance with the Current Legislation. Each Contractor Party, Operator and their Subcontractors and Foreign Employees shall be entitled to full and complete exemption from all Taxes promulgated after the Effective Date of this Agreement except as otherwise provided for in this Agreement.
- 16.3 It is acknowledged that Double Tax Treaties will have effect to give relief from Taxes to, but not limited to, Operator, Contractor, Contractor Parties, Foreign Subcontractors and Foreign Employees in accordance with the provisions of such Double Tax Treaties, but not otherwise.
- 16.4 The Governorate, its successors or assignees will assume, pay and discharge, in the name and on behalf of each Operator, Contractor, Contractor Party, Subcontractor, and their Employee's all Tax liabilities during the term of the Agreement. The Governorate will assume all Taxes to be levied on the calculation of the local sales of the crude oil and/or petroleum products price at the entrance of the local refinery or following the refining process.
- 16.5 The obligation to assume, pay and discharge each Contractor Party's payment set out above by Governorate in accordance with the provisions of Article 16.4 shall fulfil the entire tax liability of each Contractor Party including the VAT on local sales.
- 16.6 Each Contractor Party shall maintain its tax books and records both in local currency and in U.S.\$.
- 16.7 Governorate shall furnish to each Contractor Party the proper official receipts that evidence official payment that Contractor Party's Tax liability for a Calendar Year is fully satisfied, by 30 April following the Calendar Year.
- 16.8 Governorate shall assume, pay and discharge any penalties, interest, fines or similar levies for late payment of Tax liabilities as indicated in Article 16.4, in respect of any Calendar Year.

- 16.9. The Contractor will be entitled to offset the Taxes to be paid by the Governorate as indicated in Article 16.2. above, from the Governorate's share as set out in Article 10.9., in case of the failure of the Governorate.

## **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 Northern Iraq Administration 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 annual basis Contractor shall submit to the Governmental agency an internationally recognised audit's report on Costs and Expenses incurred, that 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. Governorate shall have the right to audit the books and accounts maintained by Contractor.

## **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 Northern Iraq Administration and local currency bank accounts inside Northern Iraq Administration. Such operations performed in Northern Iraq Administration will comply with Current Legislation.
- 18.2 Contractor and each Contractor Party, and their Affiliates shall have the right to transfer all funds received in and converted to Foreign Exchange in Northern Iraq Administration without payment of Taxes, fees, duties or imposts to bank accounts outside Northern Iraq Administration.
- 18.3 Contractor and each Contractor Party, and their Affiliates and Foreign Subcontractors shall have the right to hold, receive and retain outside Northern Iraq Administration and freely use all funds received and derived



from Petroleum Operations by them outside Northern Iraq Administration without any obligation to repatriate or return the funds to Northern Iraq Administration, including but not limited to all payments received from export sales of Contractor Parties' 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 have the right to import into Northern Iraq Administration funds required for Petroleum Operations under this Agreement in Foreign Exchange.
- 18.5 Contractor and each Contractor Party, and their Affiliates and Foreign Subcontractors shall have the right to pay outside of Northern Iraq Administration 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 Northern Iraq Administration 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 legislation.
- 18.7 Contractor and each Contractor Party, and their Affiliates and Foreign Subcontractors shall have the right to pay outside Northern Iraq Administration principal and interest on loans used for funding Petroleum Operations without having to first transfer to Northern Iraq Administration the funds for such payment.
- 18.8 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 Northern Iraq Administration in Foreign Exchange partly or wholly outside of Northern Iraq Administration.
- 18.9 Conversions of currency shall be recorded at the rate actually experienced in that conversion. Expenditures and sales revenues in currency other than the U.S.\$ shall be translated to U.S.\$ at the rates officially published by [ National Bank of the Northern Iraq Administration ] at the close of business on the first business day of the current month.

## **ARTICLE 19**

### **IMPORT AND EXPORT**

- 19.1 Contractor, each Contractor Party and Affiliates and their agents and Operator shall have the right to import into, export and re-export from Northern Iraq Administration in accordance with the Current Legislation.
- 19.2 Contractor, each Contractor Party and Affiliates and their agents shall have the right to sell any materials or equipment or goods which were used in Petroleum Operations provided that such items are no longer needed for Petroleum Operations and the costs of such items have not been and are not



intended to be included as Costs and Expenses recoverable from Available Petroleum.

- 19.3 Contractor, each Contractor Party, their customers and their carriers shall have the right to export the share of Petroleum on behalf of Contractor or each Contractor Party in accordance with Current Legislation.
- 19.4 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 Northern Iraq Administration household goods and personal property at any time in accordance with the Current Legislation.

## ARTICLE 20

### EXPORT OF HYDROCARBONS, TRANSFER OF OWNERSHIP, AND REGULATIONS FOR DISPOSAL

- 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 Northern Iraq Administration.
- 20.2 The transfer of title to each Contractor Party and Governorate 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 Co-ordination 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 Northern Iraq Administration 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. The 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. The



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 Operation Expenses from Available Petroleum in accordance with the provisions of Article 10.

- 21.2 Whenever Contractor relinquishes any part of the Agreement Area, all moveable property located within the portion of the Agreement Area so relinquished may be removed to any part of the Agreement Area that has been retained for use in Petroleum Operations.
- 21.3 The provisions of Article 21.1 and 21.2 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 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 Costs and Expenses of Petroleum Operations 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 Northern Iraq Administration against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the Northern Iraq Administration 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 Northern Iraq Administration or Governorate and the Northern Iraq Administration or Governorate 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. The Contractor (including for this purpose any Affiliate, the Operator and all Subcontractors) shall indemnify the Northern Iraq Administration for all loss or damage suffered by the Northern Iraq Administration arising out of the Contractor's Petroleum Operations if such Petroleum Operations were not in accordance with good oilfield practices or applicable laws, rules and regulations and, notwithstanding the foregoing, 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, the Northern Iraq Administration in respect of the Petroleum Operations) or breach of duty by the Northern Iraq Administration. Notwithstanding the foregoing, the Contractor (including for this purpose any Affiliate, the Operator and all Subcontractors) shall not be liable to the Northern Iraq Administration for any punitive or exemplary damages or any other indirect or consequential damages.
- 22.7. The Contractor shall not be responsible to the Northern Iraq Administration for, and shall bear no cost, expense or liability of the Northern Iraq Administration 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 as provided in Article 22.6. In amplification of the foregoing, the 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 to be commissioned by the Contractor, at its own cost and expense (which shall be included as Costs and Expenses for the purposes of determining Cost Recovery Petroleum, subject to prior approval by the Co-ordination Committee) 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 Governorate and shall be incorporated in the Environmental Impact Assessment to be prepared by the Contractor in accordance with the environmental laws for the purpose of obtaining a permit



for Petroleum Operations from the authority, which permit and any other permits, authorisations and consents which are or may be applicable under the Current Legislation, shall not be unreasonably withheld. Governorate agrees to provide Contractor with all authorisations, permits, certificates and other documents necessary for Petroleum Operations. If in the course of the Petroleum Operations, the Governorate provides other areas for Contractor's activities, then new environmental baseline studies shall be included in the Development Plan that includes these areas. The Northern Iraq Administration shall indemnify the Contractor against any claim, damage or loss arising from such pre-existing environmental condition or damage, subject however, to the Contractor having taken reasonable and appropriate precautions in conducting Petroleum Operations, it being understood that in pursuing Petroleum Operations the Contractor has assumed the risk of working in the Agreement Area, and provided, further, that such indemnification shall not extend to any natural pre-existing condition.

- 22.8. In conducting Petroleum Operations, the 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. The Contractor shall take all necessary steps to respond to, and shall promptly notify the Governorate of, all emergency and other events (including explosions, leaks and spills), occurring in relation to the Petroleum Operations which are causing or likely to cause material environmental damage or material risk to health and safety. Such notice shall include a summary description of the circumstances and steps taken and planned by the Contractor to control and remedy the situation. The Contractor shall provide such additional reports to the Authority 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 Governorate, without prejudice and in addition to any indemnification obligations the Northern Iraq Administration 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 Northern Iraq Administration personnel, materials and equipment to be used in any such emergency response or remedial or repair effort. Contractor shall reimburse the Northern Iraq Administration's reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered Costs and Expenses.
- 22.11. The Contractor shall not be liable to the Northern Iraq Administration or Third Parties for any damages caused by contamination entering the Agreement Area as a result of Northern Iraq Administration, or Third Party activities beyond or within the boundaries of the Agreement Area. The Northern Iraq Administration 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 Northern Iraq Administration'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 Northern Iraq Administration share of Petroleum, storage or transportation thereof once Governorate has taken custody of the Governorate share of Petroleum.
- 22.13. The Northern Iraq Administration shall make 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. Notwithstanding anything to the contrary contained herein, Contractor acknowledges and agrees that the obligations undertaken by the Northern Iraq Administration in this Article 22.13 are no greater than the general obligations of the Northern Iraq Administration towards citizens of Northern Iraq Administration in respect to the perils named above. Furthermore, Contractor agrees that it shall have no claim for legal or equitable relief for failure of the Northern Iraq Administration to comply with the provisions of this Article 22.13, except as may be permitted by law.
- 22.14. Except as set forth in Article 28 hereof, it is understood and agreed that the Northern Iraq Administration 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 Northern Iraq Administration in connection with the performance of Petroleum Operations. The entry into Northern Iraq Administration of such personnel is hereby authorised, and the Northern Iraq Administration authorised body 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 Northern Iraq Administration shall facilitate all immigration formalities at the points of exit and entry into Northern Iraq Administration for the employees and family members of the Contractor, its Affiliates, Subcontractors, Operator, agents and brokers. The Contractor (or Operator on its behalf) shall contact the appropriate offices of the Northern Iraq Administration 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, agents or brokers or the Operator, each of which shall act individually in their capacity as employers. The works, 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 Northern Iraq Administration 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, its Subcontractors, agents or brokers however, shall enjoy full freedom in the selection and assignment of their employees.

#### **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 Parties of the Force Majeure situation within seven (7) days of becoming aware of the circumstances relied upon and shall keep the Governorate 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 hinders the Operator to perform, or any other hindrance of Contractor's performance not due to its fault or negligence.

#### **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. Save in the case of any assignment made pursuant to the provisions of Articles 25.4, 25.5 and 25.6 the following shall apply. Any Party wishing to assign all or part of its rights and interests hereunder or in any circumstances where there is deemed to be an assignment, the Party wishing to make the assignment shall first give written notice to the other Parties specifying the proposed terms and conditions of the assignment.

Following receipt of those terms and conditions, for a period of thirty (30) days each Party shall have the preferential right to match the terms and conditions



of the proposed assignment or deemed assignment. This right may be exercised by any Party giving written notice of its intention to match the relevant terms and conditions (the "Acceptance") and thereafter the relevant Parties shall negotiate all necessary documentation in good faith. If within a further period of ninety (90) days from receipt of the Acceptance the relevant parties have not reached final agreement the Party seeking to assign may within a further period of thirty (30) days complete an assignment to a Third Party on the same terms and conditions. For the avoidance of doubt any assignment to a Third Party shall be subject to the assigning Party and the Third Party complying with the provisions of this Article 25.

- 25.3 A Contractor Party may assign all or part of its rights, obligations and interests arising from this Agreement to a Third Party provided that the Third 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 Governorate which consent shall not be unreasonably withheld or delayed. By way of clarification, and not in limitation of the foregoing provisions of this Article 25.3, the Northern Iraq Administration shall not be considered to be acting unreasonably in declining to consent to any such assignment if the assignment to such proposed assignee is deemed contrary to Northern Iraq Administration interests, as evidenced by a writing to that effect signed by the President, Prime Minister, Minister, Chancellor, or the Minister of Foreign Affairs or Defence or there is an act of Parliament to that effect.

If within thirty (30) days following notification of an intended assignment, 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 Northern Iraq Administration's reasonable satisfaction of the matters set forth in Article 25.3 and such documentation, which shall include evidence of the identity of owners of the assignee, provided in the case of a company the stock of which is registered on a recognised stock exchange, a copy of the documents identifying the significant owners, as such concept is defined or used in the applicable laws pursuant to which such company registered its stock, will satisfy the foregoing requirements, and its direct and indirect parent companies, including the identity of the owners of the ultimate parent, subject to the foregoing proviso, as may be reasonably necessary for the Northern Iraq Administration, and as requested by the Northern Iraq Administration, to make a determination of the Northern Iraq Administration interests as described above, the Northern Iraq Administration has not given its written decision concerning such assignment, then it shall be deemed that the Northern Iraq Administration has declined to give such consent; provided that thereafter if upon the further written request of the Contractor for a written decision, the Northern Iraq Administration has not given a written response of any kind within fifteen (15) days after such further request, then the assignment shall be deemed approved and the Northern Iraq Administration shall execute an assignment, in a form acceptable to the Northern Iraq Administration, accepting such assignment. This second request from the Contractor shall cite the provisions of this paragraph and the Contractor shall obtain confirmation from the



Northern Iraq Administration that the request has been received. In the event of the transfer of rights and obligations under the Agreement and License to a Third Party, Contractor shall pay all costs associated with such transfer incurred by the Agency and any tax or charge due on such transfer under the Current Legislation.

- 25.4 A Contractor Party may assign all or part of its rights, obligations and interests arising from this Agreement to another Contractor Party or Affiliate, without prior consent of the Governorate, provided that any such Affiliate:
- 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.
- 25.5 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 Governorate shall be treated as including each assignee to which an assignment has been made by Governorate pursuant to this Article 25.
- 25.6 Governorate may assign all or part of its rights, obligations and interests arising from this Agreement (including all or part of its right to lift a share of Profit Oil) to a wholly owned legal entity or to any other sovereign state authority having jurisdiction over the Agreement Area, with the prior consent of the Contractor.
- 25.7 Subject to the approval of the Governorate 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

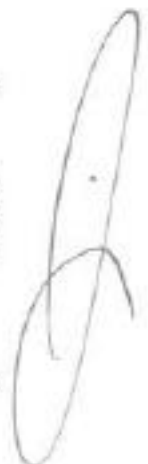
### AGREEMENT ENFORCEMENT AND STABILISATION, AND REPRESENTATIONS AND WARRANTIES

- 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 Northern Iraq Administration agrees and commits to Contractor, for the duration of this Agreement, to maintain the stability of the legal, tax, financial, mining's, customs and economic import and export conditions of this Agreement. Furthermore the Governorate hereby represents and warrants that the Governorate already received the approval of the elected Parliament of the Northern Iraq Administration, which authorises the Governorate to enter into this Agreement.
- 26.3 The Parties agree to co-operate in every possible way in order to achieve the objectives of this Agreement. The Northern Iraq Administration 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 Governorate so that the Parties may derive the greatest benefit from Petroleum Operations for their own benefit and for the benefit of the Northern Iraq Administration.

- 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 adversely affect the economic position of the Contractor or any Contractor Party hereunder, 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 the Contractor believes that its economic position has been adversely affected, under Article 26.4 it may give notice to the Northern Iraq Administration and to Governorate describing how its 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. If matters have not been resolved within 90 days or as otherwise agreed the matter may be referred to arbitration by any Party in accordance with the provisions of Article 29.
- 26.6 The Northern Iraq Administration within the Current Legislation and its capacities warrants to the Contractor as follows:
- a) The Northern Iraq Administration has taken the appropriate steps necessary to authorise the Governorate in Northern Iraq Administration to execute this Agreement on behalf of the Northern Iraq Administration and has the power to do so;
  - b) The signatory to this Agreement on behalf of the Northern Iraq Administration (in each of its capacities hereunder) is duly authorised to bind Governorate in Northern Iraq Administration;
  - c) Governorate in Northern Iraq Administration has been legally vested by the Northern Iraq Administration 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 31 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 and financial resources to fulfil the obligations of Contractor under this Agreement;
  - b) The execution, delivery and performance by PetOil Petroleum and Petroleum Products International Exploration and Production Inc. of this Agreement are within the corporate powers of PetOil



Petroleum and Petroleum Products International Exploration and Production Inc.;

- c) PetOil Petroleum and Petroleum Products International Exploration and Production Inc, have obtained all corporate consents, approvals, authorisations and resolutions in accordance with its corporate statutes and the applicable laws to empower PetOil Petroleum and Petroleum Products International Exploration and Production Inc, to execute this Agreement, to undertake all of the obligations of Contractor hereunder.

## ARTICLE 27

### NOTICES AND CONFIDENTIALITY

- 27.1 Except as otherwise specifically provided, all notices authorised 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:** PetOil Petroleum and Petroleum Products International Exploration and Production Inc,

Address: Koza Sokak No. 43GOP Ankara

Phone: +90 312 4403150

Facsimile: + 90 312 441 6026

441 6027

Contact person: H. Guntekin Koksal

**Governorate**

Address: Sulaimanyah, Rzgari Boulevard, Prime Minister's Headquarters

Phone: 315 00 15

Contact person : [?]

- 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 a governmental agency 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 bona fide 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 as pursuant to Article 27.2 (d), (e), and (f) shall not be made unless prior to such disclosure the disclosing Party has obtained a written undertaking from the recipient party to keep the data and information strictly confidential for at least three (3) years and not to use or disclose the data and information except for the express purpose for which disclosure is to be made.

## **ARTICLE 28**

### **TERMINATION AND BREACH**

28.1 At any time, if in the opinion of Contractor, circumstances do not warrant continuation of the Petroleum Operations, Contractor may, by giving written notice to that effect to the Governorate 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 Governorate and/or the Northern Iraq Administration 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. The Parties hereby consent to submit to the International Centre for Settlement of Investment Disputes any dispute in relation to or arising out of this Agreement for settlement by arbitration pursuant to the Convention on the Settlement of Investment Disputes.
- 29.2 The Parties agree that, for the purposes of Article 24(1) of the Convention, any dispute in relation to or arising out of this Agreement is a legal dispute arising directly out of any investment, and this article has force only if all the requirements of Article 29.1 are followed.
- 29.3 For the purposes of Article 24(2) of the Convention, it is agreed that, although PetOil Petroleum and Petroleum Products International Exploration and Production Inc. is a national of Republic of Turkey, shall be treated as a national of that Northern Iraq Administration for the purposes of the Convention.
- 29.4 A Party need not exhaust administrative or judicial remedies prior to commencement of arbitrage proceedings.
- 29.5 Any arbitrage tribunal, consisting of three arbitrators and constituted pursuant to this Agreement, shall apply the provisions of this Agreement as supplemented and interpreted by general principles of the Current Legislation and Laws of England as are in force on the Effective Date. In case these principles are in conflict with each other, English Laws shall prevail. The seat and venue of the arbitration will be London, United Kingdom. The arbitration language will be English language.

## **ARTICLE 30**

### **TEXT**

- 30.1. This Agreement shall be executed in two (2) originals in the in the English language, which will be duly certified by a competent authorised body selected by the Northern Iraq Administration.

## **ARTICLE 31**

### **EFFECTIVE DATE AND THE COMMENCEMENT OF OPERATIONS**

- 31.1 This Agreement shall enter into force and effect in its entirety on the signing date.
- 31.2 Transfer of Operations shall be conditional upon the fulfilment of the following items:
- Governorate has instructed and informed the relevant Tax authorities of Northern Iraq Administration that the Governorate shall assume, pay and discharge, in the name and on the behalf of Contractor, Contractor's entire Tax liability for each Agreement Year; and
  - Governorate has instructed and informed the customs authorities of Northern Iraq Administration that the Contractor shall be exempt from all customs duties, levies, fees, etc.; and
  - Governorate has provided Contractor the written notice of the realization of a and b above.
- 31.3. In case the Contractor fails to initiate the necessary administrative actions (such as establishing an office in Sulaimaniyah, mobilizing professional personnel into Northern Iraq Administration) within three (3) months following the Transfer of Operations, or the Contractor fails to initiate the mobilization of necessary equipment for proper appraisal of the existing fields in the Agreement Area (such as workover rig or seismic field crew) within nine (9) months following the Transfer of Operations, the Governorate may terminate this Agreement upon sixty (60) days prior written notice.
- 31.4 Within one month of the expiry of the nine (9) month period mentioned in Clause 31.3 above, the Co-ordination Committee shall meet and approve Contractor's proposal regarding the time of commencement of Development Operations.

By execution hereof, the Governorate in Northern Iraq Administration, acting in its capacity as the sovereign representative of Northern Iraq Administration pursuant to the Current Legislation joins as a Party to the foregoing Production Sharing Agreement as amended, and consents to the provisions thereof.

Signed and sealed this 14th day of January, 2003 in two (2) copies in English language.

For Governorate



Name: Faraidoon Abdul Kader

Title: D.P. prai minister

For Contractor

By: [Signature]

Name: Prof. Dr. H. G. Kaksal

Title: Chairman Pet Holding

Approved on behalf of the  
Northern Iraq Administration

By: 

Name: JALAL TALABANY

Title: \_\_\_\_\_

14 - I - 2003

## ANNEX B

### ACCOUNTING PROCEDURE

Attached to and made part of the Production Sharing Agreement, hereinafter called the "Agreement," signed as of the 14th day of January, 2003, by and between Sulaimaniyah Regional Government of the Interim Joint Regional Administration of Northern Iraq and PetOil Petroleum and Petroleum Products International Exploration and Production Inc..

#### SECTION I

##### GENERAL PROVISIONS

#### 1.1 Purpose.

- 1.1.1 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 the Accounting Procedure.

- 1.1.2 The Parties agree, however, that if the methods prove unfair or inequitable to Operator or Non-Operators, the Parties shall meet and in good faith endeavour to agree on changes in methods deemed necessary to correct any unfairness or inequity.

- 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 I 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 Northern Iraq Administration.

"Material" shall mean personal property (including, but not limited to, 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 Parties to comply with their respective 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 arithmetic average buying and selling exchange rates for the Old Iraqi Dinar and the United States Dollars of the preceding month as determined by the local market.
- 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 10<sup>th</sup> Day of each month, statements of the costs and expenditures incurred during the prior month, indicating by appropriate classification the nature thereof, the corresponding budget category, and the portion of such costs charged to each of the Parties.

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

- advances of funds setting forth the currencies received from each Party
- the share of each Party in total expenditures
- the current account balance of each Party



- summary of costs, credits, and expenditures on a current month, year-to-date, and inception-to-date basis or other periodic basis, as agreed by Parties
- details of unusual charges and credits in excess of U.S. dollars \$10,000 (U.S.\$ the 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 Each Party 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 Non-Operators 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, the Contractor will provide all required estimated cash requirements for the succeeding month's operations.

1.7 **Audits.**

1.7.1 A Non-Operator, upon at least sixty (60) Days advance notice in writing to Operator and all other Non-Operators, 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 Non-Operators conducting the audit. It is provided, however, that Non-Operators 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. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner, which will result in a minimum of inconvenience to the Operator. Operator and Non-Operators shall make every effort to resolve any claim resulting from an audit within a reasonable period of time.

A Non-Operator may audit the records of an Affiliate of Operator relating to that Affiliate's charges. The provisions of this Accounting Procedure shall apply *mutatis mutandis* to such audits.

1.7.2 Any information obtained by a Non-Operator under the provisions of this Section 1.8 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 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.

A handwritten signature in black ink, consisting of a stylized, cursive letter 'S' or similar shape.A handwritten signature in black ink, consisting of a large, sweeping cursive letter 'C' followed by a flourish.



## 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 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 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 Salaries and wages, including everything constituting the employees' total compensation. 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. Such accruals for Country of Operations benefit plans shall not be paid by Non-Operators, unless otherwise approved by the Co-ordination Committee, until the same are due and payable to the employee, upon withdrawal of a Party pursuant to the Agreement, or upon termination of the Agreement, whichever occurs first.



- 2.2.4 Expenditures or contributions made pursuant to assessments imposed by governmental 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, 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 the Affiliate's standard purchasing fee currently set at 5% on the amount of each purchase order.

The fee shall be reviewed periodically by Operator's Affiliates, and future changes shall be made upward or downward as indicated by the Affiliate's cost experience for the provision of these purchasing services. Any changes affecting the charges to the Petroleum Operations Account shall be subject to notification by Operator and approval by the Co-ordination Committee. Such charges shall be in lieu of any charges for the same or similar services provided herein.

**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 Non-Operators 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 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.



**2.7.3.** 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, governmental assessments, 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, accident, or any other cause. Operator shall furnish Non-Operators 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. Each Party shall be credited with its Participating Interest share thereof except where such receipts are derived from insurance purchased by Operator for less than all Parties in which event such proceeds shall be credited to those Parties for whom the insurance was purchased in the proportion of their respective contributions toward the insurance coverage.

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

**2.10 Litigation and Legal Expenses.** The costs and expenses of litigation and 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 litigation, 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.

**2.11 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 a Party.

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.

A handwritten signature in black ink, consisting of a stylized first name and a last name, located in the bottom right corner of the page.

## SECTION III

### INDIRECT CHARGES

- 3.1 **Purpose.** 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 Affiliate. 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 for the period beginning with the Calendar Year through the end of the period covered by Operator's invoice ("Year-to-Date") under Section 3.1 above shall be a percentage of the Year-to-Date 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 \$ 5,000,000 of expenditures = 2 %

- 3.3 **Exclusions.** The expenditures used to calculate the monthly indirect charge shall not include the indirect charge (calculated either as a percentage of expenditures or as a minimum monthly charge), rentals on surface rights acquired and maintained for the Petroleum Operations Account, guarantee deposits, pipeline tariffs, concession acquisition costs and Taxes paid under the Agreement, expenditures associated with major construction projects for which a separate indirect charge is established hereunder, 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 indirect charge.

- 3.4 **Indirect Charge for Projects.** As to major construction projects (such as, but not limited to, pipelines, gas reprocessing and processing plants, and final loading and terminalling facilities) when the estimated cost of each project amounts to more than U.S. \$ 15,000,000, a separate indirect charge for such project shall be set by the Coordination 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 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.
- 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. 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 Non-Operators of the proposed charge 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 billing Non-Operators for such Material the cost of which exceeds One Hundred thousand U.S. dollars (U.S. \$ 100,000). Each Non-Operator shall have the right, by so electing and notifying Operator within 10 Days (or such shorter period as may be specified by Operator) after receiving notice from Operator, to furnish in kind all or part of his share of such Material per the terms of the notice which is suitable for use and acceptable to Operator both as to quality and time of delivery. Such acceptance by Operator shall not be unreasonably withheld. If Material furnished is deemed unsuitable for use by Operator, all costs incurred in disposing of such Material or returning Material to owner shall be borne by the Non-Operator furnishing the same unless otherwise agreed by the Parties. If a Non-Operator fails to properly submit an election notification within the designated period, Operator is not required to accept Material furnished in kind by that Non-Operator. If Operator fails to submit proper notification prior to billing Non-Operators for such Material, Operator shall only charge the Petroleum Operations Account on the basis of the price allowed during a "normal" pricing period in effect at time of movement.

**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.

Two handwritten signatures in black ink are located at the bottom of the page. The signature on the left is a stylized, cursive mark, possibly initials. The signature on the right is a more elaborate, flowing cursive signature.

## SECTION V

### DISPOSAL OF MATERIALS

- 5.1 **Disposal.** Operator shall be under no obligation to purchase the interest of Non-Operators in new or used surplus Materials. Operator shall have the right to dispose of Materials but shall advise and secure prior agreement of the Co-ordination 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 each Non-Operator of the original cost of such Material to the Petroleum Operations Account so that the Parties 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 Co-ordination Committee.
- 5.3 **Division In Kind.** Division of Material in kind, if made between the Parties, shall be in proportion to their respective interests in such Material. Each 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 Co-ordination 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 Non-Operators written notice at least thirty Days (30) in advance of its intention to take inventory, and Non-Operators, at their sole cost and expense, shall each be entitled to have a representative present. The failure of any Non-Operator to be represented at such inventory shall bind such Non-Operator to accept the inventory taken by Operator, who shall in that event furnish each Non-Operator 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 Co-ordination 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 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.

Two handwritten signatures in black ink are located at the bottom right of the page. The signature on the left is a stylized, cursive 'S' or 'J'. The signature on the right is a longer, more complex cursive signature.