

**(MODEL- EPC)**

**EXPLORATION AND PRODUCTION CONTRACT**

**RELATED TO**

**BLOCK NO. -----**

**BETWEEN**

**----- OF THE REPUBLIC OF IRAQ**

**AND**

**-----**

**TABLE OF CONTENTS**

**PREAMBLE**

**ARTICLES      HEADINGS**

1	DEFINITIONS
2	SCOPE OF CONTRACT
3	TERM OF CONTRACT
4	SIGNATURE BONUS
5	RELINQUISHMENT
6	MINIMUM WORK AND EXPENDITURE OBLIGATIONS
7	AUTHORITY'S ASSISTANCE
8	TERMINATION
9	CONDUCT OF PETROLEUM OPERATIONS
10	NATURAL GAS
11	WORK PROGRAMS AND DEVELOPMENT PLANS
12	APPROVAL OF WORK PROGRAMS AND DEVELOPMENT PLANS
13	JOINT MANAGEMENT COMMITTEE
14	DATA AND SAMPLES
15	REPORTS AND RECORDS
16	ACCESS AND INSPECTION
17	MEASUREMENT, TRANSPORTATION AND DELIVERY OF PETROLEUM
18	VALUATION OF EXPORT OIL AND CRUDE OIL
19	COST RECOVERY AND REMUNERATION
20	BOOKS OF ACCOUNT, ACCOUNTING AND AUDIT

- 21 EXCHANGE AND CURRENCY CONTROL
- 22 TITLE TO ASSETS
- 23 ROYALTY AND TAXES
- 24 INDEMNITY AND INSURANCE
- 25 IMPORTS AND EXPORTS
- 26 TRAINING
- 27 PARTICIPATION
- 28 ASSIGNMENT
- 29 LAWS AND REGULATIONS
- 30 LOCAL GOOD AND SERVICES
- 31 FORCE MAJEURE
- 32 ENTIRE AGREEMENT AND AMENDMENTS
- 33 CONFIDENTIALITY
- 34 HEADINGS OF ARTICLES
- 35 LANGUAGE
- 36 CONTRACTOR'S OFFICE IN IRAQ
- 37 GOVERNING LAW
- 38 SETTLEMENT OF DISPUTES-ARBITRATION
- 39 NOTICES
- 40 RATIFICATION AND EFFECTIVE DATE
- 41 WAIVER

**ANNEXES**

**HEADINGS**

<b>ANNEX A:</b>	LOCATION OF CONTRACT AREA
<b>ANNEX B:</b>	MAP OF CONTRACT AREA
<b>ANNEX C:</b>	ACCOUNTING PROCEDURE
<b>ANNEX D:</b>	PARENT COMPANY GUARENTEE
<b>ANNEX E:</b>	DEVELOPMENT PLAN GUIDELINE
<b>ANNEX F:</b>	GAS FIELD EVALUATION PLAN GUIDELINES
<b>ANNEX G -</b>	TENTATIVE EXPLORATION WORK PROGRAM

**ADDENDA**

**HEADINGS**

<b>ADDENDUM ONE:</b>	HEADS-OF JOINT OPERATING AGREEMENT
<b>ADDENDUM TWO:</b>	HEADS OF TRANSPORTATION AGREEMENT
<b>ADDENDUM THREE:</b>	HEADS OF AGREEMENT FOR THE JOINT OPERATING COMPANY

**EXPLORATION AND PRODUCTION CONTRACT  
RELATING TO  
BLOCK-----, -----, IRAQ.**

This Contract is made and entered into this ----- day of----- 200 -, by and between:

-----, **the Republic of Iraq** (referred to as “**Authority**”) of the **First Part**, and

-----, a company established and existing under the laws of....., having its registered head office at ----- (referred to as“-----”)

-----, a company established and existing under the laws of....., having its registered head office at ----- (referred to as“-----”)

-----, a company established and existing under the laws of....., having its registered head office at ----- (referred to as “-----”).

As from the First Declaration of Commerciality under the Contract, a company established and existing under the laws of Iraq, shall be designated by Authority to be the State Partner under this Contract, and shall be referred to as "State Partner".

Companies together with State Partner are referred to as “**Contractor**”, of the **Second Part**.

Authority and Contractor are referred to either individually as “Party” or collectively as “Parties”.

**WHEREAS**, the Republic of Iraq is the sole owner of all natural resources within its territory and offshore areas and has the right to explore, develop, extract, exploit and utilize such natural resources, therefrom; and

**WHEREAS**, the Iraqi Oil and Gas Law No. ...of 2007 has entrusted Authority with exploration, development and production of Petroleum within ----- of the Republic of Iraq; and

**WHEREAS**, Company(s) is of sound financial standing and possesses technical competency to carry out Exploration, Appraisal, Development and Production Operations and generally all and any Petroleum Operations as hereinafter defined; and

**WHEREAS**, the Parties mutually represent that they have the power, authority and desire to enter into this Contract related to the Contract Area as defined herein;

**NOW THEREFORE**, and in consideration of the premises and the mutual covenants hereinafter set out, it is agreed as follows:

## ARTICLE 1 - DEFINITIONS

Except as specifically provided herein, any reference to an Article, Sub-Article, Clause, Sub-Clause, Annex or Addendum shall be construed as a reference to Article, Sub-Article, Clause, Sub-Clause, Annex or Addendum to this Contract. In this Contract, including its Annexes and Addenda, words in the singular include the plural and vice versa and except where the context otherwise requires, the following terms shall have the meanings set out as follows:

- 1.1 "Accounting Procedure" means the accounting procedures and requirements set out in Annex "B".
- 1.2 "Affiliate" in relation to any entity constituting Contractor, means:
- a company which controls such entity, or
  - a company which is controlled by such entity, or
  - a company which is controlled by a company which controls such entity.

For the purpose of this definition, "control" means the power to dictate and conduct the policy of a company through the control, directly or indirectly, of more than fifty percent (50%) of the shares or voting rights in such company. For the purposes of this Contract, companies and enterprises of Authority shall be considered as Authority's Affiliates.

- 1.3 "Appraisal" or "Appraisal Operations" means any and all operations such as (but not be limited to) geological, geophysical, aerial and any other surveys and any interpretation of data relating thereto as may be contained in approved Work Programs and Budgets and the drilling of such shot-holes, core holes, stratigraphic tests, holes for the appraisal of Petroleum and other related holes and wells, the production testing, PVT and core analyses and the purchase or acquisition of such supplies, materials and equipment thereof, all as may be contained in approved Work Programs and Budgets.
- 1.4 "Appraisal Well" means an Exploration Well that is drilled with the objective of further defining a potential Commercial Discovery that has been indicated by a Wildcat Well.
- 1.5 "Associated Gas" means Natural Gas, occurring as gas-cap gas, which overlies and is in contact with significant quantities of Crude Oil in a reservoir and/or solution gas dissolved in Crude Oil in a reservoir.
- 1.6 "Average Daily Production" means the total cumulative production of Crude Oil or Natural Gas for a certain period of time divided by the number of calendar days in that period of time.
- 1.7 "Barrel" means a quantity consisting of forty two (42) United States gallons under a pressure of one (1) atmosphere and a temperature of sixty (60) degrees Fahrenheit.

- 1.8 "BCF" means one billion Cubic Feet.
- 1.9 "BTUs" means British Thermal Units.
- 1.10 "Budget" means the estimates of the expenditure expected to be incurred for implementing an approved Work Program for any Year or part thereof.
- 1.11 "Calendar Month" means in respect of any month in a Calendar Year, a period commencing on the first day of such month and ending on the last day of the same month.
- 1.12 "Calendar Quarter" or "Quarter" means a period of three consecutive Calendar Months commencing on the first day of January, April, July or October of any Calendar Year.
- 1.13 "Calendar Year" means a period of twelve (12) consecutive months commencing with the first day of January and ending on the last day of December, both dates being inclusive, according to the Gregorian calendar
- 1.14 "Commercial Discovery" means a Discovery that is the subject of a Declaration of Commerciality. Commercial Discovery in respect of an Oil Field or a Gas Field shall have the meaning as further elaborated in Article 3.7 and Article 10.5 respectively.
- 1.15 "Contract" means this agreement between the Parties, including the Annexes and Addenda attached hereto, as amended or supplemented from time to time in accordance with this Contract.
- 1.16 "Contract Area" means Block No. -- .area covered by this Contract, as described in Annex A and outlined in Annex B. This Area may be reduced from time to time in accordance with the provisions of Article 5.
- 1.17 "Contract Year" means a period of twelve (12) consecutive months according to the Gregorian calendar and starting either on the Effective Date or any anniversary of the Effective Date.
- 1.18 "Contractor" means, on the Effective Date, -----, and at any time thereafter shall include its legal successors and permitted assignees. From the date of the first Declaration of Commerciality, Contractor shall also include the State Partner to be designated pursuant to Article 27.1 and its legal successors and assignees.
- 1.19 "Co-operative Development Program" means a plan or agreement for cooperative development operations for separately allocated contract areas, made subject thereto as a single consolidated unit, primarily for the purpose of sharing and allocation of relevant development costs on a basis as defined in the agreement, while the production operations are carried out on competitive basis.
- 1.20 "Cost Gas" means that portion of Net Deliveries of Natural Gas, allocated to Contractor to recover Petroleum Costs related to Gas, as set forth in Article 19.7.
- 1.21 "Cost Oil" means that portion of Net Production of Crude Oil, allocated to Contractor to recover Petroleum Costs, as set forth in Article 19.1

- 1.22 "Crude Oil" means all hydrocarbons regardless of gravity which are produced and saved from the Contract Area in the liquid state at absolute pressure of fourteen decimal six nine six (14.696) pounds per square inch and sixty (60) degrees Fahrenheit, including asphalt, tar and the liquid hydrocarbons known as distillates or condensates obtained from Natural Gas at facilities within the Field other than a Gas Plant.
- 1.23 "Crude Oil Price" means the price of one (1) Barrel of each quality of Crude Oil F.O.B. Delivery Point computed in accordance with Article 18.
- 1.24 "Cubic Foot" (cf) or Standard Cubic Foot (scf) when applied to Gas means the volume of gas that occupies one (1) cubic foot of space measured dry under an absolute pressure of fourteen decimal six nine six (14.696) pounds per square inch and a temperature of sixty (60) degrees Fahrenheit.
- 1.25 "Date of Transfer of Operatorship" means the date on which the Joint Operating Company (JOC) shall take over the conduct of Petroleum Operations pursuant to Article 9.3 and Addendum Three.
- 1.26 "Declaration of Commerciality" means a written statement delivered by Contractor to Authority to the effect that Contractor considers a certain Discovery of Petroleum as a Commercial Discovery and intends to submit a Development Plan in relation thereto.
- 1.27 "Delivery Measurement Point" (DMP) means the point immediately before the Delivery Point where Contractor's entitlement of Export Oil is measured.
- 1.28 "Delivery Point(s)", in relation to Crude Oil, means the point(s), at the loading flanges of the relevant loading terminal(s), where Contractor's entitlement of Export Oil under this Contract shall be delivered. "Delivery Point(s)", in relation to Natural Gas, means the point(s) in Iraq where the Net Deliveries of Natural Gas under this Contract enters the inlet flange of the downstream facilities including gas processing and liquefaction plants or such other point(s) as may be agreed by the Parties.
- 1.29 "Development Area" means a portion of the Contract Area containing the Oil Field(s) and/or Gas Field(s) on which a Commercial Discovery is made and as further defined in Article 3.9
- 1.30 "Development Operations" means any and all operations, including primary and subsequent (secondary, tertiary or other) recovery projects and pressure maintenance, conducted with a view to developing the Field including, but without limitations: the drilling, deepening, completing, plugging, side-tracking, re-completing and equipping of evaluation and development wells; the engineering, building and erecting or laying of production plants and facilities (such as, without limitation, separators, compressors, generators, pumps and tankage, gathering lines, pipelines, and all facilities required to be installed for production, pressure maintenance, treatment, storage and transportation of Petroleum, and loading the same into seagoing tankers); the obtaining of such materials, equipment, machinery, articles and supplies as may be required or expedient for the above activities; and all auxiliary operations, activities and services required or expedient for the better conduct or result of the above activities, all in accordance with the approved Development Plan and good international petroleum industry practices.

- 1.31 "Development Plan(s)" means a scheduled Program and budget estimate specifying, in accordance with the guidelines set out in Annex D, the Development Operations which are required to develop the relevant Development Area(s).
- 1.32 "Dinar" or "ID" or "Local Currency" means the currency of Republic of Iraq.
- 1.33 "Discovery" means a structural or stratigraphic feature proved by drilling and tested to be hydrocarbon bearing.
- 1.34 "Dollar" or "USD" means currency of the United States of America.
- 1.35 "Effective Date" means the date notified by Authority to Contractor in writing, subsequent to the ratification of the Contract, in accordance with the provisions of Article 40 hereof.
- 1.36 "Exploration Well" means either a Wildcat Well or an Appraisal Well.
- 1.37 "Exploration" or "Exploration Operations" means any or all operations such as (but not limited to) geological, geophysical, aerial and other surveys and any processing and interpretation of data relating thereto as may be contained in and identified as such in approved Work Programs and Budgets and the drilling of such shot holes, core holes, stratigraphic tests, holes for the exploration of Petroleum and other related holes and wells, the production testing, PVT and core analyses, and velocity surveys and the purchase or acquisition of such supplies, materials and equipment thereof all as may be contained in approved Work Programs and Budgets.
- 1.38 "Export Oil" means any of the standard blends of crude oil made available at the Delivery Point, out of which Contractor receives his entitlement as per the provisions of the Contract.
- 1.39 "Financial Year" means the Calendar Year.
- 1.40 "First Commercial Production" means, in relation to Crude Oil, the date on which the first regular shipment of Export Oil is made from a Commercial Discovery and in relation to Natural Gas, the date on which Natural Gas is first sold under NGPSA, all in the course of regular programs of production and export.
- 1.41 "Gas Field" means an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structure, or stratigraphic condition from which Non-associated Gas may be produced and which area may be modified from time to time, pursuant to Article 3.9, based on any new information received from Appraisal or Development Operations.
- 1.42 "Government" means the Government of the Republic of Iraq.
- 1.43 "Gross Heating Value" or "GHV" means the total heat expressed in BTUs or multiples thereof obtained by the complete combustion of one Cubic Foot of dry gas at an absolute pressure of fourteen decimal six nine six (14.696) pounds per square inch and at a temperature of sixty degrees Fahrenheit (60 F) with air of the same temperature and pressure as of the gas, when products of combustion are cooled to the initial temperature of gas and air and when the water formed by combustion is condensed to the liquid state.

- 1.44 "Head Office Affiliate" means Contractor's parent company.
- 1.45 "Joint Operating Agreement" or (JOA) means the Joint Operating Agreement entered into by the constituents of Contractor in accordance with Article 27.1 and Addendum One.
- 1.46 "Joint Operating Company" or (JOC) means the company established pursuant to Article 9.13 for taking over the conduct of Petroleum Operations in accordance with Addendum Three.
- 1.47 "JMC" means the Joint Management Committee formed pursuant to Article 13.
- 1.48 "Law" or "Laws" means the legislation, regulation, bylaws and orders in force from time to time in the Republic of Iraq.
- 1.49 "Minimum Work and Expenditure Obligations" means the minimum work and expenditure commitments undertaken by Contractor as stipulated in Article 6.
- 1.50 "Authority's Representative(s)" means Authority's appointee(s) who will act on behalf of Authority to co-ordinate with and advise Contractor on all Petroleum Operations prior to the first Declaration of Commerciality pursuant to Article 13.
- 1.51 "Natural Gas" or "Gas" means a mixture of hydrocarbons and varying quantities of non-hydrocarbons that exist either in the gaseous phase or in solution with Crude Oil in natural underground reservoirs and when produced remain in gaseous phase at atmospheric conditions of temperature and pressure, and is classified as either Associated Gas or Non-associated Gas.
- 1.52 "Net Production of Crude Oil" means all barrels of Crude Oil produced from the Contract Area, less base sediments and water which are beyond the permissible limits to be defined as per Clause 5 of Addendum Two, saved and not used in Petroleum Operations and measured upstream of the Transfer Point at the Production Measurement Point, less the pipeline and terminal losses between the Transfer Point and Delivery Point, as provided in Addendum Two hereto (Head of Transportation Agreement).
- 1.53 "Net Deliveries of Natural Gas" means the quantity of Natural Gas, be it Associated Gas or Non-associated Gas or both, produced and saved and not used in Petroleum Operations but available for commercial sale in the Contract Area and delivered by Contractor to the relevant Delivery Point(s), less any quantity of Condensate returned to the Parties from the downstream gas processing or liquefaction plants, all such quantities to be expressed in million BTUs (MMBTU) of GHV and Standard Cubic Foot (scf)
- 1.54 "Non-associated Gas" means Natural Gas, which is found in a reservoir that does not contain significant quantities of Crude Oil.
- 1.55 "Oil Field" means an area consisting of a single reservoir or multiple petroleum reservoirs all grouped in, or related to the same individual geological structural feature or stratigraphic conditions from which Crude Oil may be produced and which area may be modified from time to time, pursuant to Article 3.9, based on any new information received from Appraisal or Development Operations.
- 1.56 "Operator" means one of the entities of which Contractor is comprised and designated under this Contract to conduct Petroleum Operations on behalf of Contractor in

accordance with Article 9.2

- 1.57 "Operating Expenditure" means all costs and expenses incurred and paid in relation to Production Operations, including transportation fees up to the Delivery Point(s).
- 1.58 "Participating Interest" means the undivided percentage interest of each entity constituting Contractor in the rights, benefits, privileges, duties, liabilities and obligations under the Contract.
- 1.59 "Petroleum" means all hydrocarbons, including liquid and gaseous hydrocarbons, produced and saved from the Contract Area under this Contract.
- 1.60 "Petroleum Costs" means all costs and expenditures incurred and payments made by Contractor in connection with or in relation to the carrying out of Petroleum Operations determined in accordance with the provisions of this Contract and the Accounting Procedures as set out in Annex C.
- 1.61 "Petroleum Operations" means any and all Exploration, Appraisal, Development and Production Operations and other activities related thereto, including abandonment operations, if any, under this Contract.
- 1.62 "Production" or "Production Operations" means any and all operations related to production, transportation and storage of Petroleum including (but not limited to) workovers, stimulations, operating, staffing, supervising, repairing and maintaining of any and all wells, plants, equipment, pipelines, tankfarms, terminals and all other installations and facilities.
- 1.63 "Production Measurement Point" (PMP) means the point in the Contract Area where the Net Production of Crude Oil is measured immediately upstream of Transfer Point.
- 1.64 "Profit Gas" shall have the meaning as set forth in Article 19.7.
- 1.65 "Profit Oil" shall have the meaning as set forth in Article 19.2
- 1.66 "R/C or "R-Factor", at the end of any Year, means the cumulative value of Cost Oil and Profit Oil received by Contractor from the Contract Area by the end of that year divided by the cumulative Petroleum Costs incurred by Contractor in respect of the Contract Area by the end of that Year, to determine Contractor's share of Profit Oil in the succeeding Year, all in accordance with the provisions of Article 19.
- 1.67 "Royalty" is the percentage of Net Production of Crude Oil, in the case of an Oil Field, or the Net Deliveries of Natural Gas in the case of a Gas Field, that is allocated to the Government as per Sub-Article 23.1. The Government has the option to take Royalty in cash or in kind.
- 1.68 "Sub-Contractors" means the suppliers, contractors and sub-contractors of Contractor or the Joint Operating Company (JOC) at whatever level.
- 1.69 "Transfer Point" means the inlet flange(s) of the outgoing pipeline from the Production Measurement Point where Transporter shall receive Crude Oil for transportation in accordance with Addendum Two and subsequent Transportation Agreement.
- 1.70 "Transporter" means the entity designated by Authority to transport Crude Oil from the Transfer Point pursuant to Article 17 in accordance with Addendum Two of this Contract and subsequent Transportation Agreement.

- 1.71 "Transportation Agreement" means the agreement to be entered into by Contractor and Transporter, the principles of which have been agreed upon by the Parties and are contained in Addendum Two.
- 1.72 "Transportation System" means any and all installations, equipment or facilities up to and including the loading flange at the export terminal operated by or under the control of the Transporter, which are necessary for transportation, storage, metering and loading of Crude Oil under Transportation Agreement, and a portion of which shall be built by Contractor in accordance with the provisions of Article 9, 10 and 17.
- 1.73 "Unitized Development Program" means a plan of development and production operations for the recovery of oil and gas subject thereto as a single consolidated unit for the allocation of costs and benefits on a basis as defined in the unitization agreement as set forth in Article 3.10
- 1.74 "Wildcat Well" means the first well drilled on a geological feature which is structurally or stratigraphically separate from a geological feature previously drilled by Contractor in the Contract Area.
- 1.75 "Work Program" means an itemization and time schedule of the Petroleum Operations to be carried out under this Contract.
- 1.76 "Year" means a period of twelve (12) consecutive months according to the Gregorian calendar.

**End of Article 1**

**ARTICLE 2 - SCOPE OF CONTRACT**

2.1 This Contract is a risk Exploration and Production Contract. It includes (41) Articles, seven Annexes; A, B, C, D, E, F, and G and three Addenda; One, Two, and Three, all attached hereto and made part hereof. In the event of any inconsistency or conflict between the provisions of the Articles and Annexes or Addendum, the provisions of the Articles of this Contract shall prevail.

Contractor, subject to the provisions herein contained, shall:

- A. carry out Petroleum Operations to explore for, appraise, develop and produce the relevant Commercial Discovery (s) from the Contract Area, subject to the provisions of Article 9.12 and 9.13.
- B. provide all capital, machinery, equipment, technology, personnel and services necessary for carrying out Petroleum Operations.
- C. incur all Petroleum Costs required for carrying out Petroleum Operations.
- D. fulfill all financial and other obligations of Contractor and enjoy all rights and benefits, in accordance with the provisions of this Contract.

2.2 At any time, the entities, then constituting Contractor, shall be jointly and severally responsible towards Authority for all obligations of Contractor under the Contract.

**End of Article 2**

### ARTICLE 3 - TERM OF CONTRACT

- 3.1 This Contract shall come into force on the Effective Date, as defined herein.
- 3.2 Subject to the provisions herein, unless the Contract is terminated earlier in accordance with its terms, the basic term of this Contract shall be as follows:
- A. 28 Years from the Effective Date in respect of Crude Oil, which term shall be extended to include:
    - (i) the extension to the Exploration Period, if granted pursuant to Article 3.3 C provided that no declaration of Commerciality has been made during the Exploration Period and
    - (ii) any extension in the Development Period granted pursuant to Sub-Article 3.4 A.
  - B. 29 Years from the Effective Date in respect of Natural Gas, which term shall be extended to include:
    - (i) the extension to the Exploration Period, if granted pursuant to Article 3.3 C provided that no discovery has been made during the Exploration Period, and
    - (ii) the holding period granted pursuant to Article 10.5 (and any extension thereto), and
    - (iii) any delay in effecting First Commercial Production of Gas pursuant to Article 10.9.

#### 3.3 Exploration Period

- A. The duration of the Exploration period shall be five (5) Contract Years, starting on the Effective Date and divided into two Phases, namely Phase 1 (3 years), and Phase 2 (2 years) unless extended pursuant to the Articles 3.3C of the Contract.

Notwithstanding the foregoing, at the end of Phase 1 of the Exploration Period plus any extension thereto pursuant to Article 3.3 B, and after fulfilling the Minimum Work And Expenditure Obligation for Phase 1, as set forth in Article 6.2, Contractor shall have the option to elect to enter Phase 2 of the Exploration Period by giving Authority a three (3) months notice prior to the expiry of Phase 1 in which case the Minimum Work And Expenditure Obligation shall be supplemented with commitments as set forth in Article 6.3 subject however to the provisions of Article 6.4

Authority shall have the right to terminate the Contract if:

- (i) Contractor does not elect to proceed to Phase 2; or
- (ii) no Notice of Discovery is given by Contractor by the end of the Exploration Period subject to the provision of Article 3.3C. Upon such termination Article 8.1 C shall apply.

#### B. Extension of Exploration Phases

Without prejudice to Article 3.3 C below, Contractor may, at least thirty (30) days prior to the termination of any of the Phases of the Exploration Period, apply to extend the duration of such Phase up to a maximum of six (6) months in order to:

- (i) complete drilling, logging, testing or plugging of any well which at the time of request is actually being drilled, logged, tested or plugged,

- (ii) complete any appraisal work,
- (iii) evaluate any discovery (ies), or
- (iv) prepare and submit detailed development Work Programs and Budgets.

#### C. Extension of Exploration Period

Subject to fulfillment of the Minimum Work and Expenditure Obligations for each phase set forth in Articles 6.2 and 6.3, subject however to Article 6.4, Contractor may request an extension to the Exploration Period, in addition to the period to cover the extension of any phase pursuant to Article 3.3 B. Authority may extend the Exploration Period up to a maximum of two (2) Years upon such terms and conditions as mutually agreed upon by the Parties. If Contractor wishes to so extend the Exploration Period, it shall give Authority notice of such desire together with the proposed additional Work Program and Budget at least ninety (90) days prior to the expiration of the initial Exploration Period.

#### 3.4 Development Period

- A. Subject to the approval of the Development Plan (s) by Authority, the duration of the Development Period in respect of each Development Area encompassing an Oil field shall be for three (3) Years starting from the date on which the first Development Plan for such area is approved by Authority. Contractor shall achieve First Commercial Production of Crude Oil from such development Areas(s) on or before the expiry date of the relevant Development Period. In the event Contractor is unable to achieve First Commercial Production from a Development Area before the expiry date of the relevant Development Period due to circumstances or events beyond Contractor's control, an extension of the said Development Period may be considered by Authority upon written request from Contractor. If no extension is granted, the provisions of Article 5.5 shall prevail. For avoidance of doubt, the Development Period in respect of a Development Area encompassing an Oil Field may commence during the Initial five (5) Year Exploration Period, and Exploration Operations may continue concurrently as per the provisions of Article 3.3 in other portions of the Contract Area outside a Development Area (s)
- B. For Gas Fields, the Development Period is governed by the provisions of Article 10.

#### 3.5 Development and Production Period

- A. The duration of the Development and Production Period in respect of each Development Area encompassing an Oil field or a Gas field shall not exceed twenty (20) Years, starting from the date on which the first Development Plan for such Area is approved by Authority.

#### 3.6 Notice of Discovery

In the event of a Discovery, Contractor shall notify Authority with a written report setting forth all relevant information with respect to the Discovery within thirty (30) days after completion of the Wildcat Well which led to the Discovery of Crude Oil or of Natural Gas, when in the opinion of Contractor, Exploration Operations indicate a Discovery which merits further study and/or Appraisal.

#### 3.7 Declaration of Commerciality for Oil Field

- A. Upon drilling a minimum of one Appraisal well and completion of the further study and appraisal referred to in Article 3.6, and if in Contractor's opinion the said Discovery of Crude Oil is a Commercial Discovery, Contractor shall prepare and submit a report together with a

written Declaration of Commerciality.

B. The above mentioned report on the Commercial Discovery shall include but not be limited to the following particulars:

- i) the chemical composition, physical properties and the quality of Petroleum discovered;
- ii) the thickness and the areal extent of the productive stratum/strata;
- iii) petro-physical properties of the reservoirs;
- iv) the Petroleum-in-place and computed estimate of recoverable reserves;
- v) the productivity indices for well or wells tested at various rates of flow
- vi) the estimated production capacity of the reservoirs.

### 3.8 Development Plan(s)

- A. Where pursuant to Article 3.7, Contractor has informed Authority that the Discovery is a Commercial Discovery of Crude Oil, Contractor shall, within six (6) Months, submit for Authority's approval a Development Plan in accordance with the guidelines as set out in Annex E, in case of a Crude Oil Discovery, or in Annex F, in case of a Gas Discovery.
- B. Authority shall notify Contractor of the approval of the Development Plan(s) or suggest changes for revising the same within sixty (60) days of submission of the same by Contractor.
- C. Once a Development Plan is approved, Contractor shall have the obligation to implement such Development Plan in accordance with the terms set forth in this Contract.

### 3.9 Development Area

- A. Authority and Contractor shall agree, in accordance with good oil field and industry practices, on the limits of a Development Area which shall encompass the Oil Field(s) and/or Gas Field(s) on which the Commercial Discovery(s) is(are) made and if necessary, subject to Authority's approval such additional area of sufficient size to facilitate the Development and Production Operations.
- B. Where as a result of Development Operations it appears reasonably likely to the Parties that a field within a Development Area is larger than originally delineated and extends beyond the Development Area originally established in respect thereof, then Authority may grant to Contractor, subject to any prior grants of rights over the relevant area to a third party, an additional surface area within the Contract Area so that the field may be fully covered by the Development Area.
- C. At the end of the Development Period (or any extension thereto which may be granted by Authority) Contractor shall relinquish to Authority:
  - (i) any reservoirs not included in an approved Development Plan; or
  - (ii) any oil reservoirs included in an approved Development Plan but not developed in the sequence and timing for Development of such oil reservoirs as specified in the said approved Development Plan or approved subsequent revisions thereof.

Authority may appraise, develop and produce such relinquished reservoirs subject to the

provisions of Article 5.6

### 3.10 Unitization Agreement

- A. In the event that a discovery extends beyond the boundary of the Contract Area, or the Development Areas that Authority is unable to extend for reasons as stipulated in Article 3.9 B, Authority and Contractor shall use reasonable efforts to enter into an agreement for a Unitized Development Program (to the extent such unitized development Program merits technical consideration over the Co-operative Development Program, in accordance with internationally accepted industry practice), with a single operator, either between themselves or with the party or parties that have rights to the additional area to which such Discovery extends. It is understood that such unitization agreements involving the Contract Area will provide for a fair allocation of Crude Oil and/or Natural Gas reserves within Oil and/or Gas Fields that are the subject of the aforesaid unitization agreements.
- B. In the event that any Discovery extends across international boundaries, Authority shall, after consulting Contractor, be the Party representing Contractor in any international unitization agreement and all terms and conditions agreed thereto by Authority, after consultation with Contractor, shall be binding and Contractor shall reimburse Authority for all expenses incurred by Authority in regard to such agreement within thirty (30) days of submission of the unitization agreement to Contractor. Such reimbursements shall be treated as Petroleum Costs under the Contract.

**End of Article 3**

#### ARTICLE 4 - BONUS PAYMENTS

- 4.1 Contractor shall pay to Authority a signature bonus of ----- (--) Million US Dollars into a bank account designated by Authority within thirty (30) days from the Effective Date.
- 4.2 Contractor shall pay to Authority a discovery bonus of ----- (--) Million US Dollars, for the first Commercial Discovery in the Contract Area, within thirty (30) days from the date of approval by Authority of Contractor's Declaration of Commerciality of the said first Commercial Discovery.
- 4.3 Contractor shall also pay to Authority the following production bonuses:
- (i) ----- (--) Million US Dollars within thirty (30) days of reaching an Average Daily Production of fifty (50) thousand Barrels per day of Crude Oil and the same amount within thirty (30) days of reaching an Average Daily Production of three hundred (300) MMscf per day of Natural Gas sold under the NGPSA.
  - (ii) ----- (--) Million US Dollars within thirty (30) days of reaching an Average Daily Production of one hundred (100) thousand Barrels per day of Crude Oil and the same amount within thirty (30) days of reaching an Average Daily Production of six hundred (600) Mmscf per day of Natural Gas sold under the NGPSA.
  - (iii) ----- (--) Million US Dollars within thirty (30) days of reaching an Average Daily Production of two hundred (200) thousand Barrels per day of Crude Oil and the same amount within thirty (30) days of reaching an Average Daily Production of twelve hundred (200) MMscf per day of Natural Gas sold under the NGPSA.

The respective sums payable pursuant to Articles 4.3 (i), 4.3(ii) and 4.3(iii) shall each be payable once only when the Net Production of Crude Oil from the Contract Area or the Net Deliveries of Natural Gas from the Contract Area first attains the respective Average Daily Production over a Calendar Month.

- 4.4 The State Partner constituting Contractor shall not be required to make any of the above payments. Such payments shall be regarded as Non-recoverable Petroleum Costs.

**End of Article 4**

**ARTICLE 5 - RELINQUISHMENT**

- 5.1 At the end of Phase 1 of the Exploration Period or any extension thereto, Contractor shall relinquish forty percent (40%) of the original Contract Area except as provided in Article 5.3.
- 5.2 At the end of Phase 2 of the Exploration Period or any extension thereto, Contractor shall relinquish all of the original Contract Area except as provided in Article 5.3
- 5.3 Contractor's obligations to relinquish parts of the original Contract Area pursuant to Articles 5.1 and 5.2 shall not apply to the following:
- (i) Any part of Contract Area which is covered by an approved Development Plan(s)
  - (ii) Any part of the Contract Area allowed by Authority to be retained by Contractor for
    - (a) Exploration purposes pursuant to Article 3.3.C
    - (b) Evaluation of a Discovery of Crude Oil that has been made by Contractor during the two (2) Year extension of the Exploration Period stipulated in Article 3.3 C. Failure on the part of Contractor to make a Declaration of Commerciality in respect of such Discoveries within six (6) months from the expiry of the extension of Exploration Period pursuant to Article 3.3 C shall render such Discoveries relinquished to Authority.
  - (iii) Gas fields allowed to be held pursuant to Article 10.5
- 5.4 The shapes and sizes of the parts of the Contract Area to be relinquished pursuant to Articles 5.1 and 5.2 shall be determined by Contractor provided, however, that Contractor shall consult Authority regarding the shape and size of each individual portion of the Contract Area being relinquished such that the area being relinquished shall be of sufficient size and convenient shape (confirming to the grid system in force) to enable petroleum operations to be conducted therein.
- 5.5 Contractor shall relinquish three (3) Years after the approval date of any Development Plan(s) by Authority any Development Area included therein if First Commercial Production from such Development Area has not commenced unless such delay in commencement is due to circumstances or events beyond Contractors control. This Article 5.5 shall, however not apply to any Gas Field retained pursuant to Article 10.
- 5.6 Authority shall, on information to Contractor, be free to appraise, develop and produce relinquished Contract Area including any reservoirs relinquished in accordance with Article 3.9C taking care not to hinder or interfere with the Petroleum Operations under this Contract. However, and subject to consultation between the Parties, the relinquished area will be reasonably accessible and possible for the other Party to conduct further petroleum operations.

**End of Article 5**

## ARTICLE 6 - MINIMUM WORK AND EXPENDITURE OBLIGATIONS

- 6.1 Contractor shall carry out within the respective periods of time and according to the provisions set out in Articles 6.2 and 6.3, the Minimum Work Obligations specified therein, for the following activities:
- (a) Preparation of the preliminary overall Exploration Work Program.
  - (b) Conduct of seismic surveys, including processing and interpretation thereof;
  - (c) Drilling Exploration wells with the aim of exploring and appraising the contract Area; and
  - (d) In case of a Discovery, conduct of relevant studies to evaluate the reservoir(s) including drilling of necessary appraisal Well(s)
- 6.2 Minimum Work and Expenditure Obligations for Phase 1  
Contractor shall carry out during Phase 1 of the Exploration Period the following Minimum Work Obligations:
- (a) Reprocessing of approximately ----- (-----) thousand line kilometers of any existing 2-D seismic lines; and
  - (b) Acquisition, processing and interpretation of ----- (----) thousand line kilometers of new 2-D seismic lines, and or acquisition, processing and interpretation of -----(----) square kilometers of 3-D seismic survey; and
  - (c) Drilling, testing and, if necessary, completion of ----- (--) Wildcat Wells;  
----- (-) wells will be targeting the ----- formation to be drilled to a depth of ---- meters and ----- (-) well will be targeting the Paleozoic to be drilled to an expected depth of --- - meters. If it is technically not feasible or practically unjustifiable to drill to such depths, or if the targeted formations are reached before the targeted depths, the targeted depths shall be deemed to have been achieved, subject to Authority's approval.  
In carrying out such Minimum Work Obligations, Petroleum Costs of ----- (--) Million US Dollars, shall be expended by Contractor as Minimum Expenditure Obligations for Phase 1 of the Exploration Period.
- 6.3 Minimum Work and Expenditure Obligations for Phase 2  
If Contractor elects to enter into Phase 2 of the Exploration Period, Contractor shall carry out the following supplemental activities as Minimum Work obligations for Phase 2, subject however to the provisions of Article 6.4:
- (a) Acquisition, processing and interpretation of ----- (--) thousand line kilometers of new 2-D seismic lines; and or acquisition, processing and interpretation of -----(--) square kilometers of 3-D seismic survey; and
  - (b) Drilling, testing and, if necessary, completion of --- (--) Wildcat Wells targeting the --- formation, each of the said wells to be drilled to a depth of --- meters. If it is technically not feasible or practically unjustifiable to drill to such depths, or if the targeted formations are reached before the targeted depths, the targeted depths shall be deemed to have been achieved, subject to Authority's approval.  
In carrying out such supplemental activities Petroleum Costs of ---- (--) Million US Dollars shall be expended by Contractor as the Minimum Expenditure Obligations for Phase 2 of the Exploration Period.
- 6.4 In carrying out its Minimum Work and Expenditure Obligations for each phase, Contractor shall incur expenditures as set forth in Articles 6.2 and 6.3. However, if after fulfilling the Minimum Work Obligations the actual Dollar amount expended during Phase 1 shows that Contractor has incurred greater or smaller amount of expenditure than those stipulated in Article 6.2, in order to achieve the objectives of

the approved Work Program, such over or under expenditure shall be allowed to be deducted from or added towards the Minimum Expenditure Obligations for Phase 2, if and when Contractor elects to enter the Phase 2. In such event, the Parties shall convene and agree on necessary revisions to the Work Program and corresponding Budget for the remaining Years of the Exploration Period.

- 6.5 The performance of each non-Iraqi entity constituting Contractor and the fulfillment of its contractual and financial obligations under this Contract shall be guaranteed by its parent company(s). Contractor shall, to this effect, undertake that each of the non-Iraqi entities shall furnish Authority, thirty (30) days prior to the Effective Date or to the date of Authority's approval of the assignment of the relevant entity in accordance with Article 28, with a guarantee from its parent company(s) in the form set out in Annex C thereto.
- 6.6 In the event Authority shall terminate the Contract during the Exploration Period in accordance with Article 8.1.1 and 8.1.5, Contractor's residual obligations to Authority shall be as set forth in Article 8.1.3.
- 6.7 In the event Contractor shall terminate the Contract during the Exploration Period, Contractor's residual obligations to Authority shall be as set forth in Article 8.1.3.
- 6.8 The Minimum Expenditure Obligation of Contractor for the Exploration Period (Phase 1 and 2) shall be deemed to have been met even at a lower value provided that the Minimum Work Obligation is fulfilled to the satisfaction of Authority.
- 6.9 Notwithstanding the Minimum Expenditure Obligation, substantial failure of Contractor to execute the Minimum Work Obligations shall be subject to the provision of Sub-Article 8.1.1 (c).

**End of Article 6**

**ARTICLE 7 – AUTHORITY'S ASSISTANCE**

Authority shall:

- 7.1. within thirty (30) days after the Effective Date, provide Contractor with the available technical data pertaining to the Contract Area, to be used exclusively for Petroleum Operations.
- 7.2. make available to Contractor such land as may reasonably be required for the conduct of Petroleum Operations. Such land shall be free of any hazardous war remnants and free of any claims by third parties. Any expenditure that Contractor may incur to prepare the said land for Petroleum Operations shall be considered as Petroleum Costs.
- 7.3 assist and support Contractor in obtaining necessary visas, permits, rights of way, easements, way leaves, and licenses and any other clearances from any Government agencies pursuant to the Contract and renewal thereof for the purpose of conducting Petroleum Operations.
- 7.4 Contractor is hereby allowed:
  - (a) free access to the Contract Area and to the existing roads and bridges leading to it.

- (b) free of charge use of water available in the vicinity of the Contract Area for the purpose of Petroleum Operations. However, all installations for off-take, treatment, distribution, and disposal of water shall be the responsibility of Contractor.
- (c) free of charge use of Petroleum produced by Contractor from the Field for Petroleum Operations.
- (d) use of existing facilities related to the Contract Area subject to the provisions of Sub-Article 27.

**End of Article 7**

**ARTICLES - TERMINATION**

**8.1. Termination by Authority**

8.1.1. Authority may terminate the Contract by giving Contractor three (3) months written notice if the last remaining non-Iraqi entity constituting Contractor becomes bankrupt or be declared insolvent, or if Contractor commits a breach of a material obligation of the Contract, including but not limited to:

- (a) Contractor knowingly submits false statement to Authority which is of material consideration for the execution of the Contract.
- (b) Last non-Iraqi entity constituting Contractor assigns any interest, right or obligation under the Contract contrary to the provisions of Article 28.
- (c) Contractor fails substantially to comply with approved Development Plans, Work Programs and budgets.

8.1.2. If Contractor has remedied its breach by the end of the above three (3) months' notice, Authority shall consider its notice as being ineffective. If Authority reasonably believes that Contractor is doing its best to remedy the breach and its efforts look promising then Authority may extend the notice period accordingly.

8.1.3. If Authority shall terminate the Contract in accordance with Sub-Article 8.1.1, Contractor shall:

- (a) forfeit all its rights and interests under the Contract.
- (b) indemnify and save Authority harmless against any and all actions, claims, demands and proceedings that may arise out of such termination.
- (c) pay Authority the balance, if any, of the Minimum Expenditure Obligation referred to in Sub-Article 6.2. Otherwise, Authority shall be entitled to recover such balance from Contractor by any means it may deem proper.

8.1.4 If Petroleum Operations are suspended or seriously jeopardized for a period exceeding eighteen (18) Months due to "Force Majeure" as per Article 31, (but for reasons other than legislation/order of Government), Authority may terminate this Contract by giving Contractor two (2) months written notice. Upon such termination, Authority shall compensate Contractor for non-recovered Petroleum Costs up to the date of termination notice.

- 8.1.5. If Contractor is unable to continue with Petroleum Operations by order or decree of the government of any of the non-Iraqi entities constituting Contractor, Authority shall have the right to take over the conduct of Petroleum Operations in any way it deems appropriate after giving Contractor one (1) month notice to this effect. However, if such situation continues for a period exceeding one (1) year, Authority shall have the right to terminate the Contract by giving Contractor two (2) months notice. Upon such termination, the provisions of Sub-Article 8.1.3 shall apply. However, if at any time during the take over by Authority as above and prior to the end of termination notice, Contractor gives Authority notice that it is able and willing to resume Petroleum Operations, Authority and Contractor shall agree on the best course of action to resume Petroleum Operations and on the settlement of financial matters relating to the period of take over.
- 8.2. Termination by Contractor  
If Contractor elects to terminate the Contract before the end of its term, Contractor shall give Authority three (3) months notice to this effect giving reasons for such election. If by the end of the said notice the Parties have not agreed on a course of action other than termination then Contractor may terminate the Contract by giving Authority a further notice of one (1) month. Upon such termination the provisions of Sub-Article 8.1.3 shall apply.
- 8.3. In the event of termination of the Contract (whether by Authority or by Contractor), in accordance with this Article 8, Contractor hereby warrants that it shall not obstruct, hinder or otherwise interfere in anyway in the carrying out of Petroleum Operations by Authority or any third party.

**End of Article 8**

**ARTICLE - 9 - CONDUCT OF PETROLEUM OPERATIONS**

- 9.1 Contractor shall carry out Petroleum Operations in the Contract Area on an exclusive basis. Authority shall take necessary measures to ensure that third party operations within the Contract Area shall not obstruct, hinder, or unduly interfere with or delay the Petroleum Operations.
- 9.2 Where Contractor is made up of more than one entity, Contractor shall entrust the conduct of Petroleum Operations on its behalf to one of the entities of which it is comprised. Pursuant to the above, the Operator upon the Effective Date shall be -----  
----- Contractor shall not change the Operator without the prior written approval of Authority. However, Operator shall be succeeded by a Joint Operating Company in accordance with the provisions herein below contained and in Addendum Three.
- 9.3 Operator shall open and maintain branch office in the Republic of Iraq. Authority shall assist Operator in this respect.
- 9.4 Contractor shall diligently conduct Petroleum Operations in compliance with Iraqi Oil and Gas Law No. -- .of 2007, and in accordance with good international petroleum industry practice.
- 9.5 Contractor activities shall be designed to achieve efficient and safe production of Petroleum from the Contract Area. Contractor shall ensure that all materials, equipment, and facilities used in Petroleum Operations comply with generally

accepted engineering norms, are of proper and accepted construction, and are kept in good working order.

- 9.6 Contractor shall take appropriate and necessary measures, in accordance with international standards, to safeguard the environment and prevent pollution, which may result from Petroleum Operations, and minimize the effect of any pollution, which may occur.
- 9.7 Contractor shall take all appropriate and necessary measures, in accordance with Iraqi laws and international standards, to uphold transparency and accountability and fight corruption.
- 9.8 Until the takeover of Petroleum Operations by the Joint Operating Company (JOC), pursuant to Sub-Article 9.13, Contractor shall conduct Petroleum Operations in accordance with the provisions of this Contract, and under the general supervision and control of Authority's Representatives(s) or the JMC, as the case may be.
- 9.9 Pursuant to Article 9.8 hereof, Contractor shall:
- (a) provide all personnel required for the Petroleum Operations, giving priority to Iraqi personnel, taking into consideration qualifications, and experience.
  - (b) adhere to employment and training Programs, which shall aim at the Iraqization of Operator's manpower within a short period to be agreed by Authority and Contractor.
  - (c) utilize subcontractors and suppliers of proven capability and professional experience on competitive basis. However, as per Article 13, the JMC's prior approval shall be obtained on the award of any purchase order or sub-contract exceeding USD five (5) Million US Dollars in value and Authority's prior approval of any purchase order or sub-contract exceeding ten (10) Million US Dollars.
  - (d) prepare and issue reports pursuant to Article 15, and provide any further information as may be required by Authority.
- 9.10 Operator shall place fixtures and installations inside and outside the Contract Area, as shall be necessary to carry out Petroleum Operations, in accordance with the approved Development Plans. Fixtures and installations relating to the transportation and export of Crude Oil / Export Oil shall be handed over upon completion and commissioning to the Transporter which will thereafter be responsible for the operation and maintenance of such fixtures and installations in accordance with the provisions of Addendum Two and the subsequent Transportation Agreement.
- 9.11. Promptly after the Effective Date, but not later than six (6) Months, Operator shall prepare and submit for Authority's approval, in accordance with Article 12, the following operating procedures:
- (a) Employment procedures and personnel regulations for locally recruited personnel including scales of salaries, wages, benefits, and all allowance applicable to the respective grade of staff and employees, together with employment requirements such as standard job descriptions and qualifications to fill the jobs, all in accordance with applicable laws and regulations. Equitability of basic salaries and terms of employment between Iraqis and non-Iraqis of similar qualification and experience

shall be observed, difference being the allowances and special benefits as appropriate for non-Iraqis.

- (b) Benefits and allowances to be paid in Iraq to assigned personnel referred to in Annex C during the assignment for Petroleum Operations.
- (c) Tendering, bidding and contract awarding procedures for engineering, drilling, construction and other service contracts, and procedures for purchasing materials and equipment, all on competitive basis, taking into account provisions of Contract and applicable laws and regulations.
- (d) Detailed accounting system to be adopted by Operator based on the provisions of Annex C.

9.12 After Contractor has for the first time recovered hundred percent (100%) of its Petroleum Costs for Exploration and Development Operations; Contractor and an Iraqi entity designated by Authority shall form a Joint Operating Company (referred to herein as "JOC"), which shall come into existence as specified in Article 9.13 and which thereafter shall conduct Development and Production Operations under this Contract in accordance with approved Development Plans and Work Programs and Budgets.

9.13 Within twelve (12) Months after Contractor has for the first time recovered its Petroleum Costs as specified in Article 9.12 the charter shall take effect and the JOC shall automatically come into existence without any further procedures and actions hereunder for and on behalf of Contractor and the entity designated by Authority "Authority Entity". The date on which the Joint Operating Company (JOC) shall take over the conduct of Petroleum Operations pursuant to Addendum Three is referred to as the "Date of Transfer of Operatorship".

9.14 The parties which shall constitute the JOC shall agree in due time to a procedure for the transfer of Petroleum Operations from Operator to the JOC subject to Authority's approval taking into consideration that the transfer plan shall include but not be limited to;

- (a) An arrangement for the establishment of the JOC;
- (b) A list of the various positions to be taken over by the JOC;
- (c) A schedule of transfer stages; and in any case within twelve (12) months of coming into existence of the JOC pursuant to Article 9.13.
- (d) Inventories of the relevant facilities, equipment, documents, manuals, data and information necessary for the Petroleum Operations;

9.15 Operator, on behalf of Contractor, shall in accordance with the transfer schedule as per Article 9.14 above, transfer to the JOC's takeover personnel, control of all facilities and equipment relating to Petroleum Operations and all documents, manuals, data and information regarding the use and operation of such facilities and equipment so that the JOC personnel are able to manage and handle such facilities and equipment in accordance with petroleum industry standards.

9.16 The transfer in respect of the accounting and financial aspects shall be handled in accordance with the Clause 11 of Annex C attached hereto.

- 9.17 During the preparations for the transfer of Petroleum Operations to the JOC and in the course of the actual transfer, Operator, on behalf of Contractor, shall perform the functions and fulfill his obligations provided for in the Contract in respect of Petroleum Operations. Thereafter, the functions, obligations and rights of the Operator provided for under the Contract shall, by analogy, be applicable to the JOC in accordance with the provisions of the Contract and Addendum Three attached hereto.
- 9.18 After the JOC has taken over the Petroleum Operations and has become Operator, Contractor shall still have the obligation to provide the JOC with the relevant technical and personnel training assistance and continue to perform its other obligations under the Contract in accordance with the provisions of Addendum Three.
- 9.19 Expenses incurred in the transfer and takeover of Petroleum Operations by the JOC shall be paid by Contractor and charged to the Operating Account in accordance with the provisions of Annex C.
- 9.20 Not later than the twentieth (20<sup>th</sup>) day of each Calendar Month, the JOC shall furnish Contractor with a detailed written estimate of its total cash requirements for the succeeding Calendar Month expressed in Dollars, in accordance with all current and approved Work Programs and Budgets.  
Such estimate shall take into consideration any cash expected to be on hand at Calendar Month end. Payment by Contractor for the appropriate period of each Calendar Month shall be made directly to the correspondent bank designated in Article 9.21 below on the first (1st) day and fifteenth (15) days respectively, or the next following working day, if such day is not a working day.
- 9.21 JOC is authorized to keep at its own disposal abroad in an account opened with a correspondent bank to an Iraqi bank, the foreign funds advanced by Contractor. Interest or similar income generated by the account shall be credited to the account. Withdrawals from said account shall be used for payment for goods and services abroad and for transferring to a local bank in Iraq the required amounts to meet expenditures in Dinars for the JOC in connection with its activities under this Contract, converted at the applicable rate of exchange available for relevant commercial activity as published by the Iraqi Central Bank on the date of conversion. Within sixty (60) days after the end of each Financial Year, JOC shall submit to the appropriate exchange control authorities in Iraq a statement, duly certified by a recognized firm of independent auditors, showing the fund credited to the account, the disbursements made out of the account and the balance outstanding at the end of such Financial Year.
- 9.22 By the fifteenth 15<sup>th</sup> July of each Calendar Year, JOC shall prepare annual Petroleum production schedule, and a Work Program and Budget for the succeeding Calendar Year, and submit it for examination and comment by Contractor. JOC shall then make such revisions as it deems appropriate in the light of any such comment, and not later than the fifteenth 15<sup>th</sup> August of each Calendar Year shall submit the said Petroleum production schedule and Work Program and Budget to the Board of Directors of the JOC for its approval. The JOC shall then submit the said Petroleum Production schedule and Work Program and Budget to Authority for approval. Following such approval, JOC shall carry out the approved Work Program and observe the production schedule, in accordance with the approved Budget and the provisions of the Contract.

- 9.23 The JOC shall implement its works and conduct its activities with high competence, in a manner consistent with internationally recognized good oil field practices.
- 9.24 The JOC shall within ten (10) days after the end of each Calendar Month prepare and submit to the Parties a detailed statement for the prior Calendar Month, setting forth the quantity of Average Daily Production. The JOC will allocate to each Party and each Party will take possession of its share of Petroleum, in accordance with Articles 17, 18 and 19 hereof. Each Party will bear the cost, risks and expenses pertaining to the Petroleum at the Delivery Point. The Cost Recovery and the Production Sharing Petroleum and the shares thereof shall be allocated between Crude Oil and Natural Gas in accordance with Articles 17, 18 and 19.
- 9.25 In accordance with Iraqi Oil and Gas Law No. of 2007, and in a timely manner before relinquishing its Petroleum Operations in the Contract Area under the Contract, Contractor shall draw up a "Decommissioning Plan", which shall aim at proper site restoration. When the said Plan is approved by Authority, Contractor shall execute the same in accordance with good international Petroleum industry practice. If no Commercial Discovery has been made in the Contract Area, the associated cost shall be borne by the Contractor; otherwise, the cost will be recoverable from the petroleum produced from any Development Area.

**End of Article 9**

**ARTICLE 10 - NATURAL GAS**

- 10.1 Natural Gas produced from the Contract Area shall not be flared except in accordance with the Oil and Gas Law No...of 2007 and any regulations thereto and the provisions hereof.
- 10.2 Utilization and/or disposal of Natural Gas produced from the Contract Area shall be determined in the approved Development Plan (s) and Work Programs and Budgets in accordance with the provisions of the Contract.
- 10.3 Contractor shall design, construct, install, operate and maintain all upstream facilities as may be necessary for the development, production, treatment and delivery of Natural Gas up to the Delivery Point.

**Non-Associated Gas**

- 10.4 Where a Non-Associated Gas Field is discovered, Contractor shall be allowed to hold the said Gas Field, which in the opinion of Contractor is substantial, for a period of two (2) years commencing from the end of the Exploration Period (with a similar two (2) Years holding period applied for Discoveries made during the extension period pursuant to Article 3.3 C), provided Contractor submits, anytime during or before the expiry of the said Exploration Period, Evaluation Plans, in accordance with the guidelines as set out in Annex E, in respect of the said Gas Field which must include to the extent technically warranted, appraisal and delineation activities such that, if they are carried out successfully, it will help in the assessment of realistic Natural Gas reserves base for potential gas markets and ultimately will lead to a declaration of Commerciality in respect of the Gas Field. The purpose of this holding period is for the Parties to firm up a viable gas market, and for Contractor to make a Declaration of

Commerciality based on agreed terms and conditions for such gas market and to submit for Authority's approval a Development Plan for production and delivery of Non-Associated Gas from the said Gas Field in a manner consistent with the timing and marketing arrangements envisaged for such viable gas market; however, Authority may extend this holding period for an additional period not exceeding two (2) Years on Contractor's request if the Parties are unable to firm up on a viable gas market within the original two (2) Year holding period.

- 10.5 Where Contractor is allowed to hold the Gas Field pursuant to Article 10.4 above, Contractor shall, before the expiry of the said holding period, make a Declaration of Commerciality in respect of such Gas Field based on agreed terms and conditions for identified gas market and to submit for Authority's approval a Development Plan for production and delivery of Non-Associated Gas from the said Gas Field in a manner consistent with the timing and marketing arrangements envisaged for such viable gas market. Any such Development Plan, shall include the Gas Field(s) dedicated for the gas project, a realistic gas demand forecast corresponding to specific outlets, sequence and timing of Gas Field(s) Development, the proposed project structure, gas pricing mechanism and other fiscal terms for the gas project.
- 10.6 Contractor's failure to make a Declaration of Commerciality in respect of the Gas Field(s) based on agreed terms and conditions for identified gas market within such holding period shall render the Gas Field(s) relinquished to Authority unless Authority agrees to extend this holding period pursuant to Article 10.4. Any Gas Field(s) not included in the Development Plan pursuant to Article 10.5 above shall be deemed to be relinquished thereafter.
- 10.7 Authority may direct Contractor to appraise the Gas Field(s) during the Exploration Period subject to there being, at this time, a Commercial Discovery of Crude Oil. It is agreed between the Parties that such Appraisal expenditure for the Gas Field(s) shall be recoverable from Cost Oil. However, after declaring Commerciality of Gas Field(s) the said cost shall be recoverable as Cost Gas.
- 10.8 Contractor shall develop the Gas Field(s), to the extent applicable, and effect First Commercial Production within four (4) Years from the date of Authority's approval of the Development plan(s) in respect of such Gas Field(s), or within any longer period as Authority may approve in order to coincide with the start-up date for the necessary downstream facilities related to the Natural Gas project. Contractor shall relinquish four (4) Years after the approved date of the Development Plan(s) by Authority any Development Area included therein if First Commercial Production from such Development Area has not commenced unless such delay in commencement is due to circumstances or events beyond Contractor's control or in accordance with the sequence and timing of Gas Fields Development as stated in the approved Development Plan or approved subsequent revisions thereof.
- 10.9 Where more than one (1) Gas Field is dedicated for the Natural Gas project, Contractor is obligated to develop such Gas Fields as and when needed to maintain the required delivery capacities in accordance with the approved Development Plan(s) and terms and conditions to be stipulated in the Natural Gas Project and Sales Agreement (NGPSA) to be entered into with the party responsible for the downstream facilities related to the Natural Gas Project.
- 10.10 The Development and Production Period of a Non-associated Gas Field shall not

exceed twenty (20) Years from the approval date of the relevant Development Plan.

#### Associated Gas

- 10.11 Produced Associated Gas from an Oil Field may be used free of charge for purposes related to Petroleum Operations such as for gas re-injection, gas lifting and power generation as shall be stipulated in approved Development Plan(s) and Work Programs and Budgets.
- 10.12 Based on the principle of full utilization of Gas, the Development Plan and Work Program of each Oil Field shall include a plan for the utilization and/or disposal of the Gas.
- 10.13 If there is any excess Gas, Contractor shall carry out a techno-economic feasibility study regarding its utilization and/or disposal, which shall be part of the Oil Field Development Plan. At Authority's option, however, Contractor shall deliver to Authority free of charge all Gas not utilized in Petroleum Operations or not included in the NGPSA at delivery points to be defined in the relevant Development Plans subject to conditions and specifications to be defined therein.
- 10.14 For an Oil Field already under production, Contractor shall carry out any further feasibility studies regarding Gas utilization and shall submit corresponding reports to Authority in a timely manner for review and appropriate decision.
- 10.15 When Authority agrees to the utilization of Gas of any Oil Field, then the construction of the facilities shall be simultaneous with the Oil facilities in order to prevent or to minimize flaring, in accordance with the provisions of the Contract.
- 10.16 If Authority agrees that excess Gas has no potential commercial value, then Contractor shall dispose of the said Gas subject to relevant laws, rules and regulations in force in Iraq in connection with environmental protection with the view to minimizing adverse effects on Crude Oil production, if any.
- 10.17 If feasibility studies recommended the commercialization and sale of excess Associated Gas produced and saved from the Contract Area, then this shall come under a separate agreement between the Parties to arrive at in a timely manner subject to the provisions of Article 19.7.
- 10.18 All costs and expenses incurred, paid and accounted for by Contractor related to the utilization; re-injection, delivery, production, treatment and disposal of Associated Gas under this Contract shall be recovered as Petroleum Costs.

#### Joint Gas Marketing

- 10.19 The Parties shall negotiate for the sale of Natural Gas under a NGPSA on a joint-dedicated basis to an outlet or outlets for Natural Gas at prices and upon terms common to both Parties which in the opinion of Authority and Contractor justify the Development, Production and delivery of Natural Gas to such outlet or outlets. Contractor is not authorized to sell its share of Natural Gas pursuant to Article 19.7 on any other basis save on a joint dedicated basis.
- 10.20 Authority may, by notice to Contractor and subject to such terms as it may determine, invite Contractor to participate in the development of the said outlet or outlets referred

to in Article 10.19. Within three (3) months of receipt of such notice Contractor shall notify Authority in writing whether it agrees to participate in the Development of the said outlet or outlets.

**End of Article 10**

**ARTICLE 11 - WORK PROGRAMS AND DEVELOPMENT PLANS**

11.1 Contractor shall submit for the approval of Authority within six (6) weeks from the Effective Date the first Work Program and Budget setting forth the Petroleum Operations which Contractor proposes to carry out and initiate until the end of the current Calendar Year. For the subsequent Calendar Years, Contractor shall submit before 1st September of each Calendar Year for approval of Authority, a Work Program and Budget setting forth the Petroleum Operations, which Contractor proposes to carry out and initiate during the next Calendar Year.

11.2 Each activity, namely Exploration, Development and Production shall have its own Work Program and Budget. The Work Program and Budget for Development and Production shall be in accordance with the approved Development Plan (s)

Each Work Program and Budget shall set out in detail by quarterly period all aspects of the proposed Petroleum Operations to be carried out including all relevant data and information and estimated costs, duration of each operation for each project and in the case of a Work Program for a Development Area, the estimated monthly rate of production for each Oil Field or Gas Field. Such Work Program shall also include measures to be taken to comply with the Minimum Work Obligations of Contractor as specified in Article 6.

Each Work Program and Budget shall include yearly Petroleum Operations plans for the four (4) Year period following the end of the relevant Calendar Year or the period up to termination of this Contract, whichever is shorter.

11.3. All Development plans shall be based on sound geological, engineering and economical principles and shall be prepared with the participation of Authority, in accordance with good international petroleum industry practice, and with the objective of optimizing the volume of recoverable reserves of Petroleum from the Field.

11.4. Development Plan(s) shall include the following as a minimum:

- (a) Details of the proposed Development Area;
- (b) Summary of reservoir studies;
- (c) Proposals relating to additionally required Field Appraisal, if any;
- (d) Proposals relating to the spacing, drilling and completion of wells and the surface facilities, installations and pipelines required for the production, storage, transportation and loading of Crude Oil/Export Oil;
- (e) Proposal relating to the gathering, treatment, utilization and disposal of Natural Gas;

- (f) Forecast of annual production and an estimate of relevant investments involved.

**End of Article 11**

**ARTICLE 12 - APPROVAL OF WORK PROGRAMS AND DEVELOPMENT PLANS**

12.2 Exploration

- A. In a timely manner, Contractor shall prepare and submit to Authority its proposals of the overall Exploration Work Program and expenditure estimate, the annual Exploration Work Program and Budget and any Revisions thereof, the Outline Development Proposal and Declaration of Commerciality, complete with supporting studies, data and information.
- B. Within thirty (30) days of receipt of Contractor's proposal pursuant to Sub-Article 12.2.A, Authority shall review the same and shall advise Contractor of its approval, which shall be final, or, after consultation with Contractor, its suggested adjustments for such approval.
- C. Contractor shall incorporate Authority's final adjustments, if any, and shall promptly issue the relevant Work Program and Budget, as finally approved by Authority, to the Operator for implementation.

12.1. No Petroleum Operations shall be carried out unless and until the relevant Work Program and Budget and relevant Development Plans have been approved in writing by Authority.

12.2. In a timely manner, Contractor shall prepare and submit to both Authority and the JMC (as applicable) its proposals of the Development Plans or their revisions as well as the annual Work Programs and Budgets or their revisions, and any administrative, accounting or other operating procedures, complete with supporting studies, data and information, for approval in accordance with the following procedure:

- (i)- Within thirty (30) days of receipt thereof, JMC shall review the same and shall submit to both Authority and Contractor the recommended proposal.
- (ii)- Within twenty (20) days of receiving JMC recommendation, Authority shall review the same, and shall advise both Contractor and JMC of its approval, which shall be final, or its comments and suggested modifications.
- (iii)- Within thirty (30) days of receipt of Authority's comments and suggested modifications (if any), Contractor shall incorporate the same and transmit the revised proposal to Authority and JMC. Otherwise, Contractor shall, within fifteen (15) days, review Authority's comments and suggestions, meet Authority if

necessary, compromise any standing differences, and transmit to both Authority and JMC the revised proposal.

(iv)- Within fifteen (15) days of receipt thereof, Authority shall review the revised proposal and shall advise both Contractor and the JMC of its final approval of the same or reasons for non-approval.

12.3. Contractor shall promptly issue the Development Plans, Work Programs and Budgets and any operating procedures, as finally approved by Authority to Operator for implementation.

12.4. Authority shall have the right to review the proposed level of production in respect of any proposed or approved annual Work Program and may, upon written notification, request Contractor to increase or decrease the rate of production from any Oil Field located in a Development Area for any of the following reasons:

- (a) To optimize oil and gas recovery;
- (b) To minimize gas wastage;
- (c) For safety consideration; and
- (d) For operational consideration; and
- (e) For Government imposed curtailment

In case curtailment of production of Crude Oil is to be applied by the Government as per (e) above, Authority shall apply such reduction in a non-discriminatory manner. Contractor shall comply with such reduction upon receipt of notification from Authority to this effect.

In the event that the imposed reduction in production exceeds ten percent (10%) of the then current approved production schedule and for a total period exceeding one (1) Year, then the Parties shall meet to agree in good faith on a possible revised production schedule with a view to enabling Contractor to recover from the Field soonest possible, and in accordance with good oil field practice, the volume of Crude Oil lost as a result of the reduction in excess of the stated limits taking the Crude Oil quality into account.

12.5 It is recognized by Authority and Contractor that the details of a Work Program may require changes in the light of changing circumstances, thus Contractor may without the prior approval of Authority make minor changes, provided that such changes shall not change the approved Budget for any affected major item by more than ten percent (10%), do not change the total approved Budget by more than five percent (5%), and do not substantially alter the general objectives of the Work Program. Otherwise, Operator shall seek Authority's prior approval unless such changes are warranted under emergency or extraordinary circumstances requiring immediate action, including but not limited to action required for safeguarding lives or property, protection of the environment or health reasons. Such changes shall be reported by Contractor to Authority within five (5) working days.

12.6 Any modification to the approved Development Plan shall be considered as a revision of the said Plan which shall be subject to Authority's approval in accordance with this Article 12, if such modifications alter the general objectives of the approved Development Plan or change the total estimated Capital Cost by more than ten

percent (10%).

12.7 To satisfy national interest, Authority may, within a Work Program and Budget or separately, give notice in writing to Contractor requiring them:

(i) to develop a Petroleum deposit considered by Contractor to be non commercial;  
or

(ii) to execute specific works or build specific facilities.

Within ninety (90) days after receiving such notice. Contractor shall amend the Work Program and Budget appropriately. Expenditure incurred as a result of Authority's requirement under this Article 12.6 shall be fully borne by Authority. If Contractor is unwilling to undertake such specific work, Authority shall have the right to appoint a third party to carry out such specific work taking care not to hinder or unduly interfere with Petroleum Operations, and Authority shall be entitled to receive the benefits therefrom including the whole benefits of any production arising under Article 12.6 (i)

#### **End of Article 12**

#### **ARTICLE 13 - JOINT MANAGEMENT COMMITTEE AND AUTHORITY'S REPRESENTATIVE**

13.1 The Parties shall establish, within thirty (30) days from the Effective Date, a joint management committee, referred to herein as the "Joint Management Committee" (JMC), for the purpose of general supervision and control of Petroleum Operations. Authority shall nominate three (3) members, while each entity constituting Contractor shall nominate one (1) member, provided that if Contractor is constituted of one company, it will nominate three (3) members. A member from the Operator shall serve as the Secretary of the Committee. The chairman shall be appointed by Authority from among its representatives. The Parties shall also designate one alternate to each of their representatives and shall promptly inform each other in writing of any change of the representatives or alternates thereof.

13.2 JMC shall have the following duties and authorities;

- a) Review and recommendation of Preliminary Overall Work Program, Development Plans and cost estimates and any Revisions thereof.
- b) Review and recommendation of annual Work Programs, production schedules, and budgets and any Revisions thereof.
- c) Review and recommendation of operating procedures pursuant to Sub-Article 9.11.
- d) Review and/or approval of the award of sub-contracts and purchase orders as applicable pursuant to Sub-Article 9.9(c).
- e) Approval of training programs and Iraqization plans for developing Iraqi personnel in various aspects of Petroleum Operations, pursuant to Sub-Articles 9.9 (a) & (b) and

26.1.

- f) Supervision and control of the implementation of approved Development Plans and Work Programs and the overall policy of Operator.
- g) Review and/or approval of manpower strength and organisation chart of Operator with respect to Petroleum Operations.
- h) Review of audited quarterly statements, annual accounts and other financial statements related to Petroleum Operations.
- i) Review of periodical and other reports submitted by Contractor/Operator and issue of comments and recommendations to ensure proper implementation of Petroleum Operations in accordance with the provisions of the Contract.
- j) Recommendation of the appointment of the independent international auditor as per Sub-Article 20.4 herein.
- k) Recommendation of the designation of the independent inspector referred to in Addendum Two and the subsequent Transportation Agreement.

13.3. Decisions of JMC shall be taken by unanimous votes of the members or their alternates present at the meeting. Quorum shall be at least two (2) representatives or alternates of each Party. Decisions taken by JMC shall be recorded in official minutes signed by the members present and communicated by Operator to the Parties.

13.4. JMC shall meet whenever necessary or expedient for the implementation of the Contract and at any time a Party requests a meeting to be held. In any event JMC shall meet at least once every Quarter. A meeting of JMC may be convened by either Party giving not less than twenty (20) days prior notice to the other Party or, in a case requiring urgent action, by giving such shorter notice as may be reasonable. Operator shall prepare the agenda and necessary documents prior to such meetings and communicate the same to the members of JMC.

13.5. JMC may adopt such procedures as it deems appropriate regarding the conduct of its functions, meetings, and other related matters. For the purpose of facilitating the conduct of its functions, JMC may appoint such appropriate sub-committees as shall from time to time be required.

13.6. JMC's duties and authorities as per Sub-Article 13.2 hereabove shall be transferred to the Board of Directors (BOD) which shall be formed pursuant to Addendum Three for the purpose of overall control and supervision of Petroleum Operations to be conducted by the Joint Operating Company (JOC). JMC shall be dissolved on the Date of Transfer of Petroleum Operations when the said BOD shall assume its duties and authorities in accordance with Addendum Three.

13.7. All costs incurred by Contractor and approved by the JMC for the carrying out of JMC duties shall be considered as Petroleum Costs.

**End of Article 13**

**ARTICLE 14 - DATA AND SAMPLES**

14.1 All original data and samples obtained by Contractor shall be the property of Authority.

- 14.2 Contractor may remove and export, for the purpose of laboratory examination or analysis, petrological specimens or samples of hydrocarbon or water encountered in a borehole or well and provide Authority, free of charge, with samples and specimens of equivalent size and quality before such exportation.
- 14.3 Originals of technical data and records (including magnetic tapes etc.), may be exported after providing Authority with copies of the same, provided that Contractor guarantees their proper storage and keeping, and that such exports shall be repatriated to Iraq within a maximum period of three (3) months from the date of completion of any study, analysis or processing that they may have been used for.
- 14.4 Contractor shall save and keep in Iraq, for a minimum of one (1) year period, representative portions of each sample of cores, cuttings and reservoir fluids taken from drilled wells, to be disposed of or forwarded to Authority in a manner directed by Authority.
- 14.5 Contractor shall provide Authority with copies of any and all data (including but not limited to geological and geophysical reports, logs and well surveys) reports, information, interpretation of data and all other information or work product pertaining to the Contract Area in Contractor's or Contractor's Affiliate's possession.

**End of Article 14**

**ARTICLE 15 - REPORTS AND RECORDS**

- 15.1 Contractor shall report in writing to Authority the status and progress of Petroleum Operations according to the following schedule:
- a. Monthly Report within ten (10) days of the last day of every Calendar Month covering the previous Calendar Month.
  - b. Annual report for every Calendar Year will be submitted within one month of the last day of the Calendar Year covering the previous Calendar Year.
- 15.2 A report under Article 15.1 shall at least contain the following in respect of the period, which it covers:
- a. Details of the Petroleum Operations and the factual information obtained.
  - b. A description of the area in which Contractor has operated.
  - c. Maps indicating all seismic surveys, bore-holes, wells and other Petroleum Operations.
  - d. Summary of Petroleum Costs incurred in accordance with the provisions of this Contract and Accounting Procedure, which will be considered as a provisional report.
- 15.3 Contractor shall prepare at all times during the terms of this Contract accurate and current records of its operations. Such records shall be prepared and maintained by Contractor in accordance with procedures established by Authority.
- 15.4 Contractor's reports on Petroleum Operations shall comply with the relevant provisions of Law No.84 of 1985.

**End of Article 15**

**ARTICLE 16 - ACCESS AND INSPECTION**

**16.1 Authority's Inspectors**

Duly authorized inspectors of Authority and Authority's Representative(s) shall have access to the Contract Area and any other area where Petroleum Operations are being carried out, for the purpose of inspection of the same. Such inspectors and/or Authority's Representative(s) may examine the books, registers and records of Contractor to make a reasonable number of surveys, drawings, tests and the like for the purpose of enforcing the provisions of the Contract. They shall, for this purpose, be entitled to make reasonable use or inspection of devices, machinery and instruments used for measurement and other Petroleum Operations. Such inspectors and/or Authority's representative (s) shall be given assistance by the agents and employees of Contractor to facilitate the objectives of their task and to avoid endangering or hindering the safety or efficiency of the Petroleum Operations. Contractor shall offer such inspectors and/or Authority's Representative (s) privileges and facilities afforded to its own staff in the Contract Area and shall provide them free of charge, with reasonable office space and lodging while they are in the Contract Area whether on temporary or permanent basis.

**16.2 Government Authorities**

Competent Government authorities shall have access to the Contract Area and to the operations conducted thereon by Contractor in the course of carrying out their duties in accordance with relevant Laws and Regulations. Contractor shall offer the necessary assistance to such officials in order to facilitate their objectives.

**16.3 Costs and expenses incurred by Contractor under provisions of the Article shall be considered as Petroleum Costs.**

**End of Article 16**

## ARTICLE 17 - MEASUREMENT, TRANSPORT AND DELIVERY OF PETROLEUM

### Crude Oil

- 17.1 The volume and quality of Crude Oil shall be measured at a Production Measurement Point (PMP) within the Contract Area, as it exists at that time. The location of Production Measurement Point (PMP) shall be defined in the approved Development Plan.
- 17.2 The volume and quality of Export Oil delivered to Contractor shall be measured at the Delivery Measurement Point (DMP).
- 17.3 The transportation and delivery of Crude Oil from the Transfer Point down to the Delivery Point shall be carried out by a competent Iraqi entity designated by Authority, under the terms of Addendum Two of this Contract and subsequent Transportation Agreement, hereinafter referred to as "Transporter".
- 17.4 Methods and procedures for measurement of volume and quality of Crude Oil at the PMP and Export Oil at the DMP shall be as per Addendum Two of this Contract and subsequent Transportation Agreement.
- 17.5 The volume of Export Oil to be delivered to Contractor at the Delivery Point under this Contract shall be determined in accordance with Articles 18 and 19 and Addendum Two of the Contract and subsequent Transportation Agreement.
- 17.6 Title to Export Oil, delivered to Contractor under this Contract together with the corresponding risks, shall pass to Contractor at the Delivery Point.
- 17.7 Transporter shall be entitled to a fee per Barrel for all Crude Oil measured at the PMP. The said fee shall be agreed upon and defined in Addendum Two and the Transportation Agreement to be signed between Contractor and Transporter.
- 17.8 Contractor shall build the necessary transportation facilities up to the nearest possible available existing main transportation system as agreed upon in the Approved Development Plan to ensure the delivery of Crude Oil. The additional transportation facilities shall form part of the Transportation System necessary for the same and in proportion commensurate with Contractor's ultimate rates of production, in accordance with the provisions of this Contract and the Transportation Agreement. In the event there is a need to build a major new transportation system to the Delivery Points(s), Authority and Contractor shall meet to discuss and agree on the terms of building this new facility.

### Natural Gas

- 17.9 Contractor shall deliver Natural Gas produced under this Contract and available for sale to Delivery Point in accordance with the marketing arrangement to be stipulated in a Natural Gas Project and Sales Agreement (NGPSA) to be agreed between the Parties.
- 17.10 Contractor shall construct, install, operate and maintain all upstream facilities, pipelines, slug catcher, facilities for metering Natural Gas streams, and any other facility as may be necessary for the Development, Production and delivery of Natural Gas up to the Delivery Point. The use of any excess capacity of these facilities by a third party on approval by Authority will be treated in separate agreements between all relevant parties and any proceeds thereof shall be credited to the Operating

Account in accordance with Annex C.

- 17.11 Contractor's entitlement to the proceeds derived from the sale of Natural Gas at Delivery Point as stipulated in Article 17.9, shall be determined in accordance with the provisions of Article 19, and the Accounting Procedures as set forth in Annex C, or as per the terms that may be agreed between the Parties and be set forth in the NGPSA.

**End of Article 17**

**ARTICLE 18 - VALUATION OF CRUDE OIL AND EXPORT OIL**

- 18.1. The quantity of each quality grade of Export Oil to which Contractor shall be entitled under Article 19 during any Quarter shall be determined and evaluated on the basis of Export Oil Price for that Quarter.  
The Crude Oil Price for each quality shall be calculated by adjusting the Export Oil Price for that quality pursuant to the quality adjustment formula as per Addendum Two.
- 18.2. It is the intent of both Parties that Export Oil Price for each quality of Export Oil during any Quarter shall reflect the prevailing market price F.O.B. Delivery Point for the said quality of Export Oil for that Quarter.
- 18.3. The Export Oil Price for any Quarter for each quality of Export Oil delivered to Contractor shall be the weighted average price actually realized F.O.B. Delivery Point expressed in Dollar per Barrel for cargoes delivered during the Quarter either by Authority or by Contractor to third parties in arm's length sales (i.e. excluding barter, counter trade, processing or sales to Affiliate) whichever is higher.
- 18.4. If during any month no volume of Export Oil is disposed of by Authority or by Contractor in arm's length sales as aforesaid, then Authority and Contractor shall meet and mutually agree on the Export Oil Price to be used for that month taking into account prevailing market price for crude oils of similar grade, quality, quantity, sales terms and geographical market during the said month.
- 18.5. Within twenty (20) days following the end of each Quarter, each entity constituting Contractor shall submit to Authority a report with the actual prices realized for cargoes delivered in each month of the Quarter to third parties in arm's length sales. The report shall also include full supporting documentation, including copies of relevant commercial invoices, and give specific details of volumes, relevant contract terms, customers, pricing and payment terms and detailed price calculations.
- 18.5.1. It is understood that in case title to Export Oil passes to a third party at a point other than Delivery Point or in case of CIF or C&F sales, appropriate and applicable deduction shall be made for transportation, insurance charges and oceanic losses in order to calculate the price F.O.B. Delivery Point.
- 18.5.2. Prices on credit basis shall be appropriately adjusted to provide for payment within thirty (30) days from the date of the bill of lading.
- 18.6. Within fifteen (15) days following the delivery to Authority of the information required under Sub-Article 18.5 hereof, Authority shall calculate and determine the Export Oil Price for that Quarter in accordance with the procedures set out in Sub-Article 18.3 hereof.

- 18.7. If Contractor considers the Export Oil Price so determined by Authority does not reflect the market conditions prevailing during the relevant Quarter, Contractor and Authority shall meet within fifteen (15) days following Price notification by Authority in order to mutually agree on the Export Oil Price by reference to the actual prices realized by Authority and Contractor for cargoes delivered during such month of that Quarter to third parties on arm's length sales and, prices of other crude oil which were sold on the market in arm's length deals between willing sellers and willing buyers during the same period taking into account similar grade, quality, quantity, geographical areas and sales terms.
- 18.8. If at the end of the said fifteen (15) days period provided for hereabove, or after the meeting referred to in Sub-Article 18.4, the Parties fail to agree on an Export Oil Price for the Quarter, then Iraqi Minister of Oil shall finally determine the Export Oil Price for such Quarter taking into consideration prevailing market prices during that Quarter. The Export Oil Price so determined by the Iraqi Minister of Oil shall be final and binding for both Parties.
- 18.9. Notwithstanding the provisions hereinabove, should Iraq apply, within the term of the Contract, a particular pricing formula or posted price per quality of Export Oil, such pricing formula or posted price shall be considered the applicable Export Oil Price for that quality of Export Oil.
- 18.10. Contractor shall cooperate with the Iraqi State Oil Marketing Organization (SOMO) in areas such as:
- (a) Follow-up of the export quality of Crude Oil.
  - (b) Market studies and outlet forecast in various market areas.
  - (c) Other information concerning Crude Oil market conditions.

**End of Article 18**

**ARTICLE 19 - COST RECOVERY AND REMUNERATION**

**19.1. Crude Oil Cost Recovery**

Contractor shall recover all costs and expenses considered as Petroleum Costs in accordance with the provisions of this Contract and the Accounting Procedure in respect of all Petroleum Operations hereunder to the extent of and out of a maximum of ----- percent (--- %) of the Crude Oil remaining after deducting Royalty from Net Production (hereinafter referred to as "Cost Oil"). Petroleum Costs not recovered in any Quarter shall be carried forward and recovered in succeeding Quarters until fully recovered.

For the purpose of cost recovery, Cost Oil shall be valued at Crude Oil Price in accordance with Article 18.

**19.2. Profit Oil Split**

The remaining Crude Oil, (i.e. the Crude Oil remaining after deducting both Royalty and Cost Oil from Net Production), hereinafter referred to as Profit Oil "PO", shall be shared

between Authority and Contractor pursuant to the provisions of Sub-Articles 19.3 and 19.4 herein below.

**19.3** The Parties' shares of Profit Oil in any Year shall be determined on the basis of the "R-Factor" actually achieved by Contractor at the end of the preceding Year for the Field as provided in the table herein below.

The R-Factor achieved by Contractor as at the end of any Year shall be calculated by dividing the aggregate value of the addition of each of the annual cash incomes (accumulated, without interest, up to and including that Year starting from the Year in which Production first arose) by the aggregate value of the addition of each of the annual expenditures (accumulated, without interest, up to and including that Year starting from the Year in which Petroleum Costs were first incurred).

Contractor shall be entitled to take and receive the following percentage of the Profit Oil from the Field with effect from the start of the succeeding Year:

R-Factor	Contractor's Profit Oil Share (%)
Less than <b>1.0</b>	Bid
<b>1.0</b> to less than <b>1.5</b>	Bid
<b>1.5</b> to less than <b>2.0</b>	Bid
<b>2.0</b> to less than <b>2.5</b>	Bid
<b>2.5</b> to less than <b>3.0</b>	Bid
<b>3.0</b> to less than <b>3.5</b>	Bid
Equal to or more than <b>3.5</b>	Bid

The value of the Contractor's R-Factor at the end of any Year in respect of the Field shall be calculated on the basis of the actual cash flows specified in 19.4 hereunder. However, the amount of Profit Oil to be shared between Authority and the Contractor shall be determined for each Quarter on an accumulative basis. Pending finalization of accounts, where Authority has elected to take its Profit Oil share in kind, Profit Oil shall be shared on the basis of provisional estimated figures of Contract Costs, production, prices, receipts, income and any other income or allowable deductions and on the basis of the value of the R-Factor achieved at the end of the preceding Year. All such provisional estimates shall be recommended by the Joint Management Committee and approved by Authority. When it is necessary to convert monetary units into physical units of production equivalents or vice versa, the price or prices determined pursuant to Article 18 for Crude Oil shall be used. Within thirty (30) days of the end of each Year, a final calculation of Profit Oil based on actual costs, quantities, prices and income for the Year shall be completed and any necessary adjustments to the sharing of Profit Oil shall be agreed upon between the Authority and the Contractor within thirty (30) days and made within thirty (30) days thereafter.

**19.4 Calculation of the R-Factor for Profit Oil Sharing Purposes**

In accordance with the provisions of Article 19.3, the sharing of Profit Oil in any Year shall be determined by the "R-Factor" earned by the Contractor from the then Petroleum Operations at the end of the preceding Year. These measures of profitability shall be calculated on the basis of the appropriate cash flows as specified hereunder:

The cash receipt of Contractor from Petroleum Operations in any particular Year is the aggregate value for the Year of the following:

Cost Oil entitlement of Contractor as provided in Article 19.1; plus

Profit Oil entitlement of Contractor as provided in Article 19.3; plus

Contractor's all incidental income (of the type specified in the Accounting Procedure) arising from Petroleum Operations;

The "expenditure" made by Contractor in the Field in any particular Year is the aggregate value for the Year of:

Contractor's Capital Costs incurred on or in the Contract Area, plus

Operating Cost incurred on Production Operations.

For the purposes of the calculation of the R-Factor, costs or expenditures which are not allowable as provided in the Accounting Procedure shall be excluded from Petroleum Costs and be disregarded.

The R-Factor achieved by the Contractor as at the end of any Year shall be calculated by dividing the aggregate value of the addition of each of the annual cash incomes (accumulated, without interest, up to and including that Year starting from the Year in which Production first arose) by the aggregate value of the addition of each of the annual expenditures (accumulated, without interest, up to and including that Year starting from the Year in which Petroleum Costs were first incurred).

Profit Oil from the Field in any Year shall be shared between the Authority and the Contractor in accordance with the value of the R-Factor earned by the Contractor as at the end of the previous Year pursuant to Articles 19.3, hereinabove.

**19.5. Windfall Profit from Escalated Crude Oil Prices**

When in a Quarter the average Crude Oil Price (hereinafter referred to as "P<sub>avg</sub>") exceeds the respective Crude Oil Base Prices (hereinafter referred to "BP") stated below, Contractor shall in the succeeding Quarter make profit return payment to Authority, in cash or in kind at Authority's sole election, for incremental revenue obtained from Contractor's Profit Oil share "CPO" lifted by Contractor for each quality of Crude Oil in accordance with the following formula:

(a) When P is equal to or greater than BP1 but less than or equal to BP2, then:

$$\begin{aligned} \text{Profit Oil return (USD, when in cash)} &= (P_{\text{avg}} - \text{BP1}) * F1 * \text{CPO} \\ \text{Profit Oil return (Barrel, when in kind)} &= \frac{(P_{\text{avg}} - \text{BP1}) * F1 * \text{CPO}}{P_{\text{avg}}} \end{aligned}$$

(b) When P<sub>avg</sub> is greater than BP2, then:

$$\text{Profit Oil return (USD, when in cash)} = [(BP2 - BP1) * F1 + (P_{\text{avg}} - BP2) * F2] \text{ CPO}$$

$$\text{Profit Oil return (Barrel, when in kind)} = \frac{[(BP2 - BP1) * F1 + (P_{\text{avg}} - BP2) * F2] * \text{CPO}}{P_{\text{avg}}}$$

Where: F1 = 0.75 F2 = 0.90

The respective Crude Oil Base Prices shall be set on the Effective Date as follows and will be increased by two percent (2 %) annually:

Levels	Crude Oil Base Price \$/b
BP1	.....
BP2	.....

#### 19.6. Natural Gas Project and Sales Agreement (NGPSA)

Where decision on Commerciality is given, then the Parties shall reach through negotiations a specific agreement on the production allocations of the gas Field(s) and sales of produced Gas on the domestic and/or international market. This agreement referred to as the Natural Gas Project and Sales Agreement (NGPSA) shall be a supplementary document to the Contract and forms an integral part thereto; and shall include the following principles.

- a. Price of Gas shall be determined on pricing principles prevailing internationally taking into account such factors as grade, quality, quantity, market and prices of alternative energy.
- b. Such agreement shall be reached in a timely manner prior to the start of Development of the Gas Field(s).

If the Parties fail to reach such agreement within the holding period or any extension thereto as per Article 10.5 then Authority shall have the right to take unilateral measures. However, Contractor shall still have the right to participate in a solution by submitting a new proposal. If, however, a solution is reached with a third party, Contractor shall waive all rights and save Authority harmless against any and all actions, claims, demands and proceedings except for actual costs incurred and paid for and not recovered as Petroleum Costs.

#### 19.7. Gas Cost Recovery and Profit Gas Sharing

Following Declaration of Commerciality in respect of a Gas Field or an Associated Gas project, the Parties shall specifically agree through negotiations on the production allocations for Cost Gas and Profit Gas sharing after deducting Royalty from the Net Deliveries of Gas from the Contract Area.

**End of Article -19**

#### **ARTICLE 20 - BOOKS OF ACCOUNT, ACCOUNTING AND AUDIT**

- 20.1 Contractor shall maintain at its business offices in Iraq books of account in accordance with the Accounting Procedure in Annex C and accepted accounting practices generally used in the international petroleum industry and such other books and records and original supporting documents necessary to show the work performed and expenditures and costs incurred including the quantity and value of all Petroleum produced and saved under the Contract.
- 20.2 Contractor shall keep its books of account and accounting records in Dollars and English language. An Arabic summary of the main items of these books of accounts and accounting records shall also be prepared and kept by Contractor.
- 20.3 Contractor shall furnish to Authority or its designee monthly reports showing the quantity of Petroleum produced and saved from the Contract Area. Such reports shall be prepared in accordance with practices generally used in the international petroleum industry and in a form agreed upon with Authority and shall be signed by the general manager of the Operator or his deputy and delivered to Authority or its

designee within thirty (30) days after the end of the month covered by that report.

- 20.4 The Parties shall appoint an independent auditor of international standing to audit annually the books and accounts of Contractor and report thereon. The cost of such audit shall be considered as Petroleum Costs. Below are some criteria that the auditors may adopt for cost recovery purposes:
- (i) The record of costs is not correct; or
  - (ii) The costs are not in accordance with the Contract governing such costs; or
  - (iii) The cost is not properly classified in accordance with the expenditure classification; or
  - (iv) Absence of support documentation to justify such costs and expenditures; or
  - (v) Evidence exists of fraudulent records and accounts in respect of the costs incurred; or
  - (vi) The condition of the materials furnished by Contractor does not match with the prices listed in the statement of costs and expenditures.
- 20.5 Contractor shall submit to Authority a set of audited accounts for each Calendar Year not later than March 31 of the following year to show the results of the Petroleum Operations for that Financial Year.
- 20.6 Contractor shall supply Authority within forty-five (45) days after the end of each Quarter a statement of activities showing costs incurred by Contractor during that Quarter.
- 20.7 Contractor's statement of its expenditure, books, records and necessary supporting documents shall be available for auditing by Authority at any time during regular working hours for twenty four (24) months following the end of the Year to which such document relate. Within such twenty-four (24) months Authority shall advise Contractor of its objections in writing. If within such twenty four (24) months Authority auditors will not visit nor advise Contractor of its objections as aforesaid then such books of account, records and other relevant documents shall be considered as approved. The audit of Accounts shall be on an annual basis.
- 20.8 Costs and expenses to which Authority has taken objection as prescribed here above shall be excluded from the statement for recovery as Petroleum Costs. During the first three (3) months period from the date of such objection Contractor and Authority shall either seek in good faith a solution mutually acceptable or nominate one independent expert or more to settle the matter within three (3) months period according to accepted accounting procedures in the petroleum industry.
- 20.9 The aforesaid books of account and the books and records referred to above shall be available at all reasonable times for auditing by duly authorized representative(s) of the Government, in accordance with prevailing Laws and regulations.

**End of Article 20**

**ARTICLE 21 - EXCHANGE AND CURRENCY CONTROL**

- 21.1 Contractor shall have the right of availability, free possession, use of, and internal and external disposal of foreign currency.
- 21.2 Contractor shall provide funds necessary for Petroleum Operations in Iraq under this

Contract in freely convertible foreign currencies supplied from abroad.

- 21.3 Contractor is authorized to open and operate accounts in foreign banks outside Iraq and shall have the right to make payments out of the said accounts directly in foreign currencies for goods and services obtained for Petroleum Operations in Iraq and to charge such payments in accordance with the provisions of this Contract without having first to transfer the funds for such payments to Iraq.
- 21.4 Contractor and its non-Iraqi Sub-contractors shall have the right to retain abroad all funds received by it abroad including proceeds from the sale of its share of exported Crude Oil or Gas.
- 21.5 Contractor and its non-Iraqi Sub-contractors shall have the right to open and maintain bank accounts in foreign and/or local currencies in Iraq in accordance with Central Bank of Iraq regulations and retain or dispose of any funds therein for its Petroleum Operations in Iraq in accordance with Central Bank of Iraq regulations.

**End of Article 21**

**ARTICLE 22 - TITLE TO ASSETS**

- 22.1 All fixed and movable assets acquired and/or provided by Contractor, in connection with or in relation to Petroleum Operations, cost of which are subject to recovery in accordance with the provisions of this contract shall become the property of Authority upon their landing at the Republic of Iraq.
- 22.2 Notwithstanding the above, Contractor shall be entitled to the full and free use of such assets for the purpose and duration of the Contract. During the term of the Contract, Authority and Contractor shall not sell or otherwise dispose of such fixed and/or movable assets except by mutual agreement.
- 22.3 The provisions of Sub-Article (22.1) hereof shall not apply to equipment leased by or belonging to Contractor, its Affiliates, or its Sub-contractors imported on temporary basis to perform services or carry out works in connection with Petroleum Operations. Contractors and its non Iraqi Sub-Contractors may, with the prior approval of Authority, import such equipment and/or material on temporary basis which (unless otherwise agreed by Authority) shall be re-exported from Republic of Iraq (subject to the provisions of Article 25 as and when they are no longer required for Petroleum Operations.

**End of Article 22**

**ARTICLE 23 – ROYALTY AND TAXES**

- 23.1. Pursuant to the Iraqi Petroleum Law No..... of 2007, Government shall take Royalty upfront at the rate of twelve point five percent (12.5%) of the Net Production of Crude Oil, in the case of an Oil Field, or the Net Deliveries of Natural Gas in the case of a Gas Field, as from First Commercial Production. Government has the option to take Royalty in cash or in kind. If in cash, the valuation of Crude Oil for Royalty payment shall be as per Article 18, and the valuation of Gas shall be as per Article 10. The Royalty amount due to Government shall be payable latest by the end of the succeeding Month.
- 23.2. Contractor or the entities constituting Contractor shall be subject to the laws in force

from time to time in Iraq which impose taxes, levies, duties and other financial charges on, or measured by, income or profits, including those taxes imposing commercial and industrial profit tax, municipal tax, defense tax, tax on income or dividends and all other laws of similar nature (the "Iraqi Taxes"), and shall comply with the requirements of such laws with respect to the filing of returns, assessment of tax and the keeping of books and records.

23.3. The Parties agree that the share of production allocated to Authority pursuant to Article 19 has been negotiated so as to specifically include the Iraqi Taxes as defined in Sub-Article 23.1 owing by Contractor in Iraq.

23.4. Authority agrees to pay on time and on behalf of Contractor or the entities constituting Contractor the Iraqi Taxes to which Contractor or the entities constituting Contractor is subject to in Iraq.

23.4. Authority shall furnish to Contractor or non-Iraqi entities constituting Contractor annual receipts evidencing the payment of the Iraqi Taxes. Such receipts shall be issued by the competent authority indicating the amount and other particulars customary for such receipt and stating that Contractor and the non-Iraqi entities constituting Contractor have satisfied the payment of these taxes in Iraq.

23.6. Non-Iraqi Sub-Contractors and their non-Iraqi personnel, and Contractor's or Operator's non-Iraqi personnel shall be exempted from payment of Iraqi Taxes as defined in Sub-Article 23.1 in respect of Petroleum Operations and their income or profits arising from or related to the Contract.

**End of Article 23**

**ARTICLE 24 - INDEMNITY AND INSURANCE**

24.1. Contractor shall indemnify and hold Authority harmless against all and any claims, actions, demands and proceedings made by third parties arising out of any loss or damage, resulting from an act or omission of Contractor and/or its Sub-Contractors in their conduct of Petroleum Operations. All costs incurred by Contractor to indemnify and hold Authority harmless as aforesaid shall be considered as Petroleum Costs except in the case of gross negligence or willful misconduct on the part of the Contractor or its Sub-Contractors.

24.2. Contractor shall be liable to Authority for any loss of or damage to any installations belonging to Authority arising from gross negligence or willful misconduct of Contractor and shall be liable to any third party for any loss or damage arising from gross negligence or willful misconduct of Contractor. Notwithstanding the foregoing, under no circumstances shall Contractor be liable for consequential damages such as loss of profit and loss of production. For the purpose of the Contract, "gross negligence or willful misconduct" means any unjustifiable act or omission which constitutes an intentional, deliberate and conscious disregard of reasonable and prudent petroleum operating practices or terms of the Contract.

24.3. Contractor shall obtain and maintain insurances with an Iraqi insurance company to cover the risks in connection with or in relation to the Petroleum Operations and any other activities related thereto and as may be required by law in Iraq during the term of the Contract, including third party liability and environmental damage and injury. The Iraqi insurance company shall arrange, in co-operation with Contractor to the extent needed, re-insurance placement for coverages on the international market for the part of exposure in excess of the Iraqi insurance company's net retention.

- 24.4. Contractor shall establish an insurance plan, to be approved by the JMC, for its operations hereunder and obtain the insurance policies in accordance therewith. Such insurances shall cover the types of exposure that are normally covered in the international petroleum industry, including but not limited to damages to equipment, installations and third party liabilities. Contractor shall ensure that its Sub-Contractors adequately insure their risks under their relevant sub-contracts.
- 24.5. The cost of insurances obtained and maintained by Contractor and any amounts paid for losses or claims in excess of such insurances and not attributable to the gross negligence or willful misconduct of Contractor or its Sub-Contractors under this Contract shall be considered as Petroleum Costs.
- 24.6. Contractor shall notify Authority of the issue and terms of all insurance policies obtained by it under this Contract.

**End of Article 24**

**ARTICLE 25 - IMPORTS AND EXPORTS**

- 25.1 Contractor and its respective non-Iraqi Sub-contractors engaged in carrying out Petroleum Operations under this Contract shall be permitted to import and shall be exempted from customs duties and import license fees with respect to the importation of machinery, equipment, vehicles, materials, supplies, consumable and movable property to be used solely for the purpose of carrying out Petroleum Operations and supporting activities under this Contract. However, Contractor shall with Authority's assistance, if requested, fill in relevant forms and provide the required data and information in order to complete the necessary formalities in this respect.
- 25.2 Expatriate employees of Contractor and its Sub-contractors shall be permitted to import on a temporary basis and shall be exempted from customs duties and import license fees with respect to the reasonable importation of household goods and personal effects, provided that such properties are imported for the sole use of the employee and his family and provided further that such imported property shall be either re-exported by the employee, without any export duty or impost, upon termination of his employment, or disposed of in Iraq in accordance with the prevailing Government rules and regulations.
- 25.3 Items imported by Contractor and its Sub-contractors on temporary basis and no longer required for Petroleum Operations or supporting activities shall, (unless otherwise agreed by Authority) be re-exported without any export duty or impost.
- 25.4 The sale in Iraq of any imported items under this Contract shall be subject to Authority's prior consent and to the prevailing Government rules and regulations.
- 25.5 Customs duties, as used herein, shall include all duties, taxes and other financial imposts which may be due as a result of the importation of the above mentioned items but, shall not include charge or fees to be paid to Governmental entities for services rendered.
- 25.6. Contractor shall be permitted to export and shall be exempted from any export duty or impost with respect to the exportation of Crude Oil to which Contractor shall be entitled under the Contract except for port dues to be payable for services rendered by the port authorities. Such port dues shall not be recoverable.

**End of Article 25**

**ARTICLE 26 - TRAINING**

- 26.1 Contractor shall, after consultation with Authority, prepare and carry out specialized annual training Programs for its Iraqi employees engaged in Petroleum Operations with respect to various specialization of the petroleum industry. The costs and expenses of such training Programs shall be recovered by Contractor as Petroleum Costs.
- 26.2 Contractor shall also allocate an annual amount of one hundred (100) thousand USD for the first five (5) Contract Years or for the first seven Contract Years if any extension to the Exploration Period is granted pursuant to Article 3.3 C, as "Training Budget" for the purpose of training a number of personnel from Authority in various specialties related to oil industry. This Training Budget shall not be recoverable as Petroleum Costs. Subsequent to the first Commercial Discovery and start of the Development, an annual amount of two hundred (200) thousand USD shall be allocated as Training Budget for the remaining Term of the Contract. The costs and expenses, incurred by Contractor for this purpose up to the limit of the above annual Training Budget, shall not be recoverable as Petroleum Costs.
- 26.3 Contractor shall give the Iraqi trainees opportunities to attend and participate in the training Programs offered by Contractor or its Affiliates or third parties with respect to various specialization of the petroleum industry.

**End of Article 26**

**ARTICLE 27 - PARTICIPATION**

- 27.1 Within six (6) Months of the first Declaration of Commerciality by Contractor in accordance with Article 3.7 and 10.6, a State Partner designated by Authority shall become one of the entities constituting Contractor in accordance with Addendum One.
- 27.2 The said State Partner shall have ----- percent (-- %) of Contractor's Participating Interest under this Contract and Company(s) shall have ---- percent (-- %) of Contractor's Participating Interest.
- 27.3 The Parties shall appoint ----- as the Operator to carry out Petroleum Operations in accordance with the provisions of this Contract.
- 27.4 Company(s) shall pay for all costs and expenses in respect of Exploration Operations and assume all liabilities under the Contract for such Exploration Operations carried out during the Exploration Period and any extension thereto.
- 27.5 From the date of the first Declaration of Commerciality referred to in Article 27.1 above, all costs and expenses incurred under the Contract relating to Development and Production Operations (except as otherwise provided for in the Contract and/or JOA), and all liabilities under the Contract and JOA shall be borne by the Company(s) and the State Partner in proportion to their respective Participating Interests in accordance with the provisions of the JOA. The State Partner shall fund its above Participating Interest share of Development and Production costs through the value of the assets previously existing in the Contract Area and may contribute the whole or

part of its share of costs and expenses incurred under the Contract and/or JOA by financing the execution of certain Petroleum Operations under the Contract on competitive basis, having due regard to the provisions of Article 30.

27.6 The value of the existing assets in the Contract Area "Historical Cost" shall be deemed as advanced payment to the State Partner's account for Development and Production Costs as from the Date of the Declaration of Commerciality referred to in Article 27.1 above. Therefore ----- (--) million US Dollars will be registered as Contractor's expenditure as from said Date, charged and recoverable as Petroleum Costs by State Partner.

27.7 In recognition of the said amount of Historical Cost deemed to have been expended by the State Partner as per Article 27.6, the first ----- (--) Million US Dollars of all costs for Development and, if applicable, Production Operations commencing from the Date of Declaration of Commerciality for the first Commercial Discovery shall be financed entirely by Company(s). Thereafter, the State Partner and Company(s) shall finance Petroleum Costs in accordance with their respective Participating Interests.

27.8 Participation of the State Partner shall further be subject to the provisions of Addendum 1 to this Contract.

**End of Article - 27**

**ARTICLE 28 - ASSIGNMENT**

- 28.1 Neither Contractor nor any entity constituting Contractor shall have the right to assign any of its Participating Interest, shares, rights, privileges, duties or obligations under the Contract without the prior written consent of Authority, except to a recognized Affiliate, provided that such Affiliate shall be qualified with respect to its technical and financial competence. Contractor or any entity constituting Contractor shall give Authority one (1) month prior notice of its intention to this effect, provided further that such assignment shall not release Contractor or any entity constituting Contractor of its obligations under the Contract and it shall remain jointly responsible together with the assignee Affiliate for the proper and timely execution of the Contract.
- 28.2 In the event that Contractor, or any entity constituting Contractor, wishes to assign in whole or in part any of its Participating Interest, shares, rights, privileges, duties or obligations under the Contract to a third party, Contractor shall submit to Authority a request to this effect giving detailed evidence of the technical and financial competence of the recommended assignee. Authority shall consider the said request and notify Contractor of its approval or otherwise within three (3) months of receipt thereof. Before the assignment, as provided for in this Sub-Article 28.2, becomes effective, the foreign assignee shall first provide Authority with a guarantee from its parent company as set out in Annex D.
- 28.3 If Contractor wishes to assign part of its Participating Interest in the Contract to a third party pursuant to Article 28.2, Authority shall have the option to take such part and assign it to a nominated Iraqi entity at the same terms and conditions offered to the third party.
- 28.4 For the purpose of financing Petroleum Operations, Contractor or any entity constituting Contractor may pledge, or otherwise encumber totally or partially its rights under the Contract to an internationally recognized bank and/or financing institution acceptable to Authority provided that such pledge or encumbrance shall not in any way affect the rights or interests of Authority.
- 28.5 Notwithstanding the above, Contractor shall not assign its obligations or duties as the Operator during the period from Effective Date to the time of establishment of the Joint Operating Company except to an Affiliate or to an Iraqi entity subject to the approval of Authority.
- 28.6 Without prejudice to the provisions of the Heads of Joint Operating Agreement (Addendum One) between the entities constituting Contractor, in the event that any entity constituting Contractor becomes bankrupt, or makes an arrangement with or assignment in favor of its creditors or makes a composition with creditors, or if it assigns to a third party any of its interests/shares in the Contract contrary to the provisions therein, or goes into liquidation other than for reconstruction or amalgamation with an Affiliate, Authority shall have the right to terminate the participation of such entity in the Contract upon thirty(30) days notice to Contractor. The rights and obligations of such entity shall be assigned to the remaining entities constituting Contractor proportionately to their respective Participating Interest or as they may otherwise mutually agree.

**End of Article 28**

**ARTICLE 29 - LAWS AND REGULATIONS**

- 29.1 Except as otherwise provided for in this Contract, Contractor shall be bound and shall comply, in all respects, with the provisions of all Laws, regulations, by-laws and orders from time to time in force in Iraq. Contractor shall indemnify and save Authority harmless against all penalties, fines and other liabilities of every kind for breach of any such Laws, regulations, by-laws or orders.
- 29.2 Notwithstanding the provisions of Article 29.1 hereof, Contractor shall be exempted from custom duties and stamp duty and from restrictions concerning work licenses and employment of expatriates. However, Contractor shall submit all data and information required by relevant Iraqi authorities in this respect.
- 29.3 Contractor shall, in all its sub-contracts, include a provision whereby its subcontractors shall undertake to abide by and comply with Iraqi Laws, regulations, by-laws and orders.
- 29.4 If, after the Effective Date, the financial interests of Contractor are adversely and substantially affected by the issuance of new Laws and/or regulations or by any amendments to the Laws and/or regulations by the Government or by the amendment to the Laws and regulations which were in force in the Republic of Iraq on the Effective Date, or by revocation, modification, or non renewal of any approvals, consents or exemptions granted to Contractor pursuant to this Contract, the Parties shall, within ninety (90) days, agree on necessary adjustments to the relevant provisions of this Contract in order to maintain Contractor's financial interests under the Contract reasonably unchanged.

**End of Article 29**

**ARTICLE 30 - LOCAL GOODS AND SERVICES**

- 30.1. Works and services performed in Iraq through sub-contracts shall be carried out on competitive basis. Preference shall always be given to Iraqi entities and firms or in association therewith, provided that their relevant capabilities are comparable to those available in the international market and their prices do not exceed international prices by more than ten percent (10%).
- 30.2. Preference shall be given to locally manufactured and/or available goods, materials, equipment, consumables and the like as long as their technical specification, availability and time of delivery are comparable to those available in the international market and their prices do not exceed international prices by more than ten percent (10%).
- 30.3. Contractor shall ensure that its entities, Operator, Sub-Contractors, agents, assignees and employees shall strictly adhere to the provisions of this Article 30.

**End of Article 30**

**ARTICLE 31 - FORCE MAJEURE**

- 31.1. The non-performance or delay in performance by either Party of its obligations or duties under the Contract shall be excused if and to the extent that such non-performance or delay is caused by Force Majeure.
- 31.2. The Party affected by Force Majeure shall notify the other Party thereof, in writing, within fourteen (14) days, stating the cause and the extent of effect of such Force Majeure.
- 31.3. Force Majeure shall include, without limitation, Act of God, war, insurrection, riot, fire, legislation/order of the Government and other acts and unforeseen circumstances beyond the control of either Party affected by it, provided always that such acts or circumstances are not attributable to the Party invoking Force Majeure.
- 31.4. In the event that Petroleum Operations are delayed, curtailed or prevented due to Force Majeure for a period exceeding ninety (90) consecutive days then, the term of this Contract, together with all rights and obligations thereunder, shall be extended accordingly, subject to the provisions of Article 8.

**End of Article 31**

**ARTICLE 32 - ENTIRE AGREEMENT AND AMENDMENTS**

- 32.1 This Contract constitutes the entire agreement between Authority and Contractor relating to the Field. Hence it supersedes any previous representations, whether explicit or implicit, and any prior agreement of any kind or nature, whether oral or written, in this respect.
- 32.2 This Contract shall not be amended or supplemented except by an instrument in writing signed by representatives of both Parties authorized for those purposes hereto.

**End of Article 31**

**ARTICLE 32 - ENTIRE AGREEMENT AND AMENDMENTS**

- 32.1 This Contract constitutes the entire agreement between Authority and Contractor relating to the Contract Area. Hence, it supersedes any previous representations (whether explicit or implicit) and any prior agreement of any kind or nature (whether oral or written) in this respect.
- 32.2 This Contract shall not be amended or supplemented except by an instrument in writing signed by representatives of both Parties authorized for those purposes hereto.
- 32.3 The provisions of this Contract shall inure to the benefit of and be binding upon the successors and permitted assignees of the Parties.

**End of Article 32**

### **ARTICLE 33 - CONFIDENTIALITY**

- 33.1 All information in connection with or in relation to this Contract shall be kept confidential by both Parties and their Affiliates and by any entity constituting either Party. Such information shall not be disclosed or communicated to any third party except where it is necessary for the implementation and/or financing of Petroleum Operations under the Contract, in which case it shall be subject to the same confidentiality obligation, or where such information is requested by law or by a competent court or for arbitration purposes.
- 33.2 Authority shall keep confidential any information, data, reports and computer software of proprietary nature to Contractor. Such information may only be disclosed or communicated to a third party with the consent in writing of Contractor.

**End of Article 33**

### **ARTICLE 34 - HEADINGS OF ARTICLES**

Headings of articles herein are inserted for convenience only and shall not affect the construction and/or interpretations thereof.

**End of Article 34**

### **ARTICLE 35 – LANGUAGE**

- 35.1 This Contract is executed in the Arabic and English Languages. If there shall be any conflict between the Arabic and English versions, the English version shall prevail to the extent of the conflict.
- 35.2 Communication between the Parties shall be in the English Language. However, Contractor shall have to use the Arabic Language or both Arabic and English Language in all its correspondence and dealings with Government entities in Iraq.

**End of Article 35**

### **ARTICLE 36 - CONTRACTOR'S BRANCH OFFICE IN IRAQ**

- 36.1 Contractor shall, within ninety (90) days of the Effective Date, establish a Branch Office in Baghdad, Iraq and shall maintain such Branch Office for the whole term of this Contract.
- 36.2 Contractor shall notify Authority of the address of its Branch Office in Baghdad and of the name of its authorized representative in Iraq who shall be assigned on full time resident status. The said representative shall be entrusted with sufficient powers and authorities to represent and bind Contractor in all dealings with the Government, Authority and third parties in Iraq, to receive legal notices served on Contractor and to comply with lawful directions and orders given by the competent Government Authorities and Authority in connection with or in relation to this Contract.
- 36.3 Contractor shall notify Authority of any change in the address of its Branch Office or in the appointment of its representatives at least ten (10) working days prior to the

effective date of such change.

**End of Article 36**

**ARTICLE 37 - GOVERNING LAW**

This Contract shall be governed by, interpreted and construed in accordance with the Laws of the Republic of Iraq.

**End of Article 37**

**ARTICLE 38 - SETTLEMENT OF DISPUTES - ARBITRATION**

38.1 The Parties shall Endeavour to settle amicably any dispute arising out of or in connection with or in relation to this Contract. Where no such settlement is reached, either Party may, refer the matter to an Expert or by giving forty five (45) days notice to the other Party, refer the matter to arbitration as stipulated hereunder.

**Expert**

38.2 If any dispute arises between the Parties with respect to relevant technical matters referred to in Articles 20.8 and 18.10 or measurement of Petroleum, such dispute shall, at the instance of either Party, be referred to an Expert for evaluation. Such Expert shall be agreed on by the Parties and shall be willing to undertake such evaluation, and shall be independent, shall not be originated from or have been at any time a citizen of, the country in which either of the Parties is organized, and shall have no interest or relation with either Party or with any of the entities constituting the Parties and shall be qualified by education, experience and training to evaluate the matter in dispute. The Expert shall act as an expert and not as an Arbitrator.

**Arbitration**

38.3 Any dispute referred to arbitration shall be settled by three (3) arbitrators in accordance with the Rules of Conciliation and Arbitration of the International Chamber of Commerce (ICC). Each Party shall appoint one (1) arbitrator and the two arbitrators thus appointed shall agree on the third arbitrator who shall act as the Chairman. If either Party fails to appoint an arbitrator within thirty (30) days after receipt of a written request to do so, such arbitrator shall, at the request of the other Party (and if the Parties do not otherwise agree), be appointed by the President of the I.C.C. If the two arbitrators fail to reach an agreement on the appointment of the third arbitrator within thirty (30) days, then the Chairman shall be appointed by the President of ICC at the request of either Party. The said Chairman shall not originate from or be a citizen of the country of either of the Parties and shall have no interest or relation whatsoever with either Party or with any of the entities constituting the Parties.

38.4 Arbitration shall take place in Geneva, Switzerland. The language of arbitration shall be the English language. The decision of arbitrators shall be final and binding on the Parties, and judgment in the award rendered may be entered in any court having jurisdiction in respect thereof.

38.5 Unless otherwise agreed by Authority, the operations and activities of the Parties with respect to the execution of this Contract shall not be stopped or delayed pending the award of arbitration.

38.6 The right to arbitrate disputes and claims under this Contract shall survive the termination of this Contract.

**End of Article 38**

**ARTICLE 39 - NOTICES**

39.1. All notices, statements and other communication to be given, submitted or made by any Party to another under this Contract shall be considered sufficiently given when sent in writing and shall be addressed to the Parties at their addresses set out below or such other address as may be intimated by the Parties.

AUTHORITY

CONTRACTOR

-----

-----

39.2. Notices to either Party shall be deemed validly served when delivered in person, at the office of that Party in Iraq, during regular office hours and during working days and if received outside business hours, on the next following working day, or when received, if posted by registered mail, to the address of the office of the said Party, or when dispatched and acknowledged, if sent by telex or facsimile, or by any other mode mutually agreed between the Parties.

**End of Article 39**

**ARTICLE 40 – RATIFICATION AND EFFECTIVE DATE**

The signed Contract shall be valid unless it is rejected by the Federal Oil and Gas Council in accordance with the Iraqi Oil and Gas Law No. – of 2007. Authority shall promptly notify Contractor in writing of the enforceability and of the Effective Date of the Contract, which Date shall be subsequent to the date of such notification by Authority.

**End of Article 40**

**ARTICLE 41 - WAIVER**

Failure or delay on the part of either Party to exercise any right, power or privilege under the Contract shall not operate as a waiver thereof.

No waiver by either Party of any one or more obligations or defaults by the other Party in the performance of this Contract shall operate or be construed as a waiver of any other obligations or defaults whether of a like or of a different character.

**End of Article 41**

**IN WITNESS WHEREOF**, the Parties hereto have executed this Contract in three originals (each in Arabic and English) at -----, -----, on the day, month and year first above written.

**For and on behalf of Authority**

**For and on behalf of Contractor**



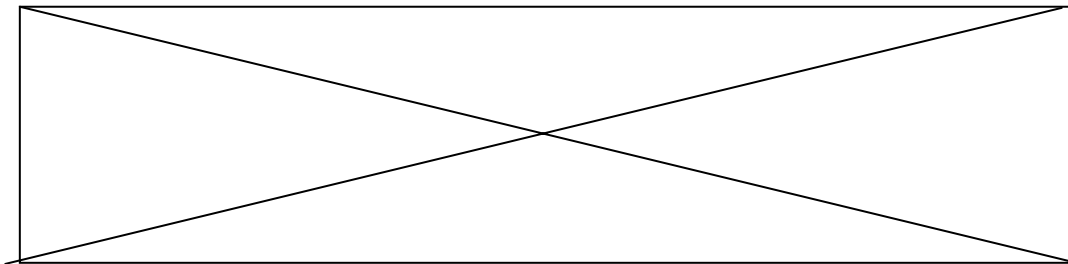
**ANNEX A  
LOCATION OF CONTRACT AREA**

This Annex A is attached to and forms a part of the Exploration and Production Contract relating to Block ---- in-----, Iraq, between Authority and Contractor.

**DESCRIPTION OF CONTRACT AREA:**

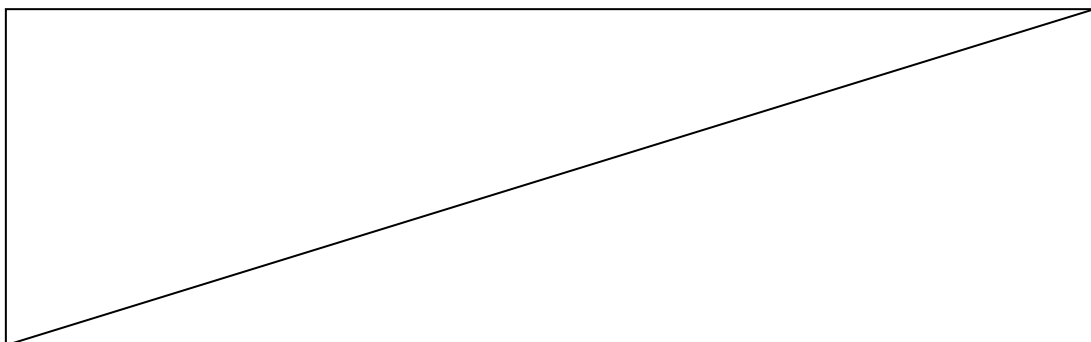
The Contract Area is defined by the corner points numbered from A to ..... as shown below and encompasses an area of ..... Sq. km.

U.T.M COORDINATES (Basis: Spheroid: Clarke .... RGS Projection: Zone ...)



**End of Annex A**

**ANNEX B  
MAP OF CONTRACT AREA**



**End of Annex B**

## ANNEX C

### ACCOUNTING PROCEDURE

This Annex C is attached to and made a part of the Exploration and Production Contract for Block---  
-, -----, Iraq.

#### 1. GENERAL PROVISIONS

##### 1.1 Definitions

Terms used in this Accounting Procedure shall have the meanings ascribed to them in Article 1, Definitions, of the Contract. In addition, the term "Operating Account" as used herein shall mean the account or set of accounts maintained by Contractor to record Petroleum Costs and the term "Material" shall mean and include any and all the material, equipment, machinery, tools, consumables procured, acquired and held for use for the Petroleum Operations.

##### 1.2 Purpose and intent of Accounting Procedure

1.2.1 The purpose of this Accounting Procedure is to establish methods and rules of accounting for Petroleum Operations under the Contract.

1.2.2 Any procedure established herein may only be modified by mutual agreement of the Parties.

##### 1.3 Operating Account Records

1.3.1 Contractor shall establish and maintain all accounts and records necessary to record, in reasonable detail and in separate accounts, the transactions relating to Petroleum Operations, in accordance with generally accepted and recognized accounting principles consistent with modern international petroleum industry practices, all in accordance with and subject to the provisions of the Contract.

1.3.2 Contractor's books shall be kept in English language (with Arabic language summary) in Iraq, in Dollars, in accordance with the provisions of Article 20 of the Contract.

1.3.3 Accounts shall be kept according to the usual accounting system of the Operator which shall be implemented with the consultation of Authority.

1.3.4 Contractor shall maintain appropriate cost control records as required to meet requirements and obligations under the Contract showing, among other things including but not limited to, the following:

- a) Cost of each well;
- b) Cost of production facilities in sufficient details;
- c) Cost of pipelines, tank farms and pumping stations.

1.3.5 Petroleum production, storage, Petroleum entitlement and transfer records shall be maintained according to Contract provisions. However further supplementary records may also be maintained.

#### 1.4 Currency and Exchange

1.4.1 The funds for local currency payments to be made in Iraq for Petroleum Operations, to be provided by Contractor in accordance with Article 21 of Contract, will be made available to the Operator through Iraqi bank current accounts.

1.4.2 Operator will take these bank accounts in Iraq in his books as follows:

- (a) Funds transferred to the Dollars account, the amount of Dollars actually credited to the account.
- (b) Funds transferred to the Dinar account in Iraq, at the actual rate of exchange accepted by the bank in Iraq which receives the transfer.

1.4.3 Payments shall be taken up in the Operator's book as follows:

- (a) Payments in Dollars are taken up in the actual amount of Dollars paid.
- (b) Payment in Dinars at the equivalent amount of Dollars applicable to the balance of the Dinars account at the time of payment on a first in first out basis.

1.4.4 Payments made directly in currencies other than Dollars or Dinars shall be taken up in the Operating Accounts in Dollars equivalent at the actual rate of exchange applicable on the actual date of payment by relevant international bank.

1.4.5 A record shall be kept of the exchange rates actually used in translating Dinars and other non-Dollar payments into Dollar.

#### 1.5 Statements

Contractor shall render to Authority the following statements in addition to reports specified in Article 15 of the Contract:

##### 1.5.1 Quarterly Statements

Contractor shall submit to Authority, within one (1) month from the last day of each Quarter, a statement of Petroleum Costs incurred in the said Quarter.

##### 1.5.2 Yearly Statements

Contractor shall submit to Authority, within three (3) months from the last day of Calendar Year, a statement of Petroleum Costs incurred in the said Calendar Year reflecting all charges and credits related to Petroleum Operations for the Year, summarized by appropriate classifications indicative of the nature thereof together with a summary of such information on a cumulative basis from Effective Date in accordance with Clause 10 of Accounting Procedure.

#### 1.6 Audits

##### 1.6.1 Independent Auditors

Yearly audited statements shall be supported by report issued by an independent Auditor of international standing appointed according to Sub-Article 20.4 of the Contract.

##### 1.6.2 Audits by Authority

Statements for any Year shall be presumed to be true and correct within the supplementary audit and control periods by Authority specified in Sub-Article 20.7 of the Contract, unless Authority takes written exception thereto. Pending exceptions,

these shall be treated according to Sub-Article 20.8 of the Contract.

## **2. PETROLEUM OPERATIONS CHARGES**

Subject to the provisions of the Contract and this Accounting Procedure, Contractor shall charge Operating Account with all Petroleum Costs. Such Petroleum Costs shall be classified and treated in accordance with Article 19 of Contract and shall include, but shall not be limited to, the following items:

### **2.1 Personnel**

#### **2.1.1 Contractor's locally recruited personnel**

The actual cost of salaries and wages paid, bonuses, overtime, and other customary allowances for Contractor, applicable to national employees directly engaged in the conduct of Petroleum Operations. This procedure shall also be applied for personnel of Authority seconded to Contractor.

#### **2.1.2 Assigned personnel**

Salaries and wages of Contractor's employees directly engaged in the various activities under Contract including salaries and wages paid to geologists and other employees who are temporarily assigned to and employed in such activities. Such cost includes customary allowances applicable to salaries and wages of expatriate employees such as housing allowances, bonus, vacations, sickness and others allowances under the standard established plans of Contractor. Not later than three (3) months before start of relevant Calendar Year, Contractor shall provide Authority with his standard allowances and benefits stated in Sub-Clause 2.1.3 there under. However, in case of any subsequent revision applicable to Contractor's employees, the same would be informed to Authority.

#### **2.1.3 Personnel of Contractor's Affiliates based outside the Republic of Iraq for Petroleum Operations on a time sheet basis.**

For such personnel representing Contractor's Affiliates, including parent company, costs shall be charged at the rates generally used by them. These rates include all costs incidental to the employment of such personnel, but do not include transportation and living expenses they may incur for the performance of such work. In case the work is performed outside the country where such personnel are based, the rate shall be charged from the date such personnel leave the town where they usually work until their return thereto, including days which are not working days in the country where the work is performed, and excluding any holiday entitlement derived by the employees from his employment.

As early as possible, and not later than three (3) months before start of relevant Calendar Year, Contractor shall provide Authority with the rates referred above for each Calendar Year.

#### **2.1.4 Cost of expenditures and contribution made pursuant to law or assessments imposed by Governmental authority which are applicable to personnel cost of salaries and wages as provided under Sub-Clauses 2.1.1, 2.1.2 and 2.1.3.**

#### **2.1.5 Incidental cost and benefits of a like nature which are applicable to personnel cost of expatriate employees including but not limited to:**

- a) Group life assurance;
- b) Medical and dental treatment of the assignee and immediate family;

- c) Pension schemes and other retirement benefits;
- d) Any other cost and benefits paid for national employees which shall be charged separately to the Operating Account.

Cost related to family expenses shall be charged if personnel are assigned for a period exceeding twelve (12) months. If such employees are engaged in other activities in countries of assignment in addition to Petroleum Operations, the cost of such employees shall be allocated on time basis according to sound and acceptable accounting principles.

#### 2.1.6 Training costs

All costs and expenses by Operator and/or its Affiliates in organizing, setting up and conducting training activities of its Iraqi and non Iraqi employees engaged in Petroleum Operations and/or Contractor's activities under Addendum Two, including the planning, designing, constructing, commissioning and running training facilities and related software.

All training costs, for the direct benefit of Petroleum Operations and/or Contractor's activities under Addendum Two, shall be subject to Authority's approval.

#### 2.2 Material

Material purchased for or furnished to Petroleum Operations. Separate stock accounts shall be maintained for such Material.

#### 2.3 Transportation

2.3.1 Transportation of employees and material necessary for the performance of Petroleum Operations, including costs of packaging, brokerage, insurance and other related costs. Employee transportation costs, to the extent covered by the established policy of the Operator, shall include travel expenses for employees and their families to and from the employees' points of origin at the time employment commences, at the time of final departure and for vacations, as well as travel expenses in the Republic of Iraq for employees and their families incurred as a result of transfers from one location to another, and travel expenses relating to the periodical recuperation leaves of field personnel. Costs relative to families shall be charged to employees assigned for work in Iraq for period exceeding twelve (12) months.

#### 2.3.2 Transportation and delivery of Crude Oil and Gas

All costs and expenses incurred and paid by Contractor for transportation and delivery of Crude Oil and Gas according to Article 17 of Contract and Addendum Two attached hereto. •

#### 2.4 Building

Building cost, maintenance and related costs and rents paid for all offices, houses, warehouses and other types of buildings and cost of equipment, furniture, fixtures and supplies necessary for the operation of such buildings and facilities, all in the Republic of Iraq.

#### 2.5 Services

The services requested by Contractor may include but are not limited to:

2.5.1 Outside services of consultants, contract services, utilities and other services procured from outside sources, rentals or compensation paid or incurred for the use of any equipment and facilities. The aforesaid services shall be charged to Operating

Account at the price paid by Operator.

2.5.2 Use of equipment and facilities of Operator or Contractor or Contractor Affiliate as provided in Clause 3.4 hereof.

2.5.3 All services performed by Contractor or Contractor Affiliate under Clause 2.1.3 of this Accounting Procedure by Contractor's Affiliates on a time sheet basis for the benefit of Petroleum Operations, with the exception of purchasing and forwarding services, the costs of which shall be charged in accordance with the provision of Clause 3.1 thereunder.

2.6 Energy expenses

All costs in respect of fuel, electricity, heat, water or other energy procured and consumed for Petroleum Operations.

2.7 Damages and Losses

All costs or expenses necessary to replace or repair damages or losses incurred by Crude Oil pipeline transportation, fire, flood, storm, theft, accident or any other cause not controllable by Contractor through exercise of reasonable diligence in operations or not resulting through Contractor's failure to file timely and diligently pursue claims against insurance companies. Contractor shall furnish Authority with written notice with details of damages or losses incurred in excess of United States Dollars Ten Thousand (USD 10,000) per occurrence as soon as practicable after reports of the same have been received by Contractor.

2.8 Legal Expenses

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of Contract Area against third party claims, including attorney's fees and expenses as hereinafter provided, together with actual expenses incurred by Contractor and/or Authority in securing evidence for the purpose of defending against any such action or/claim pursued or urged in connection with operations under the Contract.

In the event actions or claims affecting the interest hereunder shall be handled by the legal staff of Contractor and/or Authority, a charge commensurate with cost of providing and furnishing such services shall be made to Operating Account and expenses under this Sub-Clause shall be limited to those incurred in the Republic of Iraq.

2.9 Taxes

Subject to the provisions of Contract, all taxes of every kind, levies, duties, income taxes, imposts or any other such charges assessed or levied upon or in connection with Petroleum Operations and which taxes have been paid by Contractor in the Republic of Iraq.

2.10 Insurance and Claims

The cost of any insurance such as but not limited to public liability, property damage and other insurance against liabilities of Contractor and Authority or either of them to their employees and/or outsiders. The proceeds of any such insurance or claim collected shall be credited against Operations. If no insurance is carried for a particular risk, all related actual expenditures incurred and paid by Contractor in settlement of any and all losses, claims, damages, judgments and other expenses, including legal services, provided such loss, claim or damage does not result from Contractor's failure to operate in accordance with the requirement of the Contract.

**2.11 Gain or Loss on Currency Exchange**

The gain or loss, if any, through currency conversion or exchange pursuant to the provision of Article 21 of Contract and Clause 1.4 of this Accounting Procedure.

**2.12 Tariffs paid to other contractor(s) or third parties**

All sums paid to Authority, contractor(s) on other contract areas, or any third party in compensation for the use of facilities in connection with Petroleum Operations such as, but not limited to, pipes, hydrocarbon treatment plants, storage facilities, on a basis of a mutually agreed tariff.

At the time when submitting the Work Program and Budget for the Joint Management Committee's approval, Contractor shall provide in writing.

- a) Estimate of the overall amount to be paid thereof for the relevant year;
- b) Reasonable breakdown of the aforesaid expenditure.

**2.13 Surface Rights**

All direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for Contract Area in the Republic of Iraq.

**2.14 Ecological and Environmental cost**

Costs incurred for the benefit of Contract property as a result of governmental or regulatory requirements to satisfy environmental consideration applicable to Petroleum Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by the applicable laws and regulations of Iraq including abandonment costs for abandoning field, if required.

**2.15 Administrative Overheads**

It is recognized that Contractor's principal office shall be incurring expenditure on providing such support services as accounting, financial, legal, administrative, purchasing, collection of data, general planning and design, employees relations, research and the like to the Petroleum Operation in Iraq and it is neither possible to accurately account for the cost of such services nor it is feasible to do so. Therefore, in order to compensate Contractor for such services, an administrative overhead charge shall be allowed each Financial Year to the Petroleum Costs incurred during the said Financial Year in the manner as follows:

- (i) On Exploration Costs - two percent (2%) of Petroleum Costs.
- (ii) On Development and Production Costs - (1%) of Petroleum Costs.

The basis of applying the above percentages shall be the total cost and expenses incurred in respect of Petroleum Operations and charged under this Accounting Procedure to the Operating Account during each Financial Year or a fraction thereof but excluding Historical Cost mentioned in Sub-Article 27.6 of the Contract and excluding administrative overhead as allowed in this section.

From the Date of Transfer of Operatorship pursuant to Sub-Article 9.13 of the Contract, the payment for the above administrative overhead charges shall be shared equally between Contractor and Authority Entity.

**2.16 Other Expenditures**

Any other legitimate expenditure, other than expenditures which are covered by the foregoing provisions of this Clause 2 of Accounting Procedure, incurred by Contractor

for the performance of Petroleum Operations under the Contract.

### **3. BASIS OF CHARGES TO OPERATING ACCOUNT**

#### **3.1 Purchases**

Material and equipment purchased from third parties shall be charged at cost paid by Contractor after deduction of all discounts actually received. Cost, which shall include but shall not be limited to, such items as expenses for freight to the destination, insurance premiums commensurate with the Material covered, fees of forwarding agents, duties, handling expenses from ship side to and within any water or land terminal warehouse or yard, license fees, and any other reasonable expenses actually paid and expenses of inland transportation plus a charge to cover purchasing and forwarding costs.

All Material required for Petroleum Operations shall be purchased for direct charge to Operating Account whenever practicable, except that Parties may furnish such Material from their stock under the following conditions:

Purchase procedures and limits of expenditure shall be in accordance with Article 13 of the Contract.

##### **(a) New Material**

New Material transferred from a Party's warehouse or other properties shall be placed at cost as defined in Clause 3.1 above. The cost of Material supplied shall not be higher than international market price.

##### **(b) Good Used Material**

The price charged for good used Material will be New Price, as herein above defined, discounted by a percentage representing the Material utilization. Such percentage shall be assessed by inspectors according to the state of the Material.

It is understood, however, that Material purchased for use in Petroleum Operations shall be stored in a separate warehouse and that such Material should satisfy normal requirements for Petroleum Operations.

All such material shall be covered by inspection certificates from independent third party Inspectors.

#### **3.2 Warranty of Material Furnished by Parties**

The Party furnishing the Material does not warrant the Material furnished beyond or back of the dealer's or manufacturer's guarantee, and in case of defective Material, credit shall not be passed until adjustment has been received by said Party furnishing Material hereunder from manufacturers or their agents.

#### **3.3 Chargeable Expenditure**

All Petroleum Costs chargeable in this Annex C shall be charged to Petroleum Operations using consistent accounting methods from year to year, either on a time sheet basis or on a prorate basis using actual parameters and shall result in an equitable allocation of all such costs.

At the time of submitting any Work Program for Authority's approval, Contractor shall provide in writing the following details in respect of labor and related costs to be charged during the relevant year covered by the Budget:

- (i) Estimate of the overall amount hereof;
- (ii) Analysis by major category of expenditures included therein with reference to the applicable personnel policies and practices of Contractor and its Affiliates.

- (iii) Reasonable breakdown of the aforesaid expenditures;
- (iv) Man-day rates and/or the prorata basis estimated to apply during the applicable year.

**3.4 Use of Contractors Exclusively Owned Equipment and Facilities**

For the use of any such wholly owned equipment, Operating Account shall be charged a rental rate commensurate with the cost of ownership and operation. The rental rates, which will not include any profit element, will be approved by the Joint Management Committee each Calendar Year. Such rates should not exceed rates obtainable from other Contractors in the area, unless otherwise agreed.

**4. INVENTORIES**

**4.1 Periodic Inventories, Notices and Representation**

At reasonable intervals, and at least once annually, inventories shall be taken by Contractor of the Material entered into Operating Account, which shall include all such Material as is ordinarily considered controllable by operators of oil and gas properties. Written notice of intention to take inventory shall be given by Contractor at least thirty (30) days before any inventory is to begin so that Authority may be represented when any inventory is taken. The absence of representation of Authority at an inventory shall bind Authority to accept the inventory taken by Contractor, who shall in that event furnish Authority with a copy thereof.

**4.2 Reconciliation and Adjustment of Inventories**

Reconciliation of inventory with Operating Account- shall be made and a list of overages and shortages shall be furnished to Authority. Inventory adjustments shall be made by Contractor to Operating Account if required; provided, however, that any inventory adjustment over a value of US. Dollars (10,000) shall be subject to the approval of Authority.

**5. DISPOSAL OF MATERIAL**

Contractor shall inform Authority of any surplus or disposable Material, and shall act with respect to such Material according to the instructions of Authority.

**6. SUMS RECEIVED FROM THIRD PARTIES**

All sums received from any third party, in compensation for the use by said third party of facilities built and operated by Contractor for Petroleum Operations, shall be credited to Petroleum Costs.

**7. COST RECOVERY**

Contractor shall, pursuant to Article 20 of Contract, render to Authority, as promptly as practical but not later than forty five (45) days after the end of the last month of a Quarter, a statement for that Quarter showing:

- (i) Recoverable costs carried forward from the previous Quarter, if any;
- (ii) Recoverable costs incurred during the Quarter;
- (iii) Total recoverable costs for the Quarter (sum of (i) plus (ii));
- (iv) Quantity and value of Cost Oil or Cost Gas taken and separately disposed of by Contractor for Quarter.
- (v) Amount of costs recovered for Quarter;

- (vi) Amount of recoverable costs to be carried forward into the succeeding Quarter if any, and
- (vii) Excess, if any, of the value of Cost Oil or Cost Gas taken and separately disposed of by Contractor over costs recoverable for the Quarter [(iv) minus (v)]. Such excess shall be set off in the next calculation of Contractor's share of Production of the immediately succeeding Quarter in accordance with Article 19 of the Contract.

#### **8. SETTLEMENT BETWEEN THE PARTIES**

Except for Clause 7 of this Accounting Procedure, any amount due to either Party by the other shall be paid in Dollars within thirty (30) Days of receipt of the claim.

#### **9. EXTERNAL AUDITORS CERTIFICATE**

Contractor shall provide Authority with a certificate from the external auditor of the Head Office Affiliate of Contractor to the effect that the charges and the rates applied pursuant to Clauses 2.1.2 and 2.5.3 here above by Head Office Affiliate represent its actual cost.

#### **10. CONTROL STATEMENTS AND MAJOR ACCOUNTS**

- 10.1 Contractor shall annually prepare, from the statements of expenditure prepared pursuant to Clause 1.5 hereof, a statement showing for such year the excess or deficit in Exploration and Development Expenditure compared to the Minimum Work Obligations, such statement shall be rendered to Authority not later than ninety (90) days following the end of such year.
- 10.2 For the purpose of classifying costs, expenses and expenditures for Cost Recovery and Minimum Work Obligations which has been made, costs expenses and expenditures shall be recorded in major accounts including the following:
  - Exploration Expenditures
  - Development Expenditures other than Operating Expenses
  - Operating Expenses

#### **11. TRANSFER PROCEDURE FOR THE OPERATING ACCOUNT**

- 11.1 In accordance with Clause 9.2, when the Operating Company becomes the Operator, the former Operator shall transfer to the Operating Company all the accounting records relating to the Operating Account.
- 11.2 In conducting the transfer of the books of account and inventory and check of all properties in accordance with the provisions of this Accounting Procedure, the implementation procedure for the transfer and verification, the accounting files to be transferred and accounting matters to be settled as well as other details, shall be agreed upon through consultation in advance between the former Operator and the Operating Company. The transfer procedure shall be completed within the period agreed upon by the parties. Thereafter, owing to the needs of any investing party to the Contract, the Operating Company shall allow such party's staff access to the books of accounts within the relevant periods and provide them with duplicates of the relevant accounting records, if necessary.

**END OF ANNEX C**

**ANNEX D  
FORM OF PARENT COMPANY GUARANTEE**

**FORM I: For COMPANY**

We refer to the Exploration and Production Contract for Block-... (hereinafter referred to as the "Contract") entered into on this day of .. 200-, between .....X... and Authority, Iraq.

In consideration of the rights and obligations of .....X..... being a fully owned subsidiary of .....Y....., as a Party to the Contract, .....Y....., a company duly organized and existing under the laws of ..... and whose registered office is at ....., hereby undertakes to make available or cause to be made available to .....X..... such technical and financial resources as may be required to perform and fulfil its obligations under the Contract, as may be amended from time to time by the Parties thereto, including payment to Authority of the balance (if any) of the Minimum Expenditure Obligations in case of termination of the Contract.

The obligations of .....Y ..... hereunder shall be to the extent of the Participating Interest that ....X.....may have at the time under the Contract.

This Guarantee shall extend to any Affiliate of .....X..... which may become a Party to the Contract.

This Guarantee shall come into force on the Effective Date of the Contract and shall remain valid as long as .....X....., or its Affiliate, shall be bound by the Contract.

Signed for and on behalf of

(.....Y.....)

(.....)

**FORM 2: FOR ASSIGNEES**

We refer to the Exploration and Production Contract for Block-... (hereinafter referred to as the "Contract") where.....X..... holds a Participating Interest of .....percent (....%)

In consideration of the intent of.....X..... assigning a Participating Interest of ..... percent (.... %) to.....Y.....which is an affiliate of .....Z..., a company duly organized and existing under the laws of ..... and whose registered office is at .....

In consideration of the rights and obligations of .....Y..... becoming a Party to the Contract subsequent to this possible assignment, .....Z..... hereby undertakes to make available or cause to be made available to .....Y..... such technical and financial resources as may be required to perform and fulfil its obligations under the Contract, as may be amended from time to time by the Parties thereto, including payment to Authority of the balance (if any) of the Minimum Expenditure Obligations in case of termination of the Contract.

The obligations of .....Z..... hereunder shall be to the extent of the Participating Interest that .....Y..... may have at the time under the Contract.

This Guarantee shall extend to any Affiliate of .....Y..... which may become a Party to the Contract.

This Guarantee shall come into force from the effective date of the Assignment Agreement with .....Y..... and shall remain valid as long as .....Y....., or its Affiliate, shall be bound by the Contract.

Signed for and on behalf of

(.....Z.....)

(.....)

**End of Annex D**

## **ANNEX E DEVELOPMENT PLAN GUIDELINES**

This Annex E is attached to and made a part of the Exploration and Production Contract for Block ----, -----, Iraq.

This Annex sets forth the topics required to be covered in a Development Plan submitted to Authority for approval, to the extent applicable to the relevant Commercial Discovery. Additional information shall be presented in a Development Plan to the extent appropriate to the relevant development program.

### **1. Description of Commercial Discovery**

- (a) Description of the Commercial Discovery to be developed.
- (b) Field Boundaries of Discovery to be developed.
- (c) Description of the surface area to constitute the Development Area.
- (d) Tabular and graphical information as to the reserves potential, for Crude Oil (separately for Crude oil and Condensate) and Natural Gas, and reported by Proved, Probable and Possible categories.
- (e) Estimated Ultimate Reserves (EUR), which is Proven plus Probable categories of reserves, for Crude Oil, Condensate and Natural Gas.
- (f) Tabular and graphical information as to production potential under contemplated development scenario, including life of field and indicative forecasts of production rates for the best Estimate Ultimate Reserves (EUR) case and other cases considered appropriate.

### **2. Description of Development Approach**

- (a) Description of development approach and activities expected to be undertaken, including the following:
  - (i) Description of planned facilities, both inside and outside of the Development Area.
  - (ii) Description of drive mechanism and reservoir management policy.
  - (iii) Hydrocarbon transportation arrangements, including export routing, type of transportation facilities, expected use of third party facilities and expected delivery points.
  - (iv) Expected arrangements for abandonment of facilities to be utilized in the course of the development program.
- (b) Principal contingent features of proposed work program including the number of development wells to be drilled, and likely additional work programs to be undertaken depending on results of initial work program.
- (c) Alternative development approaches considered and reasons for choice of development approach selected.

- (d) Schedule of development program, including expected schedule for construction or acquisition of major facilities and timetable for achieving commercial production rates and expected optimal production rates.

**3. Budget and Economics**

- (a) Expected capital and operating budgets for the development program.
- (b) Sharing and allocation arrangements, including:
  - (i) Unitization arrangements adopted pursuant to Sub-Article 3.10 of the Contract.
  - (ii) Any arrangements for sharing of facilities or other costs, or for commingling and reallocation of production with other contract areas.
- (c) Expected returns and discounted cash flow analysis, in each case based on assumptions to be set forth in the Development Plan.
- (d) Expected duration of Development Period or pre-operative phase.

**4. Additional Information for Amendments and Updates**

- (a) Reasons for proposed amendment or update.
- (b) Discussion of activities conducted since original Development Plan or previous amendment or update, as the case may be.
- (c) Revised presentation of all information described in items, 1 through 3 above (or, to the extent appropriate, only such information as is being amended or updated).

**End of Annex E**

## **ANNEX F GAS FIELDS EVALUATION PLAN GUIDELINES**

This Annex F is attached to and made a part of the Exploration and Production Contract for Block ----- Iraq.

This Annex sets forth the topics required to be covered in an Evaluation Plan submitted to Authority for approval, to the extent applicable to the relevant Discovery or group of Discoveries containing Non-Associated Gas ("Gas Field or Fields"). While this Annex describes the general requirements of the Evaluation Plan for Gas Field or Gas Fields, there is no detailed prescription of the format or the level of detail to be presented, other than coverage of the key topics identified herein. Additional information may be presented in an Evaluation Plan to the extent appropriate to the relevant evaluation program.

### **1. Description of Discovery and Evaluation Area**

- (a) Principal features of the Gas Field or group of Gas Fields to be evaluated based on information available to date;
- (b) Description of the surface area or areas to constitute the evaluation area or areas which may ultimately be converted to Development Areas containing the said Gas Fields;
- (c) Description of any unitized evaluation agreement adopted pursuant to Sub-Article 3.10 of the Contract; and
- (d) Tabular and graphical information, based on information to date, as to reserves potential, separated by liquid hydrocarbons (Condensate and natural gas liquids) and Natural Gas, and reported by Proved, Probable and Possible categories to the extent feasible.

### **2. Description of Evaluation Program**

- (a) Description of Appraisal activities to be undertaken, to the extent technically warranted, for the relevant Gas Field or group of Gas Fields to be evaluated;
- (b) Principal conditional features of proposed Appraisal activities, and likely additional activities and further studies to be undertaken depending on results of initial proposal;
- (c) To the extent applicable and available, the definition, identification and/or evaluation of possible marketing arrangements for Natural Gas; and
- (d) Duration of the evaluation period and target completion date for the evaluation program, which date shall be no later than the date of expiry of the holding period for Gas Fields pursuant to Article 10.

### **3. Budget**

Expected capital and operating expenditures for the evaluation program.

### **4. Additional Information for Amendments and Updates**

- (a) Reasons for proposed amendment or update.

- (b) Discussion of activities conducted since original Evaluation Plan or previous amendment or update, as the case may be.
- (c) Revised presentation of all information described in items 1 through 3 above (or, to the extent appropriate, only such information as is being amended or updated).

**End of Annex F**

**ANNEX G - TENTATIVE EXPLORATION WORK PROGRAM**

This Annex G is attached to and forms part of the Exploration and Production Contract for Block-..., -----, Iraq.

DESCRIPTION	EXPLORATION PERIOD																			
	PHASE 1 : 3 YEARS												PHASE 2 : 2 YEARS							
	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
SEISMIC SURVEY																				
PROCESSING AND REPROCESSING																				
G & G STUDIES	Study, Interpretation, Modeling, Drilling Proposal/report, Block review, POD																			
DRILLING																				

**End of Annex G**

**ADDENDUM ONE  
HEADS OF JOINT OPERATING AGREEMENT**

This Addendum 1 is attached to and made part of the Exploration and Production Contract for Block---, -----, Iraq.

**1. SCOPE**

This Heads of Agreement is to provide for the basic principles to be included in a Joint Operating Agreement ("JOA") to be executed among the Company(s) constituting Contractor in respect of Exploration Operations, and among the Company(s) and State Partner in respect of Development and Production Operations in accordance with Article 27 of this Contract, (hereinafter referred to as "Party" or "Parties").

**2. PARTICIPATING INTEREST**

Each Party shall have the undivided percentage interest determined under the Contract and/or as agreed by the Parties ("Participating Interest"), provided that each Party's Participating Interest shall not be less than Ten percent (10%). Each Party shall participate in proportion to its respective Participating Interest in all costs, expenses and liabilities incurred pursuant to the Contract or JOA and shall own, in the same proportion, Contractor's rights in and under the Contract and the Parties' right in and under JOA.

**3. OPERATOR**

- 3.1 An Operator shall be appointed by the Parties during the period from Effective Date until the establishment of the Joint Operating Company (JOC), pursuant to Article 9.13, and shall, under the direction and supervision of the Operating Committee and subject to the provisions of the Contract and JOA, have the exclusive management and control of all of the operations conducted pursuant to the Contract.
- 3.2 Operator may, subject to Authority's approval, at any time resign as such by giving the Parties notice in writing. Operator shall cease to be Operator if: (a) it dissolves, liquidates or terminates its legal existence ;(b) it becomes insolvent, bankrupt or is placed in receivership; (c) its Participating Interest is reduced to less than ten percent (10%); or (d) it takes no action within thirty (30) days after notification to it by a Party to remedy a material breach of JOA.

**4. OPERATING COMMITTEE**

- 4.1 An Operating Committee, composed of representatives of the Parties, shall be set up and shall act for the entire duration of JOA to make decisions and establish joint policies and make proposals to be submitted to Authority, as well as to make any other decision necessary or expedient for the orderly supervision and direction of the Petroleum Operations. Operator's representative shall be the chairman of the Operating Committee.
- 4.2 The decisions of the Operating Committee on all matters coming before it shall be made by the affirmative vote of the representatives of two (2) or more non-affiliated Parties having a combined voting right of at least seventy percent (70%), each Party being entitled to have and to exercise through its representatives a voting right equal numerically to its Participating Interest. Major issues shall be decided upon by the unanimous vote of the Parties. The Operating Committee shall also decide upon Contractor's representation in JMC and BOD, but there shall always be one (1) representative from State Partner in JMC or BOD.

**5. WORK PROGRAMS AND BUDGETS**

For each Calendar Year, the Operator shall prepare and submit to the Parties Work Programs and budgets not later than the first day of October of the preceding Year. Each such Work Program and budget shall set out in a reasonably detailed manner the work to be carried out and shall include an itemised estimate of the corresponding expenditures. The Operating Committee shall, not later than sixty (60) days prior to the commencement of each Calendar Year, review and discuss the Work Program and budget submitted by Operator for the following Calendar Year and shall adopt a Work Program and budget to be submitted to Authority for approval.

## 6. COSTS AND EXPENSES

All costs and expenses, except in the cases of sole risk operations in connection with the Contract or JOA, shall be borne by the Parties in proportion to their respective Participating Interest. All costs and expenses that are incurred in the conduct of operations under JOA shall be determined and recorded according to an accounting procedure (without prejudice to Annex-B of the Contract) and generally accepted accounting principles and shall be subject to periodic inspection and audit.

## 7. DEFAULTS

- 7.1 Any Party (excluding State Partner) that fails to pay when due its Participating Interest share of costs and expenses shall be in default (hereinafter referred to as "Defaulting Party"). The Operator shall as soon as practicable notify all Parties of such default and the Operator shall keep the Parties informed thereafter of material events in relation thereto. The amount not paid by the Defaulting Party shall bear interest from the date due until paid in full. After any default has continued for thirty (30) days, the Defaulting Party shall not be entitled to attend Operating Committee meetings or to vote on any matter coming before the Operating Committee during the period such default continues. Non-Defaulting Parties (excluding State Partner) shall pay the defaulted amount on behalf of the Defaulting Party, in proportion to their Participating Interests or in any other proportion they may agree upon.
- 7.2 The Defaulting Party shall have the right to remedy the default at any time prior to forfeiture, as hereinafter provided, by payment in full to the Operator or, if the Non-Defaulting Parties have paid any amounts under Sub-Article 7.1, to the Non-Defaulting Parties, in proportion to the amounts so paid by them, of all amounts which the Defaulting Party has failed to pay together with interest thereon on a day to day basis at the rate of LIBOR plus five percent (5%) per annum.

If a Defaulting Party, after the commencement of Commercial Production, has not remedied the default by the thirtieth (30th) day, then, during the continuance of such default, the Defaulting Party shall not be entitled to its Participating Interest share of Crude Oil, which shall vest in and be the property of the Non-Defaulting Parties, and Operator shall be authorized to sell such entitlement at the best price obtainable under the circumstances and, after deducting all costs, charges and expenses incurred by Operator in connection with such sale, pay the proceeds proportionately to the Non-Defaulting Parties, which proceeds shall be credited against all monies advanced by such Non-Defaulting Parties on behalf of the Defaulting Party. The balance of such proceeds, if any, shall be paid to the Defaulting Party when such default has been remedied.

- 7.3 State Partner may ask the other Parties by a prior notice to pay its Participating Interest share of costs and expenses in foreign currency on its behalf. The other Parties shall share such costs and expenses in proportion to their Participating Interest, unless agreed otherwise. The amount so paid by the other Parties on behalf of State Partner shall bear interest at the rate of LIBOR plus .... percent (-- %) per annum with effect from its due date until it is fully recovered. If upon commencement of Commercial Production, there shall be

any amount due from State Partner, a portion of the share of State Partner out of the Cost Oil to which Contractor is entitled may be utilised by the other Parties to recover the amount due from State Partner.

## **8. DISPOSITION OF CRUDE OIL**

Each Party shall have the right and obligation to own, take in kind and separately dispose of its Participating Interest share of total production available to the Parties pursuant to the Contract in such quantities and in accordance with such procedures as may be set forth in an offtake/lifting agreement. If Crude Oil is to be produced, the Parties shall in good faith negotiate and conclude the terms of an agreement to cover the offtake/lifting of Crude Oil produced under the Contract.

## **9. WITHDRAWAL**

After the Minimum Work or Financial Obligation has been fulfilled, any Party shall have the right to elect, by giving notice to all Parties, to withdraw from the Contract and JOA. Each of the other Parties may also give notice of withdrawal. Should all the Parties give notices of withdrawal, the Parties shall proceed to abandon the Contract area and terminate the Contract and JOA. If less than all of the Parties give such notice of withdrawal, then the withdrawing Parties shall execute and deliver all necessary instruments and documents to assign their Participating Interest to the non-withdrawing Parties, without any compensation whatsoever. Such assignment to the non-withdrawing Parties shall be in proportion to their Participating Interest, unless otherwise agreed among themselves. The non-withdrawing Parties shall take the assignment of all the withdrawing PARTY'S Participating Interest; otherwise, the Parties shall be deemed to have decided to withdraw from the Contract and JOA.

## **10. ASSIGNMENT**

Any Party may transfer, subject to any requirement under the Contract, all or any part of its Participating Interest in and under the Contract and JOA to an Affiliate without the consent of the other Parties; provided that any such Party shall remain responsible for the performance of the financial and other obligations under the Contract and under JOA to the same extent as if the transfer had not occurred and provided further that such Party shall notify the other Parties of any such transfer. Without prejudice to the provision of the Contract, no transfer of any interest in and under the Contract and JOA to third Parties may be made by any Party without the written consent of the other Parties which consent may only be withheld on valid grounds concerning the financial capability of the proposed assignee. The transfer by a Party of its interest in and under the Contract and JOA to third parties shall be subject to the preferential rights of the other Parties. The assignee or transferee shall be bound by the Contract and JOA.

## **11. RELATION OF THE PARTIES**

The rights, duties, obligation and liabilities of the Parties under this Agreement and JOA shall be individual, not joint or collective. It is not the intention of the Parties to create, nor shall this Agreement or JOA be deemed or construed to create, mining or other partnership, joint venture, association or trust, or as authorizing any Party to act as an agent, servant or employee for any other Party for any purpose whatsoever except as explicitly set forth in JOA.

## **12. GOVERNING LAW AND ARBITRATION**

JOA shall be governed by, construed, interpreted and applied in accordance with the laws of Iraq. Any dispute, controversy or claim arising out of or in relation to or in connection with JOA or the operations carried out thereunder, including without limitation any dispute as to the validity, interpretation, enforceability or breach of JOA shall be exclusively and finally settled by arbitration in accordance with the Rules of Conciliation and Arbitration of the ICC by three arbitrators appointed in accordance with the said Rules.

## **13. EFFECTIVE DATE AND TERM**

This Agreement shall come into force on the Effective Date of the Contract and shall continue in effect until the Contract terminates or upon the Parties entering into the JOA, whichever is the earlier.

## **14. JOINT OPERATING AGREEMENT (JOA)**

Within six (6) months from the Effective Date of the Contract, the Parties shall enter into the Joint Operating Agreement (JOA) which shall embody the principles stipulated in this Heads of Agreement and it may include such other provisions as customarily used by international petroleum industry and shall continue in effect as long as the Contract is in effect.

**End of Addendum One**

**ADDENDUM TWO  
HEADS OF TRANSPORTATION AGREEMENT**

This Addendum Two is attached to and made part of the Exploration and Production Contract for Block --, -----, Iraq.

**1. SCOPE**

The purpose of this Heads of Agreement is to provide for basic principles to be included in a Transportation Agreement to be executed by and between Contractor and a competent Iraqi entity designated by Authority ("Transporter") for transporting of Crude Oil produced from the Contract Area under the Contract. Transporter and Contractor will hereinafter be referred to as "PARTY" or "PARTIES".

**2. SCOPE OF TRANSPORTATION AGREEMENT**

Transporter shall receive at the Transfer Point quantities of Crude Oil from the Contract Area tendered by Contractor for transportation, and deliver to Contractor at the Delivery Point a corresponding quality and quantity of Export Oil.

**3. FACILITIES AT THE TRANSFER POINT**

For the purpose of the transfer of Crude Oil to Transporter, Contractor may use a piece of land at the Transfer Point and construct and operate necessary facilities on such land. Contractor shall construct the facilities required at the Transfer Point under the Contract.

**4. DELIVERY RATE**

Contractor shall have the right to tender Crude Oil for transportation at the Transfer Point at a certain average delivery rate as per the current approved production schedule for the Contract Area, subject to a peak rate not exceeding fifteen percent (15%) over the average monthly rate. In the event that the throughput capacity of production and the pipeline system or the related facilities is constrained for unforeseeable occurrences beyond the control of the PARTIES and that the throughput of Crude Oil through the pipeline system has to be restricted as a consequence of such constraint, Contractor shall reduce its deliveries accordingly.

**5. DELIVERY CONDITIONS**

Crude Oil shall be delivered at the Transfer Point at the pressure commensurate with the pressure required by the existing system. The quality of Crude Oil delivered at the Transfer Point shall be subject to certain conditions and specifications to be agreed upon by the PARTIES. Contractor shall not mix any additives to the Crude Oil tendered for transportation, without prior written approval of Transporter.

**5. MEASURING**

Contractor shall install, upstream of the Transfer Point, metering and other related facilities, and the quantity and quality of Crude Oil tendered for transportation at the Transfer Point shall be determined at said metering facilities. If upon any test, measuring equipment is found to be inaccurate such that the inaccuracy result in a total measurement error exceeding a certain percent to be agreed upon by the PARTIES, previous readings at such equipment shall be corrected to zero error for the period to be agreed upon by the PARTIES. Similarly, Export Oil shall be measured at Delivery Measurement Point.

Operation and calibration of the metering equipment and procedures for measurement and sampling shall be in accordance with the prevailing standards of the international petroleum industry. The Parties shall agree the procedure for measuring the volume and quality of Crude Oil and Export Oil and shall have the right of access to Production and Delivery Measurement Points and the right of witnessing calibration thereof.

## **6. LOSSES**

Contractor shall bear its share of normal operational losses occurring during transportation of crude oil through the Transportation System, related facilities and terminal. The normal operational losses shall not exceed zero decimal two percent (0.2%) of Crude Oil tendered for transportation each day at the Transfer Point.

Contractor shall also contribute to incidental losses that may occur under circumstances beyond the reasonable control of prudent transporter, pro rata to Contractor's throughput in the affected facility prior to occurrence of the incident.

## **7. LINEFILL AND TERMINAL WORKING STOCK**

A certain initial quantity of Crude Oil received for transportation at the Transfer Point shall be considered as line fill for new pipelines and a certain quantity of Crude Oil shall represent Contractor's share of the terminal working stock. The quantities referred to above shall be agreed upon by the PARTIES. The terminal working stock shall be provided by Contractor if the Storage Tank(s) is dedicated for the Crude Oil. However, if the use of Storage tanks is shared, the terminal working stock to be provided by Contractor will be in proportion to respective volumes of crude oil to be transported. Such quantities of linefill and terminal working stock shall be deemed to have been used for Petroleum Operations on non-recoverable basis.

**End of Addendum Two**

**ADDENDUM THREE  
HEADS OF AGREEMENT FOR  
THE JOINT OPERATING COMPANY (JOC)**

This Addendum is attached to and made part of the Development and Production Contract for Block ... Iraq. Terms defined in the Contract shall have the same meanings for the purposes of this Heads of Agreement.

**1. Establishing of the Joint Operating Company (“JOC”)**

- 1.1 Pursuant to Article 9.12 of the Contract, a Joint Operating Company (“JOC”) of limited liability shall be established under the Laws of Iraq. JOC shall come into existence within twelve (12) Months after Pay-out and it shall commence the conduct of Petroleum Operations on the Date of Transfer of Operatorship which Date shall be within thirty (30) days from the date of its coming into existence.
- 1.2 JOC shall be owned fifty one percent (51%) by an Iraqi entity designated by Authority (hereinafter referred to “Authority Entity”) and forty nine percent (49%) by Contractor. JOC will bear the Iraqi nationality and shall conduct its activities in accordance with the provisions of the Contract, this Addendum Three and subsequent Charter of JOC.
- 1.3 The authorized capital of JOC shall be determined by mutual agreement in accordance with the applicable laws of Iraq. Authority Entity and Contractor shall each pay for, hold and own throughout the life of JOC the capital stock of JOC in accordance with the percentage ownership stipulated in Clause 1.2 herein above.
- 1.4 Contractor and Authority Entity shall agree, at least three (3) months prior to the Date of Transfer of Operatorship, on the procedure to secure a smooth transfer of Petroleum Operations from Contractor to JOC.

**2. JOC Name**

The name of JOC shall be ----- Oil Operating Company.

**3. Headquarters of JOC**

The headquarters of JOC shall be in Baghdad, Iraq, and it may have branch offices in other cities of Iraq.

**4. JOC Objectives**

- 4.1 JOC shall act as the Operator that conducts Petroleum Operations on behalf, and to the account, of Contractor in accordance with the provisions of the Contract.
- 4.2 JOC shall prepare and, after approval, implement Development Plans, Work Programs and Budgets in accordance with the Contract. JOC shall keep account of all costs, expenses and expenditures for such Petroleum Operations under the terms of the Contract and Annex C attached thereto.
- 4.3 In conducting Petroleum Operations under the Contract, JOC and its Sub-Contractors enjoy the same privileges and exemptions as Contractor and shall comply with applicable laws, regulations, by-laws and orders from

time to time in force in Iraq in accordance with Article 29 of the Contract.

4.4 JOC shall assume, as from the Date of Transfer of Operatorship, all the rights and obligations of Contractor/Operator wherever they appear in the Contract to the extent they are relevant to the carrying out of Petroleum Operations by Operator.

**5. Financing**

JOC shall neither have profit nor loss. Costs, expenses and expenditures, incurred and paid by JOC to carry out Petroleum Operations, shall be financed by Contractor and recovered as Petroleum Costs according to the Annual Work Program and Budget recommended by the Board of Directors and approved by Authority in accordance with the provisions of the Contract.

**6. Function of JOC**

JOC shall not own any right, title or interest under the Contract or in the Petroleum produced from the Field, and shall not be required as a principal for any financing. JOC shall function as Operator and shall assume all relevant responsibilities of Contractor/Operator under the Contract.

**7. Board of Directors**

7.1 A Board of Directors (BOD) shall be formed for the purpose of overall supervision and control of Petroleum Operations to be conducted by JOC. This Board of Directors shall consist of eight (8) directors, four (4) to be designated by Authority and four (4) to be designated by Contractor. An alternate to each director shall also be designated. BOD shall assume its duties and authorities as from the Date of Transfer of Operatorship. The chairman shall be designated by Authority and the deputy chairman by Contractor.

7.2 Meetings of the Board of Directors shall be valid, if at least three (3) directors from each side are present and any decision taken at such meetings must have the affirmative vote of at least five (5) members present in that meeting, however, the decisions on Development Plans, Work Programs and budgets shall require the affirmative vote of at least six (6) members present at the meeting.

7.3 All reasonable costs and expenses of the Board of Directors shall be recovered as Petroleum Costs.

**8. Duties and Authorities of Board of Directors**

Pursuant to Sub-Article 13.7 of the Contract, the Board of Directors (BOD) shall assume all the duties and authorities of the Joint Management Committee (JMC). Additionally, BOD shall have the following duties and authorities:

8.1 Overall supervision and control of JOC.

8.2 The establishment of the operating organisation and procedure.

8.3 The structuring of the accounting system and of the financial controls as well as the financial planning insofar as it is necessary to manage JOC.

8.4 The establishment of the procedures for the funding of Petroleum Operations by Contractor.

- 8.5 The appointment and replacement of the General Manager, the Deputy General Manager and the other senior divisional managers of JOC, and the definition of their respective powers.
- 8.6 The establishment and update of the organisation chart of JOC, including the identification of the positions to be filled through secondment from Authority or Contractor respectively and those to be filled through direct employment.
- 8.7 Establishment of the employment procedures and personnel regulations of JOC.
- 8.8 Prior approval of the terms of the service or secondment agreements to be entered into by JOC with Authority and Contractor.
- 8.9 Any other authority not specifically conferred by law or by the charter of JOC which the Board of Directors has not entirely delegated.

**9. Management**

The General Manager and Deputy General Manager of JOC shall be appointed by the Board of Directors from candidates nominated by Authority Entity and Contractor respectively. Divisional Managers of JOC shall be appointed by the Board of Directors in consultation with the General Manager and Deputy General Manager. The General Manager shall be the chief executive officer of JOC.

**10. Employment Regulations**

JOC shall give preference to Iraqi personnel in accordance with Article 9.9 of the Contract. The Board of Directors shall approve the regulations covering the terms and conditions of employment of the personnel of JOC employed directly by JOC.

**11. Duration of JOC**

- 11.1 The duration of JOC shall extend up to the end of the term of the Contract, including any extensions thereof.
- 11.2 Neither Contractor nor Authority Entity shall assign, sell or otherwise transfer its interest in the JOC except by mutual agreement; provided, however, that when an entity constituting Contractor assigns its interest under the Contract and Joint Operating Agreement to any party, its interest in the JOC shall be assigned proportionately.

**12. Dissolution of JOC**

JOC shall be dissolved when the Contract is terminated for any reason as provided for therein.

**13. Charter of JOC**

By the Date of Transfer of Operatorship, the Parties shall enter into the charter of JOC which shall embody the principles set out in this Heads of Agreement. Pending the issue of the said charter, the provisions of this Heads of Agreement setting forth the principal terms of the charter shall apply as the provisional charter

**14. Modification of the Charter of JOC**

Contractor and Authority Entity may, by mutual agreement, modify the terms of the

Charter of JOC provided that such modification will not be in conflict with the provisions of this Addendum or the Contract and is approved by Authority.

**15. Hand-over of Operatorship**

Operatorship including all books and records shall be transferred to JOC.

**16. Governing Law and Arbitration**

All laws and regulations, by-laws and orders from time to time in force in Iraq shall apply to JOC, if and to the same extent they apply to Contractor and/or the Contract in accordance with Article 29. Any dispute arising from or in connection with this Agreement or the charter of JOC shall be settled in accordance with Article 39 of the Contract.

**17. Confidentiality**

Confidentiality provisions of Article 34 of the Contract shall apply for this Heads of Agreement, subsequent charter and operations of JOC.

**18. Effective Date and Term**

This Heads of Agreement shall come into force on the Effective Date of the Contract and shall continue in effect until the Contract terminates or upon the Parties entering into the charter of JOC, whichever is the earlier.

**End of Addendum Three**