

**TPI ASSIGNMENT, NOVATION,
AND
SECOND AMENDMENT AGREEMENT**

(SARSANG)

between

THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ

HKN ENERGY LTD. and

MARATHON PETROLEUM KDV B.V.

TPI ASSIGNMENT, NOVATION, AND SECOND AMENDMENT AGREEMENT

PREAMBLE

This agreement, dated ~~20~~ October 2010 (the "**Signing Date**"), is by and between:

- (1) **THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (the "**Government**");
- (2) **HKN ENERGY LTD.** ("**HKN**"), a company established and existing under the laws of Cayman Islands whose registered office is at Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands; and
- (3) **MARATHON PETROLEUM KDV B.V.** ("**MARATHON**"), a limited liability company established and existing under the laws of The Netherlands, whose registered office is c/o Equity Corporate Services, Equity Trust Co. N.V., Strawinskylaan 3105, Atrium 7th Floor 1077 ZX Amsterdam, The Netherlands

(each a "**party**" and collectively the "**parties**").

RECITALS

- (A) The Government and HKN are parties to a Production Sharing Contract dated 6 November 2007. The Production Sharing Contract was amended pursuant to the First Amendment Agreement dated 26 August 2010 (the "**First Amendment Agreement**") between the Government and HKN (the Production Sharing Contract as amended by the First Amendment Agreement, the "**Contract**").
- (B) The Contract is in the First Sub-Period of the Exploration Period (as such terms are defined in the Contract) and has not been terminated.
- (C) The Contract entitles the Government to nominate a Third Party Participant (as defined in the Contract).
- (D) By this agreement, the Government nominates Marathon as the Third Party Participant in the entire amount of the Third Party Interest (as defined in the Contract), Marathon accepts such Third Party Interest, and HKN confirms its consent to the assignment and novation of the Third Party Interest to Marathon. From the date of the nomination, Marathon will be a Contractor Entity (as such term is defined in the Contract) and Party (as such term is defined in the Contract) to the Contract as if it were a Contractor Entity and Party to the Contract from the Effective Date (as such term is defined in the Contract).
- (E) Pursuant to the Contract the Third Party Participant is obligated to pay to HKN an amount equivalent to the proportion of Petroleum Costs (as defined in the Contract) incurred by HKN that is attributable to the Third Party Interest.

- (F) Subject to audit adjustments, Marathon and HKN agree that the estimated, unaudited Petroleum Costs paid by HKN up to and including 30 September 2010 (the "**Cost Determination Date**") are US\$ 44,243,089 (the "**Estimated Past Costs**"). Subject to audit adjustments HKN and Marathon agree that the amount of such Estimated Past Costs attributable to the Third Party Interest and payable to HKN, as of the Cost Determination Date and as the sole Contractor Entity, is US\$ 11,060,772.25 (the "**First Reimbursement Payment**").
- (G) By this agreement, the Parties wish to amend the Contract to (i) confirm Marathon as a Party and a Contractor Entity with a 25% participating interest, (ii) provide for the making of certain capacity building payments to the Government, and (iii) make other amendments as set forth herein.
- (H) It is the intention of the Parties that the capacity building payments, to be defined in the Contract as amended by this agreement as "Marathon Capacity Building Payments" will: (i) be the exclusive responsibility and liability of Marathon and (ii) not be cost recoverable as a Petroleum Cost by the Contractor or Marathon.
- (I) By this agreement, HKN and Marathon undertake to enter into a joint operating agreement.
- (J) Concurrently with this agreement, Marathon Oil Corporation has delivered its Guarantee in favor of the Government in respect of the Company's payment obligations in respect of the "Marathon Exploration Tranche".
- (K) Concurrently with and effective as of the Signing Date, Marathon and Marathon Oil Corporation have delivered a Letter of Representations and Warranties to the Government (the "**Letter of Representations and Warranties**").
- (L) The Parties affirm their ongoing commitment and adherence to the Principles and Criteria of the Extractive Industries Transparency Initiative (EITI).

1. DEFINITIONS AND INTERPRETATION

1.1 As used in this agreement:

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

"**Contract Area**" has the meaning set forth in the Contract.

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

"**Effective Date**" has the meaning set forth in the Contract.

"**Estimated Past Costs**" is defined in Recital (F).

"**First Amendment Agreement**" is defined in Recital (A).

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

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

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

"**International Banking Day**" means in respect of a payment by Marathon to (i) HKN pursuant to clause 3, a day on which banks are open in New York, New York,

United States of America; and (ii) the Government, a day on which banks are open in London, England and New York, New York, United States of America.

"**Letter of Representations and Warranties**" is defined in Recital (K).

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

"**participating interest**" means an undivided interest in the Petroleum Operations in respect of the entire Contract Area under the Contract.

"**party**" and "**parties**" is defined in the Preamble.

"**Party**" and "**Parties**" have the meaning set forth in the Contract.

"**Petroleum Costs**" has the meaning set forth in the Contract.

"**Petroleum Operations**" has the meaning set forth in the Contract.

"**Signing Date**" is defined in the preamble.

"**Third Party Interest**" has the meaning set forth in the Contract.

"**Third Party Participant**" has the meaning set forth in the Contract.

- 1.2 Headings in this agreement are for convenience only, do not constitute a part of this agreement, and do not affect the construction or interpretation of this agreement.
- 1.3 Reference to a "clause" is a reference to a clause of this agreement.
- 1.4 Reference to an Article is a reference to an Article of the Contract.
- 1.5 "Including" and similar words do not imply any limitations.
- 1.6 Singular includes plural and vice versa unless the context requires otherwise.
- 1.7 Nothing in this agreement impairs the entitlement of the Government to exercise the Option of Government Participation (as such term is defined in the Contract) in accordance with Article 4.1 of the Contract.

2. NOMINATION, ASSIGNMENT AND NOVATION

- 2.1 The Government nominates Marathon as the Third Party Participant in respect of the entire Third Party Interest, and assigns such Third Party Interest to Marathon. Marathon accepts such nomination, assignment, and novation of the Third Party Interest. HKN confirms such nomination, assignment and novation and its consent to the assignment and novation.
- 2.2 As a consequence of clause 2.1:
 - (a) the entire Third Party Interest is assigned and novated to Marathon;
 - (b) Marathon is a Party, the Third Party Participant, and a Contractor Entity with a 25% participating interest;
 - (c) except as specifically provided otherwise in the Contract, Marathon is jointly and severally obligated with each other Contractor Entity to perform

all of the obligations of the Contractor under the Contract as a Contractor Entity as if Marathon had been a Contractor Entity on and from the Effective Date; and

- (d) all rights of the Government to assign a Third Party Interest under the Contract are fully exercised and extinguished.

2.3 The Contract continues in full force and effect as amended by this agreement.

3. PETROLEUM COST REIMBURSEMENT PAYMENTS

- 3.1 Within 7 International Banking Days following Marathon's receipt of written wiring instructions from HKN, Marathon shall pay to HKN the First Reimbursement Payment by way of cleared funds in accordance with such wire instructions.
- 3.2 HKN and Marathon shall, in good faith, endeavor to agree on the actual Petroleum Costs incurred by HKN to the Signing Date (subject to such further adjustments as may be required to reflect the outcome of any Petroleum Cost audit by the Government).
- 3.3 Upon the request of Marathon, HKN shall forthwith provide Marathon with access to all of HKN's books and records establishing Petroleum Costs and relating to Petroleum Operations.
- 3.4 If, within 30 days after the Signing Date, Marathon and HKN are unable to agree on actual Petroleum Costs incurred by HKN to the Signing Date, HKN or Marathon may refer the issue for expert determination in accordance with Article 42.2 of the Contract.
- 3.5 Within 7 International Banking Days after the earlier of the date when (i) HKN and Marathon have agreed on the amount of actual Petroleum Costs incurred by HKN, and (ii) such actual Petroleum Costs have been determined by an expert in accordance with the Contract, then, Marathon shall pay, by way of cleared funds in accordance with the written wire instructions provided by HKN to Marathon pursuant to clause 7 (or such other wire instructions as HKN may provide), an amount of such actual Petroleum Costs which is attributable to its participating interest minus the amount of the First Reimbursement Payment.
- 3.6 Nothing in this agreement will impair the rights of any party to audit Petroleum Costs in accordance with the Contract or, as between HKN and Marathon, as otherwise agreed between Marathon and HKN. Any time limitations on the audit rights of Marathon under the Contract (as amended by this agreement) are tolled until 180 days following the Signing Date. Following any audit (or any Government audit of the Petroleum Costs), Marathon and HKN shall promptly make such payments to each other as may be necessary by way of equitable adjustment.
- 3.7 Without limiting Marathon's joint and several obligations under the Contract as a Contractor Entity in respect of the obligations of the Contractor, Marathon shall pay its participating interest share of Petroleum Costs (and other amounts for which it is

liable under the Contract) on and from the Signing Date in accordance with the Contract and as agreed in any joint operating agreement entered into between HKN and Marathon.

4. **AMENDMENTS TO CONTRACT**

4.1 The Contract is amended as provided in this clause 4.

4.2 The preamble is deleted in its entirety and restated:

"BETWEEN

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

(2) **HKN ENERGY LTD.** ("HKN"), a company established and existing under the laws of Cayman Islands whose registered office is at Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands ("HKN"); and

(3) **MARATHON PETROLEUM KDV B.V.**, a limited liability company established and existing under the laws of The Netherlands, whose registered office is c/o Equity Corporate Services, Equity Trust Co. N.V., Strawinskylaan 3105, Atrium 7th Floor 1077 ZX Amsterdam, The Netherlands ("Marathon").

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

4.3 The recitals are amended by a new paragraph "G":

"(G) This Contract was amended pursuant to the Assignment, Novation, and Second Amendment Agreement between the Parties."

4.4 Article 1.1 is amended by adding the following new definitions in the appropriate alphabetical position:

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

Capacity Building Account means a segregated bank account with a reputable bank in the name of, and maintained by, the **GOVERNMENT**, the sole purpose of which is to support and finance infrastructure and capacity building projects in the Kurdistan Region to be identified by the **GOVERNMENT** in its sole discretion.

Marathon Capacity Building Payment is defined in Article 32.9."

4.5 In Article 1.1, the definition of "**CONTRACTOR Entity**" is deleted in its entirety and restated as follows:

"**CONTRACTOR Entity** means HKN and Marathon and their respective permitted successors and assignees pursuant to Article 39. At such time as the **GOVERNMENT** may exercise the Option of Government Participation, a holder of the Government Interest is a **CONTRACTOR Entity**. A holder of the

Government Carried Interest is a **CONTRACTOR** Entity. At any time when there is only one entity constituting the **CONTRACTOR**, any reference to "the entities constituting the **CONTRACTOR**" or the "**CONTRACTOR Entities**" or similar reference, shall be deemed to mean "the entity constituting the **CONTRACTOR**".

4.6 Article 2.1 is amended:

- (a) by adding the following after the last sentence of the third paragraph:
- "The obligations of the **CONTRACTOR** constitute joint and several obligations of the **CONTRACTOR Entities**, except where specifically provided otherwise.";

and

- (b) by adding the following as a new final paragraph:
- "As of the Effective Date, HKN and Marathon, as **CONTRACTOR Entities**, each own an undivided interest in the Petroleum Operations in respect of the entire Contract Area:

HKN	75%
Marathon	25%."

4.7 Article 29.1 is deleted in its entirety and replaced as follows:

"29.1 Each Party making a payment to the **GOVERNMENT**, the Capacity Building Account, or to any revenue sharing account as agreed between the Government and the government of the Republic of Iraq shall(i) make such payment: (i) in Dollars in cleared funds by wire transfer from a reputable bank in accordance with wire instructions provided by the **GOVERNMENT** on the date when due; and (ii) not offset against such payment any outstanding payments due from the **GOVERNMENT** to such Party without the prior written consent of the **GOVERNMENT**.

If a Party fails to make any payment to the **GOVERNMENT** when due, such Party shall pay interest on such unpaid amount, compounded monthly, at the rate of LIBOR (determined as of the first day on or following the due date with respect to which LIBOR can first be determined) plus two (2) percentage points."

4.8 New Articles 32.9 through 32.16 are added after Article 32.8:

"Marathon Capacity Building Payments

32.9 Marathon shall pay to the **GOVERNMENT** capacity building payments (each such payment a "**Marathon Capacity Building Payment**" and collectively, the "**Marathon Capacity Building Payments**") as provided in Articles 32.10 through 32.16.

32.10 Marathon shall pay sixteen million Dollars (US\$16,000,000) within thirty (30) days of the Signing Date.

- 32.11 Marathon shall pay twenty million Dollars (US\$20,000,000) to the **GOVERNMENT** within thirty (30) days of the approval of the Development Plan by the Management Committee.
- 32.12 Marathon shall pay four million five hundred thousand Dollars (US\$4,500,000) to the **GOVERNMENT** within 30 days after production of Crude Oil and Natural Gas reaches a cumulative amount of ten million barrels of Crude Oil and Natural Gas BOE and multiples of ten million (10,000,000) thereof, so that, for the duration of this Contract, Marathon is obliged to pay to the **GOVERNMENT** four million five hundred thousand Dollars (US\$4,500,000) within thirty (30) days of the day on which production of Crude Oil and Natural Gas from the Contract Area equals a cumulative amount of:
- (a) ten million (10,000,000) Barrels of Crude Oil and Natural Gas BOE;
 - (b) twenty million (20,000,000) Barrels of Crude Oil and Natural Gas BOE;
 - (c) thirty million (30,000,000) Barrels of Crude Oil and Natural Gas BOE;

and so on.

For purposes of calculating the Production Tranche pursuant to this Article 32.12, Natural Gas BOE shall not include Natural Gas used for Petroleum Operations (including re-injection) or, to the extent permitted by this Contract, the Laws of the Kurdistan Region, and authorised by the Management Committee, for flaring.

- 32.13 To the extent permitted by Laws of the Kurdistan Region or as otherwise agreed with the Government of Iraq, the **GOVERNMENT** will:
- (a) open and maintain the Capacity Building Account;
 - (b) instruct Marathon to make all Marathon Capacity Building Payments to the Capacity Building Account in accordance with wire instructions provided by the **GOVERNMENT** to Marathon;
 - (c) apply funds from the Marathon Capacity Building Account as set forth in the definition of Capacity Building Account; and
 - (d) periodically publish reports of the **GOVERNMENT's** application of funds from the Capacity Building Account in sufficient detail to identify the uses to which the **GOVERNMENT** has applied the funds in the Capacity Building Account.
- 32.14 The obligation of Marathon to pay the Marathon Capacity Building Payments is, except as specifically provided otherwise in Articles 32.10 through 32.12, absolute and unconditional. No Marathon Capacity Building Payment will be refundable to Marathon, whether in whole or in part, under any circumstance, including if the Contract is rendered void pursuant to Article 46 or terminated pursuant to Article 45.

- 32.15 Marathon acknowledges and accepts that a fundamental principle of Articles 32.9 through 32.14 is that, except as specifically provided in Articles 32.10 through 32.12, Marathon must absolutely and unconditionally make the Marathon Capacity Building Payments required by Articles 32.9 through 32.14. Accordingly, in respect of its obligations under Articles 32.9 through 32.14, and notwithstanding any provision in the Contract to the contrary, Marathon (on behalf of itself and each of its successors and assigns) waives any right to raise by way of set off or invoke as a defence to its obligations to make any of the payments required by Articles 32.9 through 32.14, whether in law or equity, any failure by the **GOVERNMENT** or any **CONTRACTOR** Entity to pay amounts due and owing under the Contract or any alleged claim that **Marathon** (or its successors and assigns) or the **CONTRACTOR** may have against the **GOVERNMENT**, any other **CONTRACTOR** Entity, or any other Person, whether such claim arises under or relates to this Contract or otherwise.
- 32.16 The obligations to pay the Marathon Capacity Building Payments are the exclusive obligation of Marathon and its successors and permitted assignees. The **GOVERNMENT** is not entitled to terminate this Contract or to exercise any remedies or rights against any other **CONTRACTOR** Entity (except for Marathon and its successors and permitted assignees) as a consequence of any breach by Marathon (or any of its successors or permitted assignees) of the obligations to pay the Marathon Capacity Building Payments in full when due.
- 4.9 Article 44.1 is amended:
- (a) by adding below the heading "To the **CONTRACTOR**" the heading:
"To **HKN ENERGY LTD.**"; and
 - (b) below the notice information for **HKN**:
"To **Marathon Petroleum KDV B.V.**:
Attention: Team Manager Legal
Address:
c/o Equity Corporate Services
Equity Trust Co. N.V.
Strawinskylaan 3105
Atrium 7th Floor 1077 ZX Amsterdam
The Netherlands
Email: RIVHEDEL@NLEQUITYTRUST.COM
With a copy to:
Marathon Oil Company
5555 San Felipe Road
Houston, Texas 77056, USA
Attention: Senior Vice President, Worldwide Exploration

Email: arbay@marathonoil.com

and

spguidry@marathonoil.com

- 4.10 In Article 41, paragraph (c) is deleted in its entirety and replaced with a new paragraph (c):

"(c) any effort to confirm, enforce or execute any decision, settlement, award, judgment, service of process, execution order or attachment (excluding pre-judgment attachment) that results from an expert determination, mediation, arbitration or any judicial, administrative or other proceedings commenced pursuant to this Contract."

5. REPRESENTATIONS AND WARRANTIES

- 5.1 Marathon makes the representations and warranties it makes in the Letter of Representations Warranties.
- 5.2 Marathon represents to HKN, and HKN represents to Marathon and the Government:
- (a) Its entry into and performance of this agreement has been authorised by all necessary company action.
 - (b) It has all necessary power and authority to sign and perform this agreement and the Contract.
 - (c) This agreement and the Contract constitute a legal, valid, and binding obligation of it.
 - (d) It has received all authorisations and consents necessary for the entry into and performance by it, and the validity and enforceability against it, of this agreement and the Contract.
 - (e) Except as provided in the next sentence, there is no law applicable to it or an agreement to which it is a party which (i) conflicts with or prevents it from performing this agreement and the Contract in accordance with its terms, or (ii) affects the validity and enforceability against it of this agreement or the Contract in accordance with its terms. No representation is made by Marathon or HKN in respect of the laws of the Kurdistan Region or the Republic of Iraq.
 - (f) It is not a party to any administrative or judicial proceeding, litigation, or arbitration that could affect the validity or enforceability of this agreement or the Contract as to it.
- 5.5 HKN and the Government, each individually, represents to Marathon:
- (a) The Contract is in full force and effect and it is not in breach of any of its obligations thereunder.
 - (b) Except for the Contract, there is no agreement in effect between HKN and the Government that pertains to Petroleum Operations in the Contract Area.

- 5.6 The Government warrants to Marathon and HKN that no other Person has any claim or right to the Third Party Interest except, pursuant to this agreement, for Marathon.

6. **JOINT OPERATING AGREEMENT**

HKN and Marathon acknowledge to each other the need to agree a joint operating agreement as soon as reasonably practical. Accordingly, HKN and Marathon shall, within a reasonable period of time after the Signing Date, enter into a joint operating agreement acceptable to the Government.

7. **NOTICES**

A Party giving any notice or making any request, demand, or other communication (each a "Notice") to the Government, Marathon, or HKN shall do so as provided in the Contract (as amended by this agreement), and such Notice will be deemed sent or received as provided in the Contract.

8. **ARBITRATION**

Any dispute, claim, or controversy arising out of or in connection with this agreement (including a dispute, claim or controversy relating to any non-contractual obligations arising out of or in connection with this agreement) will be considered a "Dispute" under the Contract and shall be finally resolved by arbitration in accordance with the Contract.

9. **GENERAL PROVISIONS**

- 9.1 Each party shall timely exercise all reasonable endeavors to take, or cause to be taken, all actions necessary or desirable to consummate and make effective the transactions contemplated herein.
- 9.2 This agreement does not create any right under the Contracts (Rights of Third Parties) Act 1999 that is enforceable by any person that is not a party. The parties may rescind or vary the terms of this agreement without notice to, or the consent of, any person that is not a party.
- 9.3 The parties may amend this agreement only by an agreement of the parties that identifies itself as an amendment to this agreement. A party may waive any provision in this agreement only by a writing signed by such party. Any amendment, waiver, or consent signed by the Minister of Natural Resources of the Kurdistan Region is binding on the Government. No failure or delay in exercising any right or remedy, or in requiring the satisfaction of any condition, under this agreement by a party, and no act, omission, or course of dealing between any of the parties, will operate as a waiver or estoppel of any right, remedy, or condition. A waiver or consent made on one occasion will be effective only in that instance and only for the purpose stated. A waiver or consent once given is not to be construed as a waiver or consent on any future occasion. No waiver, amendment, or consent in respect of this agreement will constitute a waiver, amendment, or consent of any other agreement between all or any of the parties. The representations of a party, including in the Letter of Representations and Warranties, are not affected or waived by reason of any investigation made by or on behalf of another party (or any of their respective

advisors) or by reason that such other party (or any of their respective advisors) knew or should have known that any such representation might be inaccurate.

- 9.4 The parties may sign this agreement in counterparts, each of which constitutes an original, and all of which, collectively, constitute only one agreement. The signatures of all of the parties need not appear on the same counterpart, and delivery of an executed counterpart signature page in PDF or JPEG form by email is as effective as executing and delivering this agreement in the presence of the other parties. This agreement is effective upon delivery of one executed counterpart from each party to each of the other parties. In proving this agreement, a party must produce or account only for the executed counterpart of the party to be charged.
- 9.5 This agreement is binding on each party and its successors and assigns.
- 9.6 To the extent the procedure for nominating and assigning a Third Party Interest herein is at variance with the Contract, the provisions of the Contract are waived by the parties and the provisions of this agreement control.
- 9.7 This agreement constitutes the final, complete, and exclusive expression of the parties' agreement on the matters contained in this agreement. All prior and contemporaneous negotiations and agreements between the parties on the matters contained in this agreement are expressly merged into and superseded by this agreement. The provisions of this agreement may not be explained, supplemented, or qualified through evidence of trade usage or a prior course of dealings. In entering into this agreement, no party has relied upon any statement, representation, warranty, or agreement of the other party, except for those expressly contained in this agreement. There is no condition precedent to the effectiveness of this agreement, and there are no representations or warranties, in each case except as expressly stated in this agreement.
- 9.8 This agreement shall be governed by English law.

[Signature page follows.]

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

BY: 

Barham Salih

Prime Minister

Kurdistan Regional Government

ON BEHALF OF THE REGIONAL COUNCIL

FOR THE OIL AND GAS AFFAIRS OF THE KURDISTAN REGION - IRAQ

By: 

Ashti Hawrami

Minister of Natural Resources

Kurdistan Regional Government

ON BEHALF OF THE MINISTRY OF NATURAL RESOURCES IN THE

KURDISTAN REGION

MARATHON PETROLEUM KDV B.V.



Signed by D.E. Roberts as attorney for
Marathon Petroleum KDV B.V.

under a power of attorney dated 14 October 2010

HKN ENERGY LTD.

By:

Name:

Its:

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

By:.....

Barham Salih

Prime Minister

Kurdistan Regional Government

ON BEHALF OF THE REGIONAL COUNCIL

FOR THE OIL AND GAS AFFAIRS OF THE KURDISTAN REGION - IRAQ

By:.....

Ashti Hawrami

Minister of Natural Resources

Kurdistan Regional Government

ON BEHALF OF THE MINISTRY OF NATURAL RESOURCES IN THE

KURDISTAN REGION

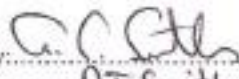
MARATHON PETROLEUM KDV B.V.

.....
Signed by D.E. Roberts as attorney for

Marathon Petroleum KDV B.V.

under a power of attorney dated 14 October 2010

HKN ENERGY LTD.

By: .....

Name: A.T. Smith.....

Its: Director.....

[Signature page to TPI Assignment, Novation, and Second Amendment Agreement-Sarsang]