

# **GUARANTEE**

BY

**WESTERNZAGROS RESOURCES LTD.**

FOR THE BENEFIT OF

**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ**

(GARMIAN)

# GUARANTEE

THIS GUARANTEE, dated 25 July 2011, is by:

- (1) **WESTERNZAGROS RESOURCES LTD.**, a company established and existing under the laws of the province of Alberta, Canada (the "**Guarantor**");

in favour of

- (3) **THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (the "**Beneficiary**").

WesternZagros Limited and the Beneficiary are parties to a Production Sharing Contract (the "**Contract**") dated 25 July 2011 in respect of the Garmian block in the Kurdistan Region of Iraq. WesternZagros Limited is a direct subsidiary of the Guarantor. This Guarantee is delivered pursuant to the Contract.

## 1. Definitions; Interpretation

### 1.1 Definitions

1.1.1 Unless defined in this Guarantee, terms defined in the Contract have the same meaning in this Guarantee.

1.1.2 As used in this Guarantee:

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

"**Business Day**" means a day on which banks are open for general business in London, England and Alberta, Canada.

"**Demand**" is defined in clause 2.2.

"**Guaranteed Obligations**" is defined in clause 2.1.

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

"**Minimum Financial Commitment Deficiency**" means an amount, determined as of the termination date of the Contract, equal to the difference between:

- (x) the amount set out in Article 10.2(c) of the Contract; and
- (y) the sum of the following amounts:
  - (1) the amount the Contractor has expended with respect to its obligations under Article 10.2 of the Contract, and

- (2) the amount with respect to such obligations that the Contractor is not required to expend in accordance with the Contract or any waivers provided by the Beneficiary.

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

**1.2 Construction and Interpretation**

- 1.2.1 Any reference to a clause or annex is, unless otherwise stated, to a clause or annex of this Guarantee.
- 1.2.2 Any reference to an "Article" is to an "Article" of the Contract.
- 1.2.3 Headings and sub-headings are for ease of reference only.

**2. Guarantee**

- 2.1 Upon any termination of the Contract before the start of the Second Sub-Period, the Guarantor guarantees to the Beneficiary the due and punctual payment by the Contractor of the Minimum Financial Commitment Deficiency (if any) for the First Sub-Period in the manner and currency prescribed by the Contract for payments by the Contractor together with any interest due with respect thereto as provided in the Contract (the **"Guaranteed Obligations"**).
- 2.2 The Guarantor will have no obligation in respect of a Guaranteed Obligation unless the Guarantor has received a written demand for payment (the **"Demand"**). A Demand must:
- (a) make specific reference to this Guarantee;
  - (b) state the amount that is demanded and the Beneficiary's calculation of the Guaranteed Obligations;
  - (c) state that the Beneficiary has not received payment of the Guaranteed Obligation from the Contractor Entity on the date on which it became due and payable;
  - (d) state the date on which the Guaranteed Obligation became due and payable by the Contractor; and
  - (e) provide the Beneficiary's wire instructions for the payment to the Beneficiary of the Demand.
- 2.3 The Guarantor shall make payment to the Beneficiary in accordance with a Demand by wire transfer of cleared funds, in Dollars, in accordance with the Beneficiary's wire instructions, and within 5 Business Days after receipt of a Demand.

**3. Nature of Guarantee**

- 3.1 This Guarantee is an absolute, unconditional, and irrevocable guarantee of payment when due and not of collection, and whether by acceleration or otherwise.
- 3.2 The Beneficiary is not required to exercise any right, assert any claim or demand, other than as identified in clause 2.2, or enforce any remedy whatsoever against the Contractor, a Contractor Entity, or any other Person before, or as a condition to, exercising any of the rights, powers, or remedies conferred upon the Beneficiary by this Guarantee or by applicable law. Without limiting the generality of the foregoing, the

Beneficiary will not be required to (i) take any action or obtain judgment in any court against the Contractor, a Contractor Entity or any other Person, or (ii) to make or file any claim or proof in a winding up or dissolution of the Contractor, a Contractor Entity or any other Person.

- 3.3 Except as provided in clause 2.2, the Guarantor expressly waives presentment, demand, protest, and notice of dishonour in respect of each Guaranteed Obligation.
- 3.4 Subject to clause 6, the obligations of the Guarantor:
- (a) constitute continuing obligations, notwithstanding any settlement of account or other matter or thing whatsoever;
  - (b) will not be considered satisfied by any intermediate payment of the Contractor's obligations in respect of the Guaranteed Obligations; and
  - (c) will continue in full force and effect until the Guaranteed Obligations have been paid in full to, and received by, the Beneficiary in accordance with the Contract.
- 3.5 Subject to clause 6, neither the obligations of the Guarantor pursuant to, nor the rights, powers, and remedies conferred upon the Beneficiary by, this Guarantee or by law will be discharged, impaired, or otherwise affected by:
- (a) the winding up, dissolution, administration, reorganization, or moratorium of the Contractor or any Contractor Entity or any change in its status, function, control, or ownership;
  - (b) time or other indulgence, including any composition, being granted or agreed to be granted to the Contractor in respect of any of the Guaranteed Obligations;
  - (c) any change in the time, manner, or place of payment of, or any other term of, all or any of the Guaranteed Obligations, or any other extension or, compromise of the Contractor, provided that none of the foregoing increases the amount of the Guaranteed Obligations;
  - (d) any reduction, limitation, impairment, or termination of any part of the Guaranteed Obligations for any reason, including any claim of waiver, release, surrender, alteration, or compromise;
  - (e) any increase in the amount payable in respect of any Guaranteed Obligation, provided that the Guarantor has provided its prior written consent to any such increase which expressly states the Guarantor's intention that this Guarantee will apply to such increased amount;
  - (f) the termination of the Contract or termination of a Contractor Entity's rights under the Contract, or any withdrawal or abandonment by the Contractor or a Contractor Entity of its interests under the Contract;
  - (g) any direct or indirect change in the ownership of the Contractor Entity, including by merger, amalgamation, by law, or otherwise;
  - (h) any transfer of all of any part of the Contractor or a Contractor Entity's interests under or in respect of the Contract;
  - (i) any dispute or claim the Contractor or a Contractor Entity may have against the Beneficiary;



- (j) the insolvency or bankruptcy of, or similar event affecting, the Contractor or a Contractor Entity; or
  - (k) any other circumstance or combination of circumstances which might otherwise constitute a defense available to, or a legal or equitable discharge of, the Contractor or a Contractor Entity.
- 3.6 The Guarantor waives any right to or claim of any defense or setoff, counterclaim, recoupment, or termination by reason of (i) the invalidity, illegality, non-genuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, any Guaranteed Obligation; (ii) any claims, set-offs, or liabilities of a Contractor Entity to the Guarantor or the Beneficiary; (iii) any claims, set-offs, or liabilities of the Guarantor in respect of the Beneficiary; or (iv) any other reason whatsoever.
- 3.7 This Guarantee will continue to be effective or be reinstated, as the case may be, if at any time any payment (in whole or in part) of any Guaranteed Obligation is rescinded or must otherwise be restored by the Beneficiary upon the insolvency, bankruptcy, or reorganization of the Contractor, a Contractor Entity, or otherwise, all as though such payment had not been made. Any settlement or discharge between the Guarantor and the Beneficiary will be conditional upon no payment by the Contractor, a Contractor Entity, or any other Person, to the Beneficiary on the Contractor's behalf being avoided or reduced by virtue of any laws relating to bankruptcy, insolvency, liquidation, or similar laws.
- 4. Taxes**
- 4.1 The Guarantor shall make all payments to the Beneficiary free and clear of, and without deduction for, any present or future taxes, withholdings, or other charges of any nature whatsoever imposed by any taxing authority.
- 4.2 If any withholding or deduction from any payment to be made by the Guarantor is required in respect of any taxes, then the Guarantor shall:
- (a) pay directly to the relevant authority the full amount required to be so withheld or deducted;
  - (b) promptly forward to the Beneficiary an official receipt or other documentation satisfactory to the Beneficiary evidencing such payment to such authority; and
  - (c) pay to the Beneficiary such additional amount or amounts as is necessary to ensure that the net amount actually received by the Beneficiary will equal the full amount the Beneficiary would have received had no such withholding or deduction been required.
- 4.3 If any taxes are directly asserted against the Beneficiary with respect to any payment received by the Beneficiary from the Guarantor pursuant to this Guarantee:
- (a) the Beneficiary may pay such taxes; and
  - (b) the Guarantor shall indemnify the Beneficiary against any claim, demand, action, liability, damages, cost, loss, or expense (including legal fees and any applicable value added tax) which the Beneficiary incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of any such tax, and promptly pay such additional amounts (including, if incurred as a result of the Guarantor's

or the Contractor's action, omission or delay, any penalties, interest or expenses) as necessary so that the net amount received by the Beneficiary, after the payment of such taxes (including any taxes on such additional amount), will equal the amount the Beneficiary would have received had such taxes not been asserted.

## 5. Notices

### 5.1 Address for notices to Guarantor

The Beneficiary must:

- (a) make any Demand or provide any notice and other communication to the Guarantor in respect of this Guarantee in writing;
- (b) address such Demand, notice, or other communication as provided in clause 5.1 (c); and
- (c) use one of the following methods to deliver such Demand or other notice or communication, each of which, for purposes of this Guarantee, is a writing: (1) personal delivery; (2) email (followed by delivery of the Demand, notice or communication by air courier); or (3) a reputable, internationally recognised air courier, with all fees prepaid, and sent to the Guarantor:

WesternZagros Resources Ltd.

**Attention:** M. Simon Hatfield/Greg Stevenson

Suite 600, 440 – 2nd Ave. S.W.

Calgary, Alberta T2P 5E9

**Email:** [shatfield@westernzagros.com](mailto:shatfield@westernzagros.com)

[gstevenson@westernzagros.com](mailto:gstevenson@westernzagros.com)

### 5.2 Effectiveness as to Guarantor

- 5.2.1 A Demand, notice, or other communication will be effective as to the Guarantor only if: (a) the Beneficiary has complied with this clause 5; and (b) the Guarantor has received the Demand, notice, or other communication.
- 5.2.2 If a Demand, notice, or other communication is delivered in person to the Guarantor, it will be considered received by the Guarantor by the date set forth in the signed receipt.
- 5.2.3 If the Beneficiary sends a Demand, notice, or other communication to the Guarantor by a reputable, internationally recognised air courier in accordance with clause 5.1, the Demand, notice, or other communication will be considered received by the Guarantor by the date set forth in the signed receipt.
- 5.2.4 If the Beneficiary sends a Demand, notice, or other communication by email to the Guarantor and the email transmission is followed by delivery of the Demand, notice, or other communication to the Guarantor by air courier in accordance with clause 5.1, the Demand, notice, or other communication shall be deemed to have been delivered to the Guarantor when the email is received by the Guarantor.

**5.3 Notices to Beneficiary**

The Guarantor shall give all notices or other communications to the Beneficiary in connection with this Guarantee in the same manner as set forth in Article 44 of the Contract for notices to the Beneficiary.

**5.4 Change of Address**

The Guarantor or the Beneficiary may change its address as set forth in this clause 5 or Article 44 of the Contract, as applicable, by a notice to the other in accordance with this clause 5.

**6. Term**

6.1 This Guarantee is effective as of the date set forth in the preamble.

6.2 Subject to clause 3.7, this Guarantee will no longer be effective upon the first to occur of: (1) completion of the Contractor's performance of the Minimum Exploration Obligations set out in Article 10.2 of the Contract, and (2) expenditure of the Minimum Financial Commitment in respect of the First Sub-Period by the Contractor.

**7. Representations and Warranties**

The Guarantor makes the representations as set forth in its Letter of Representations and Warranties.

**8. Arbitration; Indemnification**

8.1 The Guarantor and the Beneficiary shall, exclusively, refer any dispute, claim or controversy arising out of or in connection with this Guarantee (including a dispute, claim or controversy relating to any non-contractual obligations arising out of or in connection with this agreement) to and to be finally resolved by arbitration under the rules of the London Court of International Arbitration, which rules are incorporated by reference into this clause 8.

8.2 The language of the arbitration will be English, and any award will be written in the English language.

8.3 The seat, or legal place, of the arbitration will be London, England.

8.4 The arbitral tribunal will comprise one arbitrator directly appointed by the London Court of International Arbitration.

8.5 The Beneficiary may seek enforcement of an arbitral award by any court of competent jurisdiction.

8.6 Any award must be expressed in Dollars.

8.7 The arbitral award will be final and not subject to any appeal.

8.8 If any question of law arises during the arbitral proceedings or arises out of an award, neither the Beneficiary nor the Guarantor may make an application or bring an appeal to any court on a question of law, and the Beneficiary and the Guarantor expressly waive their respective rights to make an application or bring an appeal under the English Arbitration Act 1997.

8.9 The Guarantor shall indemnify the Beneficiary from and against all costs and expenses (including legal fees) incurred by the Beneficiary in the enforcement and protection of

the Beneficiary's rights under this Guarantee.

**9. Variation**

- 9.1 This Guarantee may be amended only by a written agreement of the Beneficiary and the Guarantor that identifies itself as an amendment to this Guarantee.
- 9.2 The Beneficiary may waive any provision in this Guarantee only by a writing executed by the Beneficiary. The Guarantor may waive any provision in this Guarantee as to the Guarantor only by a writing executed by the Guarantor. A waiver or consent made on one occasion will be effective only in that instance and only for the purpose stated.
- 9.3 No failure or delay in exercising any right or remedy, or in requiring the satisfaction of any condition, under this Guarantee by the Guarantor or the Beneficiary, and no act, omission or course of dealing between the Beneficiary and the Guarantor, will operate as a waiver or estoppel of any right, remedy, or condition.

**10. Benefit; Assignment**

- 10.1 This Guarantee inures to the benefit of the Beneficiary and its (and any subsequent) successors and assigns, each of which shall be entitled to enforce this Guarantee against the Guarantor.
- 10.2 The Guarantor is not entitled to assign or transfer all or any of its rights, benefits, or obligations hereunder unless the Beneficiary provides its prior written consent to the Guarantor.
- 10.3 The Beneficiary is entitled to assign all or any of its rights and benefits hereunder without the prior written approval of the Guarantor.
- 10.4 Any assignments in breach of this clause 10 will be void.

**11. Severability**

If at any time any provision of this Guarantee is determined to be illegal, invalid, or unenforceable in any respect under the laws of any jurisdiction, neither (i) the legality, validity or enforceability of the remaining provisions of this Guarantee, nor (ii) the legality, validity or enforceability of such provision under the laws of any other jurisdiction, will, in any such case, in any way be affected or impaired thereby.

**12. Governing Law**

This Guarantee and all matters arising from or connected with it are governed by English law.

*[Signature page follows.]*

WESTERNZAGROS RESOURCES LTD.

By:   
Name: M. Simon Hatfield  
Its: Director, CEO

Accepted and received for and on behalf of the  
**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ:**

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

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

[Signature page to Guarantee - Garmian]

**WESTERNZAGROS RESOURCES LTD.**

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

Accepted and received for and on behalf of the  
**THE KURDISTAN REGIONAL GOVERNMENT OF IRAQ:**

By: 

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

By: 

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

[Signature page to Guarantee - Garmian]