

PRODUCTION SHARING CONTRACT

SARTA BLOCK

KURDISTAN REGION

BETWEEN

THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ

AND

RELIANCE EXPLORATION AND PRODUCTION DMCC

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PRODUCTION SHARING CONTRACT

BETWEEN:

The **KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (hereafter referred to as the "**GOVERNMENT**"), duly represented by the Minister of Natural Resources;

AND

RELIANCE EXPLORATION & PRODUCTION DMCC (hereinafter referred to as "**RELIANCE**"), a company established and existing under the laws of United Arab Emirates, whose registered office is at 1-4, 1st Floor, Al Falasi Residence, Center Point Apartment Building, P.o. Box 125307, Dubai, United Arab Emirates, duly represented by Mr. Atul Chandra.

WHEREAS:

- (A) The **GOVERNMENT** wishes to develop the petroleum wealth of the Kurdistan Region (as defined in this Contract) in a way that achieves the highest benefit to the people of the Kurdistan Region and all of Iraq, using the most advanced techniques of market principles and encouraging investment, consistent with Article 112 of the Constitution of Iraq;
- (B) In accordance with the Constitution of Iraq, the prevailing law of the Kurdistan Region is the Kurdistan Region Law (as defined in this Contract), except with regard to a matter wholly within the exclusive jurisdiction of the Government of Iraq;
- (C) The **GOVERNMENT** has established, by the Act of the Parliament of the Kurdistan Region, a Ministry of Natural Resources in the Kurdistan Region, with responsibility for all natural resources except for water, and forestry;
- (D) The **GOVERNMENT** intends to present to the Parliament of the Kurdistan Region the Kurdistan Region Petroleum Act (as defined in this Contract), to regulate Petroleum Operations (as defined in this Contract), including production sharing contracts;
- (E) **RELIANCE** is a company,
 - (i) with the financial capability, and the technical knowledge and technical ability, to carry out Petroleum Operations in the Contract Area (as defined in



this Contract) under the terms of this Contract;

- (ii) having a record of compliance with the principles of good corporate citizenship, and
- (iii) willing to cooperate with the **GOVERNMENT** by entering into this Contract, thereby assisting the **GOVERNMENT** to develop the Kurdistan Region petroleum industry, thereby promoting the economic development of the Kurdistan Region and Iraq and the social welfare of its people;

NOW, THEREFORE, THE PARTIES HAVE AGREED AS FOLLOWS:

ARTICLE 1 - DEFINITIONS

Capitalised terms and expressions in this Contract shall have the following meaning, unless otherwise specified:

Abroad means outside of the Kurdistan Region and other parts of Iraq.

Accounts is defined in Article 15.1.

Accounting Procedure means the Accounting Procedure attached to this Contract as Annex B and constituting an integral part of this Contract.

Affiliated Company or **Affiliate** means, as regards any of the companies or entities constituting the **CONTRACTOR**, a company or other legal entity which:

- (a) controls an entity constituting the **CONTRACTOR**; or
- (b) is controlled by an entity constituting the **CONTRACTOR**; or
- (c) controls or is controlled by a company or entity which controls an entity constituting the **CONTRACTOR**

For the purpose of this definition, "control" means direct or indirect ownership or control of the majority of the voting rights of the applicable entity at its shareholders' meetings or their equivalent.

Appraisal Area means the area defined in Article 12.2. **Appraisal Program** is defined in Article 12.2. **Appraisal Report** is defined in Article 12.4.

Appraisal Well means a well drilled for the purpose of evaluating the commercial potential of a geological feature or a geological structure in which Petroleum has been discovered.

Arm's-Length Sales means sales of Petroleum in freely convertible currencies between willing sellers and buyers having no direct or indirect relationship or common interest whatsoever with each other that could reasonably influence the sales price. Such Arm's-Length Sales shall exclude:

- (a) sales between the **CONTRACTOR** and its Affiliates;
- (b) sales involving the **GOVERNMENT** or the Government of Iraq;
- (c) sales involving exchanges and any transactions not relating to normal commercial practices,

Except where it can be shown to the satisfaction of the **GOVERNMENT**, that the sales were on arms length basis and at prices which are competitive considering the quality, quantity and geographical factors.

Assets means all platforms, pipelines, plant, equipment, machinery, wells, facilities and all other installations and structures and all Materials and Equipment.

Associated Natural Gas means any Natural Gas dissolved in Crude Oil under reservoir conditions.

Available Associated Natural Gas is defined in Article 25.1.

Available Crude Oil is defined in Article 25.1.

Available Non-Associated Natural Gas is defined in Article 25.1.

Available Petroleum is defined in Article 25.1.

Barrel means a quantity of forty-two (42) US gallons as a unit to measure liquids, at a temperature of sixty degrees (60°) Fahrenheit and pressure of fourteen point seven (14.7) psi.

Budgets means any budgets prepared by, or on behalf of, the **CONTRACTOR** pursuant to this Contract and forming part of an Exploration Work Program and Budget and/or an Appraisal Work Program and Budget and/or a Gas Marketing Work Program and Budget and/or a Development Work Program and Budget and/or a Production Work Program and Budget.

Calendar Year means a period of twelve (12) consecutive Months, commencing 1 January and ending on 31 December of the same year.

Commercial Discovery means a Discovery which, in the **CONTRACTOR'S** analysis, is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out appraisal works or similar operations, including but not limited to: recoverable reserves of Petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with standard practices in the international petroleum industry.

Commercial Production means the production of Petroleum from the Production Area in accordance with annual Production Works Program and Budget.

Constitution of Iraq means the permanent constitution of Iraq approved by the people of Iraq in the general referendum of 15 October 2005;

Contract means this production sharing contract, including its Annexes A and B that are an integral part hereof, as well as any extension, renewal, substitution or amendment of this production sharing contract that may be agreed in writing by the Parties in accordance with Article 43.7 (except as provided in Article 47).

Contract Area means the area described and defined in Annex A attached to this Contract, and any modifications made to that Annex in accordance with the provisions of this Contract.

Contract Year means a period of twelve (12) consecutive Months starting from the Effective Date or any anniversary of the said Effective Date.

CONTRACTOR means, either jointly or individually, RELIANCE, and/or any assignee of all or part of the rights and obligations under this Contract in accordance with Article 39 of this Contract and, for the avoidance of doubt, at any time when there is only one entity constituting the CONTRACTOR, any reference made in this Contract to "the entities constituting the CONTRACTOR" or the "CONTRACTOR entities" or similar reference, shall be deemed to mean "the entity constituting the CONTRACTOR".

Corporate Guarantee is defined in Article 9.1.

Crude Oil means all liquid hydrocarbons in their unprocessed state or obtained from Natural Gas by condensation or any other means of extraction.

Decommissioning Costs means all the costs and expenditure incurred by the CONTRACTOR when carrying out Decommissioning Operations, including but not limited to those defined in the Accounting Procedure.

Decommissioning Operations means any works, together with all related and auxiliary activities, for decommissioning and/or removal and/or abandonment and making safe all of the Assets and site restoration related thereto in relation to any Production Area.

Decommissioning Plan is defined in Article 38.7.

Decommissioning Reserve Fund is defined in Article 38.1 and includes all contributions paid into such fund and all interest accumulated in such fund.

Delivery Point means the place after extraction, specified in the approved Development Plan for a Petroleum Field, at which the Crude Oil, Associated Natural Gas and/or Non-Associated Natural Gas is metered for the purposes of Article 27.5, valued for the purposes of Article 27.1 and ready to be taken and disposed of, consistent with international practice, and at which a Party may acquire title to its share of Petroleum under this Contract or such other point which may be agreed by the Parties.

Development Costs means all the costs and expenditure incurred by the CONTRACTOR when carrying out Development Operations, including but not limited to those defined in the Accounting Procedure.

Development Operations means all development operations or works conducted in accordance with a Development Plan up to the Delivery Point with a view to developing a Petroleum Field, including but not limited to: drilling of wells; primary and subsequent recovery projects and pressure maintenance; survey, engineering, building and erecting or laying of production plants and facilities (including but not limited to: separators; compressors; generators; pumps and tankage; gathering lines; pipelines and all facilities required to be installed for production, pressure maintenance, and treatment, storage and transportation of Petroleum); obtaining of such materials, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the production of Petroleum from the Production Area.

Development Period is defined in Article 6 of this Contract.

Development Plan means a plan for development defined in Article 12.8 of this Contract.

Development Well means any well drilled after the date of approval of the Development Plan for the purpose of producing Petroleum, increasing or accelerating production of Petroleum, including injection wells and dry holes. Any well drilled within a Production Area shall be deemed a Development Well.

Development Work Program and Budget means the development work program and budget prepared pursuant to Article 13.2.

Discovery means a discovery of Petroleum within the limits of the Contract Area resulting from Petroleum Operations carried out under this Contract, provided such Petroleum is recoverable at the surface with a measurable flow utilising techniques used in the international petroleum industry.

Dollar (US\$) means the legal currency (dollar) of the United States of America (USA).

Effective Date means the date on which the conditions referred to in Article 48 of this Contract have been fulfilled.

Equipment and Materials is defined in Article 19.1.

Exploration Costs means all the costs and expenditure incurred by the CONTRACTOR when carrying out Exploration Operations, including but not limited to those defined in the Accounting Procedure.

Exploration Operations means any and all operations conducted with a view to discovering Petroleum, including but not limited to: any activities necessary to commence operations; any topographical, hydrographical, geological, geophysical, aerial and other surveys and activities (including interpretations, analyses and related studies) to investigate the subsurface for the location of Petroleum; drilling of shot holes, core holes and stratigraphic test holes; spud, drilling, testing, coring, logging and equipping of Exploration Wells or Appraisal Wells; procurement of such services, material, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the conduct of the foregoing activities.

Exploration Period is defined in Article 6 of this Contract.

Exploration Well means any well drilled for the purpose of confirming a geological structure or stratigraphic unit in which no Discovery has previously been made by the **CONTRACTOR**

Exploration Work Program and Budget means the exploration work program and budget prepared pursuant to Article 11.1.

Export Crude Oil is defined in Article 24.2.

Export Non-Associated Natural Gas is defined in Article 24.2.

Export Petroleum is defined in Article 24.2.

First Exploration Well is defined in Article 10.2 (c).

First Production means the moment when Commercial Production of Crude Oil or Non-Associated Natural Gas (as the case may be) first commences, by flowing at the rate forecast in the Development Plan without interruption for a minimum of forty eight (48) hours.

Force Majeure is defined in Article 40.2.

Gas Marketing Costs means all costs and expenditure incurred by the **CONTRACTOR** when carrying out Gas Marketing Operations, including but not limited to those defined in the Accounting Procedure.

Gas Marketing Operations means any and all of the activities and operations contemplated by Article 14.6.

Gas Marketing Work Program and Budget means the marketing work program and budget prepared pursuant to Article 14.8.

Government of Iraq means the Federal Government of the Republic of Iraq, which holds office under the Constitution of Iraq.

International Market Price is defined in Article 27.2 of this Contract.

Joint Operating Agreement means any agreement executed by the entities constituting the **CONTRACTOR** at any time for the purpose of regulating between such entities the terms under which the Petroleum Operations will be conducted, which agreement shall be: (a) consistent with international standards in the petroleum industry; (b) as between such entities, supplementary to this Contract; and (c) consistent with the provisions of the Contract.

Kurdistan Region means the Kurdistan Region of Iraq recognised by the Constitution of Iraq and having the same meaning as in the Kurdistan Region Petroleum Act.

Kurdistan Region Law means all statutes, decrees, edicts, codes, orders, rules, ordinances and regulations of the **GOVERNMENT** or of any other local, municipal, territorial, provincial, or any other duly constituted governmental authority or agency in the Kurdistan Region.

Kurdistan Region Petroleum Act means the draft Kurdistan Region Petroleum Act, which is currently under consideration by the GOVERNMENT or, when that Act enters into force.

Law means all applicable laws including without limitation the following: constitutional law, civil law, common law, international law, equity, treaties, statutes, decrees, edicts, codes, orders, judgements, rules, ordinances and regulations of any local, municipal, territorial, provincial, federated, national or any other duly constituted governmental authority or agency.

LIBOR means the London Inter-Bank Offered Rate at which Dollar deposits for one (1) Month are offered in the inter-bank market in London, as quoted in the Financial Times of London for the day in question. In the event that such rate is not published in the Financial Times, it shall mean the London Inter-bank Offered Rate at which Dollar deposits for one Month are offered for the nearest day as quoted by National Westminster Bank plc.

Management Committee is defined in Article 8 of this Contract.

Minimum Exploration Obligations is defined in Article 10.1 of this Contract.

Month means a calendar month according to the Gregorian calendar.

Natural Gas means all gaseous Petroleum and inerts.

Non-Associated Natural Gas means any Natural Gas which is not dissolved in Crude Oil under reservoir conditions.

Operator means the entity designated by the CONTRACTOR pursuant to Article 5 of this Contract which, in the name and on behalf of the CONTRACTOR, shall carry out all Petroleum Operations. If at any time there exists more than one (1) Operator under this Contract, any reference herein to the term 'Operator' shall be to each Operator with respect to the parts of the Contract Area in which such Operator conducts Petroleum Operations.

Party or Parties means the GOVERNMENT and/or the CONTRACTOR

Permits means all licences, permits, consents, authorisations or other permissions, as the context requires.

Petroleum means:

- (a) any naturally occurring hydrocarbon in a gaseous or liquid state;
- (b) any mixture of naturally occurring hydrocarbons in a gaseous or liquid state; or
- (c) any Petroleum (as defined in paragraphs (a) and (b) above) that has been returned to a Reservoir.

Petroleum Costs means all costs and expenditure incurred by the CONTRACTOR for the Petroleum Operations, and which the CONTRACTOR is entitled to recover under this Contract and its Accounting Procedure attached to this Contract as Annex B, including but not limited to Decommissioning Costs, Development Costs, Exploration Costs, Gas Marketing Costs and Production Costs.

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Petroleum Field means a Reservoir or group of Reservoirs within a common geological structure or stratigraphic unit from which Petroleum may be produced and which has been declared as a Commercial Discovery by the **CONTRACTOR** pursuant to Article 12.6 (a) or Article 14.5 (a).

Petroleum Operations means all Exploration Operations, Gas Marketing Operations, Development Operations, Production Operations and Decommissioning Operations, as well as any other activities or operations directly or indirectly related or connected with the said operations (including but not limited to health, safety and environmental operations and activities) and authorised or contemplated by, or performed in accordance with, this Contract.

Production Area means such areas within the Contract Area designated as a production area in an approved Development Plan prepared pursuant to Article 12 of this Contract. For the avoidance of doubt, all superjacent or subjacent strata of the Reservoir in which a Commercial Discovery is located are automatically included in the relevant Production Area.

Production Bonus means any bonus due pursuant to Article 32.3 or 32.4.

Production Costs means all the costs and expenditure incurred by the **CONTRACTOR** in carrying out the Production Operations, including but not limited to those defined in the Accounting Procedure.

Production Operations means any works, together with all related and auxiliary activities, for the production of Petroleum from the start of Commercial Production, including but not limited to: extraction, injection, stimulation, pumping, treatment, storage, engineering, operating, servicing, repairing, and maintaining any wells, plants, equipment, pipelines, terminals and any other installations and facilities, and any related operations and auxiliary operations, and storage and transportation of Petroleum from the Production Area to the Delivery Point.

Production Work Program and Budget shall mean the production work program and budget prepared pursuant to Article 13.6.

Profit Crude Oil is defined in Article 26.1.

Profit Natural Gas is defined in Article 26.1.

Profit Petroleum is defined in Article 26.1.

Public Company means a public company regulated by the **GOVERNMENT** under the Kurdistan Region Petroleum Act.

Public Officer means a civil servant, including a member or employee of a public entity, a member of the Parliament or a member of the Government;

Quarter means a period of three (3) consecutive Months starting on the first day of January, April, July or October respectively.

Republic of Iraq Oil and Gas Law means the Republic of Iraq Oil and Gas Law being negotiated at the Effective Date, when that Law enters into force.

Reservoir means a subsurface rock formation containing an individual and separate natural accumulation of producible Petroleum characterised by a single natural pressure system.

"R" Factor is defined in Article 26.4.

Royalty is defined in Article 24.

Second Exploration Well is defined in Article 10.3 (b).

Semester means a period of six (6) consecutive Months starting from the first day of January or July respectively.

Subcontractor means any entity of any contracting tier providing services and/or undertaking works relating to the Petroleum Operations under the overall supervision by, and on behalf of, the **CONTRACTOR**.

Sub-Period and **Sub-Periods** are defined in Article 6.2.

Work Program means any work program prepared by, or on behalf of, the **CONTRACTOR** pursuant to this Contract and forming part of an Exploration Work Program and Budget and/or an Appraisal Work Program and Budget and/or a Gas Marketing Work Program and Budget and/or a Development Work Program and Budget and/or a Production Work Program and Budget.

ARTICLE 2 - SCOPE OF THE CONTRACT

- 2.1 This Contract is a production-sharing arrangement with respect to the Contract Area, whereby the **GOVERNMENT** has the right, pursuant to the Constitution of Iraq, to regulate and oversee Petroleum Operations within the Contract Area.

The purpose of this Contract is to define the respective rights and obligations of the Parties and the terms and conditions under which the **CONTRACTOR** shall carry out all the Petroleum Operations.

By entering into this Contract, the **GOVERNMENT** grants the **CONTRACTOR** the exclusive right and authority to conduct all Petroleum Operations in the Contract Area as detailed in Article 3 below.

- 2.2 Upon the **CONTRACTOR'S** request, the **GOVERNMENT** shall provide all required Permits relating to the Petroleum Operations required by the **CONTRACTOR** to fulfil its obligations under this Contract, including those relating to any extension and renewal periods and including those required by the Government of Iraq. The **GOVERNMENT** (i) represents and warrants to the **CONTRACTOR** that it has not done and has not omitted to do anything that would cause the cancellation or suspension of this Contract or any Permit granted pursuant to this Contract; and (ii) covenants that it will not do, or omit to do, anything that would cause the cancellation or suspension of this Contract or any Permit granted pursuant to this Contract.

- 2.3. The **CONTRACTOR** shall conduct all Petroleum Operations within the Contract Area at its sole cost, risk and peril on behalf of the **GOVERNMENT**, pursuant to this Contract, including but not limited to the following operations:

(a) **Technical Services**

Implementation of all technical, human and material resources reasonably required for execution of the Petroleum Operations, in accordance with standard practices prevailing in the international petroleum industry.

(b) **Financial Services**

The responsibility for funding the Exploration Operations and, in the event of a Commercial Discovery, Development, Production and Decommissioning Operations, pursuant to this Contract.

For the funding of Petroleum Operations, each entity constituting the **CONTRACTOR** shall be entitled to have recourse to external financing from either its Affiliated Companies or from any third parties.

(c) **Administrative Services**

Implementation of all appropriate management and administration techniques for execution of the Petroleum Operations under this Contract, in accordance with standard practices prevailing in the international petroleum industry.

- 2.4. During the term of this Contract, the **CONTRACTOR** shall be responsible to the **GOVERNMENT** for the conduct of Petroleum Operations within the Contract Area pursuant to the terms of this Contract.
- 2.5. Natural resources other than Petroleum shall be excluded from the scope of this Contract, even if the **CONTRACTOR** discovers any such resources when executing its obligations pursuant to this Contract.
- 2.6. The **CONTRACTOR** shall only be entitled to recover Petroleum Costs incurred under this Contract in the event of a Commercial Discovery. Recovery of Petroleum Costs shall occur within the limits provided under Article 25 of this Contract.
- 2.7. During the term of this Contract, Profit Crude Oil and/or Profit Natural Gas produced from Petroleum Operations shall be shared between the Parties in accordance with the provisions of Article 26 of this Contract.
- 2.8 For the execution of Petroleum Operations under this Contract, the **CONTRACTOR** shall have the right to:
- (a) freely access and operate within the Contract Area , as well as any facilities associated with the Petroleum Operations, wherever they may be located;
 - (b) freely use access roads located within the Contract Area and outside the Contract Area for the construction, installation, maintenance and removal of pipelines and other facilities required for the Petroleum Operations;
 - (c) freely use sand, water, electricity and any other natural resources located inside or outside the Contract Area for the Petroleum Operations;
 - (d) use any qualified foreign and local personnel and/or Subcontractors required for the conduct of Petroleum Operations in accordance with Articles 22 and 23 of this Contract. Any foreign personnel working in the Kurdistan Region shall require prior authorisation of the **GOVERNMENT** (such authorisation not to be unreasonably delayed or withheld) and the **GOVERNMENT** shall obtain any authorisation required by the Government of Iraq;
 - (e) import any goods, materials, equipment and/or services required for the Petroleum Operations in accordance with Articles 19, 22 and 30; and
 - (f) freely use land or property belonging to the Kurdistan Region.

ARTICLE 3 - CONTRACT AREA

The initial Contract Area covers the Sarta Block and extends over an area of Six hundred six point seven square kilometers (606.70 km²), as detailed and indicated on the map attached in Annex A and is delimited by the following coordinates:

Point	Latitude (deg min sec)	Longitude (deg min sec)	X(mE)	Y(mN)
A	36 40 33	43 51 12	397536	4059522
B	36 36 48	44 00 46	411716	4052445
C	36 34 24	43 57 03	406126	4048065
D	36 28 59	44 06 50	420628	4037878
E	36 20 55	44 05 41	418768	4023000
F	36 19 17	44 03 39	415700	4020000
G	36 28 00	43 47 49	392200	4036400
H	36 31 13	43 43 35	385977	4042422
I	36 33 18	43 44 49	387850	4046250
J	36 38 30	43 46 13	390066	4055827

The **GOVERNMENT**, by execution of this Contract, hereby validates and approves the foregoing co-ordinates of the Contract Area.

The total area of the Contract Area may be reduced only in accordance with the provisions of this Contract.

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ARTICLE 4 - GOVERNMENT PARTICIPATING INTEREST

- 4.1 The **GOVERNMENT** shall through a Public Company duly authorised by the **GOVERNMENT** have the option of participating in this Contract, in respect of the entire Contract Area, as a **CONTRACTOR** entity, with an undivided interest in the Petroleum Operations and all the other rights, duties, obligations and liabilities of the **CONTRACTOR**, under this Contract in respect of the Contract Area, of twenty-five per cent (25%) (the "**Government Interest**"), such option being referred to herein as the "**Option to Participate**". The Public Company shall be entitled to exercise the Option to Participate by notifying the **CONTRACTOR** in writing of such election at any time in the period commencing on the Effective Date and ending one hundred and eighty (180) days after the date on which **CONTRACTOR** declares the first Commercial Discovery in the Contract Area (which date of declaration is referred to herein as the "**First Commercial Declaration Date**"). If the Public Company does not notify the **CONTRACTOR** of such election within such period, it shall be deemed to have waived its right to exercise the Option to Participate and shall have no further rights whatsoever in respect of any such participation.
- 4.2 If the Public Company exercises the Option to Participate in accordance with Article 4.1:
- (a) the effective date of such participation shall be the date of the notice by which the Public Company exercises its Option to Participate or the First Commercial Declaration Date, whichever is the earlier;
 - (b) the Public Company shall participate as a **CONTRACTOR** entity under this Contract from such effective date, with all its rights, duties, obligations and liabilities under this Contract, save as provided in and subject to the provisions of this Article 4;
 - (c) the Public Company shall not have any liability to the other **CONTRACTOR** entities to contribute its Government Interest share of all Petroleum Costs incurred before the First Commercial Declaration Date and its Government Interest share of such Petroleum Costs shall be the responsibility of the other **CONTRACTOR** entities, provided always that such other **CONTRACTOR** entities shall be entitled to recover all such Petroleum Costs in accordance with Article 25;
 - (d) if, pursuant to the terms of the Joint Operating Agreement, the Public Company participates in the development of the Commercial Discovery, it shall be liable to the other **CONTRACTOR** entities to contribute its Government Interest share of all Petroleum Costs incurred on or after the First Commercial Declaration Date, with the exception of the production bonuses referred to in Article 32 and shall be entitled to recover all such Petroleum Costs in accordance with Article 25, including the Petroleum Costs which it has reimbursed pursuant to Article 4.2 (e);

- (e) if such Option to Participate is exercised on or after the First Commercial Declaration Date, the Public Company shall, within thirty (30) days of the date of so notifying the **CONTRACTOR** of its election, reimburse the other **CONTRACTOR** entities for all Petroleum Costs for which it is liable pursuant to Article 4.2 (d) and which have been incurred by such other **CONTRACTOR** entities on or after the First Commercial Declaration Date but prior to and including the date of the notice pursuant to which it exercises its Option to Participate. From the date of such notice, the Public Company shall pay the Government Interest share of such Petroleum Costs directly;
- (f) for the purposes of Article 39 of the Kurdistan Region Petroleum Act, the Government Interest so assigned shall deemed to be held by the **GOVERNMENT** and in accordance with the principle in Article 16.13, the Public Company will be individually and separately liable (and not jointly and severally liable with the other **CONTRACTOR** entities) to the **GOVERNMENT** for its obligations, duties and liabilities under this Contract as a **CONTRACTOR** entity and the provisions of Article 4.4 shall apply.

4.3 The Public Company may, at its discretion, assign part or all of its Government Interest to a third party or parties which is another Public Company duly authorised by the **GOVERNMENT**, provided that in the event of a transfer of part of the Government Interest, such Government Interest will not be less than five per cent.

In the event of such an assignment to another Public Company, for the purposes of Article 39 of the Kurdistan Region Petroleum Act, the Government Interest so assigned shall be deemed to be held by the **GOVERNMENT** and in accordance with the principle in Article 16.13, the Public Company to which such Government Interest is transferred will be individually and separately liable (and not jointly and severally liable with the other **CONTRACTOR** entities) to the **GOVERNMENT** for its obligations, duties and liabilities under this Contract as a **CONTRACTOR** entity and the provisions of Article 4.4 shall apply.

4.4 Any failure by the a Public Company to perform any of its obligations or to satisfy any of its duties or liabilities under this Contract as a **CONTRACTOR** entity shall not be considered as a default of the other **CONTRACTOR** entities and shall in no case be invoked by the **GOVERNMENT** to terminate this Contract.

The capacity of a Public Company as a **CONTRACTOR** entity, as it may arise pursuant to the provisions of this Contract, shall in no event cancel or affect the rights of the other **CONTRACTOR** entities to seek to settle a dispute or to refer such dispute to arbitration or expert determination in accordance with the provisions of Article 42.

4.5 A Public Company may assign part or all of its Government Interest to a third party or parties (not being a Public Company), subject to the provisions of Article 4.6 (and for the avoidance of doubt the provisions of Articles 39.1, 39.2 and 39.3 shall not apply).

For the avoidance of doubt, following any assignment by a Public Company of all or part or all of a Government Interest to a third party which is not a Public Company, in accordance with the provisions of this Article 4, the provisions of Articles 39.1, 39.2 and 39.3 shall apply to any subsequent assignment of such interest.

4.6 Where a Joint Operating Agreement has been executed by the **CONTRACTOR** entities prior to any exercise of the Option to Participate pursuant to this Article 4, the Public Company authorised as mentioned in Article 4.1 shall become a party to such agreement, with any amendments necessary to be consistent with the principles of this Article 4. Where a Joint Operating Agreement is not in place prior to the exercise of the Option to Participate pursuant to this Article 4, the Public Company and the other **CONTRACTOR** entities shall, within a reasonable period of time, negotiate in good faith and enter into a Joint Operating Agreement and shall during the period between the exercising of the Option to Participate and the execution of the Joint Operating Agreement, comply with paragraphs (a) and (b) inclusive of Article 4.7 as if they were provisions of this Contract.

4.7 Any Joint Operating Agreement entered into in relation to this Contract shall be consistent with the principles of this Article 4 and shall provide as follows:

- (a) all decisions of any operating committee established under such Joint Operating Agreement shall require the affirmative vote of an agreed percentage of participating interests held thereunder, which in any event shall not be more than seventy five percent (75%);
- (b) in the event of a proposed transfer by any **CONTRACTOR** entity of part of a participating interest under such Joint Operating Agreement, including but not limited to any Government Interest:
 - (i) the interest to be transferred will not be less than five per cent (5%);
 - (ii) the proposed third party assignee demonstrates to the reasonable satisfaction of each of the entities constituting the **CONTRACTOR** that it has the financial capability to perform its payment obligations under the Contract and under the Joint Operating Agreement; and
 - (iii) the proposed third party assignee shall enter into an instrument reasonably satisfactory to each of the entities constituting the **CONTRACTOR** to perform the obligations of the transferor.

4.8 For the avoidance of doubt, there shall be no right of assignment in respect of the Option to Participate.

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ARTICLE 6 - TERM OF THE CONTRACT

- 6.1 This Contract comprises an Exploration Period and a Development Period, as defined below:

Exploration Period

- 6.2 The Exploration Period shall be for an initial term of five (5) Contract Years, extendable on a yearly basis (as provided in Articles 6.5 and 6.6) up to a maximum period of seven (7) Contract Years, starting from the Effective Date. The initial term of five (5) years shall be subdivided in two (2) sub-periods as follows:

- (a) an initial sub-period of three (3) Contract Years ("First Sub-Period");
 - (b) a second sub-period of two (2) Contract Years ("Second Sub-Period"),
- each a "**Sub-Period**" and collectively "**Sub-Periods**".

It is understood that the right of the **CONTRACTOR** to accede to the next Sub-Period shall be subject to fulfilment of the Minimum Exploration Obligations applicable to the previous Sub-Period.

- 6.3 During the Exploration Period, the **CONTRACTOR** shall pay to the **GOVERNMENT**, in arrears, an annual surface rental for the Contract Area, as may be reduced by relinquishment from time to time pursuant to Article 7, of ten Dollars (US\$ 10) per square kilometre per Contract Year ("**Exploration Rental**"). Such Exploration Rental shall be considered as a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 6.4 If the **CONTRACTOR** decides not to enter into the Second Sub-Period, it shall notify the **GOVERNMENT** at least thirty (30) days prior to the expiry of the First Sub-Period and, provided that the data from the First Exploration Well demonstrates that there is no reasonable technical case for drilling the Second Exploration Well in the Contract Area, the Exploration Period shall expire at the end of the First Sub-Period, unless the First Sub-Period has been extended pursuant to Article 6.5 and/or Article 6.6.
- 6.5 If the **CONTRACTOR** has fulfilled its Minimum Exploration Obligations for a Sub-Period of the Exploration Period but considers that additional work is required prior:
- (a) to deciding to submit an Appraisal Program as provided under Article 12.2 of this Contract in respect of a Discovery, or
 - (b) to deciding to declare a Discovery as a Commercial Discovery in accordance with Article 12.6 (a) or 14.5 (a), which additional work may include the preparation and/or execution of an Appraisal Program as provided under Article 12.2 of this Contract and/or Gas Marketing Operations.

ARTICLE 5 -OPERATOR

- 5.1 The **CONTRACTOR** is hereby designated to act as the Operator for the execution of the Petroleum Operations. Any change in Operator shall require the prior approval of the **GOVERNMENT**.
- 5.2 The **CONTRACTOR** shall submit to the **GOVERNMENT** for comment any agreement regarding or regulating the Operator's appointment and its conduct of Petroleum Operations on behalf of the **CONTRACTOR** pursuant to this Contract prior to execution of such agreement.
- 5.3 In the event of the occurrence of any of the following, the **GOVERNMENT** may require the **CONTRACTOR** to appoint another entity as Operator as soon as is reasonably practicable:
- (a) if an order has been passed in court declaring the bankruptcy, liquidation, or dissolution of the Operator;
 - (b) if the Operator terminates its activities under this Contract or a material proportion thereof, and, as a result **CONTRACTOR** fails to fulfill its obligations under the Contract.

the CONTRACTOR will automatically be entitled to extensions, each of one (1) Contract Year, of the then current Sub-Period, up to the end of the maximum Exploration Period of seven (7) Contract Years, (as provided in Article 6.2). The CONTRACTOR'S notification of such extension and its duration shall be submitted in writing to the GOVERNMENT at least thirty (30) days prior to the end of the then current Sub-Period or the end of the then current extension (as the case may be).

6.6 Without prejudice to Article 6.5, upon expiry of the initial term of the Exploration Period, if it considers it has not completed its exploration evaluation of the Contract Area, the CONTRACTOR shall be entitled to an extension of the Second Sub-Period, provided it so requests the GOVERNMENT in writing at least thirty (30) days prior to the end of such Sub-Period, together with a proposal for a minimum work obligation for such extension. Any such extension shall not exceed one (1) Contract Year. Upon the expiry of such extension, if it considers it has still not completed its evaluation of the Contract Area, the CONTRACTOR shall be entitled to a further extension of one (1) Contract Year provided that it so requests the GOVERNMENT in writing at least thirty (30) days prior to the end of the original extension..

6.7 Subject to Article 6.4, at any time during the Exploration Period, upon thirty (30) days prior notice to the GOVERNMENT, the CONTRACTOR shall have the right to withdraw from this Contract provided that the outstanding Minimum Exploration Obligations relating to the then current Sub-Period have been completed in accordance with the Contract, or it has paid to the GOVERNMENT the amounts specified in Article 10.2 or Article 10.3 of this Contract, whichever is applicable to the then current Sub-Period.

6.8 If no Commercial Discovery has been made within the Contract Area at the end of the Exploration Period (including any extensions thereof) this Contract shall terminate.

6.9 If a Discovery is made within the maximum Exploration Period of seven (7) Contract Years (as provided in Article 6.2), and if the CONTRACTOR considers it has not had time to complete sufficient Gas Marketing Operations to declare the Discovery a Commercial Discovery pursuant to Article 12.6 (a) or 14.5 (a), the CONTRACTOR shall be entitled to request an extension of the Exploration Period (notwithstanding the maximum period provided in Article 6.2), provided it so requests the GOVERNMENT in writing at least thirty (30) days prior to the end of the maximum Exploration Period, together with a proposal for Gas Marketing Operations to be undertaken during such extension. If granted by the GOVERNMENT, any such extension shall not exceed two (2) Contract Years. Upon the expiry of such extension, if it considers it has still not completed its Gas Marketing Operations relating to such Discovery, the CONTRACTOR shall be entitled to request a further extension of two (2) Contract Years provided that it so requests the GOVERNMENT in writing at least thirty (30) days prior to the end of the original extension, together with a proposal for Gas Marketing Operations to be undertaken during such extension.

Development Period

- 6.10 If the **CONTRACTOR** considers that a Discovery of Crude Oil and any Associated Natural Gas is a Commercial Discovery, the **CONTRACTOR** shall have the exclusive right to develop and produce such Commercial Discovery, pursuant to the terms of this Contract. The Development Period for a Commercial Discovery of Crude Oil and any Associated Natural Gas shall be twenty (20) years commencing on the declaration of such Commercial Discovery by **CONTRACTOR**, in accordance with Article 12.6 (a) of this Contract, with an automatic right to a five (5) year extension.
- 6.11 If the **CONTRACTOR** considers that a Discovery of Non-Associated Natural Gas is a Commercial Discovery, the **CONTRACTOR** shall have the exclusive right to develop and produce such Commercial Discovery, pursuant to the terms of this Contract. The Development Period for a Commercial Discovery of Non-Associated Natural Gas shall be twenty (20) years, commencing on the declaration of such Commercial Discovery by **CONTRACTOR**, in accordance with Article 12.6 (a) or Article 14.5 (a) of this Contract, with an automatic right to a five (5) year extension.
- 6.12 If Commercial Production from a Production Area is still possible at the end of its Development Period as defined in Articles 6.10 or 6.11 above then, upon its request, the **CONTRACTOR** shall be entitled to an extension of such Development Period under the same terms as those provided in this Contract. Such request shall be made in writing by the **CONTRACTOR** at least six (6) Months before the end of the said Development Period.
- The term of any such extension of the Development Period shall be:
- (a) five (5) Years for Crude Oil and any Associated Natural Gas, and/or
 - (b) five (5) Years for Non-Associated Natural Gas.
- 6.13 The **CONTRACTOR** shall have the right to terminate Production Operations for any Production Area at any time during the term of this Contract, subject to giving notice to the GOVERNMENT of at least ninety (90) days. This Contract shall terminate on the expiry date of the last Production Area or when Production Operations for all Production Areas have terminated.

ARTICLE 7 - RELINQUISHMENTS

- 7.1 Subject to the provisions of Articles 7.2 and 7.3, the **CONTRACTOR** shall surrender portions of the Contract Area as follows:
- (a) twenty five percent (25%) of the initial Contract Area, excluding any Production Areas, at the end of the initial term of the Exploration Period referred to in Article 6.2; and
 - (b) an additional twenty five percent (25%) of that part of the Contract Area, excluding any Production Areas, remaining at the end of each extension period entered into under this Contract or at the end of the initial term of the Exploration Period referred to in Article 6.2.
- 7.2 For the application of Article 7.1:
- (a) any areas already relinquished pursuant to Article 7.4 below shall be deducted from areas to be surrendered; and
 - (b) the **CONTRACTOR** shall have the right to determine the area, shape and location of the Contract Area to be kept, provided that the portions of the Contract Area surrendered shall be contiguous.
- 7.3 If the relinquishment referred to in Article 7.1 can only be achieved by including part of the area of a Discovery, these percentages shall be reduced to exclude the Discovery area.
- 7.4 During the Exploration Period, the **CONTRACTOR** may at the end of each Contract Year "surrender all or any part of the Contract Area by written notice sent to the **GOVERNMENT** at least thirty (30) days in advance of the proposed date of surrender, subject to the provisions of this Article 7.4. Such voluntary surrenders during the Exploration Period shall be deemed equal to the obligatory relinquishments referred to under Article 7.1. This Contract shall terminate in the event of total surrender of the Contract Area.
- 7.5 No surrender provided under Article 7.4 shall exempt the **CONTRACTOR** from its outstanding obligations under this Contract. In the event the **CONTRACTOR** elects to surrender the entire Contract Area without having fulfilled the Minimum Exploration Obligations relating to the then current Sub-Period as provided in Article 10.2 or Article 10.3, the **CONTRACTOR** shall pay to the **GOVERNMENT** the relevant outstanding amount as detailed in Article 10.2 or Article 10.3, as the case may be.
- 7.6 The boundaries of the portion of the Contract Area to be relinquished by the **CONTRACTOR** shall be communicated to the **GOVERNMENT** by written notice at least thirty (30) days in advance of the relevant date for relinquishment, pursuant to Article 7.1.

ARTICLE 8 - MANAGEMENT COMMITTEE

- 8.1 A Management Committee shall be established within thirty (30) days following the Effective Date for the purpose of providing orderly direction of all matters pertaining to the Petroleum Operations and Work Program.

The Management Committee shall comprise an equal number of members designated by each Party: two (2) members designated by the **GOVERNMENT** and two (2) members designated by the **CONTRACTOR**.

Upon ten (10) days notice, each Party may substitute any of its members of the Management Committee. The chairman of the Management Committee shall be one of the members designated by the **GOVERNMENT** (the "**Chairman**"). The vice-chairman of the Management Committee shall be one of the members designated by the **CONTRACTOR** (the "**Vice-Chairman**"). In the absence of the Chairman, the Vice-Chairman shall chair the meeting.

Each Party shall have the right to invite a reasonable number of observers as deemed necessary to attend the meetings of the Management Committee in a non-voting capacity.

- 8.2 The Management Committee shall review, deliberate, decide and give advice, suggestions and recommendations to the Parties regarding the following subject matters:

- (a) Work Programs and Budgets;
- (b) the **CONTRACTOR'S** activity reports;
- (c) production levels submitted by the **CONTRACTOR**, based on generally accepted practice in the international petroleum industry;
- (d) accounts of Petroleum Costs;
- (e) procurement procedures for potential Subcontractors, with an estimated sub contract value in excess of one million Dollars (\$1,000,000), submitted by the **CONTRACTOR** in accordance with Article 19.3;
- (f) Development Plan and Budget for each Petroleum Field;
- (g) any matter having a material adverse affect on Petroleum Operations;
- (h) any other subject matter of a material nature that the Parties are willing to consider.

- 8.3 Each Party shall have one (1) vote in the Management Committee. The Management Committee cannot validly deliberate unless each Party is represented by at least one (1) of its members or its deputy.

The Management Committee shall attempt to reach unanimous agreement on any subject matter being submitted. In the event the Management Committee cannot reach unanimous agreement, a second meeting shall be held within fourteen (14) days to discuss the same subject matter and attempt to reach a unanimous decision.

Except as provided for in Article 8.4 and Article 8.5, in the event that no agreement is reached at the second meeting, the Chairman shall have the tie-breaking vote.

- 8.4 In the event that, during the Exploration Period, no agreement is reached at the second meeting of the Management Committee, as provided for in Article 8.3, or unanimous approval is not obtained, as required pursuant to Article 8.5, the proposal made by the **CONTRACTOR** shall be deemed adopted by the Management Committee.
- 8.5 Notwithstanding the provisions of Article 8.3, unanimous approval of the Management Committee shall be required for:
- (a) approval of, and any material revision to, any Exploration Work Program and Budget prepared after the first Commercial Discovery in the Production Area relating to such Commercial Discovery (unless such Exploration Work Program and Budget has been deemed approved by the Management Committee in accordance with Article 11.4);
 - (b) approval of, and any material revision to, the Development Plan, the production schedule, lifting schedule and Development and Production Work Programs and Budgets;
 - (c) establishment of rules of procedure for the Management Committee;
 - (d) approval of, and any material revision to, procurement procedures for goods and/or services, submitted by the **CONTRACTOR** in accordance with Article 19.3 (unless such procedures have been deemed approved by the Management Committee in accordance with Article 19.3);
 - (e) approval of, and any material revision to, any proposed pipeline project, submitted by **CONTRACTOR** in accordance with Article 33.3;
 - (f) approval of a first rate bank in which to place the Decommissioning Reserve Fund, in accordance with Article 38.1
 - (g) approval of, and any material revision to, any proposed Decommissioning Plan submitted pursuant to Article 38.7;
 - (h) any terms of reference which are required to be prepared and agreed for the purposes of expert determination, pursuant to Article 42.3; and
 - (i) any matter having a material adverse affect on Petroleum Operations.
- 8.6 Ordinary meetings of the Management Committee shall take place in the Kurdistan Region, alternately at the offices of the **GOVERNMENT** and those of the **CONTRACTOR**, or at any other location agreed between Parties, at least twice a Contract Year prior to the date of the first Commercial Discovery and three times a Contract Year thereafter.

- 8.7 Either Party may call an extraordinary meeting of the Management Committee to discuss important issues or developments related to Petroleum Operations, subject to giving reasonable prior notice, specifying the matters to be discussed at the meeting, to the other Party. The Management Committee may from time to time make decisions by correspondence provided all the members have indicated their approval of such decisions in such correspondence.
- 8.8 Unless at least one (1) member or its deputy of each Party is present, the Management Committee shall be adjourned for a period not to exceed eight (8) days. The Party being present shall then notify the other Party of the new date, time and location for the meeting.
- 8.9 The agenda for meetings of the Management Committee shall be prepared by the Operator in accordance with instructions of the Chairman and communicated to the Parties at least fifteen (15) days prior to the date of the meeting. The agenda shall include any subject matter proposed by either Party. The Operator shall be responsible for preparing and keeping minutes of the meetings and decisions. Copies of such minutes shall be forwarded to each Party for review and approval. Each Party shall review and approve such minutes within ten (10) days of receipt of the draft minutes. A Party who fails to notify in writing its approval or disapproval of such minutes within such ten (10) days shall be deemed to have approved the minutes.
- 8.10 If required, the Management Committee may request the creation of a technical sub-committee or any other sub-committee to assist it. Any such sub-committee shall be composed of a reasonable number of experts from the **GOVERNMENT** and the **CONTRACTOR**. After each meeting, the technical sub-committee or any other sub-committee shall deliver a written report to the Management Committee.
- 8.11 Any costs and expenditure incurred by the **CONTRACTOR** for meetings of the Management Committee or any technical sub-committee or any other sub-committee shall be considered as Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

ARTICLE 9 - GUARANTEES

- 9.1 Each entity constituting the **CONTRACTOR** shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice received by the **CONTRACTOR** entity within thirty (30) days of the Effective Date, with a corporate guarantee ('Corporate Guarantee') in a form as shall be agreed in good faith between the **GOVERNMENT** and each **CONTRACTOR** entity not later than ninety (90) days after the Effective Date, provided that such Corporate Guarantee shall be given only in respect of the Minimum Exploration Obligations for the First Sub-Period up to the total amount of the minimum financial commitment for the Minimum Exploration Obligations for the First Sub-Period (as such details are provided in Article 10.2), and the Corporate Guarantee shall expire automatically upon completion of the performance of such Minimum Exploration Obligations or expenditure of such minimum financial commitment, whichever is the earlier.
- 9.2 Not later than sixty (60) days after the commencement of the Second Sub-Period, each entity constituting the **CONTRACTOR** shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice received by the **CONTRACTOR** entity within thirty (30) days of such commencement date, with a Corporate Guarantee in the form substantially agreed between the **GOVERNMENT** and each **CONTRACTOR** entity for the First Sub-Period, subject to making the changes necessary in order for the Corporate Guarantee to apply only to the Second Period Minimum Exploration Obligations up to the total amount of the minimum financial commitment for the Minimum Exploration Obligations for the Second Sub-Period (as such details are provided in Article 10.3), and provided that such Corporate Guarantee shall expire automatically upon completion of the performance of such Minimum Exploration Obligations or expenditure of such minimum financial commitment, whichever is the earlier.
- 9.3 In the event of an assignment by a **CONTRACTOR** entity in accordance with Article 39, the relevant third party assignee shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice given to such assignee within thirty (30) days of the effective date of such assignment, with a Corporate Guarantee in the form agreed pursuant to Article 9.1 or 9.2, as applicable to the then current Sub-Period or, in the absence of any such agreed form of Corporate Guarantee, in a form as shall be agreed in good faith between the **GOVERNMENT** and such assignee not later than ninety (90) days after the effective date of the assignment, provided that such Corporate Guarantee shall be given only in respect of the Minimum Exploration Obligations for the then current Sub-Period up to the total amount of the minimum financial commitment for the Minimum Exploration Obligations for such Sub-Period (as such details are provided in Article 10.2 or Article 10.3, as the case may be), and shall expire automatically upon completion of the performance of such Minimum Exploration Obligations or expenditure of such minimum financial commitment, whichever is the earlier.

Provided that, with reference to this Article 9, each Contractor entity shall provide Corporate Guarantee for an amount equal to such Contractor entity's participating interest under the Joint Operating Agreement, provided that such Corporate Guarantee shall not be or amount to a bank guarantee.

ARTICLE 10 - MINIMUM EXPLORATION WORK OBLIGATIONS

- 10.1 The **CONTRACTOR** shall start Exploration Operations within thirty (30) days of Management Committee approval of the Exploration Work Program and Budget in accordance with Article 8 of this Contract. The **CONTRACTOR** shall perform geological, geophysical and/or drilling works as provided under Articles 10.2 to 10.3 below (the "**Minimum Exploration Obligations**"). If applicable, the said Minimum Exploration Obligations shall be performed during each Sub-Period in accordance with good and prudent international oilfield practice.
- 10.2 During the First Sub-Period, the **CONTRACTOR** shall:
- (a) carry out geological and geophysical studies, comprising the following:
 - (i) the compilation of a technical database;
 - (ii) the performance of a remote sensing study;
 - (iii) a field visit to verify initial geological and geophysical work and remote sensing results and plan for two dimensional seismic acquisition; and
 - (b) carry out a data search for existing data specific to this Contract Area, comprising the following:
 - (i) well data, if available, for example, electric logs;
 - (ii) seismic data and gravity data, if available; and
 - (iii) reprocess seismic data, if available.
 - (c) perform field work comprising structural, stratigraphic and lithologic mapping and sampling;
 - (d) acquire, process and interpret two hundred (200) line kilometers of two dimensional seismic data, committing for this purpose a minimum financial amount of three million Dollars (US\$3,000,000); and
 - (e) drill one (1) Exploration Well upto a depth of three thousand meters or upto lower cretaceous formation, whichever is earlier (the "**First Exploration Well**"), committing for this purpose a minimum financial amount of Seven million five hundred thousand Dollars (US\$ 7,500,000).
- 10.3 During the Second Sub-Period, the **CONTRACTOR** shall:
- (a) acquire, process and interpret one hundred fifty line kilometers of two dimensional seismic data if the **CONTRACTOR** considers that the results from the First Exploration Well justify the acquisition of further seismic data committing for this purpose a minimum financial amount of two million two hundred and fifty thousand Dollars (US\$2,250,000); and

- (b) drill one (1) Exploration Well upto a depth of three thousand meters or upto main objective, whichever is earlier (the "Second Exploration Well") committing for this purpose a minimum financial amount of six million Dollars (US\$6,000,000), unless the data from the First Exploration Well demonstrates that there is not a reasonable technical case for drilling the Second Exploration Well in the Contract Area.

10.4 Notwithstanding the provisions in Articles 10.2 to 10.3 above, for the execution of the Minimum Exploration Obligations under Articles 10.2 to 10.3 above, it is agreed as follows:

- (a) Minimum Exploration Obligations in the Second Sub-Period shall only apply in the event the CONTRACTOR has not elected to notify the GOVERNMENT that it will not enter into the Second Sub-Period, in accordance with and subject to Article 6.4.
- (b) Subject to Article 10.4 (a), the CONTRACTOR shall be required to meet its Minimum Exploration Obligations for the applicable Sub-Period, even if this entails exceeding the minimum financial amount for such Sub-Period. If the CONTRACTOR has satisfied its Minimum Exploration Obligations without having spent the total minimum financial amount for such Sub-Period, it shall be deemed to have satisfied its Minimum Exploration Obligations for such Sub-Period and shall be under no further spending obligation.
- (c) Each Exploration Well shall be drilled to the depth agreed by the Management Committee unless:
 - (i) the formation is encountered at a lesser depth than originally anticipated;
 - (ii) basement is encountered at a lesser depth than originally anticipated;
 - (iii) in the CONTRACTOR'S sole opinion continued drilling of the relevant Exploration Well presents a hazard due to the presence of abnormal or unforeseen conditions;
 - (iv) rock formations are encountered rendering it impractical to continue drilling with standard equipment;
 - (v) petroleum formations are encountered whose penetration requires laying protective casing that does not enable the depth agreed by the Management Committee to be reached.

If drilling is stopped for any of the foregoing reasons, the Exploration Well shall be deemed to have been drilled to the depth agreed by the Management Committee and the CONTRACTOR shall be deemed to have satisfied its Minimum Exploration Obligations in respect of the Exploration Well.

- (d) Any geological or geophysical work carried out or any seismic data acquired, processed or interpreted or any Exploration Well drilled or any other work performed in excess of the Minimum Exploration Obligations and/or any amounts spent in excess of the total minimum financial amount in any given Sub-Period, shall be carried forward to the next Sub-Period and shall be taken

into account to satisfy the Minimum Exploration Obligations and/or the total minimum financial amount for such subsequent Sub-Period. For the avoidance of doubt, in the event that the CONTRACTOR fails to satisfy the Minimum Work Obligation specified for any Sub-Period, the CONTRACTOR shall pay to the GOVERNMENT the difference between the minimum financial amount specified under Article 10.2 or 10.3 (as applicable) and the amounts actually spent by the CONTRACTOR during such Sub-Period minus the amounts spent in excess (if any) of the minimum financial amount in any previous Sub-Period(s).

For the avoidance of doubt, if: (i) in the First Sub-Period, **CONTRACTOR** performs any of the Minimum Exploration Obligations prescribed for the Second Sub-Period in Article 10.3; and (ii) **CONTRACTOR** has not elected to notify the GOVERNMENT that it will not enter into the Second Sub-Period (in accordance with and subject to Article 6.4), the performance of such Minimum Exploration Obligations shall be deemed to satisfy the same Minimum Exploration Obligations for the Second Sub-Period.

ARTICLE 11 - EXPLORATION WORK PROGRAMS AND BUDGETS

- 11.1 Within forty-five (45) days following the Effective Date, the **CONTRACTOR** shall submit to the Management Committee a proposed work program and budget relating to Exploration Operations (the "**Exploration Work Program and Budget**") for the remainder of the Calendar Year. Thereafter, no later than 1st day of October in each Calendar Year, the **CONTRACTOR** shall submit a proposed Exploration Work Program and Budget to the Management Committee for the following Calendar Year.
- 11.2 Each Exploration Work Program and Budget shall include details of, but not be limited to, the following:
- (a) work to be undertaken;
 - (b) materials, goods and equipment to be acquired;
 - (c) cost estimate of services to be provided, including services by third parties and/or Affiliated Companies of any entity constituting **CONTRACTOR**;
 - (d) estimated expenditures, broken down by cost centre in accordance with the Accounting Procedure.
- 11.3 The Management Committee shall meet within sixty (60) days following its receipt of **CONTRACTOR'S** proposal to examine and, unless already deemed approved pursuant to the provisions of Article 11.4 below, approve the Exploration Work Program and Budget.
- 11.4 Any modification to the Exploration Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Exploration Work Program and Budget by the Management Committee, accompanied by all the documents justifying such request. If the **GOVERNMENT** does not request any modifications to the Exploration Work Program and Budget within the above set timeframe, the Exploration Work Program and Budget shall be deemed approved by the Management Committee. If the **GOVERNMENT** does request any modifications to the Exploration Work Program and Budget, the **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 11.5 The **CONTRACTOR** shall be authorised to make expenditures not budgeted in an approved Exploration Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten percent (10%) of the approved Exploration Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditures shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

- 11.6 In cases of emergency, the CONTRACTOR may incur such additional expenditures as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the CONTRACTOR in accordance with the provisions of Articles 1 and 25.

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ARTICLE 12 - DISCOVERY AND DEVELOPMENT

- 12.1 If the drilling of an Exploration Well results in a Discovery, the **CONTRACTOR** shall notify the **GOVERNMENT** within forty-eight (48) hours of completing tests confirming the presumed existence of such Discovery or within such longer period as **CONTRACTOR** reasonably requires to determine whether or not there is a Discovery. Within thirty (30) days following notification of the said Discovery, the **CONTRACTOR** shall present to the Management Committee all technical data then available together with its opinion on the commercial potential of the said Discovery (the "**Discovery Report**"). The **CONTRACTOR** shall provide in a timely manner such other information relating to the Discovery as the **GOVERNMENT** may reasonably request.

Appraisal Program

- 12.2 If, pursuant to Article 12.1 above, the **CONTRACTOR** considers that the Discovery has commercial potential it shall, within ninety (90) days following notification to the **GOVERNMENT** of the Discovery, submit an appraisal program in respect of the Discovery (the "**Appraisal Program**") to the Management Committee. The Management Committee shall examine the Appraisal Program within thirty (30) days of its receipt. The Appraisal Program shall be deemed approved by the Management Committee if it has not provided the **CONTRACTOR** with its objections accompanied by all the documents justifying such objection within thirty (30) days following receipt of the said Appraisal Program. If any such objection is made, the Management Committee shall meet to discuss the Appraisal Program and such objections thereto within sixty (60) days from its receipt of the proposed Appraisal Program. The **CONTRACTOR** shall communicate its comments on any such objections to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

The Appraisal Program shall include but not be limited to the following:

- (a) an appraisal works program and budget;
 - (b) an estimated time-frame for completion of appraisal works;
 - (c) the delimitation of the area to be evaluated, the surface of which shall not exceed twice (2 x) the surface of the geological structure or prospect to be appraised (the "**Appraisal Area**").
- 12.3 If, following a Discovery, a rig acceptable to **CONTRACTOR** is available to drill a well, the **CONTRACTOR** may drill any additional Exploration Well or any Appraisal Well deemed necessary by the **CONTRACTOR** before or during the Management Committee's review of the Discovery Report provided in accordance with Article 12.1 or its review of the Appraisal Program.

Appraisal Report

- 12.4 The **CONTRACTOR** shall submit a detailed report relating to the Discovery (the "**Appraisal Report**") to the Management Committee within ninety (90) days following completion of the Appraisal Program.
- 12.5 The Appraisal Report shall include but not be limited to the following:
- (a) geological conditions;
 - (b) physical properties of any liquids;
 - (c) sulphur, sediment and water content;
 - (d) type of substances obtained;
 - (e) Natural Gas composition;
 - (f) production forecast per well; and
 - (g) a preliminary estimate of recoverable reserves.

Declaration of Commercial Discovery

- 12.6 Together with its Appraisal Report, the **CONTRACTOR** shall submit a written statement to the Management Committee specifying that:
- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery; or
 - (b) the **CONTRACTOR** has determined that the Discovery is not a Commercial Discovery; or
 - (c) the **CONTRACTOR** has determined that the Discovery is a significant Discovery, which may become a Commercial Discovery subject to additional exploration and/or appraisal works within or outside of the Appraisal Area; or
 - (d) the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may become a Commercial Discovery subject to Gas Marketing Operations, in accordance with Article 14.5.
- 12.7 In case the statement of the **CONTRACTOR** corresponds to Article 12.6(c), the **CONTRACTOR** shall submit a Work Program and Budget to the Management Committee within thirty (30) days following such statement. Any well drilled to evaluate the said significant Discovery shall be considered an Exploration Well.

Development Plan

- 12.8 If the Discovery has been declared a Commercial Discovery by the CONTRACTOR pursuant to Article 12.6 (a) or Article 14.5 (a), the CONTRACTOR shall submit a proposed Development Plan to the Management Committee within one hundred eighty (180) days following the said declaration. Except with the consent of the GOVERNMENT, such Development Plan shall include details of, but not be limited to, the following:
- (a) the delimitation of the Production Area, taking into account the results of the Appraisal Report regarding the importance of the Petroleum Field to be developed within the Appraisal Area;
 - (b) drilling and completion of Development Wells;
 - (c) drilling and completion of water or Natural Gas injection wells;
 - (d) laying of gathering pipelines;
 - (e) installation of separators, tanks, pumps and any other associated production and injection facilities for the production;
 - (f) treatment and transportation of Petroleum to the processing and storage facilities onshore or offshore;
 - (g) laying of export pipelines inside or outside the Contract Area to the storage facility or Delivery Point;
 - (h) construction of storage facilities for Petroleum;
 - (i) plan for the utilisation of Associated Natural Gas;
 - (j) training commitment in accordance with Article 23 of this Contract;
 - (k) a preliminary decommissioning and site restoration plan;
 - (l) all contracts and arrangements made or to be made by the **CONTRACTOR** for the sale of Natural Gas;
 - (m) all contracts and arrangements made or to be made by persons in respect of that Natural Gas downstream of the point at which it is to be sold by the **CONTRACTOR** and which are relevant to the price at which (and other terms on which) it is to be sold by the **CONTRACTOR** or are otherwise relevant to the determination of the value of it for the purposes of this Contract, but not beyond the point at which it is first disposed of in an Arm's Length Sale; and

- (n) any other operations not expressly provided for in this Contract but reasonably necessary for Development Operations, Production Operations and delivery of Petroleum produced, in accordance with generally accepted practice in the international petroleum industry.

12.9 The Development Plan shall be deemed approved by the Management Committee if the **GOVERNMENT**, through its representatives on the Management Committee, indicates its approval in writing.

12.10 If the **GOVERNMENT** requests any modifications to the Development Plan, then the Parties shall meet within sixty (60) days of receipt by the **CONTRACTOR** of the **GOVERNMENT**'s written notification of requested modifications accompanied by all the documents justifying such request, and shall discuss such request. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at such meeting or in writing prior to such meeting. Any modification approved by the Management Committee at such meeting or within a further period of thirty (30) days from the date of such meeting shall be incorporated into the Development Plan which shall then be deemed approved and adopted.

12.11 If the **CONTRACTOR** makes several Commercial Discoveries within the Contract Area each such Commercial Discovery will have a separate Production Area. The **CONTRACTOR** shall be entitled to develop and to produce each Commercial Discovery and the **GOVERNMENT** shall provide the appropriate Permits covering the Production Area. In case the area covered by the Commercial Discovery extends beyond the boundaries of the Contract Area, and to the extent such area outside the Contract Area is not the subject of a Petroleum Contract (as defined in the Kurdistan Region Petroleum Act) with a third party, the provisions of Article 34.2 shall apply.

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**ARTICLE 13 - DEVELOPMENT AND
PRODUCTION WORK PROGRAMS AND BUDGET**

- 13.1 Upon the approval of the Development Plan by the Management Committee, the **CONTRACTOR** shall start the Development Operations for the Commercial Discovery in accordance with the Development Plan and the practices generally accepted in the international petroleum industry.

Approval of Development Works Program and Budget

- 13.2 Within ninety (90) days following approval of the Development Plan by the Management Committee, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget for Development Operations (the "**Development Work Program and Budget**") to be carried out in the Production Area for the duration of the Development Operations. Thereafter, no later than 1st day of October in each Calendar Year, the **CONTRACTOR** shall submit to the Management Committee updates in respect of its Development Work Program and Budget. To enable the Management Committee to forecast expenditures, each Development Work Program and Budget shall include details of, but not be limited to, the following:

- (a) works to be carried out;
- (b) material and equipment to be acquired by main categories;
- (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any entity constituting **CONTRACTOR**; and
- (d) categories of general and administrative expenditure.

- 13.3 If the **GOVERNMENT** has not requested any modifications to the Development Work Program and Budget through its representatives in the Management Committee within thirty (30) days from receipt of such proposal, the Development Work Program and Budget shall be deemed approved by the Management Committee.

Any modification to the Development Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Development Work Program and Budget by the Management Committee, accompanied by all the documents justifying such request.

If any such modification is requested, the Management Committee shall meet to discuss the Development Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Development Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the

Management Committee or in writing prior to such meeting.

- 13.4 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Development Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten percent (10%) of the approved Development Work Program and Budget and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25. For the avoidance of doubt, where such excess costs exceed ten percent (10%) of the approved Development Work Program and Budget such excess over ten per cent (10%) shall be considered Petroleum Costs only with the approval of the Management Committee (as it would approve any material revision to any Development Work Program and Budget under Article 8.5 (b)).
- 13.5 In cases of emergency, the **CONTRACTOR** may incur such additional expenditures as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

Approval of Annual Production Works Programs and Budget

- 13.6 No later than the 1st day of October of the Calendar Year preceding the estimated commencement of production pursuant to an approved Development Plan and thereafter no later than

1st day of October in each Calendar Year, the **CONTRACTOR** shall submit to the Management Committee a proposed work program and budget for Production Operations (the "**Production Work Program and Budget**") for the following Calendar Year. To enable the Management Committee to forecast expenditures, the Production Work Program and Budget shall include details of, but not be limited to, the following:

- (a) works to be carried out;
 - (b) material and equipment to be acquired by main categories;
 - (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any entity constituting **CONTRACTOR**; and
 - (d) categories of general and administrative expenditure.
- 13.7 If the **GOVERNMENT** has not requested any modifications to the Production Work Program and Budget through its representatives in the Management Committee within thirty (30) days from receipt of such proposal, the Production Work Program and Budget shall be deemed approved by the Management Committee.

ARTICLE 14 - NATURAL GAS

Use for the Petroleum Operations

- 14.1 To take account of specific conditions relating to Natural Gas and to promote its development in the Kurdistan Region, the GOVERNMENT will grant specific benefits to the **CONTRACTOR** on principles materially similar to those contained in this Contract, including, consistent with the Kurdistan Region Petroleum Act, more generous provisions in respect of the recovery of Petroleum Costs and the sharing of Profit Petroleum.
- 14.2 The **CONTRACTOR** may freely use any Natural Gas required for the Petroleum Operations. If technically and economically justified, the **CONTRACTOR** shall in priority use any Natural Gas for the purpose of enhancing recovery of Crude Oil in accordance with standard practices in the international petroleum industry as follows.

Associated Natural Gas

- 14.3 Any excess Associated Natural Gas produced that is neither used in the Petroleum Operations nor developed and sold by the **CONTRACTOR** shall, upon the GOVERNMENT'S written request, be transferred at a delivery point to be agreed between the Parties free of charge to the GOVERNMENT. In such case, the GOVERNMENT shall be solely responsible for collecting, treating, compressing and transporting such Natural Gas from such agreed delivery point and shall be solely liable for any additional direct and indirect costs associated therewith. The construction and operation of required facilities as well as the offtake of such excess Associated Natural Gas shall occur in accordance with best practice in the international petroleum industry and shall not interfere with the production, lifting and transportation of the Crude Oil by the **CONTRACTOR**. For the avoidance of doubt, all expenditure incurred by the **CONTRACTOR** up to such agreed delivery point shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

In the event the GOVERNMENT finds a market for Associated Natural Gas, it shall promptly give written notice to the **CONTRACTOR**, and the **CONTRACTOR** may elect to participate in supplying such Associated Natural Gas within ninety (90) days following notification thereof by the GOVERNMENT. If the **CONTRACTOR** elects to participate in supplying Associated Natural Gas to such market, all expenditures associated with any necessary facilities shall be paid for by the **CONTRACTOR**. For the avoidance of doubt, such expenditure incurred shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

Any modification to the Production Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Production Work Program and Budget by the Management Committee, accompanied by all the documents justifying such request.

If any such modification is proposed, the Management Committee shall meet to discuss the Production Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Production Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

- 13.8 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Production Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten percent (10%) of the approved Production Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 13.9 In cases of emergency, the **CONTRACTOR** may incur such additional expenditure as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 13.10 After the commencement of Commercial Production the **CONTRACTOR** shall pay to the **GOVERNMENT**, in arrears, an annual surface rental for the Production Area, of ten Dollars (US\$10) per square kilometre per Contract Year ("**Production Rental**"). Such Production Rental shall be considered as a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

Non Associated Natural Gas

- 14.4 The **CONTRACTOR** shall be entitled at any time during the Exploration Period and the Development Period to carry out Gas Marketing Operations.
- 14.5 If, pursuant to Article 12.6 (d), the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may become a Commercial Discovery subject to Gas Marketing Operations, it shall carry out Gas Marketing Operations, at the end of which it shall submit a written statement to the Management Committee specifying that:
- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery; or
 - (b) the **CONTRACTOR** has determined that the Discovery is not a Commercial Discovery.
- 14.6 For the purpose of this Contract, "**Gas Marketing Operations**" means any activity relating to the marketing of Non-Associated Natural Gas, including but not limited to any evaluation to find a commercial market for such Non-Associated Natural Gas and/or to find a commercially viable technical means of extraction of such Non-Associated Natural Gas and may include activities related to evaluating the quantities of Non-Associated Natural Gas to be sold, its quality, the geographic location of potential markets to be supplied as well as evaluating the costs of production, transportation and distribution of the Non-Associated Natural Gas from the Delivery Point to the relevant market.
- 14.7 All costs and expenditure incurred by the **CONTRACTOR** in the performance of the activities in relation to the Gas Marketing Operations shall be considered Petroleum Costs.
- 14.8 No later than 1st day of October of the Calendar Year preceding the Calendar Year in which any Gas Marketing Operations are due to occur, the **CONTRACTOR** shall submit to the Management Committee its Gas Marketing Work Program and Budget for the following Calendar Year. To enable the Management Committee to forecast expenditures, the Gas Marketing Work Program and Budget shall include but not be limited to the following:
- (a) works to be carried out;
 - (b) type of services to be provided, distinguishing between third parties and Affiliated companies of any entity constituting **CONTRACTOR**;
 - (c) categories of general and administrative expenditure.

If the **GOVERNMENT** has not requested any modifications to the Gas Marketing Work Program and Budget through its representatives in the Management Committee within thirty (30) days from receipt of such proposal, the Gas Marketing Work Program and Budget shall be deemed approved by the Management Committee.

Any modification to the Gas Marketing Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Gas Marketing Work Program and Budget by the

Management Committee, accompanied by all the documents justifying such request.

If any such modification is proposed, the Management Committee shall meet to discuss the Gas Marketing Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Gas Marketing Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

14.9 The **CONTRACTOR** shall be authorized to incur expenditures not budgeted in an approved Gas Marketing Work Program and Budget provided that the aggregate amount of such expenditure shall not exceed ten percent (10%) of the approved Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

14.10 If any Non-Associated Natural Gas is discovered within the Contract Area, and the **CONTRACTOR** reasonably considers that the Non-Associated Natural Gas Discovery will only be a Commercial Discovery if certain terms of this Contract are amended, it shall be entitled to request an amendment to this Contract, with its reasons. The **GOVERNMENT** shall in good faith give reasonable consideration to the **CONTRACTOR'S** proposed amendment and reasons. Subject always to Article 6.9, if the **GOVERNMENT** rejects such request, and the Exploration Period expires without the **CONTRACTOR** having declared such Discovery to be a Commercial Discovery in accordance with Article 12.6 (a) or Article 14.5 (a), and subsequently within a period often (10) years from the end of such Exploration Period, the **GOVERNMENT** reaches agreement with any third party to develop such Discovery, (the "**Gas Development**") then the following provisions shall apply:

- (a) either before or upon agreement having been reached (and whether or not such agreement is recorded in a fully termed production sharing and/or operating or other like agreement) in relation to the Gas Development (the "**Proposed Contract**") (subject only to the rights of the **CONTRACTOR** entities to preempt such Proposed Contract pursuant to Article 14.10(b) below and such conditions as may be applicable) then the **GOVERNMENT** shall, as soon as reasonably practicable after the occurrence of such circumstances, serve on each of the **CONTRACTOR** entities, a notice to that effect and shall with such notice provide such information and main terms of such agreement (the "**Agreed Terms**") and including:
 - (i) the identity of such third party; and
 - (ii) the effective date of the Proposed Contract; and
 - (iii) the applicable commercial terms, including but not limited to bonuses, royalties, cost recovery, profit sharing, taxation and any other similar terms; and
 - (iv) all and any material conditions to which the Proposed Contract is subject.

- (b) Within one hundred and eighty days (180) days after receipt of a notice under Article 14.10 (a) in relation to a Proposed Contract each of the **CONTRACTOR** entities shall elect either:
- (i) to enter into the Proposed Contract on the same or substantially similar terms to the Agreed Terms, with the right to cost recover all Petroleum Costs incurred under this Contract against all Petroleum revenues received under the Proposed Contract, up to any cost recovery limits set out therein; or
 - (ii) to waive the aforesaid right of pre-emption in relation to the Proposed Contract;

and shall serve notice accordingly upon the **GOVERNMENT** and all the **CONTRACTOR** entities and in default of receipt by the **GOVERNMENT** of any such notice within such period of one hundred and eighty (180) days such **CONTRACTOR** entity shall be deemed conclusively to have served a notice electing to waive its aforesaid right of pre-emption in relation to the Proposed Contract.

- (c) In the event that more than one of the **CONTRACTOR** entities exercises its rights under Article 14.10 (b) (i) in relation to the Proposed Contract, then the **GOVERNMENT** shall transfer the relevant interest upon the Agreed Terms (in accordance with 14.10 (b) (i)) to each of such **CONTRACTOR** entities so exercising their rights, in the proportions in which their respective percentage interests bear to the aggregate of their respective percentage interests under the relevant Joint Operating Agreement (as it applied at the end of the Exploration Period) or in such other proportions as such **CONTRACTOR** entities shall agree between them.
- (d) In the event that one of the **CONTRACTOR** entities exercises its rights under Article 14.10 (b) (i) in relation to the Proposed Contract then the **GOVERNMENT** shall transfer the whole of the relevant interest upon the Agreed Terms (in accordance with 14.10 (b) (i)) to such **CONTRACTOR** entity.
- (e) In the event that none of the **CONTRACTOR** entities exercises its rights under Article 14.10 (b) (i) then the aforesaid rights of pre-emption shall thereupon cease to apply in relation to the Proposed Contract.
- (f) The provisions of this Article 14.10 shall survive any termination of this Contract.

14.11 If the pre-emption rights in Article 14.10 are not exercised and the **GOVERNMENT** enters into the Proposed Contract with the third party concerned, the **GOVERNMENT** will use its best endeavours to avoid any effect which may hamper the Petroleum Operations of the **CONTRACTOR** while producing Petroleum.

ARTICLE 15 - ACCOUNTING AND AUDITS

- 15.1 The **CONTRACTOR** shall keep in its offices in the Kurdistan Region copies of all books and accounts of all revenues relating to the Petroleum Operations and all Petroleum Costs (the "**Accounts**"), except during the Exploration Period, when the **CONTRACTOR** shall be entitled to keep the Accounts at its headquarters Abroad. The Accounts shall reflect in detail expenditure incurred in function of the quantities and value of Petroleum produced, and shall be kept for a period of five (5) years. All Accounts which are made available to the **GOVERNMENT** in accordance with the provisions of this Contract shall be prepared in the English language. The Accounts shall be kept in accordance with generally accepted practice and procedures in the international petroleum industry and in accordance with the provisions of the Accounting Procedure. The Accounts shall be kept in Dollars, which shall be the reference currency for the purposes of Articles 24, 25, 26, 27 and 31 of this Contract.
- 15.2 Within ninety (90) days following the end of each Calendar Year, the **CONTRACTOR** shall submit to the **GOVERNMENT** a summary statement of all Petroleum Costs incurred during the said Calendar Year. The summary statement shall also include a profit calculation pursuant to the provisions of Article 26 of this Contract.
- 15.3.1 The **GOVERNMENT** shall have the right:
- (a) to request an audit of the Accounts with respect to each Calendar Year within a period of two (2) Calendar Years following the end of such Calendar Year (the "**Audit Request Period**"); and
 - (b) to retain an auditor of international standing familiar with international petroleum industry accounting practice to undertake or assist the **GOVERNMENT** to undertake the audit.

Notwithstanding Article 15.3.1, the **GOVERNMENT** shall have the right to audit the Accounts with respect to each Calendar Year at any time in the case of manifest error or fraud.

- 15.3.2 The reasonable cost of retaining an auditor pursuant to Article 15.3.1 shall be borne by the **CONTRACTOR** and treated as a Petroleum Cost for the purpose of cost recovery under Articles 1 and 25.
- 15.3.3 Subject to the Audit Request Period referred to in Article 15.3.1, the **GOVERNMENT**, acting reasonably and in accordance with generally accepted international petroleum industry practice, may request in writing all reasonably available information and justifications for its audit of Petroleum Costs.

- 15.3.4 Should the **GOVERNMENT** consider, on the basis of data and information available, that the **CONTRACTOR** made a material mistake or there is any irregularity and considers that any corrections, adjustments or amendments should be made, any audit exceptions shall be made by the **GOVERNMENT** in writing and notified to the **CONTRACTOR** within six months of the date of request referred to in Article 15.3.1, and failure to give such written exception within such time shall be deemed to be an acknowledgement of the correctness of the **CONTRACTOR'S** Accounts.
- 15.3.5 In respect of any audit exception made by the **GOVERNMENT** in accordance with Article 15.3.4, the **CONTRACTOR** shall then have sixty (60) days to make necessary corrections, adjustments or amendments or to present its comments in writing or request a meeting with the **GOVERNMENT**. The **GOVERNMENT** shall within thirty (30) days of **CONTRACTOR'S** response, notify the **CONTRACTOR** in writing of its position on the corrections, adjustments, amendments or comments. If thereafter there still exists a disagreement between the **GOVERNMENT** and the **CONTRACTOR**, the dispute will be settled in accordance with Article 15.5 of this Contract.
- 15.4 In addition to the annual statements of Petroleum Costs as provided in Article 15.2 above, the **CONTRACTOR** shall provide the **GOVERNMENT** with such production statements and reports, as required pursuant to Article 16.3.
- 15.5 Any dispute between the Parties under this Article 15 that cannot be settled amicably may be submitted to an expert in accordance with the provisions of Article 42.2 of this Contract. Notwithstanding the provisions of Article 42, in this specific instance the decision of the expert shall not necessarily be final and either Party may decide to submit the matter to arbitration in accordance with the provisions of Article 42.1 of this Contract.

ARTICLE 16 - CONTRACTOR'S RIGHTS AND OBLIGATIONS

16.1 Permanent Representative

If not done already, within ninety (90) days following the Effective Date, the **CONTRACTOR** shall open an office and appoint a permanent representative in the Kurdistan Region, who may be contacted by the **GOVERNMENT** with regard to any matter relating to this Contract and will be entitled to receive any correspondence addressed to the **CONTRACTOR**.

16.2 Conduct of Petroleum Operations

The **CONTRACTOR** shall carry out all Petroleum Operations in accordance with the provisions of this Contract, generally accepted practice in the international petroleum industry and applicable Kurdistan Region Law.

The **CONTRACTOR** shall be responsible for the conduct, management, control and administration of Petroleum Operations and shall be entitled to conduct Petroleum Operations in accordance with the provisions of this Contract. In conducting its Petroleum Operations, the **CONTRACTOR** shall have the right to use any Affiliate of each entity constituting **CONTRACTOR**, its and their Subcontractors, and the employees, consultants, and agents of each of the foregoing. The **CONTRACTOR** and all such persons shall at all times have free access to the Contract Area and any Production Areas for the purpose of carrying out Petroleum Operations.

16.3 Information and Reports

The **CONTRACTOR** shall provide the **GOVERNMENT** with periodic data and activity reports relating to Petroleum Operations. Said reports shall include details of, but not be limited to, the following:

- (a) information and data regarding all Exploration Operations, Development Operations and Production Operations (as applicable) performed during the Calendar Year, including any quantities of Petroleum produced and sold;
- (b) data and information regarding any transportation facilities built and operated by the **CONTRACTOR**;
- (c) a statement specifying the number of personnel, their title, their nationality as well as a report on any medical services and equipment made available to such personnel; and
- (d) a descriptive statement of all capital assets acquired for the Petroleum Operations, indicating the date and price or cost of their acquisition.

16.4 Requirement for Petroleum Operations

The **CONTRACTOR** may freely use any Petroleum produced within the Contract Area for the Petroleum Operations.

16.5 Supervision by the GOVERNMENT

The **CONTRACTOR** shall at all times provide reasonable assistance as may reasonably be requested by the **GOVERNMENT** during its review and verification of records and of any other information relating to Petroleum Operations at the offices, worksites or any other facilities of the **CONTRACTOR**.

Upon giving reasonable prior notice to the **CONTRACTOR**, the **GOVERNMENT** may send a reasonable number of representatives to the work-sites or any other facilities of the **CONTRACTOR** in the Kurdistan Region to perform such reviews and verifications. The representatives of the **GOVERNMENT** shall at all times comply with any safety regulations imposed by the **CONTRACTOR** and such reviews and verifications shall not hinder the smooth progress of the Petroleum Operations.

16.6 Access to Facilities

For the performance of the Petroleum Operations, the **CONTRACTOR**, any Affiliate of each entity constituting the **CONTRACTOR**, its and their Subcontractors and the employees, consultants and agents if each of the foregoing shall at all times be granted free access to the Contract Area and to any facilities for the Petroleum Operations located within or outside of the Contract Area or within or outside the Production Area, for the purpose of carrying out the Petroleum Operations.

16.7 Use of Facilities

The **CONTRACTOR** shall make available to representatives of the **GOVERNMENT** those facilities which are necessary to enable them to perform their tasks including, in case of works to be performed on work sites, transportation, accommodation and board, under the same conditions as those provided by the **CONTRACTOR** for its own personnel.

16.8 Loss or Damage

The **CONTRACTOR** shall be responsible for any loss or damage caused to third parties by its or its Subcontractors personnel solely and directly resulting from their negligence, errors or omissions in accordance with applicable Kurdistan Region Law.

16.9 Intellectual Property Rights

In its Petroleum Operations, the **CONTRACTOR** shall respect any patents belonging to third parties.

16.10 Litigation

The **CONTRACTOR** shall as soon as reasonably practicable inform the **GOVERNMENT** of any material litigation relating to this Contract.

16.11 Safety

The **CONTRACTOR** shall implement a health, safety and environment program and take necessary measures to ensure hygiene, health and safety of its personnel carrying out Petroleum Operations in accordance with generally accepted practice in the international petroleum industry.

Said measures shall include but not be limited to the following:

- (a) supplying first aid and safety equipment for each work area and maintaining a healthy environment for personnel;
- (b) reporting to the **GOVERNMENT** within seventy-two (72) hours any accident where personnel has been injured while engaged in Petroleum Operations and resulting in such personnel being unable to return to work;
- (c) implementing a permit-to-work procedure around hazardous equipment and installations;
- (d) providing safe storage areas for explosives, detonators and any other dangerous products used in the operations;
- (e) supplying fire-extinguishing equipment in each work area;
- (f) for the purpose of taking control of any blow out or fire which could damage the environment or Petroleum Field, in accordance with generally accepted practice in the international petroleum industry;
- (g) for the purpose of preventing any involuntary injection of fluids in petroleum formations and production of Crude Oil and Natural Gas at rates that do not conform to generally accepted practice in the international petroleum industry.

16.12 Production Rates

Subject to Article 43.2 of this Contract, in the event the production rate of the individual wells and Reservoir of a Petroleum Field is to be set below the Maximum Efficient Rate (MER) for the Reservoir as provided for in the Development Plan as a consequence of a decision by the **GOVERNMENT** or any federal or international regulatory body, the **GOVERNMENT** undertakes to allocate any such reduction fairly and equitably among the various operators (including the **GOVERNMENT**) then producing in the Kurdistan Region, pro rata their respective production rates. In such event the **GOVERNMENT** shall grant an extension of the Development Period of any Production Area so affected for a reasonable period of time in order to produce the Petroleum which would otherwise have already been produced, had the MER for the individual wells and Reservoir of the Petroleum Field been maintained.

16.13 Legal Status

The respective rights, duties, obligations and liabilities of the **CONTRACTOR** and the **GOVERNMENT** under this Contract are to be understood as being separate and individual and not joint and several. The Parties agree that this Contract shall not create and shall not be deemed to have created a partnership or other form of association between them.

16.14 The **GOVERNMENT** and each entity constituting the **CONTRACTOR** shall have the right and the obligation to take in kind and separately sell or otherwise dispose of their respective shares of Petroleum. Upon approval of the Development Plan, the Parties shall meet as soon as practicable to reach a detailed agreement governing the lifting of Petroleum by each such entity constituting the **CONTRACTOR**. Such lifting agreement shall include, inter alia, the following:

- (a) the obligation of the **GOVERNMENT** and each entity constituting the **CONTRACTOR** to lift, regularly throughout each Calendar Year, their share of Petroleum produced from the Production Area;
- (b) notification procedures by the Operator to the **GOVERNMENT** and each entity constituting the **CONTRACTOR** regarding entitlements and availability of Petroleum for lifting by each Party during each lifting period and nominations by each Party;
- (c) the right of the Parties to lift any available Petroleum not scheduled for lifting and/or not lifted by the other Party during each such lifting period.

16.15 Kurdistan Region Consumption Requirements

The **CONTRACTOR** shall sell and transfer to the **GOVERNMENT**, upon written request of the Ministry, any amounts of Crude Oil that the **GOVERNMENT** shall deem necessary to meet Kurdistan Region internal consumption requirements. The sales price of such Crude Oil shall be the International Market Price. The **GOVERNMENT** shall provide the **CONTRACTOR** with not less than six (6) months' advance written notice of its intention to buy such Crude Oil.

Payments shall be made in US Dollars and otherwise on terms consistent with international standards in the petroleum industry. The **CONTRACTOR'S** obligation to sell Crude Oil to the **GOVERNMENT** shall be no greater than the obligation that applies to another contractor, or other contractors in the Kurdistan Region.

The provisions of this Article 16.15 shall not apply to Non-Associated Natural Gas.

ARTICLE 17 - USE OF LAND AND EXISTING INFRASTRUCTURE

- 17.1 The **GOVERNMENT** shall make available to the **CONTRACTOR** any land or property in the Kurdistan Region required for the Petroleum Operations provided, however, the **CONTRACTOR** shall not request to use any such land unless there is a real need for it. The **CONTRACTOR** shall have the right to build and maintain, above and below ground, any facilities required for the Petroleum Operations.
- 17.2 If it becomes necessary for conduct of the Petroleum Operations to occupy and use any land or property in the Kurdistan Region belonging to third parties, the **CONTRACTOR** shall endeavour to reach amicable agreement with the owners of such land. If such amicable agreement cannot be reached, the **CONTRACTOR** shall notify the **GOVERNMENT**; on receipt of such notification the **GOVERNMENT** shall determine the amount of compensation to be paid by the **CONTRACTOR** to the owner if occupation will be for a short duration or the **GOVERNMENT** shall expropriate the land or property in accordance with applicable Kurdistan Region Law if such occupation will be long lasting or makes it henceforth impossible to resume original usage of such land or property. The amount of such compensation shall be fair and reasonable, in accordance with Article 37, Section 1 (a) (iii) of the Kurdistan Region Petroleum Act¹¹, and shall take into account the rights of the owner and any effective use of the land or property by its owner at the time of occupation by the **CONTRACTOR**. Any property rights shall be acquired by and recorded in the name of the **GOVERNMENT** but the **CONTRACTOR** shall be entitled free use of the land or property for the Petroleum Operations for the entire duration of this Contract. All reasonable costs, expenditure and fair and reasonable compensation (as required pursuant to Article 37, Section 1 (a) (iii) of the Kurdistan Region Petroleum Act) which results from such expropriation shall be borne by the **CONTRACTOR**. For the avoidance of doubt, such costs, expenses and compensation incurred by the **CONTRACTOR** shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 17.3 For its Petroleum Operations, the **CONTRACTOR** shall have the right in Iraq to use, subject to applicable Law, any railway, tramway, road, airport, landing field, canal, river, bridge or waterway, any telecommunications network and any existing pipelines or transportation infrastructure, on terms no less favourable than those offered to other entities and, unless generally in force, to be mutually agreed.
- 17.4 Under national emergencies due to environmental catastrophe or disaster, or internal or external war, the **GOVERNMENT** shall have the right to request to use any transportation and communication facilities installed by the **CONTRACTOR**. In such cases, the request shall originate from the Minister for Natural Resources. For the avoidance of doubt, such costs, expenses or liabilities incurred by the **CONTRACTOR** hereunder shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

17.5 For its Petroleum Operations, the **CONTRACTOR** shall have the right in the Kurdistan Region to clear land, excavate, drill, bore, construct, erect, place, procure, operate, manage and maintain ditches, tanks, wells, trenches, access roads, excavations, dams, canals, water mains, plants, reservoirs, basins, storage facilities, primary distillation units, extraction and processing units, separation units, sulphur plants and any other facilities or installations for the Petroleum Operations, in addition to pipelines, pumping stations, generators, power plants, high voltage lines, telephone, radio and any other telecommunications systems, as well as warehouses, offices, sheds, houses for personnel, hospitals, schools, premises, dikes, vehicles, railways, roads, bridges, airlines, airports and any other transportation facilities, garages, hangars, workshops, foundries, repair shops and any other auxiliary facilities for the Petroleum Operations and, generally, everything which is required for its performance of the Petroleum Operations. The **CONTRACTOR** shall have the right to select the location for these facilities.

17.6 For its Petroleum Operations, the **CONTRACTOR** shall have the right in the Kurdistan Region, subject to compliance with applicable Kurdistan Region Law, to remove and use the topsoil, fully-grown timber, clay, sand, lime, gypsum, stones (other than precious stones) and other similar substances as required for its Petroleum Operations.

The **CONTRACTOR** shall have the right in the Kurdistan Region to take or use any water necessary for the Petroleum Operations provided it does not damage any existing irrigation or navigation systems and that land, houses or watering points belonging to third parties are not deprived of their use.

17.7 The **GOVERNMENT** shall have the right in the Kurdistan Region to build, operate and maintain roads, railways, airports, landing strips, canals, bridges, protection dams, police stations, military installations, pipelines and telecommunications networks in the Contract Area, provided this does not increase the costs, or compromise or have an adverse material effect on the performance of the Petroleum Operations. If the construction, operation and maintenance of such facilities by the **GOVERNMENT** results in increased cost or expense for the **CONTRACTOR** then, for the avoidance of doubt, such cost and expense shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

17.8 Upon request of the **CONTRACTOR**, the **GOVERNMENT** shall prohibit the construction of residential or commercial buildings in the vicinity of facilities used for the Petroleum Operations that may be declared dangerous due to the Petroleum Operations and to prohibit any interference with the use of any facilities required for the Petroleum Operations.

- 17.9 Access to the Contract Area may be granted pursuant to an Access Authorisation, as defined in, and consistent with, the Kurdistan Region Petroleum Act, to authorised third parties on reasonable terms and conditions (including coordination), including persons authorised to construct, install and operate structures, facilities and installations, and to carry out other works, provided that nothing in the Access Authorisation or in this Article 17.9 authorises the holder to drill a Well or to perform any Petroleum Operations in Contract Area.

The GOVERNMENT shall not grant an Access Authorisation in respect of the Contract Area until it has taken into account any submissions made by the CONTRACTOR in such a way that there is no undue interference with the rights of CONTRACTOR.

ARTICLE 18 - ASSISTANCE FROM THE GOVERNMENT

18.1 To the extent allowed by Kurdistan Region Law and Iraqi law and at the specific request of the CONTRACTOR, the GOVERNMENT shall take all necessary steps to assist the CONTRACTOR in, but not limited to, the following areas:

- (a) securing any necessary Permits for the use and installation of means of transportation and communications;
- (b) securing regulatory Permits in matters of customs or import/export;
- (c) securing entry and exit visas, work and residence permits as well as any other administrative Permits for CONTRACTOR'S and its Subcontractors' foreign personnel (including their family members) working in the Kurdistan Region and any other part of Iraq during the implementation of this Contract;
- (d) securing any necessary Permits to send Abroad documents, data or samples for analysis or processing for the Petroleum Operations;
- (e) relations with federal and local authorities and administrations, including for the purposes of the remainder of this Article 18.1;
- (f) securing any necessary environmental Permits;
- (g) obtaining any other Permits requested by the CONTRACTOR for the Petroleum Operations;
- (h) access to any existing data and information, including data and information relating to the Contract Area held by previous operators or contractors; and (i) providing all reasonably necessary security for Petroleum Operations.

18.2 Within the scope of services to be provided under this Article 18, reasonable and duly justified expenses incurred by the GOVERNMENT or paid to third parties shall be charged to the CONTRACTOR and shall be considered Petroleum Costs and shall be recovered by the CONTRACTOR as Petroleum Costs in accordance with the provisions of Articles 1 and 25.

ARTICLE 19 - EQUIPMENT AND MATERIALS

- 19.1 The **CONTRACTOR** shall supply, or procure the supply of, all materials, equipment, machinery, tools, spare parts and any other items or goods required for the Petroleum Operations ("Equipment and Materials").
- 19.2 Said Equipment and Materials shall be provided by the **CONTRACTOR** in accordance with the relevant Work Programs and Budgets.
- 19.3 As soon as possible after the Effective Date, the **CONTRACTOR** shall provide the Management Committee with a copy of its procedures for procurement of Equipment and Materials and/or services for the Petroleum Operations as required by the provisions of Article 8.2 (e), including the criteria for tender evaluation, which procedures and criteria shall be in accordance with generally accepted standards in the international petroleum industry. If the Management Committee does not request any modifications to the procurement procedures within thirty (30) days, the procedures shall be deemed approved by the Management Committee.
- 19.4 The **CONTRACTOR** shall give priority to Equipment and Materials that are readily available in the Kurdistan Region and other parts of Iraq to the extent their price, grade, quality, quantity, specifications, purchase, delivery and other commercial and technical terms are comparable in all material respects with those generally available in the international petroleum industry.

ARTICLE 20 - TITLE TO ASSETS

- 20.1 During the Exploration Period, any Assets acquired by the **CONTRACTOR** for the Petroleum Operations shall remain the property of the **CONTRACTOR** or its Subcontractors, as the case may be.
- 20.2 During the Development Period, subject to Article 21, all Assets acquired by the **CONTRACTOR** for the Petroleum Operations shall become the property of the **GOVERNMENT** upon the completion of the recovery of their cost by the **CONTRACTOR**, or the end of the Contract, whichever is the earlier.
- 20.3 The provisions of this Article 20.2 shall not apply to any Assets leased by the **CONTRACTOR** or belonging to an Affiliated Company of a **CONTRACTOR** entity or belonging to its or their Subcontractors or its or their employees.

ARTICLE 21 - USE OF THE ASSETS

- 21.1 Each entity constituting the **CONTRACTOR** shall have the exclusive right to use, free of any charge, all Assets described in Article 20 for the Petroleum Operations, as well as for any petroleum operations under other agreements in the Kurdistan Region to which it or any of its Affiliates is a party, provided that the Petroleum Operations take priority. The **GOVERNMENT** agrees not to transfer or otherwise dispose of any of such Assets without the **CONTRACTOR'S** prior written approval.
- 21.2 The **CONTRACTOR** may freely move to the Contract Area any Assets from any relinquished portion of the Contract Area, or from any other area in the Kurdistan Region.

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ARTICLE 22 - SUBCONTRACTING

- 22.1 The **CONTRACTOR** shall ensure that any Subcontractors it engages have all the requisite experience and qualifications.
- 22.2 The **CONTRACTOR** shall give priority to Subcontractors from the Kurdistan Region and other parts of Iraq to the extent their competence, rates, experience, reputation, qualifications, specialties, credit rating and terms of availability, delivery and other commercial terms are, in the **CONTRACTOR'S** sole opinion, comparable in all material respects with those provided by foreign companies operating in the international petroleum industry. Subcontractors must be bona fide Kurdistan companies not related to any Public Officer, directly or indirectly, and must have all necessary resources and capacity.
- 22.3 Selection of Subcontractors shall take place in accordance with the procurement procedures submitted by the **CONTRACTOR** to the Management Committee in accordance with Article 19.3 and approved by the Management Committee.
- 22.4 The **CONTRACTOR** shall provide the **GOVERNMENT** with copies of agreements entered into with Subcontractors, where their amount exceeds the limit set by the Management Committee from time to time.

ARTICLE 23 - PERSONNEL AND TRAINING

Personnel

- 23.1 For the Petroleum Operations, the **CONTRACTOR** shall give, and shall require its Subcontractors to give, preference to personnel from the Kurdistan Region and other parts of Iraq to the extent such personnel have, in the sole opinion of the **CONTRACTOR** or the Subcontractor (as the case may be), the technical capability, qualifications, competence and experience required to perform the work.
- 23.2 The **CONTRACTOR** shall give due consideration to the secondment of **GOVERNMENT** personnel to the **CONTRACTOR** and of **CONTRACTOR** personnel to the **GOVERNMENT** during the various phases of the Petroleum Operations. Terms and conditions for such secondment shall be mutually agreed by the Parties and any costs associated therewith shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 23.3 The **CONTRACTOR** and its Subcontractors shall have the right to hire foreign personnel whenever the personnel from the Kurdistan Region and other parts of Iraq do not have the requisite technical capability, qualifications or experience for positions to be filled as required pursuant to Article 23.1. In the event any such foreign personnel and/or a member of their family engage in activities or commit acts which breach Kurdistan Region Law, the **CONTRACTOR** shall, at the request of the **MANAGEMENT COMMITTEE**, take the necessary steps to repatriate such individual(s).

Training

- 23.4 In a planned way, in accordance with the provisions of this Article 23.4 and Articles 23.5 and 23.6, the **CONTRACTOR** shall train all its personnel from the Kurdistan Region and other parts of Iraq directly or indirectly involved in the Petroleum Operations for the purpose of improving their knowledge and professional qualifications in order that such personnel gradually reach the level of knowledge and professional qualification held by the **CONTRACTOR'S** foreign workers with an equivalent resume. Such training shall also include the transfer of knowledge of petroleum technology and the necessary management experience so as to enable the personnel from the Kurdistan Region and other parts of Iraq to apply advanced and appropriate technology in use in the Petroleum Operations, to the extent permitted by applicable Law and agreements with third parties, and subject to appropriate confidentiality agreements.

- 23.5 In addition to the requirements of Article 23. 1, the recruitment, integration and training of the **CONTRACTOR'S** personnel from the Kurdistan Region and other parts of Iraq shall be planned, which plans shall be submitted to the Management Committee for its approval. The training plan shall take into consideration the requirements of Article 23.4 and may include training for **GOVERNMENT** personnel, depending on the extent to which the amount allocated to the training plan, as prescribed by Article 23.6, is available after taking into consideration the training of the **CONTRACTOR'S** Kurdistan and other Iraqi personnel.

Within ninety (90) days of the Effective Date, the **CONTRACTOR** shall submit to the Management Committee a proposed training plan for the remainder of the Calendar Year. Thereafter, no later than 1st day of October in each Calendar Year, the **CONTRACTOR** shall submit a proposed training plan to the Management Committee for the following Calendar Year.

- 23.6 The training plan referred to in Article 23.5 shall provide for the allocation of the amount of seventy five thousand Dollars (US\$75,000) for each Contract Year during the Exploration Period and one hundred and fifty thousand Dollars (US\$150, 000) for each Contract Year during the Production Period.

- 23.7 The **CONTRACTOR** shall be responsible for the training costs which **CONTRACTOR** may incur in respect of the personnel it employs from the Kurdistan Region and other parts of Iraq. All such costs shall be considered as Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25. Costs incurred by the **CONTRACTOR** for training programs for **GOVERNMENT** personnel shall be borne by **CONTRACTOR** only to the extent that they are included in the **CONTRACTOR'S** training plan, pursuant to Article 23.5 and shall also be considered as Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25. The cost of all other training programs for **GOVERNMENT** personnel shall be the **GOVERNMENT'S** responsibility.

The Environment Fund

- 23.8 The **CONTRACTOR** shall, within 60 days of the start of each Contract Year contribute, an amount of seventy five thousand Dollars (US\$ 75, 000) each Contract Year during the Exploration Period and one hundred and fifty thousand Dollars (US\$150, 000) for each Contract Year during the Production Period into the Environment Fund established by the **GOVERNMENT** for the benefit of the natural environment of the Kurdistan Region, pursuant to the Kurdistan Region Petroleum Act. Such amount shall be deemed to be a Petroleum Cost and shall be recovered in accordance with Articles 1 and 25.
- 23.9 Any expenditure incurred by the **CONTRACTOR** under this Article 23 shall be considered Petroleum Costs and shall be recovered in accordance with Articles 1 and 25.

ARTICLE 24 - ROYALTY

24.1 The **CONTRACTOR** shall pay to the **GOVERNMENT** a portion of Petroleum produced and saved from the Contract Area, as provided in this Article 24 (the "**Royalty**").

24.2 The Royalty shall be applied on all Petroleum produced and saved from the Contract Area which is Crude Oil or Non-Associated Natural Gas, except for Petroleum used in Petroleum Operations, re-injected in the Petroleum Field, lost, flared or for Petroleum that cannot be used or sold and such Crude Oil and Non-Associated Natural Gas (excluding the excepted Petroleum) shall be referred to collectively as "**Export Petroleum**" and separately and respectively as "**Export Crude Oil**" and "**Export Non-Associated Natural Gas**"

24.3 If payable in cash, the amount of the Royalty calculated by applying the Royalty rates provided under Article 24.4 shall be paid by the **CONTRACTOR** as directed by the **GOVERNMENT**, in accordance with Article 24.7.

If payable in kind, the quantity of Export Petroleum corresponding to the Royalty and calculated by applying the Royalty rates provided under Article 24.4 below, shall be delivered in kind by the **CONTRACTOR** to the **GOVERNMENT** at the Delivery Point. Title and risk of loss of the Royalty paid in kind shall be transferred at the Delivery Point.

Unless the **GOVERNMENT** requires the Royalty to be paid in kind, by giving the **CONTRACTOR** not less than ninety (90) days prior written notice prior to the commencement of the relevant Quarter, the **GOVERNMENT** shall be deemed to have elected to receive the Royalty in full and in cash for the relevant Quarter.

24.4 The Royalty due on any Export Petroleum produced and saved in the Contract Area shall be determined daily by applying the following relevant Royalty rate, to the Export Crude Oil or to the Export Non-Associated Natural Gas (as the case may be) produced and saved on that day:

(a) **For Export Crude Oil:**

The Royalty rate for Export Crude Oil shall be ten percent (10%), which, for the avoidance of doubt, shall apply regardless of the gravity of the oil.

(b) **For Export Non-Associated Natural Gas**

The Royalty rate for Export Non-Associated Natural Gas shall be ten percent ((10%))

24.5 Associated Natural Gas and any other Petroleum shall be exempt from any Royalty.

- 24.6 If, pursuant to Article 24.3, the GOVERNMENT receives the Royalty in kind, and pursuant to Article 28, the GOVERNMENT requests assistance for the sale of all or part of the Royalty received in kind, the **CONTRACTOR** shall assist the GOVERNMENT in selling all or part of such Royalty received in kind (belonging to the GOVERNMENT) in consideration of a commission per barrel payable to the **CONTRACTOR**, in accordance with Article 28.
- 24.7 If, pursuant to Article 24.3, the GOVERNMENT receives the Royalty in cash:
- (a) any Export Crude Oil shall be valued at the International Market Price obtained at the Delivery Point, as defined in Article 27.2;
 - (b) any Export Non-Associated Natural Gas shall be valued at the actual price obtained at the Delivery Point, as provided in Article 27.3;
 - (c) the **CONTRACTOR** shall pay such Royalty each Quarter, in arrears, within thirty (30) days of the end of each Quarter, and shall calculate the payment due for the relevant Quarter, by reference to the price for the Export Petroleum at the Delivery Point, determined in accordance with paragraphs (a) and (b) above, and the Royalty due on the Export Petroleum, determined in accordance with Article 24.4, for the said Quarter; and
 - (d) the **CONTRACTOR** shall be entitled to export freely the Royalty due on the Export Petroleum determined in accordance with Article 24.4 for the purpose of paying the Royalty in cash.

ARTICLE 25 - RECOVERY OF PETROLEUM COSTS

- 25.1 All Export Crude Oil produced and saved from the Contract Area shall, after deduction of any quantities of Export Crude Oil due for Royalty pursuant to Article 24 of this Contract, be considered as "**Available Crude Oil**".

All Associated Natural Gas produced and saved from the Contract Area, except for Associated Natural Gas which is used in Petroleum Operations, re-injected in the Petroleum Field, lost, flared or cannot be used or sold, shall be considered as "**Available Associated Natural Gas**".

All Export Non-Associated Natural Gas produced and saved from the Contract Area shall, after deduction of any quantities of Export Non-Associated Natural Gas due for Royalty pursuant to Article 24 of this Contract, be considered as "**Available Non-Associated Natural Gas**".

"**Available Petroleum**" means Available Crude Oil, Available Associated Natural Gas and Available Non-Associated Natural Gas.

- 25.2 For the purpose of this Article 25:
- (a) any Available Crude Oil shall be valued at the International Market Price obtained at the Delivery Point, as defined in Article 27.2; and
 - (b) any Available Associated Natural Gas and any Available Non-Associated Natural Gas shall be valued at the actual price obtained at the Delivery Point, as provided in Article 27.3.
- 25.3 Subject to the provisions of this Contract, from the First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract, of up to forty percent (40%) of Available Crude Oil (which, for the avoidance of doubt, shall apply regardless of the gravity of the oil) and Available Associated Natural Gas, produced and saved within any Calendar Year.
- 25.4 Subject to the provisions of this Contract, from First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract of up to fifty five percent (55%) of Available Non-associated Natural Gas produced and saved within any Calendar Year.
- 25.5 For the application of Article 25.3 and 25.4 of this Contract, the **CONTRACTOR** shall keep a detailed account of Petroleum Costs in accordance with the provisions detailed in the Accounting Procedure attached to this Contract as Annex B. Recovery of Petroleum Costs shall occur in the following order:
- (a) Production Costs;
 - (b) Exploration Costs (including appraisal costs and further exploration within the Contract Area);

- (c) Gas Marketing Costs;
- (d) Development Costs;
- (e) Decommissioning Costs.

it being agreed that priority within each category listed above will be given to capital assets in the order of their acquisition ('first in, first out').

- 25.6 Total recovery of Petroleum Costs during any Calendar Year, expressed in quantities of Petroleum, shall not exceed the relevant percentages indicated in Articles 25.3 and 25.4. If in any Calendar Year, the Available Crude Oil and/or Available Non-Associated Natural Gas do not allow the **CONTRACTOR** to recover all its Petroleum Costs pursuant to this Article 25, the amount of un-recovered Petroleum Costs in such Calendar Year shall be carried forward indefinitely to the subsequent Calendar Years until all Petroleum Costs are fully recovered, but, save as provided in Article 14.10, in no other case after the termination of the Contract.
- 25.7 The provisions of Articles 27.5 and 27.6 shall be applied to determine the quantities of Available Crude Oil and/or Available Non-Associated Natural Gas due to the **CONTRACTOR** for the recovery of its Petroleum Costs.
- 25.8 The quantities of Petroleum corresponding to the share of Available Petroleum due to the **CONTRACTOR** for the recovery of its Petroleum Costs shall be delivered to the **CONTRACTOR** at the Delivery Point. Title and risk of loss of such Available Petroleum shall be transferred at the Delivery Point.
- 25.9 The **CONTRACTOR** shall be entitled to receive, take in kind and to export freely all Available Petroleum to which it is entitled for recovery of its Petroleum Costs in accordance with the provisions of this Contract and to retain Abroad any proceeds from the sale of all such Available Petroleum. Petroleum Costs in each Production Area shall be recovered only from Available Petroleum from that Production Area.
- 25.10 For the avoidance of doubt, Petroleum Costs under this Contract are not recoverable against other contract areas held by the **CONTRACTOR**.

ARTICLE 26 - SHARING OF PROFIT PETROLEUM

26.1 Under this Contract,

- (a) **"Profit Petroleum"** means Profit Crude Oil and Profit Natural Gas;
- (b) **"Profit Crude Oil"** means the quantities of Available Crude Oil and Available Associated Natural Gas produced from the Production Area, after the recovery of Petroleum Costs, in accordance with Articles 1 and 25; and
- (c) **"Profit Natural Gas"** means the quantities of Available Non-Associated Natural Gas produced from the Production Area, after the recovery of Petroleum Costs in accordance with Articles 1 and 25.

26.2 From First Production and as and when Petroleum is being produced, the CONTRACTOR shall be entitled to take a percentage share of Profit Crude Oil and/or Profit Natural Gas, in consideration for its investment in the Petroleum Operations, which percentage share shall be determined in accordance with Article 26.5.

26.3 To determine the percentage share of Profit Crude Oil and/or Profit Natural Gas to which the CONTRACTOR is entitled, the "R" Factor shall be calculated in accordance with Article 26.4 and shall be applied separately to each Production Area.

26.4 The "R" Factor shall be calculated as follows:

$$R = X/Y$$

where:

X: is equal to Cumulative Revenues actually received by the CONTRACTOR;

Y: is equal to Cumulative Costs actually incurred by the CONTRACTOR,

from the date of the signature of this Contract.

For the purpose of this Article 26.4:

Cumulative Revenues means total Revenues, as defined below, received by the CONTRACTOR until the end of the relevant Semester, determined in accordance with Article 26.7.

Revenues means the total amount actually received by the CONTRACTOR for recovery of its Petroleum Costs and its share of Profit Petroleum in the Production Area.

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Cumulative Costs means all Petroleum Costs in the Production Area, actually incurred by the CONTRACTOR until the end of the relevant Semester, determined in accordance with Article 26.7.

Notwithstanding the foregoing provisions of this Article 26.4, for the period from First Production until the end of the Calendar Year in which First Production occurs, the "R" factor shall be deemed to be less than one (1).

26.5 The share of Profit Petroleum to which the CONTRACTOR shall be entitled from First Production is:

- (a) for Profit Crude Oil, equal to the quantities of Petroleum resulting from the application of the relevant percentage as indicated below to the daily volume of production of Profit Crude Oil within the Production Area at the corresponding Delivery Point:

"R" Factor	CONTRACTOR'S % Share of Profit Crude Oil
$R < 1$	30 %
$1 < R < 2$	$30 - [(30 - 15) * (R - 1) / (2 - 1)]$
$R > 2$	15%

and

- (b) for Profit Natural Gas, equal to the quantities of Non-Associated Natural Gas resulting from the application of the relevant percentage as indicated below to the daily volume of production of Profit Natural Gas within the Production Area at the corresponding Delivery Point:

"R" Factor	CONTRACTORS % Share of Profit Natural Gas
$R < 1$	40 %
$1 < R < 3$	$40 - [(40 - 16) * (R - 1) / (3 - 1)]$
$R > 3$	16%

26.6 The CONTRACTOR'S accounting shall account separately for all components for the calculation of "X" and "Y" values in the formula provided in Article 26.4 above.

- 26.7 For each Semester, starting from the 1st of January of the Calendar Year following the Calendar Year in which First Production occurs, the **CONTRACTOR** shall calculate the "R" factor applicable to the relevant Semester within thirty (30) days of the beginning of such Semester. The "R" Factor to be applied during a Semester shall be that determined by applying the Cumulative Revenues actually received and the Cumulative Costs actually incurred up to and including the last day of the preceding Semester.
- 26.8 If at any time an error occurs in the calculation of the "R" factor, resulting in a change in the **CONTRACTOR'S** percentage share of Profit Crude Oil and/or Profit Natural Gas, the necessary correction shall be made and any adjustments shall apply from the Semester in which the error occurred. The Party having benefited from a surplus of Profit Petroleum shall surrender such surplus to the other Party, beginning from the first day of the Semester following the Semester in which the error was recognised. However, each lifting of Petroleum relating to such error shall not exceed twenty-five percent (25%) of the share of Profit Petroleum to which such surrendering Party is entitled. For the avoidance of doubt, if at any time an error occurs in the calculation of the "R" factor, which does not result in a change in the **CONTRACTOR'S** percentage share of Profit Crude Oil and/or Profit Natural Gas, no correction shall be made.
- 26.9 The quantities of Profit Petroleum due to the **CONTRACTOR** shall be delivered to the **CONTRACTOR** at the Delivery Point. Title and risk of loss of such Profit Petroleum shall be transferred to the **CONTRACTOR** at the Delivery Point.
- The **CONTRACTOR** shall be entitled to receive, take in kind and to export freely its share of Profit Petroleum in accordance with the provisions of this Contract and to retain Abroad any proceeds from the sale of all such Profit Petroleum.
- 26.10 The share of the Profit Petroleum to which the **GOVERNMENT** is entitled in any Calendar Year in accordance with Article 26.5 of this Contract shall, be deemed to include a portion representing the corporate income tax imposed upon and due by each entity constituting the **CONTRACTOR**, and which will be paid directly by the **GOVERNMENT** on behalf of each such entity representing the **CONTRACTOR** to the appropriate tax authorities in accordance with Article 31.2 of this Contract. The **GOVERNMENT** shall provide the **CONTRACTOR** with all written documentation and evidence reasonably required by the **CONTRACTOR** to confirm that such corporate income tax has been paid by the **GOVERNMENT**.
- 26.11 The quantities of Profit Petroleum due to the **GOVERNMENT** shall be delivered to the **GOVERNMENT** at the Delivery Point. Title and risk of loss of such Profit Petroleum shall be transferred at the Delivery Point.
- 26.12 At the latest twenty-one (21) days prior to **CONTRACTOR'S** estimated date of First Production and, subsequently, thirty (30) days prior to the beginning of each Semester, the **CONTRACTOR** shall prepare and deliver to the **GOVERNMENT** a production program comprising the production forecast for the next Semester and the

forecast of the quantities of Crude Oil and Natural Gas to which each Party shall be entitled during the said Semester.

26.13 Within ninety (90) days following the end of each Calendar Year, the CONTRACTOR shall deliver an annual production report to the GOVERNMENT, stating the quantities of Crude Oil and Natural Gas to which each Party is entitled, the quantities of Crude Oil and Natural Gas lifted by each Party and the resulting over-lift or under-lift position of each Party, pursuant to the lifting agreement entered into pursuant to Article 16.14.

26.14 Any costs or expenditure incurred by the CONTRACTOR, its Subcontractors or suppliers relating to the lifting of the GOVERNMENT'S share of Petroleum by the CONTRACTOR shall not be considered Petroleum Costs and shall be charged to the GOVERNMENT according to terms to be mutually agreed between the CONTRACTOR and the GOVERNMENT.

**ARTICLE 27 - VALUATION AND METERING OF CRUDE OIL
AND NATURAL GAS**

Valuation

- 27.1 For the purpose of this Contract, any Crude Oil produced in the Contract Area shall be valued at the end of each Quarter at the Delivery Point based on the International Market Price, as defined in Article 27.2.
- 27.2 The "International Market Price" referred to in Article 27.1 shall be the average FOB price per barrel, expressed in Dollars, obtained by the **CONTRACTOR** at the Delivery Point during the Quarter ending on the date of valuation for Arm's Length Sales of Crude Oil.

The **CONTRACTOR** shall provide evidence to the **GOVERNMENT** that the Sales of Crude Oil referred to in Article 27.2 are Arm's Length Sales. If the **GOVERNMENT** considers that any such sale of Crude Oil is not on the basis of an Arm's Length Sale then the **GOVERNMENT** has the right to refer the matter to an expert pursuant to Article 42.2.

In the event that there is no lifting of Crude Oil or Arm's Length Sales of Crude Oil in the relevant Quarter, the applicable "International Market Price" for such Quarter shall be the average FOB price per barrel obtained during that Quarter from Arm's Length Sales of Crude Oil of the same gravity and quality from other production areas sold in markets competing with Crude Oil produced from the Contract Area.

To determine such price, the Parties shall, prior to the commencement of Production, agree on a basket of Crude Oil comparable to those produced in the Contract Area and sold in the international market. Prices obtained shall be adjusted to account for any variations such as quality, specific gravity, sulphur content, transportation costs, product yield, seasonal variations in price and demand, general market trends and other terms of sale. In the event that the Parties fail to reach an agreement on any matter relating to the selection of the basket of Crude oil referred to above within thirty (30) days, or such longer period as may be mutually agreed between the Parties, from the commencement of Production, any Party may refer the matter or matters in issue for expert determination in accordance with the provisions of Article 42.2 of this Contract.

- 27.3 The price of Natural Gas shall be the actual price obtained at the Delivery Point, (which may take into account quantities to be sold, quality, geographic location of markets to be supplied as well as costs of production, transportation and distribution of Natural Gas from the Delivery Point to the relevant market, in accordance with standard practice in the international gas industry). The **GOVERNMENT** shall have the right to review and approve Natural Gas sales contracts.

Accounting Statement

- 27.4 In accordance with this Article 27.4, the **GOVERNMENT** and the **CONTRACTOR** shall establish a statement showing calculations of the value of Crude Oil produced and sold from the Contract Area. Such statement shall include following information:
- (a) quantities of Crude Oil sold by the **CONTRACTOR** during the preceding Month constituting Arm's Length Sales together with corresponding sale prices;
 - (b) quantities of Crude Oil sold by the **CONTRACTOR** during the preceding Month that do not fall in the category referred to in paragraph (a) above, together with sale prices applied during such Month;
 - (c) inventory in storage belonging to the **CONTRACTOR** at the beginning and at the end of the Month; and
 - (d) quantities of Natural Gas sold by the **CONTRACTOR** and the **GOVERNMENT** together with sale prices realised.

Metering

- 27.5 All Export Petroleum shall be metered at the Delivery Point in accordance with generally accepted practice in the international petroleum industry and such meters shall be to fiscal meter standards. All metering equipment shall be installed and operated by the **CONTRACTOR**. The **GOVERNMENT** shall, on receipt by the **CONTRACTOR** of reasonable prior written notice, have the right to inspect any such metering equipment installed by the **CONTRACTOR**, as well as all relevant documents and supporting information reasonably necessary to validate the accuracy of such metering. All metering equipment shall be subject to periodic technical inspections in accordance with standard practice in the international petroleum industry.
- 27.6 If any metering equipment is defective, the **CONTRACTOR** shall use all reasonable endeavours to repair it within fifteen (15) days or, if deemed necessary by the **CONTRACTOR**, replace it as soon as reasonably practicable from the date the defect became known. Such defect shall be deemed to have occurred in the middle of the period between last calibration of the equipment that led to normal results and the calibration evidencing the defect.
- 27.7 Any disputes arising under this Article 27 shall be settled by expert determination in accordance with the provisions of Article 42.2 of this Contract.

ARTICLE 28 - DOMESTIC MARKET - SALE OF GOVERNMENT SHARE

Upon the GOVERNMENT'S prior written notice of at least ninety (90) days, the **CONTRACTOR** shall provide all reasonably necessary assistance to the GOVERNMENT for the sale of all or part of the quantities of Crude Oil to which the GOVERNMENT is entitled, in consideration of a sales commission per barrel to be established with reference to standard practice in the international petroleum business and to be mutually agreed upon between the Parties.

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ARTICLE 29 - FINANCIAL PROVISIONS

29.1 Payments under this Contract shall be made as follows:

29.1.1 Any payment to be made by the **CONTRACTOR** to the **GOVERNMENT** pursuant to this Contract shall be in Dollars and paid into the bank account duly designated by the **GOVERNMENT** in writing and shall be paid within thirty (30) days of the due date, after which interest compounded monthly at the rate of LIBOR plus two (2) percentage points shall be applied.

29.1.2 The **GOVERNMENT** may, at its sole discretion, direct the **CONTRACTOR** to pay:

- (a) any Royalty in cash due to the **GOVERNMENT** pursuant to the provisions of Article 24; and/or
- (b) any proceeds from the sale undertaken by the **CONTRACTOR** on behalf of the **GOVERNMENT** pursuant to Article 28 of any Profit Oil to which the **GOVERNMENT** is entitled pursuant to Article 25; and/or
- (c) any Production Bonus,

to a fund for revenue sharing between the Government of Iraq and other regions (including the Kurdistan Region) and governorates of Iraq. Nothing in this Article 29.1.2 shall be understood as implying any contractual relationship or other relationship between the **CONTRACTOR** and the Government of Iraq and/or the regions of Iraq (other than the Kurdistan Region) and/or and governorates of Iraq.

29.1.3 Any payment due by the **GOVERNMENT** to the **CONTRACTOR** shall be paid in Dollars to the bank account designated by the **CONTRACTOR** in writing and shall be paid within thirty (30) days of the date of invoice, after which interest compounded monthly at the rate of LIBOR plus two (2) percentage points shall be applied.

29.2 Any currency conversion to be made under this Contract shall be at the exchange rate of the Central Bank of Iraq, provided such exchange rate applied to the **CONTRACTOR** shall not be less favourable than the rate offered by other private, commercial or industrial banks in the international market. In the absence of the Central Bank of Iraq or in the event that the Central Bank of Iraq is unable to provide the relevant exchange rate, any currency conversion to be made under this Contract shall be at the exchange rate of a reputable commercial bank carrying on business in the international market and approved by the Parties.

29.3 The **CONTRACTOR** shall not realise any gain or loss due to exchange rate fluctuations and, consequently, any gain or loss resulting from the exchange of currency shall be either considered as revenue and credited to the Accounts or shall be considered as a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with Articles 1 and 25, as the case may be.

29.4 The **CONTRACTOR** shall at all times be entitled to freely convert into Dollars or any other foreign currency any Iraqi dinars received in the framework of the

Petroleum Operations and to freely transfer the same Abroad. The conversion rate shall be as provided under Article 29.2.

29.5 The CONTRACTOR shall have the right to be paid, receive, keep, transfer and use Abroad, without any restrictions, all proceeds of its share of Petroleum.

29.6 The CONTRACTOR and its Subcontractors shall have the right to freely open and maintain bank accounts for Petroleum Operations within or outside the Kurdistan Region and other parts of Iraq.

29.7 The CONTRACTOR shall have the right to pay in any freely convertible currency all its financial requirements for the Petroleum Operations and to convert these currencies to Iraqi dinars in any bank in the Kurdistan Region or other parts of Iraq, at the same exchange rate as provided under Article 29.2.

29.8 The CONTRACTOR shall have the right, without any restrictions, to freely repatriate Abroad and to freely dispose of:

(a) any proceeds received in the Kurdistan Region or other parts of Iraq from the sale of Petroleum;

(b) any proceeds received from other operations and activities carried out under this Contract in the Kurdistan Region or other parts of Iraq.

29.9 The CONTRACTOR shall have the right to pay in any foreign currency its Subcontractors and its expatriate personnel, either in the Kurdistan Region, other parts of Iraq, or Abroad. Said Subcontractors and expatriate personnel shall be obliged to transfer to the Kurdistan Region the amount of foreign currency required for their local needs and they shall have the right to repatriate the proceeds of the sale of their belongings in accordance with the regulations in force in the Kurdistan Region.

29.10 The CONTRACTOR'S Subcontractors and their personnel shall equally benefit from the same rights as the CONTRACTOR and its personnel as regards this Article 29.

29.11 For the financing of Petroleum Operations, the CONTRACTOR shall have the right to have recourse to external financing from third parties or from its Affiliated Companies on an arm's length basis.

ARTICLE 30 - CUSTOMS PROVISIONS

- 30.1 All services, material, equipment, goods, consumables and products imported into the Kurdistan Region and other parts of Iraq by the **CONTRACTOR** or its Subcontractors for use or consumption in the Petroleum Operations shall be admitted free and exempt from any and all customs or other duties, import taxes and any other charges or impositions on import. The **CONTRACTOR** and its Subcontractors shall have the right to re-export from the Kurdistan Region and other parts of Iraq free from all export taxes, customs or other duties or any other charges or impositions on export any material, equipment, goods, consumables and products that are no longer required for the Petroleum Operations, except where title has passed to the **GOVERNMENT** in accordance with Article 20, in which case re-export shall be approved by the Management Committee.
- 30.2 The **CONTRACTOR** and its Subcontractors and their personnel shall have the right to freely import into the Kurdistan Region and other parts of Iraq and re-export from the Kurdistan Region and other parts of Iraq any personal belongings and furniture free and exempt from any customs or other duties, import and export taxes and any other charges or impositions on import or export. The sale in the Kurdistan Region and other parts of Iraq of personal belongings and furniture of expatriate personnel shall comply with Kurdistan Region Law.
- 30.3 Each entity constituting the **CONTRACTOR** shall be entitled to freely export from the Kurdistan Region and other parts of Iraq, free of any taxes, customs or other duties and other impositions or charges whatsoever, any Petroleum to which it is entitled pursuant to the provisions of this Contract.
- 30.4 The **GOVERNMENT** shall indemnify the **CONTRACTOR** for any customs duties referred to in Articles 30.1, 30.2 or 30.3 that may be levied by the Kurdistan Region or Government of Iraq or any other government body or court with jurisdiction in any part of Iraq.

ARTICLE 31 - TAX PROVISIONS

31.1 Except as expressly provided in this Article 31, and without prejudice to the exemptions expressly provided for in Article 30 and in this Article 31, each entity constituting the **CONTRACTOR** and any Subcontractor shall, for the entire duration of this Contract, be exempt from all other taxes, duties, levies, charges, withholdings and impositions generally applicable in the Kurdistan Region, as a result of its activities under this Contract, including but not limited to any taxes on income from movable capital, any taxes on capital gains, any fixed taxes on transfers as well as all other current or future taxes duties, levies, charges, withholdings and impositions based or assessed on income of any kind. The GOVERNMENT shall indemnify each entity constituting **CONTRACTOR** upon demand against any liability to pay any taxes, duties, levies, charges, impositions or withholdings assessed or imposed upon such entity which relate to any of the exemptions granted by the GOVERNMENT under this Article 31.1, and under Articles 31.4, 31.5, 31.6 and 31.7.

31.2 Each entity constituting the **CONTRACTOR** shall be subject to corporate income tax as provided in Article 31.3 below, which shall be deemed to be inclusive and in full and total discharge of any corporate income tax of each such entity. Payment of the said corporate income tax shall be made for the entire duration of this Contract directly to the appropriate Kurdistan Region tax authorities by the GOVERNMENT, for the account of each entity constituting the **CONTRACTOR**, from the GOVERNMENT'S share of the Profit Petroleum received pursuant to Article 26.

Each entity constituting **CONTRACTOR** shall, within sixty (60) days after the end of each tax year, provide a statement to the appropriate Kurdistan Region tax authorities of the profits of the **CONTRACTOR** which are subject to corporate income tax, together with the amount of corporate income tax due on those profits.

The GOVERNMENT shall, within ninety (90) days after the end of each tax year, provide the appropriate tax receipts from the appropriate Kurdistan Region tax authorities to each entity constituting the **CONTRACTOR** certifying the payment of its corporate income tax, as determined in the said statement, and that such entity has met all its fiscal obligations in the preceding tax year.

31.3 For the purposes of Article 31.2:

- (a) The rate of corporate income tax to be applied to each entity constituting the **CONTRACTOR** shall be the applicable rate prescribed in the Law of Taxation, Law No. 4 of 1999, passed by the parliament of the Kurdistan Region, as may be amended from time to time or substituted in respect of Petroleum Operations (as defined under the Kurdistan Region Petroleum Act) by a Petroleum Operations Taxation Act (as defined under the Kurdistan Region Petroleum Act).
- (b) The GOVERNMENT and the **CONTRACTOR** agree that corporate income tax shall be calculated for each entity constituting the

CONTRACTOR on its net taxable profits under the Contract, as calculated in accordance with the provisions relating thereto in the Accounting Procedure.

- 31.4 Each entity constituting the **CONTRACTOR** as well as any Subcontractors shall be exempt from any withholding tax applicable on any payments made to them or by them to or from Affiliates or third parties, whether inside or outside the Kurdistan Region and/or Iraq, for the entire duration of this Contract.
- 31.5 Each entity constituting the **CONTRACTOR** shall be exempt from Additional Profits Tax, as referred to in Article 44 of the Kurdistan Region Petroleum Act.
- 31.6 Each entity constituting the **CONTRACTOR** shall be exempt from Surface Tax, as referred to in Article 44 of the Kurdistan Region Petroleum Act.
- 31.7 Each entity constituting the **CONTRACTOR** shall be exempt from Windfall Profits Taxes, as referred to in Article 44 of the Kurdistan Region Petroleum Act.
- 31.9 Each entity constituting the **CONTRACTOR** and any Subcontractor shall be subject to the payment of the personal income tax and social security contributions for which such entity or Subcontractor is liable to pay in respect of its employees, pursuant to the Law of Taxation, Law No. 4 of 1999, passed by the parliament of the Kurdistan Region, in the same manner as generally applied to all other industries.
- 31.9 It is acknowledged that Double Tax Treaties will have effect to give relief from taxes to, but not limited to, the **CONTRACTOR**, contractor parties, foreign subcontractors and expatriate employees in accordance with the provisions of such Double Tax Treaties, but shall not impose an additional burden of taxation.
- 31.10 Any value added tax ("VAT") shall be reimbursed by the Government to the **CONTRACTOR**.
- 31.11 Notwithstanding any other provision to the contrary in this Contract, the Parties acknowledge and agree that the provisions of this Article 31 shall apply individually and separately to all the entities constituting the **CONTRACTOR** under this Contract and that there shall be no joint and several liability in respect of any liability, duty or obligation referred to in this Article 31.

ARTICLE 32 - BONUSES AND CONTRIBUTIONS

Signature Bonus

- 32.1 A signature bonus of seven million five hundred thousand Dollars (US\$ 7,500,000) ("**Signature Bonus**") shall be payable to the **GOVERNMENT** by the **CONTRACTOR** within thirty (30) days of the Effective Date.

Capacity Building Contribution

- 32.2 A capacity building bonus of seventeen million five hundred thousand Dollars (US\$17,500,000) ("**Capacity Building Contribution**") shall be payable to the **GOVERNMENT** by the **CONTRACTOR** within thirty (30) days of the Effective Date.

Production Bonuses

- 32.3 In the event of a Crude Oil Commercial Discovery, the **CONTRACTOR** shall pay the following relevant Crude Oil production bonus to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:
- (a) Two million five hundred thousand Dollars (US \$2, 500, 000) when First Production of Crude Oil from the Contract Area commences;
 - (b) Five million Dollars (US \$5, 000, 000) when production of Crude Oil from the Contract Area reaches a cumulative amount of ten million barrels of Crude Oil (10 mmbo);
- and
- (c) Ten million Dollars (US \$10, 000, 000) when production of Crude Oil from the Contract Area reaches a cumulative amount of Twenty five million barrels of Crude Oil (25 mmbo).
- 32.4 In the event of a Non-Associated Natural Gas Commercial Discovery, the **CONTRACTOR** shall pay the following relevant Non-Associated Natural Gas production bonus to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:
- (a) One million Dollars (US \$1, 000, 000) when First Production of Non-Associated Natural Gas from the Contract Area commences;
 - (b) Two million five hundred thousand Dollars (US \$2, 500, 000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount equivalent to ten million barrels of Crude Oil (10 mmbo);

and

- (c) Five million Dollars (US \$5, 000, 000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount equivalent to Twenty five million barrels of Crude Oil (25 mmbo).

32.5 For the purposes of this Article 32, a Commercial Discovery shall be declared by the **CONTRACTOR** to be either a Crude Oil Commercial Discovery or a Non-Associated Gas Commercial Discovery and under no circumstances shall a production bonus be due in respect of both Crude Oil and Non-Associated Natural Gas for the same Commercial Discovery.

32.6 No bonus due pursuant to this Article 32 shall be deemed to be a Petroleum Cost.

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ARTICLE 33 – PIPELINES

- 33.1 The **GOVERNMENT** shall obtain any required Permits for the transportation of Petroleum in the Kurdistan Region and in Iraq, as well as any necessary Permits and easement rights for the construction of any pipelines and related facilities required for the Petroleum Operations, as provided in Article 33.2.
- 33.2 The **GOVERNMENT** undertakes to transfer to the **CONTRACTOR** its rights for transportation of Petroleum by pipeline. The **CONTRACTOR** shall have the right to design, construct, operate and maintain pipelines and any related facilities for the transportation of Petroleum produced under this Contract.
- 33.3 Prior to the construction of any pipeline and related facilities as provided in Article 33.2, the **CONTRACTOR** shall submit following information to the Management Committee:
- (a) proposed pipeline route and related facilities;
 - (b) forecasted pipeline flow rate and capacity;
 - (c) estimate of financial investment and operating costs of the pipeline and related facilities;
 - (d) proposed financing schedule;
 - (e) construction schedule;
 - (f) general technical description of the pipeline and related facilities;
 - (g) construction plans and tests;
 - (h) preventive measures for damage to the environment and third parties; and
 - (i) any other information relating to the pipeline project.

The Management Committee shall examine all the above information and shall within ninety (90) days, approve the proposed pipeline project in accordance with the provisions of Article 8.5 of this Contract.

- 33.4 Subject to spare capacity being available and to their Petroleum being compatible, third parties shall be entitled to transport their Petroleum through any pipeline constructed by the **CONTRACTOR** in accordance with this Article 33 on terms to be agreed between the **CONTRACTOR** and such third party. Those terms shall be reasonable commercial terms and shall not discriminate among third party users. The **CONTRACTOR** shall always have priority of access to such pipelines.

- 33.5 To the extent that they are incurred upstream of the Delivery Point, any costs associated with the design, construction, operation and maintenance of the pipelines and related facilities by **CONTRACTOR** under this Article 33 ("**Pipeline Costs**") shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.6 The **CONTRACTOR** shall have the absolute right, without any exceptions and for the entire duration of this Contract, to use, free of charge, any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 and to transport Petroleum produced from any Production Area and to operate and maintain any pipeline and its related facilities, freely and without any additional costs.
- 33.7 Any tariffs received from third parties for use of any pipeline and related facilities by **CONTRACTOR** under this Article 33 shall be applied to the recovery of Petroleum Costs until all Pipeline Costs have been fully recovered by the **CONTRACTOR** pursuant to the provisions of Articles 1 and 25 of this Contract. The **GOVERNMENT** shall be entitled to receive any tariffs from third parties for their use of such pipeline and related facilities when the said Pipeline Costs have been fully recovered by the **CONTRACTOR**. The costs associated with providing such transportation services for third parties shall be considered Pipeline Costs and therefore Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.8 Upon recovery by the **CONTRACTOR** of all the Pipeline Costs, the operating and maintenance costs of any pipeline and its related facilities shall be borne by the **CONTRACTOR** and shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.9 The **GOVERNMENT** shall have the same rights as the **CONTRACTOR** for use, free of charge, of any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 for the transportation of the share of Petroleum to which the **GOVERNMENT** is entitled under this Contract, provided that where the **GOVERNMENT** is participating in its capacity as a **CONTRACTOR** entity pursuant to Article 4, it shall be liable for its share of Petroleum Costs.
- 33.10 The **CONTRACTOR** shall bear the custody and maintenance of any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 and all risks of accidental loss or damage to such pipeline and related facilities while they are required for Petroleum Operations.

ARTICLE 34 - UNITISATION

34.1 In the event a Reservoir extends beyond the Contract Area into an adjacent area which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Petroleum Act) (an "**Adjacent Contract Area**"), or in the event a Reservoir of an Adjacent Contract Area extends into the Contract Area, the provisions of Article 58, Section 3 of the Kurdistan Region Petroleum Act shall apply and the **GOVERNMENT** shall require the **CONTRACTOR** and the Contractor of the Adjacent Contract Area to agree upon a schedule for reaching agreement of the terms of the unitisation of the Reservoir, which terms shall be based on reliable technical,

operational and economical parameters, all in accordance with standard practice in the international petroleum industry. In the event that the Minister decides the unitisation pursuant to Article 58, Section 3 (b) of the Kurdistan Petroleum Act, and if the **CONTRACTOR** does not agree with the Minister's decision, the **CONTRACTOR** shall be entitled to arbitration pursuant to the provisions of Article 42.1.

34.2 In the event that a Reservoir extends beyond the boundaries of the Contract Area into adjacent an area which is not the subject of another Petroleum Contract (as defined by the Kurdistan Region Petroleum Act), the **GOVERNMENT** shall, upon the **CONTRACTOR'S** request, take the necessary steps to extend the boundaries of Contract Area so as to include the entire Reservoir within the Contract Area, provided that the **CONTRACTOR** can offer the **GOVERNMENT** a competitive minimum work program for such adjacent area.

ARTICLE 35 - LIABILITY AND INSURANCE

Liability

- 35.1 Subject to the other provisions of this Contract, the **CONTRACTOR**, in its capacity as the entity responsible for the execution of the Petroleum Operations within the Contract Area, shall be liable to third parties to the extent provided under applicable Law for any losses and damage it may cause to them in conducting the Petroleum Operations, and shall defend, indemnify and hold harmless the **GOVERNMENT** with respect to all claims for such loss or damage.
- 35.2 The **CONTRACTOR** shall not be liable to the **GOVERNMENT** for any damage or loss or claims of any kind resulting from its conduct of the Petroleum Operations unless such damage or loss is the direct result of wilful misconduct or gross negligence of the **CONTRACTOR** in its conduct of the Petroleum Operations in accordance with the terms of this Contract; provided, however, that such liability cannot result in the event of any omissions, errors or mistakes committed in good faith by the **CONTRACTOR** in the exercise of the powers and authorisations conferred upon the **CONTRACTOR** by virtue of this Contract, and further provided that in no event shall the **CONTRACTOR** be liable for any indirect or consequential loss or damage whatsoever, including without limitation any loss, damages, costs, expenses or liabilities caused (directly or indirectly) by any of the following arising out of, relating to, or connected with this Contract or the Petroleum Operations carried out under this Contract: (i) reservoir or formation damage; (ii) inability to produce, use or dispose of Petroleum; (iii) loss or deferment of income; (iv) special or punitive damages; or (v) other indirect damages or losses whether or not similar to the foregoing.
- 35.3 The **CONTRACTOR** shall indemnify and hold harmless the **GOVERNMENT** against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the **GOVERNMENT** by any employee of the **CONTRACTOR** or of any Subcontractor or by any 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 Contract regardless of the fault or negligence in whole or in part of any entity or individual.
- 35.4 Notwithstanding Article 35.1, the **GOVERNMENT** shall indemnify and hold harmless the **CONTRACTOR** against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the **CONTRACTOR** by any employee of the **GOVERNMENT** or of any Public Company or of any subcontractor of the foregoing or by any dependent of any such employee, 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 Contract regardless of the fault or negligence in whole or in part of any entity or individual.
- 35.5 The **CONTRACTOR** shall take all necessary steps to respond to, and shall promptly notify the **GOVERNMENT** 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 **GOVERNMENT** 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.

- 35.6 In the event of emergency situations as set out in Article 35.4 above, at the request of the **CONTRACTOR**, the **GOVERNMENT**, without prejudice and in addition to any indemnification obligations the **GOVERNMENT** may have, 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 the **CONTRACTOR** to bring into the Kurdistan Region personnel, materials and equipment to be used in any such emergency response or remedial or repair effort. The **CONTRACTOR** shall reimburse the **GOVERNMENT'S** reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25 of this Contract.

Insurance

- 35.7 In accordance with standard practice in the international petroleum industry, the **CONTRACTOR** shall maintain any insurance required by applicable Kurdistan Region Law, as well as any insurance approved by the Management Committee.

Such insurance policies may cover:

- (a) loss of and damage to material and equipment used in the Petroleum Operations;
 - (b) personal injury, damage to third parties and risks of pollution associated with Petroleum Operations for reasonable amounts, within the limits approved by the Management Committee.
- 35.8 Any insurance policy relating to this Contract shall name the **GOVERNMENT** as an additional insured party and shall include a waiver of subrogation protecting the **GOVERNMENT** against any claim, loss and damage resulting from any Petroleum Operation conducted by or on behalf of the **CONTRACTOR** under this Contract, to the extent that the **CONTRACTOR** is liable for such claim, loss or damage under this Contract. The **CONTRACTOR** shall not be liable for and shall not purchase insurance cover for any claims arising from negligence or wilful misconduct of the **GOVERNMENT** or of any Public Company or of any of its or their subcontractors or of any personnel of any of the foregoing.
- 35.9 Upon its written request, the **GOVERNMENT** shall be provided with insurance certificates, including necessary details, for any insurance policy maintained by the **CONTRACTOR** which relates to this Contract

35.10 The **CONTRACTOR** shall be responsible for the filing of all claims made under any insurance policy maintained by **CONTRACTOR** which relates to this Contract. Any premiums and payments relating to such insurance policies shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

35.11 In any insurance policy maintained by the **CONTRACTOR** which relates to this Contract, the amount for which the **CONTRACTOR** itself is liable (the "**Deductible Amount**") shall be reasonably determined between the **CONTRACTOR** and the insurer and such Deductible Amount shall in the event of any insurance claim be considered a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

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ARTICLE 36 - INFORMATION AND CONFIDENTIALITY

- 36.1 The **CONTRACTOR** shall keep all records, data and information relating to the Petroleum Operations in accordance with the Kurdistan Region Petroleum Act and standard practice in the international petroleum industry. In addition, it shall provide the **GOVERNMENT** with such information and data as it is obliged to provide under this Contract.
- 36.2 Upon the **GOVERNMENT'S** written request, the **CONTRACTOR** shall provide the **GOVERNMENT** with samples of any rocks or any other items extracted during the Petroleum Operations.
- 36.3 The **GOVERNMENT** shall have title to all data and information, whether raw, derived, processed, interpreted or analysed, obtained pursuant to this Contract.
- 36.4 The **CONTRACTOR** shall have the right, without any limitation, to send Abroad copies of all reports and technical data, magnetic tapes and other data relating to the Petroleum Operations. Magnetic tapes or other data, the original of which must be analysed and processed Abroad, may be transported out of the Kurdistan Region.
- 36.5 Any representatives authorised by the **GOVERNMENT** and notified to the **CONTRACTOR** shall, upon reasonable prior written notice, have reasonable access to any information and data relating to the Contract Area in the possession of the **CONTRACTOR** which the **CONTRACTOR** is obliged to provide to the **GOVERNMENT** pursuant to this Contract. It is understood that, when exercising such right, the **GOVERNMENT** shall ensure it does not unduly interfere with or hinder **CONTRACTOR'S** activities.
- 36.6 The **CONTRACTOR** shall provide the **GOVERNMENT** upon the **GOVERNMENT'S** written request with copies of analysis information, reports, tapes or other data (geological, geophysical, logs, interpretations, drilling reports, etc.) related to the Petroleum Operations. All available originals shall be transferred to the **GOVERNMENT** at the end of this Contract.
- 36.7 Apart from the exceptions stated in this Article 36, the Parties undertake to keep all data and information relating to this Contract and the Petroleum Operations confidential during the entire term of this Contract and not to divulge or disclose such data or information to third parties without the specific consent of the other Party, such consent not to be unreasonably withheld or delayed. The foregoing confidentiality obligation shall not apply to information or data which:
- (a) is or, through no fault of either Party, becomes part of the public domain;
 - (b) is known to the receiving Party at the date of disclosure; or
 - (c) is required to be furnished in compliance with any applicable Law, by a

government agency having jurisdiction over the entity constituting the **CONTRACTOR**, by a court order or any other legal proceedings; or

- (d) is required to be disclosed pursuant to the rules or regulations of any government or recognised stock exchange having jurisdiction over the entity constituting the **CONTRACTOR**.

36.8 Notwithstanding the foregoing in Article 36.7, in accordance with standard practice in the international petroleum industry, such data and information may be disclosed to:

- (a) Affiliates of each entity constituting **CONTRACTOR**;
- (b) employees, officers and directors of each entity constituting the **CONTRACTOR** and their respective Affiliated Companies for the purpose of the Petroleum Operations, subject to each such entity taking customary precautions to ensure such information is kept confidential;
- (c) consultants or agents retained by any entity constituting the **CONTRACTOR** or its Affiliate for the purpose of analysing or evaluating information or data;
- (d) banks or financial institutions retained by any entity constituting the **CONTRACTOR** with a view to financing Petroleum Operations, including any professional consultants retained by such bank or financial institution;
- (e) *bonafide* prospective assignees of a participating interest under this Contract (including any entity with whom an entity constituting **CONTRACTOR** and/or its Affiliates are conducting *bonafide* negotiations directed towards a merger, consolidation or the sale of a majority of its or an Affiliates shares);
- (f) prospective or actual Subcontractors and suppliers engaged by a Party where disclosure of such information is essential to such Subcontractor's or supplier's work for such Party; and
- (g) any other person or entity, upon the prior written approval of the non-disclosing Party,

provided that disclosure shall not be made pursuant to paragraphs (c), (d), (e) and (f), unless such third party has entered into a confidentiality undertaking.

36.9 Any data and information relating to relinquished or surrendered areas under this Contract shall become the exclusive property of the **GOVERNMENT**, who shall have the right to use same for any purpose, in particular for the purpose of promoting said areas. The **CONTRACTOR** shall be entitled to keep copies of such data and information and to use such data and information for any purpose.

36.10 Subject to the provisions of this Article 36, the **CONTRACTOR** may not sell nor exchange any data related to the Petroleum Operations without the approval of the **GOVERNMENT**, which approval shall not be unreasonably withheld or delayed where, in **CONTRACTOR'S** reasonable opinion, such sale or exchange would benefit the Petroleum Operations.

ARTICLE 37 - ENVIRONMENTAL PROVISIONS

- 37.1 During the performance of the Petroleum Operations, the **CONTRACTOR** shall take necessary measures to ensure that it, the Operator, its Subcontractors and agents attend to the protection of the environment and prevention of pollution, in accordance with standard practice in the international petroleum industry and any applicable Kurdistan Region Law.
- 37.2 Prior to surrendering a portion of the Contract Area, the **CONTRACTOR** shall take reasonable measures to clean the area to be surrendered in accordance with standard practice in the international petroleum industry. Such measures shall include, *inter alia*, removal of facilities, material and equipment together with reasonable measures necessary for the preservation of fauna, flora and ecosystems, all in accordance with generally accepted practice in the international petroleum industry. The **CONTRACTOR** shall only be responsible for site restoration or environmental damage to the extent the same pertains solely and directly to Petroleum Operations pursuant to this Contract. For the avoidance of doubt, the **CONTRACTOR** shall not be liable and shall not bear any cost or expense for any liabilities, claims or obligations related to any environmental pollution or other environmental damage which it did not directly cause, including any condition in existence prior to the Effective Date.
- 37.3 The **CONTRACTOR** shall take reasonable precautions and measures to prevent any pollution which may arise directly as a result of the Petroleum Operations and to protect the environment (fauna and flora), water sources and any other natural resources when carrying out Petroleum Operations.
- 37.4 The **CONTRACTOR** shall respect the preservation of property, agricultural areas, and fisheries, when carrying out Petroleum Operations.
- 37.5 Before starting Exploration Operations within the Contract Area, the **CONTRACTOR** shall conduct and submit an environmental impact assessment.

National Parks and Nature Reserve Areas

- 37.6 The **CONTRACTOR** shall take all reasonable measures to minimise any adverse material impact on national parks and nature reserves which may arise directly as a result of the Petroleum Operations, in accordance with generally accepted environmental practices in the international petroleum industry.
- 37.7 The **GOVERNMENT**: (i) represents and warrants that, on the Effective Date, there are no national parks, nature reserves or other protected areas located in whole or in part within the Contract Area where the **CONTRACTOR** shall not be entitled to carry out Petroleum Operations and (ii) covenants that during the term of this Contract will not designate or create or permit the creation of any national parks, nature reserves or other protected areas, located in whole or in part within the Contract Area, where the **CONTRACTOR** is entitled to carry out Petroleum Operations.

Expenditures

37.8 Any reasonable expenditure incurred by the **CONTRACTOR** in relation with this Article 37 shall be deemed Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

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ARTICLE 38 - DECOMMISSIONING

- 38.1 To enable the **CONTRACTOR** to recover the costs associated with future Petroleum Field decommissioning and site restoration and any other similar expenditure to be borne by the **CONTRACTOR** under this Contract, the **CONTRACTOR** shall have the right to establish a reserve fund for future decommissioning and site restoration (a "**Decommissioning Reserve Fund**"). The Decommissioning Reserve Fund may be established at any time during the final ten (10) Calendar Years of the term of the Production Operations of a Petroleum Field but, upon the reasonable request by the **CONTRACTOR**, the **GOVERNMENT** shall allow the **CONTRACTOR** to establish such fund over a longer period. Once established, the **CONTRACTOR** shall make regular contributions to the Decommissioning Reserve Fund based upon estimated Petroleum Field decommissioning and site restoration costs in accordance with standard principles and technical norms generally accepted in the international petroleum industry. Any contributions by the **CONTRACTOR** to the Decommissioning Reserve Fund shall be made in Dollars and shall be deemed Petroleum Costs when paid into the reserve fund, and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25. Contributions to the Decommissioning Reserve Fund shall be placed with a first rate bank approved by the Management Committee in accordance with Article 8.5.
- 38.2 If, at the end of the term of the Production Operations of the Petroleum Field, the **GOVERNMENT** decides to take over production operations in the Petroleum Field:
- (i) the **GOVERNMENT** shall become liable for its future decommissioning and site restoration;
 - (ii) the contributions and any interest accumulated in the Decommissioning Reserve Fund, to the extent that such contributions have been recovered as Petroleum Costs, shall be paid to the **GOVERNMENT**; and
 - (iii) the **GOVERNMENT** shall release the **CONTRACTOR** from any obligations relating to decommissioning and site restoration and shall indemnify the **CONTRACTOR** for any costs, liabilities, expenses, claims or obligations associated therewith.
- 38.3 If the **CONTRACTOR** undertakes the Petroleum Field decommissioning and site restoration works, the contributions and any interest accumulated in the Decommissioning Reserve Fund shall be paid to the **CONTRACTOR** and shall be used for the Petroleum Field Decommissioning Operations. The **CONTRACTOR** shall undertake any such Decommissioning Operations in accordance with standard practice in the international petroleum industry.

- 38.4 If the Decommissioning Reserve Fund is not sufficient to cover all Decommissioning Costs for the Petroleum Field, the balance shall be paid by the **CONTRACTOR** and may be recovered as Petroleum Costs from any other Production Areas or, if applicable, from any other area which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Petroleum Act) of the **CONTRACTOR** or any of its Affiliates anywhere in the Kurdistan Region and, to the extent the balance is not recoverable as aforesaid, such remaining balance shall be paid by the **GOVERNMENT**
- 38.5 If the Decommissioning Reserve Fund exceeds all Decommissioning Costs for the Petroleum Field, the balance shall be allocated as follows:
- (a) to the extent that it has been recovered as Petroleum Costs, that amount shall be transferred to the **GOVERNMENT**; and
 - (b) to the extent that it has not been recovered as Petroleum Costs, that amount shall be re-paid to the **CONTRACTOR**.
- 38.6 Any expenditure incurred by the **CONTRACTOR** in relation with this Article 38, including but not limited to any contributions to the Decommissioning Reserve Fund, shall be deemed Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 38.7 The **CONTRACTOR** shall submit the Management Committee for approval in accordance with Article 8.5 a detailed plan for decommissioning the Production Area facilities and site restoration (the "**Decommissioning Plan**"), such Decommissioning Plan to be submitted no later than twenty four (24) Months prior to the date estimated by the **CONTRACTOR** for the end of commercial production from the Production Area.

ARTICLE 39 - ASSIGNMENT and CHANGE OF CONTROL

Assignment to Affiliates

- 39.1 Each entity constituting the **CONTRACTOR** shall be free to sell, assign, transfer or otherwise dispose of all or part of its rights, obligations and interests under this Contract to an Affiliated Company or to another entity constituting the **CONTRACTOR** with the prior consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld. Such consent shall be deemed to have been received if, after thirty (30) days from the date of such request, the **GOVERNMENT** has not made any objections in writing.

Assignment to Third Parties

- 39.2 Each entity constituting the **CONTRACTOR** shall have the right to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract to any third party (not being an Affiliated Company or another entity constituting **CONTRACTOR**) with the prior consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld. Any entity constituting **CONTRACTOR** proposing to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract to any such third party shall request such consent in writing, which request shall be accompanied by reasonable evidence of the technical and financial capability of the proposed third party assignee. Such consent shall be deemed to have been received if, after thirty (30) days from the date of such request the **GOVERNMENT** has not made any objections in writing.
- 39.3 To be effective, any deed of sale, assignment, transfer or other disposal as provided under Articles 39.1 or 39.2, the Parties shall enter into a deed of assignment, which shall include an undertaking by such third party to fulfil any obligations under this Contract.
- 39.4 In the event an entity constituting the **CONTRACTOR** assigns or in any other way transfers its rights and interests under this Contract, whether in whole or in part, such assignment or transfer shall not give rise to any tax, imposition or payment whatsoever in the Kurdistan Region, whether currently existing or which may become applicable in future.
- 39.5 The **GOVERNMENT** may not at any time transfer its rights and obligations under this Contract to a Public Company or any other company or entity one hundred percent (100%) owned by the **GOVERNMENT** or otherwise, except in respect of its Government Share (upon exercise of its Option to Participate) in accordance with Article 4.

Change of Control

39.6 "**Change of Control**" for the purpose of this Article 39.6 means any direct or indirect change of Control of an entity constituting **CONTRACTOR** (whether through merger, sale of shares or of other equity interests, or otherwise) through a single transaction or series of transactions, from one or more transferors to one or more transferees, in which the market value of such entity's participating interest in this Contract (which shall be as specified in the Joint Operating Agreement relating to this Contract, or where there is only one entity constituting **CONTRACTOR**, one hundred (100%) percent) represents more than seventy five percent (75%) of the aggregate market value of the assets of such entity and its Affiliates that are subject to the change in Control. For the purpose of this definition: "Control" means the means direct or indirect ownership or control of the majority of the voting rights of the applicable entity at its shareholders' meetings or their equivalent; and "market value" shall be determined based upon the amount in cash a willing buyer would pay a willing seller in an arm's length transaction.

Each entity constituting the **CONTRACTOR** which is subject to a Change in Control other than to an Affiliated Company or an entity constituting **CONTRACTOR** must obtain the prior consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld. Such consent shall be deemed to have been received if, after thirty (30) days from the date of such request, the **GOVERNMENT** has not made any objections in writing.

A Change in Control shall not give rise to any tax, imposition or payment whatsoever in the Kurdistan Region, whether currently existing or which may become applicable in future.

ARTICLE 40 - FORCE MAJEURE

- 40.1 No delay, default, breach or omission of the **CONTRACTOR** in the execution of any of its obligations under this Contract shall be considered a failure to perform this Contract or be the subject of a dispute if such delay, default, breach or omission is due to a case of Force Majeure. In such event the **CONTRACTOR** shall promptly notify the **GOVERNMENT** in writing and take all reasonably appropriate measures to perform its obligations under this Contract to the extent possible. The time resulting from any such delay or curtailment in the execution of such obligations, increased by the time necessary to repair any damage resulting from or occurred during such delay or curtailment, shall be added to any time period provided under this Contract (including without limitation the Exploration Period and any extension thereto, any Sub-Period and any extension thereto and any Development Period and any extension thereto). The Parties shall meet as soon as possible after the notification of Force Majeure with a view to using reasonable endeavours to mitigate the effects thereof.
- 40.2 For the purpose of this Contract, "**Force Majeure**" means any event that is unforeseeable, insurmountable and irresistible, not due to any error or omission by the **CONTRACTOR** but due to circumstances beyond its control, which prevents execution of all or part of its obligations under this Contract. Such events shall include but not be limited to following:
- (a) war, whether declared or not, civil war, insurrection, riots, civil commotion, terrorism, any other hostile acts, whether internal or external;
 - (b) strikes or other labour conflicts;
 - (c) accidents or blowouts;
 - (d) quarantine restrictions or epidemics;
 - (e) any act, event, happening or occurrence due to natural causes, in particular floods, storms, cyclones, fires, lightning, or earthquakes;
 - (f) environmental restrictions, which the **GOVERNMENT** has not notified to the **CONTRACTOR**;
 - (g) any changes in Law.
 - (h) sanctions; and
 - (i) any acts or orders of the **GOVERNMENT**, including the issuance or promulgation of any court order, law, statute, ordinance, rule, regulation or directive or any executive acts of any **GOVERNMENT** authority.

Provided that changes in law, sanctions, acts or orders of the Government occurring after the date of this Agreement, including the issuance or promulgation of any court order, law, statute, ordinance, rule, regulation or directive and any executive acts of any Government

authority shall not be claimed as a Force Majeure event by the Government under this Agreement.

The intention of the Parties is that Force Majeure shall receive the interpretation that complies most with general principles and practice prevailing in the international petroleum industry. Force Majeure affecting an Affiliated Company of an entity constituting the **CONTRACTOR** shall be deemed Force Majeure affecting such entity constituting the **CONTRACTOR** if the consequence of such Force Majeure prevents the performance of any of **CONTRACTOR'S** obligations under this Contract.

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ARTICLE 41 - WAIVER OF SOVEREIGN IMMUNITY

The **GOVERNMENT** and any Public Company which may be an entity constituting **CONTRACTOR** at any time hereby fully and irrevocably waives any claim to immunity for itself or any of its assets.

This waiver includes any claim to immunity from:

- (a) any expert determination, mediation, or arbitration proceedings commenced pursuant to Article 42 this Contract;
- (b) any judicial, administrative or other proceedings to aid the expert determination, mediation, or arbitration proceedings commenced pursuant to Article 42 of this Contract;
- (c) any effort to confirm, enforce or execute any decision, settlement, award, judgment, service of process, execution order or attachment (including pre-judgment attachment) that results from an expert determination, mediation, arbitration or any judicial, administrative or other proceedings commenced pursuant to this Contract.

ARTICLE 42 - ARBITRATION AND EXPERT DETERMINATION

Negotiation, Mediation and Arbitration

42.1 For the purpose of this Article 42.1, "**Dispute**" shall mean any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation or otherwise) arising out of, relating to, or connected with this Contract or the operations carried out under this Contract, including without limitation any dispute as the construction, existence, validity, interpretation, enforceability, breach or termination of this Contract, which arises between the Parties (or between any one or more entities constituting the **CONTRACTOR** and the **GOVERNMENT**).

In the event of a Dispute, the parties to the Dispute shall use their reasonable endeavours to negotiate promptly in good faith a mutually acceptable resolution of such Dispute

Subject to the provisions of Article 42.2 of this Contract, a Party who desires to submit a Dispute for resolution which has not been promptly resolved as aforesaid shall commence the dispute resolution process by providing the other parties to the Dispute written notice of the Dispute ("**Notice of Dispute**"). The Notice of Dispute shall identify the parties to the Dispute, shall contain a brief statement of the nature of the Dispute and the relief requested and shall request negotiations among Senior Representatives.

- (a) In the event that any Notice of Dispute is given in accordance with this Article 42.1, the parties to the Dispute shall first seek settlement of the dispute by negotiation between Senior Representatives. "**Senior Representative**" means any individual who has authority to negotiate the settlement of the Dispute for a party to the Dispute, which for the **GOVERNMENT** shall mean the Minister of Natural Resources. Within thirty (30) days after the date of the receipt by each party to the Dispute of the Notice of Dispute, the Senior Representatives representing the parties to the Dispute shall meet at a mutually acceptable date, time and place to exchange relevant information in an attempt to resolve the Dispute. If a Senior Representative intends to be accompanied at the meeting by a legal adviser, each other party shall be given written notice of such intention and its Senior Representative may also be accompanied at the meeting by a legal adviser.
- (b) If the Dispute cannot be resolved by negotiation in accordance with Article 42.1 (a) within sixty (60) days after the date of the receipt by each party to the Dispute of the Notice of Dispute or such further period as the parties to the Dispute may agree in writing, any party to the Dispute may seek settlement of the dispute by mediation in accordance with the London Court of International Arbitration (LCIA) Mediation Procedure, which Procedure shall be deemed to be incorporated by reference into this Article, and the parties to such Dispute shall submit to such mediation procedure.

- (c) If the Dispute is not settled by mediation in accordance with Article 42.1 (b) within sixty (60) days of the appointment of the mediator, or such further period as the parties to the Dispute may otherwise agree in writing, any party to the Dispute may refer the Dispute to, and seek final resolution by, arbitration under the LCIA Rules, which Rules shall be deemed to be incorporated by reference into this Article.
- (i) Any arbitration shall be conducted by three (3) arbitrators.
- (ii) If the parties to the Dispute are the **GOVERNMENT** and all the entities constituting the **CONTRACTOR**, the **GOVERNMENT** and the **CONTRACTOR** shall each appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT** and more than one, but not all the entities constituting the **CONTRACTOR**, the **GOVERNMENT** shall appoint one (1) arbitrator and such **CONTRACTOR** entities shall appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT** and one entity constituting the **CONTRACTOR**, the **GOVERNMENT** and such **CONTRACTOR** entity shall each appoint one (1) arbitrator.
- (iii) In any event, the two arbitrators so appointed shall, in good faith, use all reasonable endeavours to agree on the appointment of the third arbitrator, who will chair the arbitral tribunal. In case of failure to appoint an arbitrator or to agree on the appointment of the third arbitrator, Rules of the LCIA shall apply.
- (vi) Arbitration shall take place in London, England. The language to be used in any prior negotiation, mediation and in the arbitration shall be English. During the arbitration procedure and until the arbitral decision, no Party or **CONTRACTOR** entity shall act in a manner that may affect the rights of the other Party or other **CONTRACTOR** entities under this Contract. The arbitral award may be enforced by any court of competent jurisdiction, including the Kurdistan Region. Any award shall be expressed in Dollars.
- (v) The Parties agree that the arbitral award shall be final and not subject to any appeal.

Expert Determination

42.2 Any disagreement between the Parties relating to Articles 15.5, 27.2 and 27.9 of this Contract, as well as any disagreement the Parties agree to refer to an expert, shall be submitted to an expert. The Management Committee shall prepare and agree appropriate terms of reference relating to the disagreement to be submitted to the expert, in accordance with Article 8.5 ("**Terms of Reference**").

- (a) The disagreement shall be submitted to an expert appointed by mutual agreement of the Parties within thirty (30) days following the date of preparation and agreement of the Terms of Reference by the Management Committee. If the Parties cannot agree on the choice of the expert within such thirty (30) day period, at the request of either Party, the expert shall be

appointed by the President of the Energy Institute in London, England. Any expert appointed must have the necessary qualifications for reviewing and deciding on the subject matter of the disagreement.

- (b) The duties of the expert shall be stated in the Terms of Reference prepared and agreed by the Management Committee. The Management Committee shall promptly provide the expert with the agreed terms of reference relating to the disagreement. Each Party shall have the right to give to the expert in writing any information which it considers useful. The expert shall have the right to review and verify any information he deems useful to assist him in his review of the disagreement.
- (c) The expert shall render his decision within forty-five (45) days of his receipt of the Terms of Reference and the information referred to in Article 42.2. Subject to the provisions of Article 15.5 of this Contract, any decision of the expert shall be final and shall not be subject to any appeal, except in the case of manifest error, fraud or malpractice. Any costs and expenses associated with the expert determination shall be shared equally between the Parties.

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- 42.3 No negotiation, mediation, arbitration or expert determination procedure under this Article 42 shall exempt the Parties from fulfilling their respective legal and/or contractual obligations.

ARTICLE 43 - GOVERNING LAW, FISCAL STABILITY AND AMENDMENTS

Governing Law

- 43.1 This Contract, including any dispute arising therefrom, thereunder or in relation thereto, shall be governed by English law (except any rule of English law which would refer the matter to another jurisdiction), together with any relevant rules, customs and practices of international law, as well as by principles and practice generally accepted in petroleum producing countries and in the international petroleum industry.

Fiscal Stability

- 43.2 The obligations of the **CONTRACTOR** resulting from this Contract shall not be aggravated by the **GOVERNMENT** and the general and overall equilibrium between the Parties under this Contract shall not be affected in a substantial and lasting manner.
- 43.3 The **GOVERNMENT** guarantees to the **CONTRACTOR**, for the entire duration of this Contract, that it will maintain the stability of the fiscal and economic conditions of this Contract, as they result from this Contract and as they result from the laws and regulations in force on the date of signature of this Contract. The **CONTRACTOR** has entered into this Contract on the basis of the legal, fiscal and economic framework prevailing at the Effective Date. If, at any time after the Effective Date, there is any change in the legal, fiscal and/or economic framework under the Kurdistan Region Law or other Law applicable in the Kurdistan Region which detrimentally affects the **CONTRACTOR**, the terms and conditions of the Contract shall be altered so as to restore the **CONTRACTOR** to the same overall economic position as that which **CONTRACTOR** would have been in, had no such change in the legal, fiscal and/or economic framework occurred.
- 43.4 If the **CONTRACTOR** believes that its economic position has been detrimentally affected as provided in Article 43.3, upon the **CONTRACTOR'S** written request, the Parties shall meet to agree on any necessary measures or making any appropriate amendments to the terms of this Contract with a view to re-establishing the economic equilibrium between the Parties and restoring the **CONTRACTOR** to the position it was in prior to the occurrence of the change having such detrimental effect. Should the Parties be unable to agree on the merit of amending this Contract and/or on any amendments to be made to this Contract within ninety (90) days of **CONTRACTOR'S** request (or such other period as may be agreed by the Parties), the **CONTRACTOR** may refer the matter in dispute to arbitration as provided in Article 42.1.
- 43.5 Without prejudice to the generality of the foregoing, the **CONTRACTOR** shall be entitled to request the benefit of any future changes to the petroleum legislation or any other legislation complementing, amending or replacing it.

- 43.6 The Parties agree to cooperate in all possible ways with a view to fully achieving the objectives of this Contract. The **GOVERNMENT** shall facilitate the performance of the Petroleum Operations by promptly granting to the **CONTRACTOR** any necessary authorisation, permit, licence or access right and making available any existing facilities and services with a view to the Parties obtaining maximum mutual benefit from the Contract.

Amendments

- 43.7 Except as provided in Article 47, any amendment to this Contract shall be the subject of a formal amendment, duly approved in writing by the Parties and subject to the same conditions of validity as this Contract.

- 43.8 This Contract constitutes the entire agreement of the Parties and supersedes any and all prior understandings or agreements in respect of the subject matter of this Contract.

- 43.9 Unless otherwise expressly stated elsewhere in this Contract, no failure or delay of any Party to exercise any right, power or remedy under this Contract shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or future exercise thereof or the exercise of any other right, power or remedy.

Validity

- 43.10 As signatory to this Contract for and on behalf of the **GOVERNMENT**, the Ministry of Natural Resources in the Kurdistan Region hereby represents that it approves this Contract for the purposes of the Kurdistan Region Petroleum Act, when it enters into force.

ARTICLE 44 - NOTICES

- 44.1 To be valid, any correspondence, written communication or notice between the Parties shall be in writing and may be delivered by hand or transmitted by electronic mail or fax, at sender's option and expense, and (unless delivered by hand or acknowledged or otherwise agreed by the receiving Party) shall be confirmed by registered mail with acknowledgement of receipt and shall become effective once received by the first of these means of transmission. These communications shall be addressed as follows:

For the **GOVERNMENT**:

Attention: Dr. Ashti Hawrami
Address: Council of Ministers,
Erbil, Kurdistan, Iraq

Email: ashti.hawrami@krg.org

For the **CONTRACTOR**:

Attention: Mr. Ashish Kumar
Address: Petroleum House, 6th Floor, B Wing,
DAKC, Thane Belapur Road,
Koparkhaima, Navimumbai – 400710
India.

Fax: + 91 22 672 71745

Email: ashish.a.kumar@ril.com

- 44.2 The above address and/or designated representative of any of the Parties may be changed on giving ten (10) days prior notice to the other Party.

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ARTICLE 45 - TERMINATION

- 45.1 Subject to the provisions of Article 45.5, the GOVERNMENT shall have the right to terminate this Contract in the event the **CONTRACTOR**:
- (a) fails to meet a material financial obligation expressly stated in this Contract; or
 - (b) with no cause or justification acceptable in accordance with this Contract (excluding Force Majeure) during the First Sub-Period does not carry out drilling and seismic acquisition, as detailed in Article 10.2 or, during the Second Sub-Period (or earlier), does not carry out drilling and seismic acquisition, as detailed in Article 10.3; or
 - (c) interrupts Production for a period of more than ninety (90) consecutive days with no cause or justification acceptable in accordance with this Contract (excluding Force Majeure) or under normal international petroleum industry practice; or
 - (d) intentionally extracts or produces any mineral which is not covered by the object of this Contract, unless such extraction or production is expressly authorised or unavoidable as a result of operations carried out in accordance with accepted international petroleum industry practice; or
 - (e) if the **CONTRACTOR** comprises solely one entity, is declared bankrupt in accordance with applicable Law; or
 - (f) wilfully refuses to abide by negotiation, mediation, arbitration or expert decision under Article 42 of this Contract.
- 45.2 The GOVERNMENT may also terminate the Contract only in respect of one **CONTRACTOR** entity if such entity is subject to a Change of Control which has been completed without having obtained the prior required authorisation from the GOVERNMENT (deemed or otherwise) in accordance with Article 39.6.
- 45.3 At any time prior to the Development Period, the **CONTRACTOR** shall have the right to terminate this Contract by surrendering the entire Contract Area in accordance with the provisions of Article 7 of this Contract.
- 45.4 During the Development Period, the **CONTRACTOR** shall have the right to terminate this Contract at any time by surrendering all Production Areas, provided its then current obligations have been satisfied in accordance with this Contract.
- 45.5 If the GOVERNMENT intends to exercise its right to terminate this Contract pursuant to Article 45.1, it shall first comply with the following provisions:
- (a) The GOVERNMENT shall notify the **CONTRACTOR** of its intention to

terminate this Contract stating the reasons for such termination and requesting the latter:

- (i) to remedy the default within three (3) months; or
 - (ii) to propose acceptable compensation.
- (b) If, by then end of the said three (3) month period referred to in Article 45.4 (a), the **GOVERNMENT** is not satisfied, it shall notify the **CONTRACTOR** in writing that the Contract shall be terminated from the termination date detailed in such notice. This Contract shall terminate on such termination date unless the **CONTRACTOR** issues a notice of dispute as provided under Article 41 of this Contract, in which case this Contract shall remain in force until a final settlement of the dispute has been reached in accordance with the dispute resolution provisions of Article 41 of this Contract.

The foregoing provisions of this Article 45.4 are subject to the proviso that, in case of a dispute where there has been breach of this Contract which has been submitted to arbitration pursuant to Article 41 of this Contract, the **GOVERNMENT** shall not be entitled to exercise its right to terminate this Contract prior to a decision regarding the dispute having been rendered by the arbitration tribunal.

- 45.6 If the **GOVERNMENT** terminates this Contract pursuant to the provisions of Articles 45.1 and 45.5, the **CONTRACTOR** shall lose all its rights and interests under this Contract.

ARTICLE 46 - APPLICATION OF CORRUPTION LAWS

- 46.1 If this Contract is reasonably proven to have been obtained in violation of Kurdistan Region Law concerning corruption, this Contract is void *ab initio*.
- 46.1 If the **CONTRACTOR** is at any time reasonably proven to be in breach of Kurdistan Region Law concerning corruption, the **CONTRACTOR** may lose this Contract or part of the Contract.

ARTICLE 47 - GOVERNMENT REVIEW

47.1 This Contract may be reviewed by the **GOVERNMENT** and amended by the **GOVERNMENT** to the extent necessary to ensure that, with respect to the criteria of probity and the criteria of commerciality which the Republic of Iraq Oil and Gas Law expressly requires shall apply to all petroleum contracts in all parts of Iraq outside the Kurdistan Region:

- (a) there is no material inconsistency between this Contract and such criteria of probity; and
- (b) there is no overall material inconsistency between this Contract and such criteria of commerciality,

(the "Purpose")

47.2 Within sixty (60) days of the entry into force of the Republic of Iraq Oil and Gas Law, the **GOVERNMENT** may notify the **CONTRACTOR** in writing of any amendments that the **GOVERNMENT** considers necessary for the Purpose, accompanied by the reasons for its decision and the proposed form of such amendment. If the **CONTRACTOR** receives no such notification within such period, the **GOVERNMENT** shall be deemed to have reviewed this Contract and required no amendments and the provisions of Article 43.7 shall apply without the exception referred to therein in respect of this Article 47.

47.3 The **CONTRACTOR** may, within thirty (30) days of receiving such a notification, respond to the proposed amendments in writing. The **GOVERNMENT** shall consider any such response and shall, within sixty (60) days of the notification, further notify the **CONTRACTOR** in writing of any decision to amend the Contract or decision not to amend, accompanied by the reasons for its decision and, if different from the original proposed form of amendment, its revised proposed form of such amendment. If the **GOVERNMENT'S** decision notified to **CONTRACTOR** is not to amend, the **GOVERNMENT** shall be deemed to have reviewed this Contract and required no amendments and the provisions of Article 43.7 shall apply without the exception referred to therein in respect of this Article 47.

47.4 If the **GOVERNMENT'S** decision notified to **CONTRACTOR** pursuant to Article 47.3 is to amend and the **CONTRACTOR** agrees with the **GOVERNMENT'S** decision, the **GOVERNMENT** and the **CONTRACTOR** shall use their reasonable endeavours to agree in good faith the form of, and approve in writing such amendment within thirty (30) days. In the absence of such approval within such period, the provisions of 47.5 shall apply.

- 47.5 If the GOVERNMENT'S decision notified to **CONTRACTOR** pursuant to Article 47.3 is to amend and the **CONTRACTOR** does not agree with the GOVERNMENT'S decision, this Contract shall be deemed to have been so amended on the date of notification of the GOVERNMENT'S decision to amend the Contract by the form of amendment accompanying such notice. The effective date will be deemed to be the date of notification of the GOVERNMENT'S decision to amend the Contract.

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ARTICLE 48 - EFFECTIVE DATE

This Contract shall become effective and be binding on the Parties when both of the following conditions have been satisfied:

- (a) the signature of the Contract by the duly authorised representatives of the **GOVERNMENT** and the **CONTRACTOR**, as provided below; and
- (b) the ratification of the Contract by the Prime Minister of the Kurdistan Region, which shall be given by notice in writing to the **CONTRACTOR** and shall be effective upon the date of such notice.

Entered into in **four (4)** originals in London, the United Kingdom on the Twenty Second (22) day of December' 2006.

For the KURDISTAN REGIONAL GOVERNMENT

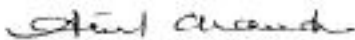


By: Dr. Ashti Hawrami
Minister of Natural Resources

In the Presence of:

KHALED SALIH *Khaled Salih*

For RELIANCE EXPLORATION AND PRODUCTION DMCC



By: Mr. Atul Chandra
Director

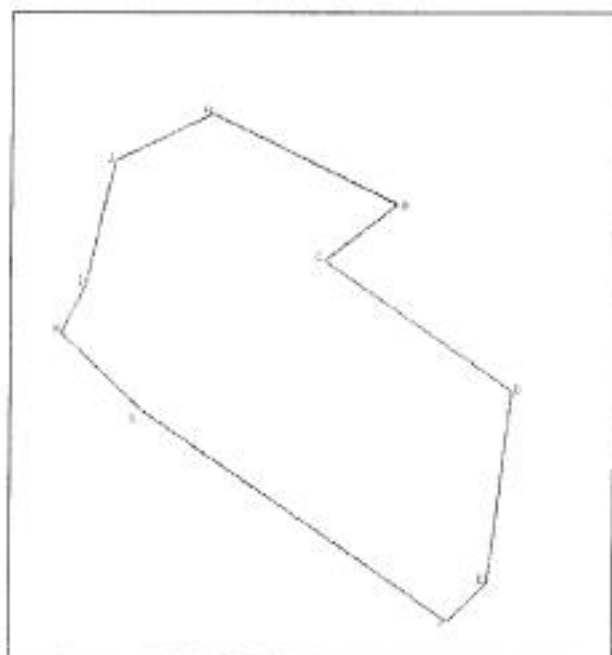
In the presence of:

WALKER ROBERTS *Walker Roberts*

ANNEX A

Map showing coordinates of Sarta Block corner points

Point	Latitude (deg min sec)	Longitude (deg min sec)	X(mE)	Y(mN)
A	36 40 33	43 51 12	397536	4059522
B	36 36 48	44 00 46	411716	4052445
C	36 34 24	43 57 03	406126	4048065
D	36 28 59	44 06 50	420628	4037878
E	36 20 55	44 05 41	418768	4023000
F	36 19 17	44 03 39	415700	4020000
G	36 28 00	43 47 49	392200	4036400
H	36 31 13	43 43 35	385977	4042422
I	36 33 18	43 44 49	387850	4046250
J	36 38 30	43 46 13	390066	4055827



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**ANNEX B ACCOUNTING
PROCEDURE
PARAGRAPH I
GENERAL PROVISIONS**

1.1 Purpose

To classify expenditures, define further Petroleum Costs (in addition to those defined as such in the Articles of the Contract), and prescribe the manner in which the **CONTRACTOR'S** Accounts shall be prepared and approved.

1.2 Definitions

Words and phrases to which a meaning has been assigned in Article 1 or other Articles of the Contract shall have the same meaning when used in this Annex.

1.3 Inconsistency

In the event of any inconsistency or conflict between the provisions of this Annex and the other provisions of the Contract, then the other provisions of the Contract shall prevail.

1.4 Accounting Records and Reports

1.4.1 The Contractor shall maintain the Accounts in accordance with Article 15.1 and in accordance with this Accounting Procedure, including in accordance with the charts of accounts agreed under Paragraph 1.4.2 below.

1.4.2 Within sixty (60) days of the Effective Date, the **CONTRACTOR** shall submit to and discuss with the **GOVERNMENT** a proposed outline of charts of Accounts, which outline shall be in accordance with generally accepted standards and recognized accounting systems and consistent with normal petroleum industry practice and procedures. Within ninety (90) days of receiving the above submission, the **GOVERNMENT** shall either provide written notification of its approval of the proposal or request in writing revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date, the **CONTRACTOR** and the **GOVERNMENT** shall agree on the outline of charts of Accounts which shall describe the basis of the accounting system and procedures to be developed and used under this Contract. Following such agreement, the **CONTRACTOR** shall expeditiously prepare and provide the **GOVERNMENT** with formal copies of the comprehensive charts of Accounts and manuals related to the accounting, recording and reporting functions, and procedures which are, and shall be, observed under the Contract.

1.4.3 Notwithstanding the generality of the foregoing, the **CONTRACTOR** shall make regular Statements relating to the Petroleum Operations. These Statements are as shown:

- a) Production Statement (as indicated in Paragraph 6 of this Annex).
- b) Value of Production and Pricing Statement (as indicated in Paragraph 7 of this Annex).
- c) Cost Recovery and Share Account Statement (as indicated in Paragraph 8 of this Annex).
- d) Statement of Expenditures and Receipts (as indicated in Paragraph 9 of this Annex).
- e) Final End-of-Year Statement (as indicated in Paragraph 10 of this Annex).
- f) Budget Statement (as indicated in Paragraph 11 of this Annex).

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

1.5 Language and Units of Account

All Accounts shall be maintained and prepared in the English language and shall be recorded in Dollars. Where necessary for clarification, the **CONTRACTOR** may also maintain Accounts in other currencies.

1.6 Audit and Inspection Rights of the GOVERNMENT

In addition to the provisions of Article 15.3 and 15.5, the following provisions shall apply to any audit carried out in accordance with Article 15.3:

1.6.1: For purposes of auditing, the **GOVERNMENT**, acting reasonably and in accordance with generally accepted international petroleum industry practice, may examine and verify, at reasonable times upon reasonable prior written notice to the **CONTRACTOR**, all charges and credits relating to the Petroleum Operations, such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records including electronic records reasonably considered necessary by the **GOVERNMENT** to audit and verify the charges and credits, values and treatments.

1.6.2 Furthermore, the auditors shall have the right in connection with such audit, to visit and inspect at reasonable times, all sites, plants, facilities, warehouses and offices of the **CONTRACTOR** directly or indirectly serving the Petroleum Operations and to question personnel associated with those Petroleum Operations.

1.6.3 Where the **GOVERNMENT** requires verification of charges made by an Affiliated Company of the **CONTRACTOR**, the **GOVERNMENT** shall have the right to obtain an audit certificate from an internationally recognized firm of public accountants acceptable to both the **GOVERNMENT** and the **CONTRACTOR**, which may be the **CONTRACTOR'S** statutory auditor.

1.6.4 All agreed adjustments resulting from an audit shall be promptly made in the **CONTRACTOR'S** Accounts and any consequential adjustments to payments due to the **CONTRACTOR** or to the **GOVERNMENT**, as the case may be, shall be made promptly.

1.6.4 When issues are outstanding with respect to an audit, the **CONTRACTOR** shall maintain the relevant documents and permit inspection thereof until the issue is resolved.

1.7 Payments

Unless as otherwise provided in Article 24, Article 29 or other Articles of the Contract:

1.7.1 All payments between the Parties shall, unless otherwise agreed, be in Dollars and be made through a bank designated in writing by each receiving party; and all sums due under the Contract shall be paid within thirty (30) days following the end of the month in which the

obligation to make such payment occurred.

1.7.2 All sums due by one party to the other under the Contract shall, for each day such sums are overdue, bear interest compounded monthly at LIBOR plus two percent (2%).

1.8 Currency Exchange Rates

In addition to the provisions of Article 29, the following provisions shall apply to any exchanges of currency carried out in accordance with Article 29:

1.8.1 Amounts received and Petroleum Costs incurred, shall be converted from other currencies into Dollars in accordance with the **CONTRACTOR'S** usual accounting procedures which shall reflect generally accepted accounting practices in the international petroleum industry, and with reference to exchange rates obtained in accordance with Article 29.

1.9 Accrual Basis, Cash Flow Basis and Reports

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

1.10 Values and Treatments

Values and treatments proposed by the **CONTRACTOR** relating to all Petroleum Costs shall be subject to challenge by the **GOVERNMENT** in the course of audit to ensure that they are in accordance with the provisions of this Accounting Procedure.

PARAGRAPH 2 CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENSES

2.1 Segregation of Costs and Expenses

Petroleum Costs shall be segregated in accordance with the purposes for which such Petroleum Costs are made. The purposes which shall qualify are:

- (a) those which have been included in the approved Work Program and Budget for the year in which the Costs and Expenditures are made;
- (b) expenditures incurred in cases of emergency as set out in Articles 11.6, 13.5, 13.9 35.5, 35.6 and any other Articles of the Contract;
- (c) any other purposes agreed in the Articles of the Contract; and
- (d) other items which have been agreed by the Parties from time to time.

All Petroleum Costs recoverable under Paragraph 3 relating to Petroleum Operations shall be classified, defined and allocated as set out below.

2.2. Exploration Costs

Exploration Costs are all direct and allocated indirect costs and expenditures incurred in carrying out the Exploration Operations, including but not limited to all direct and allocated indirect costs and expenditures incurred in the search for Petroleum in an area which is, or was at the time when such costs and expenses were incurred, part of the Contract Area including:

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

2.2.2 Stratigraphic test hole drilling and water well drilling.

2.2.3 Labour, materials, supplies, and services used in drilling wells with the object of finding Petroleum or Appraisal wells excluding any costs of the subsequent completion of such wells as producing wells.

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

2.2.5 That portion of all Service Expenditures and that portion of all General and Administrative Expenditures directly attributable to Exploration Costs or allocated thereto on a consistent and equitable basis.

2.2.6 Any other expenditures incurred in the search for and appraisal of Petroleum after the Effective Date and not otherwise covered under Paragraph 2.2.

2.3 Gas Marketing Costs

Gas Marketing Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Gas Marketing Operations and include that portion of all Service Expenditures and that portion of all General and Administrative Expenditures directly attributable to Gas Marketing Costs or allocated thereto on a consistent and equitable basis.

2.4 Development Costs

Development Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Development Operations including but not limited to all direct and allocated indirect costs and expenditures incurred in:

2.4.1 Drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum reservoir, whether these wells are dry or producing and drilling wells for the injection of water or gas to enhance recovery of Petroleum.

2.4.2 Completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing well or as a well for the injection of water or gas to enhance recovery of Petroleum.

2.4.3 The costs of Petroleum production, transport and storage facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, Petroleum storage facilities, and access roads for production activities.

2.4.4 Engineering and design studies for the wells and facilities referred to in Paragraphs 2.4.1, 2.4.2 and 2.4.3.

And including that portion of all Service Expenditures and that portion of all General and Administrative Expenditures directly attributable to Development Costs or allocated thereto on a consistent and equitable basis; and any other expenditure incurred in the Development Operations and not otherwise covered under Paragraph 2.3.

2.5 Production Costs

Production Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Production Operations, including but not limited to all direct and allocated indirect costs and expenses incurred in Petroleum Operations after First Production which are other than Exploration Costs, Gas Marketing Costs, Development Costs and Decommissioning Contributions. Production Costs include that portion of all Service Expenditures and that portion of all General and Administrative Expenditures directly attributable to Production Costs or allocated thereto on a consistent and equitable basis.

2.6 Decommissioning Costs

Decommissioning Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Decommissioning Operations and include that portion of all Service Expenditures and that portion of all General and Administrative Expenditures directly attributable to Decommissioning Costs or allocated thereto on a consistent and equitable basis, and the Decommissioning Reserve Fund shall be determined on such basis, in advance of incurring such costs, as provided in Article 38 and, for the purposes of cost recovery, the contributions to the Decommissioning Reserve Fund shall be recovered in accordance with Article 38.

2.7 Service Expenditures

Service Expenditures are expenditures in support of Petroleum Operations including warehouses, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewerage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities. Service Expenditures in any Calendar Year shall include the costs incurred in such year to purchase and/or construct the said facilities as well as the annual costs of maintaining and operating the same. All Service Expenditures shall be regularly allocated as specified in Paragraphs 2.2.5, 2.3, 2.4, 2.5 and 2.6 to Exploration Costs, Gas Marketing Costs, Development Costs, Production Costs and Decommissioning Costs respectively and shall be separately shown under each of these categories. Where Service Expenditures are made in respect of shared facilities, the basis of allocation of costs to Petroleum Operations shall be consistent and equitable and shall be specified.

2.8 General and Administrative Expenditures

General and Administrative Expenditures are:

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

2.8.2 Where the **CONTRACTOR** is an Affiliate of a group of companies whose headquarters is Abroad (a "**Foreign CONTRACTOR**"), an annual overhead charge shall be made for services rendered (excluding the direct expenditures as referred in Paragraph 3.1.2.(b) below) by any Affiliate of the Foreign **CONTRACTOR** outside the Kurdistan Region to support and manage Petroleum Operations under the Contract, or where the **CONTRACTOR**, not being a Foreign **CONTRACTOR** draws upon the services of an Affiliate within the Kurdistan Region, an annual overhead charge shall be made for services rendered (excluding the direct expenditures as referred in Paragraphs 3.1.2.(a) and (b) below) by such Affiliate to support and manage Petroleum Operations under the Contract ("**Parent Company Overhead**").

Parent Company Overhead will be deemed to cover the actual cost (being salaries, wages and labour burden, employee benefits, travel, hotel and other normally reimbursable expenses paid by the Affiliate of a **CONTRACTOR** in accordance with its standard personnel policy in force in the relevant period, provision of office accommodation and provision of services reasonably necessary for operation and maintaining such staff offices) incurred for services rendered by those functions of **CONTRACTOR'S** Affiliate, such as, but not limited to, international production headquarters, international exploration headquarters, treasury, payroll, taxation, insurance, legal, communications, computer services, controllers, personnel, executive administrative management, research and development, central engineering and process engineering which:

- a) cannot, without unreasonable effort and/or expenditure or without the release of confidential data proprietary to any of the **CONTRACTOR'S** Affiliates, be charged under any other section of this Annex; and
- b) are properly allocable to Petroleum Operations under the Contract. It is understood, however, that services performed by the departments listed above and other corporate departments which directly benefit Petroleum Operations under the Contract shall be charged as direct costs in accordance with Paragraph 3 of this Annex.

In respect of the costs of the **CONTRACTOR'S** Parent Company Overhead, as described above, the **CONTRACTOR** shall charge monthly to Petroleum Operations an amount equal to the total of the following:

2.8.2.1 Exploration Overhead

The **CONTRACTOR** shall be entitled to an annual charge based on a sliding scale percentage and charged monthly to Petroleum Operations. The basis for applying this percentage shall be the total of Exploration Costs and Gas Marketing Costs during each Calendar Year (exclusive of this Exploration Overhead) or fraction thereof less expenditures which have been subjected to the two (2) percent fee, referred to in Paragraph 3.1.8(b). The

sliding scale percentage shall be the following:

- For the first four million (4,000,000) Dollars four percent (4%)
- For the next four million (4,000,000) Dollars three percent (3%)
- Over eight million (8,000,000) Dollars two percent (2%)

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

2.8.2.2 Development, Production and Decommissioning Operations Overhead

The overhead rates applicable to Development, Production and Decommissioning Operations shall be agreed between the Parties in due course and shall incorporate the following guidelines:

- a) The **CONTRACTOR'S** charges must be charged as direct charges whenever possible. Overhead charges exist only to compensate the **CONTRACTOR'S** Affiliates for costs which are properly allocable to Petroleum Operations under the Contract but which cannot, without unreasonable effort and/or release of confidential data proprietary to the **CONTRACTOR'S** Affiliates, be charged under any other section. Overhead costs are billed monthly. Overhead must be commensurate with services rendered and based on actual cost studies but may not exceed an amount calculated as a percentage of certain annual expenditures excluding Exploration Costs and Gas Marketing Costs. That percentage as well as the types of expenditures, which affect overhead and those, which do not, shall be agreed among the Parties.
- b) The maximum percentage rates may be revised by mutual agreement not more often than annually. The initial maximum percentage rates and the types of expenditures to which they apply shall be agreed as soon as the Parties possess reasonably reliable cost estimates for the relevant Production Area.
- c) Overhead charges are not subject to audit by **GOVERNMENT**.
- d) The **CONTRACTOR** shall upon request furnish at the end of each relevant Calendar Year to the **GOVERNMENT** a confirmation by its statutory auditor that the overhead costs actually charged do not duplicate any other charges and that the method used in allocating overhead to Petroleum Operations hereunder as opposed to other activities is reasonable and in accordance with generally accepted accounting practices.
- e) The **CONTRACTOR** must budget for overhead charges,

2.8.3 All General and Administrative Expenditures shall be regularly allocated as specified in Paragraphs 2.2.5, 2.3, 2.4, 2.5 and 2.6 to Exploration Costs, Gas Marketing Costs, Development Costs, Production Costs and Decommissioning Costs respectively and shall be separately shown under each of these categories.

**PARAGRAPH 3
COSTS, EXPENSES, EXPENDITURES AND CREDITS
OF THE CONTRACTOR**

3.1 Costs Recoverable Without Further Approval of the GOVERNMENT

Petroleum Costs incurred by the **CONTRACTOR** pursuant to the Contract as classified under the headings referred to in Paragraph 2 shall be recoverable for the purpose of Article 25 of the Contract (except to the extent provided in Paragraph 4 or elsewhere in this Annex), subject to audit as provided for in Article 15 and in Paragraph 1.6.

3.1.1 Surface Rights

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of the Contract.

3.1.2 Labour and Associated Labour Costs

- a) *The **CONTRACTOR'S** locally recruited employees based in the Kurdistan Region:* Costs of all **CONTRACTOR'S** locally recruited employees who are directly engaged in the conduct of Petroleum Operations under the Contract in the Kurdistan Region. Such costs shall include the costs of employee benefits and **GOVERNMENT** benefits for employees and levies imposed on the **CONTRACTOR** as an employer, transportation and relocation costs within the Kurdistan Region of the employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice in the Kurdistan Region. If such employees are engaged in other activities in the Kurdistan Region, in addition to Petroleum Operations, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.
- b) *Assigned Personnel:* Costs of salaries and wages including bonuses of the **CONTRACTOR'S** employees directly engaged in the conduct of the Petroleum Operations under the Contract, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Contract, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in Paragraphs 3.1.2(c), (d), (e), (f) and (g), shall be charged and the basis of such pro-rata allocation shall be specified.
- c) The **CONTRACTOR'S** costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under Paragraph 3.1.2.(b) above.
- d) Expenses or contributions made pursuant to assessments or obligations imposed under Law which are applicable to the **CONTRACTOR'S** cost of salaries and wages chargeable under Paragraph 3.1.2.(b) above.
- e) The **CONTRACTOR'S** cost of established plans for employees' group life insurance, hospitalization, pension, stock purchases, savings, bonus, and other benefit plans of a like nature customarily granted to the **CONTRACTOR'S** employees, provided however that such costs are in accordance with generally

accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under Paragraph 3.1.2.(b) above.

- f) Actual transportation and travel expenses of employees of **CONTRACTOR**, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to the Kurdistan Region whose salaries and wages are chargeable to Petroleum Operations under Paragraph 3.1.2.(b) above.

Actual transportation expenses of expatriate personnel transferred to Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expenses of personnel transferred from Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum Operations. Transportation cost as used in this section shall mean the cost of freight and passenger service, meals, hotels, insurance and other expenditures related to vacation and transfer travel and authorized under the **CONTRACTOR'S** standard personnel policies. The **CONTRACTOR** shall ensure that all expenditures related to transportation costs are equitably allocated to the activities, which have benefited from the personnel concerned.

- g) Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under Paragraph 3.1.2(b) above and for which expenses such personnel are reimbursed under the **CONTRACTOR'S** standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

3.1.3 Transportation and Employee Relocation Costs

The cost of transportation of employees, equipment, materials and supplies other than as provided in Paragraph 3.1.2.(f) necessary for the conduct of the Petroleum Operations under the Contract along with other related costs such as, but not limited to, import duties, customs fees, unloading charges, dock fees, and inland and ocean freight charges.

3.1.4 Charges for Services

- a) *Third Parties*
The actual costs of contract services, services of professional consultants, utilities, and other services necessary for the conduct of the Petroleum Operations under the Contract performed by third parties other than an Affiliate of the **CONTRACTOR**.
- b) *Affiliates of the CONTRACTOR*
- i) **Professional and Administrative Services Expenses:** cost of professional and administrative services provided by any Affiliates of the **CONTRACTOR** for the direct benefit of Petroleum Operations, including but not limited to services provided by the Production, Exploration, Legal, Procurement, Financial, Insurance, Accounting and Computer Services Divisions other than those covered by paragraphs 3.1.4 (b) (ii), 3.1.6 and 3.1.8 (b) which **CONTRACTOR** may use in lieu of having its own employees. Such charges

shall reflect the cost of providing their services. Such charges shall not include any element of profit and shall be no more or less favourable than similar charges for other operations carried on by the **CONTRACTOR** and its Affiliates. The chargeout rate shall include all costs incurred by Affiliates incidental to the employment of such personnel including all Labour and Associated Labour Costs and the cost of maintaining and operating offices and providing all support services for such personnel. Costs of travel of such personnel in respect of Petroleum Operations will be directly charged. The charges for such services shall not exceed those prevailing if performed by non-Affiliated third parties, taking into account the quality and availability of such services. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

- ii) **Scientific or Technical Personnel:** cost of scientific or technical personnel services provided by any Affiliate of the **CONTRACTOR** for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. The chargeout rate shall include all costs incurred by Affiliates incidental to the employment of such personnel including all Labour and Associated Labour Costs and the cost of maintaining and operating offices and providing all support services for such personnel. Costs of travel of such personnel in respect of Petroleum Operations will be directly charged. The charges for such services shall not exceed those prevailing if performed by non-affiliated third parties, taking into account the quality and availability of such services. Unless the work to be done by such personnel is covered by an approved Work Program and Budget, the **CONTRACTOR** shall not authorize work by such personnel without approval of the **GOVERNMENT**.
- iii) **Equipment and facilities:** use of equipment and facilities owned and furnished by the **CONTRACTOR'S** Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted and shall be on an arm's length basis. On the request of the Government, the **CONTRACTOR** shall provide the **GOVERNMENT** with evidence of such rates being on an arm's length basis. (If the **GOVERNMENT** considers that any such rate is not on an arm's length basis then the **GOVERNMENT** has the right to refer the matter to an expert pursuant to Article 42.2 of the Contract). The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the **GOVERNMENT**

3.1.5 Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Contract Area and the **CONTRACTOR'S** nearest base facility.

3.1.6 Office and Miscellaneous Facilities

Net cost to **CONTRACTOR** of establishing, maintaining and operating any office, sub-office, warehouse, housing or other facility directly serving the Petroleum Operations. If any such facility services more than one contract area the net costs thereof shall be allocated on an equitable basis in accordance with generally accepted practice and procedures in the international petroleum industry.

3.1.7 Ecological and Environment

- a) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources;
- b) Costs incurred in environmental or ecological surveys required by regulatory authorities, including an environmental impact assessment commissioned pursuant to Article 37.5 of the Contract and any other costs incurred in complying with the requirements of Article 37;
- c) Costs to provide or have available pollution containment and removal equipment;
- d) Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations;
- e) Costs of restoration of the operating environment incurred pursuant to an approved scheme prepared in accordance with Article 38 of the Contract; and
- f) Any costs incurred for the decommissioning of facilities and site restoration, including any related activity required by **GOVERNMENT** or other competent authority or by the Contract;
- g) any contributions made by the **CONTRACTOR** to the Decommissioning Reserve Fund in accordance with Article 38, when such contributions are made.

3.1.8 Material and Equipment Costs

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

- a) **Acquisition** - the **CONTRACTOR** shall only supply or purchase materials for use in Petroleum Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.
- b) **Components of costs, arm's length transactions** - except as otherwise provided in paragraph 3.1.8(d) below, material purchased by the **CONTRACTOR** in arm's length transactions in the open market for use in the Petroleum Operations under the Contract shall be valued to include invoice price less trade and cash discounts (if any), licence fees, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the **CONTRACTOR** has arranged the purchase, coordinated the forwarding and expediting effort, its costs should not exceed those currently prevailing in normal arm's length transactions on the open market and in any case shall not exceed a fee equal to two percent (2%) of the value of the materials added to the cost of the materials purchased.
- c) **Accounting** - such material costs shall be charged to the accounting records and books in accordance with the "First in, First Out" (FIFO) method;
- d) Material purchased from or sold to Affiliates of the **CONTRACTOR** or transferred from other activities of the **CONTRACTOR** to or from Petroleum Operations under this Contract shall be valued and charged or credited at the prices specified in Paragraphs 3.1.8(d).(i), 3.1.8(d).(ii) and 3.1.8(d).(iii) hereof:
- i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
- ii) Used material (Conditions "B", "C" and "D");
- a) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy five percent (75%) of the current price of new material defined in Paragraph 3.1.8(d).(i);
- b) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at not more than fifty percent (50%) of the current price of new material as defined in 3.1.8(d).(i) above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of

reconditioning do not exceed the value of Condition "B" material;

- c) Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by CONTRACTOR. If material is not fit for use by the CONTRACTOR it shall be disposed of as junk.
- iii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in Paragraph 3.1.8.(d).(i) above.
- iv) When the use of material is temporary and its service to the Petroleum Operations under the Contract does not justify the reduction in price as provided for in paragraph 3.1.8.(d).(ii).(b) hereof, such material shall be priced on a basis that will result in a net charge to the accounts under the Contract consistent with the value of the service rendered.
- v) Premium prices - whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the CONTRACTOR has no control, the CONTRACTOR may charge Petroleum Operations for the required material at the CONTRACTOR'S actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the GOVERNMENT of the proposed charge prior to charging Petroleum Operations for such material and the GOVERNMENT shall have the right to challenge the transaction on audit.
- vi) Warranty of material furnished by the CONTRACTOR - the CONTRACTOR does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the CONTRACTOR from the manufacturers of the material or their agents.
- vii) Adjustments arising from material inventories conducted in accordance with Paragraph 5.2.
- e) Equipment of the CONTRACTOR charged at rates not to exceed the average commercial rates of non-affiliated third parties for equipment, facilities, installations and utilities for use in the area where the same are used. On request, the CONTRACTOR shall furnish a list of rates and the basis of application. Such rates shall be revised when found to be either excessive or insufficient, but not more than once every six (6) 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.
- f) Use of leased or hired machinery and/or equipment in the Petroleum Operations shall be charged at full cost to the CONTRACTOR. This may include, but is not limited to mobilisation and de-mobilisation charges, lease and hire fees, as well as other contractual costs.

3.1.9 Rentals, Duties and Other Assessments

All rentals, taxes, levies, duties, charges, fees, contributions and any other assessments and charges of every kind and nature levied by any GOVERNMENT or taxing authority in connection with the CONTRACTOR'S activities under the Contract and paid directly by the CONTRACTOR (save where the contrary is expressly provided in the Contract) with the

exception of taxes upon the income or profits of the CONTRACTOR or any CONTRACTOR Party, and bonus payments made under Article 32. If the CONTRACTOR or any of its Affiliated Companies is subject to income or withholding tax as a result of services performed at cost for the Petroleum Operations under the Contract, its charges for such services may be increased by the amount required to cover such taxes (grossed up).

3.1.10 Insurance and Losses

Insurance premiums and costs incurred for insurance carried for the benefit of the Petroleum Operations provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliated Companies of the CONTRACTOR. Except in cases of failure to insure where insurance coverage is required pursuant to the Contract, actual costs and losses incurred shall be recoverable to the extent not made good by insurance unless such losses result solely from an act of wilful misconduct by the CONTRACTOR. Such costs may include, but are not limited to, repair and replacement of property in the Contract Area resulting from damages or losses incurred by fire, flood, storm, theft, accident or such other cause

3.1.11 Legal Expenses

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of the Petroleum Operations under the Contract, or sums paid in respect of legal services necessary for the protection of the joint interest of the GOVERNMENT and the CONTRACTOR shall be recoverable. Such expenditures shall include, without limitation, attorney's fees, court costs, arbitration costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims provided such costs are not covered elsewhere in the Annex. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the CONTRACTOR or an Affiliated Company of the CONTRACTOR, such compensation shall be included instead under Paragraph 3.1.2 or 3.1.4(b) above as applicable.

3.1.12 Claims

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgement or other expense arising out of or relating to Petroleum Operations, except as may otherwise be covered elsewhere in the Annex.

3.1.13 Training Costs

All costs and expenses incurred by the **CONTRACTOR** in the training of its Kurdistan Regional employees engaged in Petroleum Operations under the Contract.

3.1.14 General and Administrative Costs

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

3.1.15 Banking Charges and Currency Exchange Losses

Charges and fees by the banks for money transfers, payments and foreign exchange transactions, as well as currency exchange losses incurred by the **CONTRACTOR** in connection with the Petroleum Operations.

3.1.16 Other Expenditures

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

3.2 **Credit Under the Contract**

The proceeds, other than the proceeds from the sale of Petroleum received from Petroleum Operations under the Contract, including but not limited to the items listed below shall be credited to the Accounts under the Contract for the purposes of Article 25 of the Contract:

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

3.2.2 Legal costs charged to the accounts under Paragraph 3.1.11 of this Annex and subsequently recovered by the **CONTRACTOR**.

3.2.3 Revenue received from third parties for the use of property or assets the cost of which has been charged to the Accounts under the Contract.

3.2.4 Any adjustment received by the **CONTRACTOR** from the suppliers/manufacturers or their agents in connection with a defective material the cost of which was previously charged by the **CONTRACTOR** to the Accounts under the Contract.

3.2.5 Rentals, refunds, including refunds of taxes paid, or other credits received by the **CONTRACTOR** which apply to any charge which has been made to the Accounts under the Contract, but excluding any award granted to the **CONTRACTOR** under arbitration or expert proceedings.

3.2.6 Prices originally charged to the Accounts under the Contract for materials subsequently exported from the Kurdistan Region or transferred to another Contract Area within the Kurdistan Region.

3.2.7 Proceeds from the sale or exchange by the **CONTRACTOR** of plant or facilities used in Petroleum Operations the acquisition costs of which have been charged to the accounts under the Contract.

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

3.2.9 Proceeds derived from the sale, exchange, lease, hire, transfer or disposal in any manner whatsoever of any other item the costs of which have been charged to Petroleum Operations.

3.3 Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting Procedure, there shall be no duplication of charges or credits to the accounts under the Contract.

PARAGRAPH 4 COSTS AND EXPENSES NOT TO BE TREATED AS RECOVERABLE

The following costs and expenditures shall not be included in the Petroleum Costs recoverable under Article 25:-

4.1. Taxes on income or profit paid to any **GOVERNMENT** authority except taxes and duties that may be included in the costs of material and equipment purchased for the Petroleum Operations;

4.2. Any payment made to the **GOVERNMENT** by reason of the failure of the **CONTRACTOR** to fulfill its Minimum Exploration Obligations in respect of the relevant Sub-Period under the Contract.

4.3. The cost of any letter of guarantee, if any, required under the Contract;

4.4. The bonuses set out in Article 32 of the Contract;

4.5. Costs of marketing or transportation of Petroleum beyond the Delivery Point (excluding Gas Marketing Costs);

4.6. Attorney's fees and other costs of proceedings in connection with arbitration under Article 42 of the Contract or internationally recognised independent expert determination as provided in the Contract or this Accounting Procedure;

4.7. Any interests, fees, costs and agios paid by the **CONTRACTOR** for loans and any other form of financing or advances for the financing of the Petroleum Costs entered into by the **CONTRACTOR** with third parties or Affiliated Companies;

4.8. Any accounting provision for depreciation and/or amortisation, excluding any adjustments in value pursuant to Paragraph 3.1.8;

- 4.9 Dividends, repayment of equity or repayment of intercompany loans;
- 4.10 Fines and penalties imposed under Law.

PARAGRAPH 5 RECORDS AND VALUATION OF ASSETS

5.1 Records

The **CONTRACTOR** shall maintain detailed records of property in use for Petroleum Operations under the Contract in accordance with normal practice in exploration and production activities of the international petroleum industry.

5.2 Inventories

Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three (3) years with respect to immovable assets. The **CONTRACTOR** shall give the **GOVERNMENT** at least thirty (30) days written notice of its intention to take such inventory and the **GOVERNMENT** shall have the right to be represented when such inventory is taken. Failure of the **GOVERNMENT** to be represented at an inventory shall bind the **GOVERNMENT** to accept the inventory taken by the **CONTRACTOR**. The **CONTRACTOR** shall clearly inform **GOVERNMENT** the principles upon which valuation of the inventory has been based. The **CONTRACTOR** shall make every effort to provide to the **GOVERNMENT** a full report on such inventory within thirty (30) days of the taking of the inventory. When an assignment of rights under the Contract takes place the **CONTRACTOR** may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.

PARAGRAPH 6 PRODUCTION STATEMENT

6.1 Production Information

Without prejudice to the rights and obligations of the Parties under Article 16 of the Contract, from the date of First Production from the Contract Area the **CONTRACTOR** shall submit a monthly production statement to the **GOVERNMENT** showing the following information separately for each producing Development Area and in aggregate for the Contract Area:

- 6.1.1 The quantity of Crude Oil produced and saved.
- 6.1.2 The quality characteristics of such Crude Oil produced and saved.
- 6.1.3 The quantity of Natural Gas produced and saved.
- 6.1.4 The quality characteristics of such Natural Gas produced and saved.
- 6.1.5 The quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage.
- 6.1.6 The quantities of Crude Oil and Natural Gas unavoidably lost.
- 6.1.7 The quantities of Natural Gas flared and vented.

6.1.8 The size of Petroleum stocks held at the beginning of the calendar month in question.

6.1.9 The size of Petroleum stocks held at the end of the calendar month in question.

6.1.10 The quantities of Natural Gas reinjected into the Petroleum Reservoir.

6.1.11 In respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Measurement Point. All quantities shown in this Statement shall be expressed in both volumetric terms (barrels of oil and cubic meters of gas) and in weight (metric tonnes).

6.2 Submission of Production Statement

The Production Statement for each calendar month shall be submitted to the GOVERNMENT no later than ten (10) days after the end of such calendar month.

PARAGRAPH 7 VALUE OF PRODUCTION AND PRICING STATEMENT

7.1 Value of Production and Pricing Statement Information

The CONTRACTOR shall, for the purposes of Article 25 of the Contract, prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter.

This "Value of Production and Pricing Statement" shall contain the following information:

7.1.1 The quantities and prices realized therefor by the CONTRACTOR in respect of sales of Natural Gas and Crude Oil delivered to Third Parties made during the Quarter in question.

7.1.2 The quantities and prices realized therefor by the CONTRACTOR in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to Third Parties.

7.2 Submission of Value of Production and Pricing Statement

The Value of Production and Pricing Statement for each Quarter shall be submitted to the GOVERNMENT not later than twenty-one (21) days after the end of such Quarter.

PARAGRAPH 8 COST RECOVERY AND SHARE ACCOUNT STATEMENT

8.1 Cost Recovery Statement

The CONTRACTOR shall prepare with respect to each Quarter a Cost Recovery Statement containing the following information:-

8.1.1 Recoverable Petroleum Costs carried forward from the previous Quarter, if any.

8.1.2 Recoverable Petroleum Costs for the Quarter in question.

8.1.3 Credits under the Contract for the Quarter in question.

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

8.1.5 Quantity and value of Petroleum applied to cost recovery pursuant to Article 25 taken by the **CONTRACTOR** for the Quarter in question.

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

8.2. Cumulative Production Statement

The **CONTRACTOR** shall prepare with respect to each Quarter a Cumulative Production Statement containing the following information:-

8.2.1 The cumulative production position at the end of the Quarter preceding the Quarter in question.

8.2.2 Production of Export Crude Oil for the Quarter in question.

8.2.4 The cumulative production position at the end of the Quarter in question.

8.2.5 The amount of Petroleum applied to Royalty pursuant to Article 24, cost recovery pursuant to Article 25 and Profit Oil pursuant to Article 26 taken by the **GOVERNMENT** and by the **CONTRACTOR**, respectively, during the Quarter in question.

8.2.6 The forecast of production and the share of Petroleum applied to Royalty pursuant to Article 24, cost recovery pursuant to Article 25 and Profit Oil pursuant to Article 26 due to the **GOVERNMENT** and to the **CONTRACTOR**, respectively, for the next succeeding Quarter.

8.3 Preparation and Submission of Cost Recovery and Cumulative Production Statements

8.3.1 Provisional Cost Recovery and Cumulative Production Statements, containing estimated information where necessary, shall be submitted by the **CONTRACTOR** on the last day of each Quarter for the purposes of Article 25 of the Contract.

8.3.2 Final quarterly Cost Recovery and Cumulative Production Statements shall be submitted within thirty (30) days of the end of the Quarter in question.

8.4 Annual Statement

For the purposes of Article 25 of the Contract, an Annual Cost recovery and Cumulative Production Statement shall be submitted within ninety (90) days of the end of each Year. The Annual Statement shall contain the categories of information listed in Subparagraphs 8.1 and 8.2 for the Year in question; separated into the Quarters of the Year in question and showing the cumulative positions at the end of the Year in question with respect to cumulative unrecovered Petroleum Costs and Cumulative Production.

PARAGRAPH 9 STATEMENT OF EXPENDITURE AND RECEIPTS

9.1 The **CONTRACTOR** shall prepare with respect to each Calendar Quarter a Statement of Expenditure and Receipts under the Contract. The Statement will distinguish

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between Exploration Costs, Gas Marketing Costs, Development Costs Production Costs and Decommissioning Costs and will identify major items of expenditures within these categories. The Statement will show the following:

- 9.1.1 Actual expenditures and receipts for the Quarter in question.
 - 9.1.2 Cumulative expenditure and receipts for the budget Year in question.
 - 9.1.3 Latest forecast cumulative expenditures at the Year end.
 - 9.1.4 Variations between budget forecast and latest forecast and explanations thereof.
- 9.2 The Statement of Expenditure and Receipts of each Calendar Quarter shall be submitted to the GOVERNMENT no later than thirty (30) days after the end of such Quarter.

PARAGRAPH 10 FINAL END-OF-YEAR STATEMENT

The **CONTRACTOR** will prepare a Final End-of-Year Statement. The Statement will contain information as provided in the Production Statement, Value of Production and Pricing Statement, Cost Recovery and Cumulative Production Statements and Statement of Expenditures and Receipts but will be based on actual quantities of Petroleum produced and expenses incurred. This Statement will be used to make any adjustments that are necessary to the payments made by the **CONTRACTOR** under the Contract. The Final End-of-Year Statement of each Calendar Year shall be submitted to the GOVERNMENT within ninety (90) days of the end of such Calendar Year.

PARAGRAPH 11 AUDITS

Each such report and statement provided for in Paragraph 6 through 10 shall be considered true and correct, unless the GOVERNMENT raises an exception thereto within the timeframe and under the process set out in Article 15 of the Contract.

PARAGRAPH 12 ANNUAL WORK PROGRAM BUDGET

12.1 Each annual Work Program Budget to be prepared in accordance with Articles 11,12 and 14 of the Contract, in respect of Exploration Costs, Gas Marketing Costs, Development Costs and Production Costs respectively will show the following:-

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

12.1.2 Cumulative expenditures to the end of said budget Year.

12.1.3 A schedule showing the most important individual items of Development Costs (if applicable) for said budget Year.

PARAGRAPH 13 CONTRACTOR INCOME TAX COMPUTATION

13.1 For the purpose of Article 31.3 (b) of the Contract, the net taxable profits of each entity constituting the **CONTRACTOR** from all the Petroleum Operations carried out in the Kurdistan Region under this Contract, shall be calculated in accordance with this Paragraph.

13.2 Each entity constituting the **CONTRACTOR** shall maintain for each Calendar Year separate accounts with respect to the Petroleum Operations which shall be used, *inter alia*, to establish a profit and loss account and a balance sheet which will show the results of the Petroleum Operations carried out in such Calendar Year as well as the assets and liabilities assigned or directly related thereto.

13.3 For purposes of determining the net taxable profits of each **CONTRACTOR** entity for corporate income tax purposes,

13.3.1 the profit and loss account of such **CONTRACTOR** entity shall be credited with the following:

- a) if the Royalty is paid in cash pursuant to Article 24, revenues arising from the disposal of Royalty volumes as recorded in such entity's accounts and determined in accordance with the provisions of Article 24;
- b) revenues arising from the disposal of any Available Petroleum to which such entity is entitled for recovery of its Petroleum Costs as recorded in its accounts and determined in accordance with the provisions of Article 25;
- c) revenues from the disposal of any Profit Petroleum to which such entity is entitled under Article 26 as is recorded in its accounts and determined in accordance with the provisions of Article 26;
- d) any other revenues or proceeds directly connected to the Petroleum Operations including, *inter alia*, those arising from the disposal of related Petroleum substances, or from the treatment, storage and transportation of products for third parties;
- e) any exchange gains realised or other financial income earned by such entity in connection with the Petroleum Operations;

13.3.2. the profit and loss account for such **CONTRACTOR** entity shall be debited with all charges necessarily incurred for the purposes of the Petroleum Operations with respect to the Calendar Year concerned and determined in accordance with the Accounting Procedure, which charges shall include, *inter alia*, the following:

- a) in addition to the charges specifically set forth below in this Paragraph, all other Petroleum Costs, including the costs of supplies, personnel and manpower

expenses, and the cost of services provided to the CONTRACTOR in connection with the Petroleum Costs;

- b) if the Royalty is paid in cash pursuant to Article 24, Royalty payments made and as recorded in such entity's accounts and determined in accordance with the provisions of Article 24;
- c) General and Administrative Expenditures related to the Petroleum Operations performed under this Contract;
- d) depreciation of capital expenditure in accordance with the following provisions: (i) Capital expenditures incurred by the CONTRACTOR and necessary for the Petroleum Operations shall be depreciated on a reducing balance basis, (ii) The depreciation rates, which shall be applicable from the Calendar Year during which such capital expenditures are incurred, or from the Calendar Year during which the assets corresponding to said capital expenditures are put into normal service, whichever is later, *pro rata temporis* for the first Calendar Year in question, are as follows:

Nature of the capital asset to be depreciated	Annual depreciation Rate
Permanent buildings	10.0%
Temporary buildings	20.0%
Office and home furniture and fixtures	20.0%
Productive wells	20.0%
Production and delivery equipment	20.0%
Drilling equipment	20.0%
Pipelines	20.0%
Automotive equipment	20.0%
Marine and aviation equipment	20.0%
All other capital assets	20.0%

- e) Exploration Costs (which for the avoidance of doubt include appraisal expenditures) shall be deductible on a reducing balance basis at the rate of 20% per annum.
- f) interest and fees paid to creditors of the **CONTRACTOR**, for their actual amount, subject to the limits specified in the Accounting Procedure;
- g) losses of Assets resulting from destruction or damage, assets which are renounced or abandoned during the year, bad debts, indemnities paid to third parties as compensation for damage;
- h) any other losses or charges directly related to the Petroleum Operations, including exchange losses realised in connection with the Petroleum Operations as well as the bonuses provided in Article 32, the Exploration Rental provided in Article 6.3, the Production Rental provided in Article 13.10, the allocation to training, provided in Article 23.6 and the allocation to the Environment Fund provided in Article 23.8;

- i) the amount of non-offset losses relating to the previous Calendar Years, until full settlement of said losses or termination of this Contract;

13.3.3. the net profit of such **CONTRACTOR** entity shall be equal to the difference between all the amounts credited and all the amounts debited in the profit and loss account; and

- a) if this amount is negative, it shall constitute a loss.
- b) if the amount is positive, it shall be grossed up to take account of the fact that such entity's corporate income tax is being settled out of the **GOVERNMENT'S** share of the Profit Petroleum in accordance with Article 31.2, by applying the following formula in order to provide such entity's net taxable profits for corporate income tax purposes:

$$\text{Net Taxable Profits} = \text{Net Profits} / \left(\frac{100 - \text{Applicable Rate of Corporate Income Tax}}{100} \right)$$

100

13.4 For purposes of determining each **CONTRACTOR** entity's liability to corporate income tax for a tax year in respect of the Petroleum Operations carried out under this Contract, the net taxable profits (if any) for such tax year shall be multiplied by the applicable rate of corporate income tax, as provided in Article 31.3 (a). The Parties acknowledge and agree that at the Effective Date of this Contract, this is forty percent (40%) for all net taxable profits in excess of nine million Iraqi Dinar.