MODEL PRODUCTION SHARING CONTRACT FOR EXPLORATION AND PRODUCTION IN KURDISTAN

DRAFT FOR DISCUSSION PURPOSES ONLY

PRODUCTION SHARING CONTRACT
[AREA OF CONTRACT]

BETWEEN

KURDISTAN REGIONAL GOVERNMENT

AND

[COMPANY]
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PRODUCTION SHARING CONTRACT

BETWEEN

The KURDISTAN REGIONAL GOVERNMENT (hereinafter referred to as the "GOVERNMENT"), duly represented by the Minister of Natural Resources, PARTY OF THE FIRST PART;

AND

[insert name of CONTRACTOR], a company established and existing under the laws of [insert name of country], whose registered office is at [insert address], duly represented by its Chairman [insert name], hereinafter referred to as [insert short name of Contractor] or the "CONTRACTOR", PARTY OF THE SECOND PART.

At the date of the signature of this Agreement, [insert full legal corporate name of Contractor] is the sole entity constituting the CONTRACTOR.

The GOVERNMENT and the CONTRACTOR are hereinafter sometimes referred to jointly as the "Parties" and individually as the "Party".

WHEREAS

The Parliament of Kurdistan wishes to develop the petroleum wealth of Kurdistan and all of Iraq in a way that achieves the highest benefit to the people of Kurdistan, using the most advanced techniques of market principles and encouraging investment, consistent with Article 112 of the Constitution of Iraq;

Kurdistan law is the supreme law of Kurdistan, except with regard to a matter wholly within the exclusive jurisdiction of the Government of Iraq, as enumerated in Article 110 of the Constitution of Iraq;

The Parliament of Kurdistan has passed the Kurdistan Petroleum Act, which empowers the Kurdistan Ministry of Natural Resources to authorize Petroleum Operations, including production sharing contracts;

CONTRACTOR is a group of companies with the financial capability, and the technical knowledge and technical ability, to carry out Petroleum Operations in the Contract Area, has a record of compliance with the principles of good corporate citizenship, and is willing to
cooperate with the GOVERNMENT by assisting it to develop the Kurdistan petroleum industry, thereby promoting the economic development of Kurdistan and the social welfare of its people;

Any activity comprising exploration, exploitation, transportation and processing of Petroleum in the territory of Kurdistan may only be undertaken pursuant to an Authorisation issued by the GOVERNMENT;

The Memorandum of Understanding dated [insert date], entered into between [insert name of Contractor] and the GOVERNMENT;

NOW, THEREFORE, THE PARTIES HAVE AGREED AS FOLLOWS

ARTICLE 1
DEFINITIONS

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

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

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

- controls an entity constituting the CONTRACTOR; or
- is controlled by an entity constituting the CONTRACTOR; or
- controls or is controlled by a company or entity which controls an entity constituting the CONTRACTOR.

For the purpose of this definition, “control” means, in relation to a company or entity, the power of another company or entity to secure:

- by means of the holding of shares or the possession of voting power, in or in relation to the first company or entity or any other company or entity; or
- by virtue of any power conferred by the articles of association of, or any other document regulating, the first company or entity, or any other company or entity,

that the affairs of the first company or entity are conducted in accordance with the wishes or directions of that other company or entity.

Contract means this Production Sharing Contract, including its Annexes A – [Z] that are an integral part thereof, as well as any extension, renewal, substitution or amendment of this Production Sharing Contract that may be agreed by the Parties.
**Appraisal Area** means the area defined in Article 12.2 of this Contract.

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

**Arm’s-Length Sales** means sales of Crude Oil in freely convertible currencies between sellers and buyers having no direct or indirect relationship or common interest whatsoever with each other that could reasonably influence the sales price. Such Arm’s-Length Sales shall exclude:
- sales between the CONTRACTOR and its Affiliates;
- sales involving the Government or the Government of Iraq;
- sales involving exchanges and any transactions not relating to normal commercial practices.

**Associated Natural Gas** means any gaseous Petroleum produced in association with Crude Oil under reservoir conditions.

**Available Crude Oil** is defined in Article 25 of this Contract.

**Available Natural Gas** is defined in Article 25 of this Contract.

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

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

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

**Commercial Production** means the production of Petroleum from the Production Area in accordance with annual Production Works Program and Budget as provided under Article 13 of this Contract.

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

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

**CONTRACTOR** means, either jointly or individually, [insert Contractor name], its Affiliates and/or any assignee of all or part of the rights and obligations under this Contract in accordance with Article 39 of this Contract.
Crude Oil means all liquid hydrocarbons in their unprocessed state or obtained from Natural Gas by condensation or any other means of extraction;

Delivery Point means the place after extraction, specified in Article 27 as part of a Development Plan, at which the Crude Oil and Natural Gas is ready to be taken and disposed of, consistent with international practice, and the place at which a Party may acquire title to Petroleum, or such other point which may be agreed by the Parties.

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

Development Costs means all the costs, expenditure and obligations incurred by the CONTRACTOR when carrying out Development Operations.

Development Period is defined in Article 6 of this Contract.

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

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

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

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

Effective Date means the date on which all the conditions referred to in Article 46 of this Contract have been fulfilled.

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

Exploration Period is defined in Article 6 of this Contract.

Exploration Well means any well drilled for the purpose of confirming a structure or a separate geological feature in which no Petroleum Discovery has previously been made by the CONTRACTOR.

Export Point means the input to the third party export facility for the export of Petroleum.

Field Exit Point means the place of collection of all Petroleum produced in the Production Area.

Government means the Government of the Kurdistan Region of Iraq, as represented by the Minister for Natural Resources pursuant to Article 10 of the Kurdistan Petroleum Act and, where the Minister so assigns pursuant to Article 13 of the Kurdistan Petroleum Act, the Kurdistan Exploration and Production Company (KEPCO).

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

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

Management Committee is defined in Article 8 of this Contract.

MER means the maximum efficiency rate of production as defined [to be completed]

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

Month means a calendar month according to the Gregorian calendar.

Natural Gas means Associated Natural Gas or Non-Associated Natural Gas, including all gaseous hydrocarbons and inerts, including wet mineral gas, dry mineral gas, casing head gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not Crude Oil.
Non Associated Natural Gas means any Natural Gas, which is not dissolved in Crude Oil under reservoir conditions.

Operator means the entity designated by the CONTRACTOR which, in the name and on behalf of the entities constituting the CONTRACTOR, shall carry out all Petroleum Operations. The CONTRACTOR shall at any time have the right to appoint another entity as the Operator. If at any time there exists more than one (1) Operator under this Contract, any reference herein to the term ‘Operator’ shall be to each Operator with respect to the parts of the Contract Area in which such Operator conducts Petroleum Operations.

Party or Parties means the GOVERNMENT and/or the CONTRACTOR, as well as their authorised assignees.

Petroleum means:

(i) any naturally occurring hydrocarbon, whether in a gaseous, liquid or solid state;
(ii) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state, excluding coal; or
(iii) any Petroleum (as defined in paragraphs (i) and (ii) above) that has been returned to a Reservoir.

Petroleum Costs means all costs and expenditure incurred by the CONTRACTOR for the Petroleum Operations, and which CONTRACTOR is entitled to recover under this Contract and its Accounting Procedure attached hereto as Annex B.

Petroleum Field means a Reservoir or group of Reservoirs within a common geological structure or feature from which Petroleum may be produced.

Petroleum Operations means all Exploration Operations, Development Operations and Production Operations, as well as any other activities or operations directly or indirectly related or connected with the said Operations (including but not limited to decommissioning operations) and authorised or contemplated hereunder, performed in the framework of this Contract.

Production Area means such portions within the Contract Area designated as a Production Area in an approved Development Plan in accordance with Article 12 of this Contract. All superjacent or subjacent strata of the Reservoir in which the Commercial Discovery is located are automatically included in the Production Area.

Production Costs means all the costs, expenditure and obligations incurred by the CONTRACTOR in carrying out the Production Operations.

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

**Profit Petroleum** means Available Crude Oil and Available Natural Gas as defined in Article 25.2 of this Contract, less the quantities allocated for the recovery of its Petroleum Costs by the **CONTRACTOR**.

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

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

**Reservoir** means a subsurface rock formation containing an individual and separate natural accumulation of producible hydrocarbons (oil and/or gas) characterized by a single natural pressure system;

**Royalty** means the percentage of Petroleum produced and saved from the Contract Area allocated for the Government;

**Semester** means a period of six (6) consecutive Months starting from the 1st day of January or July respectively.

**Subcontractor** means any entity providing specialized services when undertaking specific works relating to the Petroleum Operations under the supervision and on behalf of the **CONTRACTOR**.

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**ARTICLE 2**  
**SCOPE OF THE CONTRACT**

2.1 This Contract is a production-sharing arrangement with respect to the Contract Area, whereby the **GOVERNMENT** is the representative of the people of Kurdistan, who are the sole owners of any Petroleum within the Contract Area.

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

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

2.2 Upon the **CONTRACTOR**’s request, the **GOVERNMENT** shall provide all required licences or authorisations relating to the Exploration, Production and transportation
Operations in accordance with this Agreement, including those relating to any extension and renewal periods. The GOVERNMENT represents and warrants to the CONTRACTOR that it shall not do or omit to do anything that would cause the cancellation or suspension of any such authorisation granted under this Agreement.

2.3 The CONTRACTOR shall conduct all Petroleum Operations within the Contract Area at its sole costs, risks and perils on behalf of the GOVERNMENT, pursuant to the production-sharing principle and in accordance with this Contract, including but not limited to the following operations:

Technical Services

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

Financial Services

The responsibility for funding the Exploration Operations and, in the event of a Commercial Discovery, Development and Production Operations. The financial contribution of the CONTRACTOR shall cover all its requirements for the execution of its obligations under this Contract.

Administrative Services

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

2.4 During the term of this Contract, the CONTRACTOR shall be responsible vis-à-vis the GOVERNMENT for the conduct of Petroleum Operations within the Contract Area. All activities of the CONTRACTOR shall be undertaken in compliance with the respective rights and obligations of the Parties and shall be subject to the terms of this Contract.

2.5 Natural resources other than Petroleum shall be excluded from the scope of this Contract, even if the CONTRACTOR discovers any such resources when executing its obligations.

2.6 The CONTRACTOR shall only be entitled to recover Petroleum Costs incurred under this Contract in the event of a Commercial Discovery. Recovery of Petroleum Costs shall occur within the limits provided under Article 25 of this Contract. However, the CONTRACTOR shall be entitled to recover any Petroleum Costs incurred under this Contract in the event the Parties agree to substitute another contract area for the Contract Area after the drilling of the first well in the Contract Area.
2.7 During the term of this Contract, any Available Crude Oil and/or Available Natural Gas as defined in Article 25.2 of this Contract produced from Petroleum Operations shall be shared between the Parties in accordance with the provisions of Article 26 of this Contract, after the Recovery of Petroleum Costs in accordance with the provisions of Article 25 of this Contract.

2.8 For the said sharing of any Available Crude Oil and/or Available Natural Gas, each entity constituting the CONTRACTOR shall be treated as a separate entity and shall act for its own account for income tax purposes.

2.9 For the execution of Petroleum Operations under this Contract, the CONTRACTOR shall have the right to:

(a) freely access and operate within the Contract Area, as well as any facilities associated with the Petroleum Operations, wherever they may be located.

(b) freely use access roads located within the Contract Area and, subject to applicable regulations, use those access roads located outside the Contract Area for the construction of pipelines and other facilities required for the Petroleum Operations on terms no less favourable than those offered to other entities.

(c) freely use sand, water, electricity and any other natural resources located inside or outside the Contract Area for the Petroleum Operations, subject to applicable regulations.

(d) use any qualified foreign and local personnel and/or Subcontractors required for the conduct of Petroleum Operations in accordance with Articles 22 and 23 of this Contract. Any foreign personnel working in Kurdistan shall be subject to prior authorization of the GOVERNMENT, such authorization not to be unreasonably delayed or withheld.

(e) import any goods and services required for the Petroleum Operations in accordance with Articles 19, 23 and 30 of this Contract.

(f) use land or property belonging to Kurdistan on terms no less favourable than those offered to other entities.

ARTICLE 3
CONTRACT AREA

The initial Contract Area covers the [X] Block and extends over an area of [X] km², as detailed and indicated on the map attached in Annex A and is delimited by the following coordinates:

Northern Boundary:
Western Boundary:

Southern Boundary:

Eastern Boundary:

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

ARTICLE 4
GOVERNMENT PARTICIPATING INTEREST

The GOVERNMENT [KEPCO] shall have a direct working interest in Petroleum Operations pursuant to this Contract in the following terms: [to be completed].

ARTICLE 5
OPERATOR

5.1 Until further notice, [insert Operator name] shall act as the Operator on behalf of the CONTRACTOR for the execution of the Petroleum Operations.

5.2 Any agreement among the CONTRACTOR group regarding or regulating the Operator’s conduct in relation to this Contract shall be submitted to the GOVERNMENT for comment prior to execution thereof.

5.3 The Operator will be subject to all of the specific obligations provided for in this Contract, the Kurdistan Petroleum Act and other applicable legislation and shall have the exclusive control and administration of the Petroleum Operations.

5.4 The Operator shall be the only entity which, on behalf of the CONTRACTOR group, may execute contracts, incur expenses, make commitments and implement other actions in connection with the Petroleum Operations.

5.5 In the event of the occurrence of any of the following, the GOVERNMENT can require the CONTRACTOR group to immediately appoint another Operator:

(a) if the Operator, by action or omission, commits a Serious Fault in carrying out its obligations and if this fault is not remedied to the satisfaction of the GOVERNMENT within a period of twenty eight (28) days with effect from the date of receipt by the Operator of written notice issued by the GOVERNMENT requesting the Operator to remedy such fault (or within a greater period of time if
so specified in the notice, or as agreed later by the GOVERNMENT, or if the Operator has not begun to take the necessary steps to remedy such fault within a period of twenty eight (28) days;

(b) if sentence has been passed in court declaring the bankruptcy, liquidation, or dissolution of the Operator, or if, in the court action taken in order to obtain such declaration, any interim or judicial ruling has been made, which prevents the Operator from fulfilling its obligations under this Contract;

(c) if the Operator undertakes the legal procedures established to prevent bankruptcy or without just cause ceases payment to creditors;

(d) if the Operator terminates or if there is “strong evidence” that it intends to terminate its activities or a significant proportion thereof, and, as a result fails to fulfill its obligations under the Contract, provided that if there is “strong evidence” that it intends to terminate its activities, the Operator shall be given a period of twenty-eight (28) days with effect from the date of receipt by the Operator of written notice issued by the GOVERNMENT, or such greater period of time if so specified in the notice, in which to refute such “strong evidence” to the satisfaction of the GOVERNMENT.

5.6 For purposes of this Contract, “Serious Fault” shall mean inadequate performance by the Operator that substantially violates the technical rules generally accepted in the international petroleum industry and/or the obligations under this Contract and the Kurdistan Petroleum Act.

5.7 If the CONTRACTOR group, in accordance with paragraph 5.5 of this Article, does not comply with the obligation to appoint another Operator within thirty (30) days from the date when the GOVERNMENT gave notice to the CONTRACTOR group, then the CONTRACTOR group shall appoint as Operator the entity so designated by the GOVERNMENT from the entities comprising the CONTRACTOR group, unless none of such entities agrees to be Operator.

ARTICLE 6
TERM OF THE CONTRACT

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

Exploration Period

6.2 The Exploration Period shall extend over a period of seven (7) Contract Years starting from the Effective Date and shall be subdivided in four (4) sub-periods as follows:
- an initial sub-period of three (3) Contract Years;
- an optional second sub-period of two (2) Contract Years;
- an optional third sub-period of one (1) Contract Year;
- an optional fourth sub-period of one (1) Contract Year.

It is understood that the optional right of the CONTRACTOR to accede to the next sub-period shall be subject to fulfilment of its obligations during the previous sub-period.

6.3 Where the Contract Area contained proved Petroleum before the award of the Contract, CONTRACTOR shall pay a bonus of [X] Dollars to the GOVERNMENT.

6.4 The CONTRACTOR shall pay the GOVERNMENT an annual surface rental for the Contract Area of [X] Dollars per square kilometre for the area covered by the resulting Development Area. Such surface rental shall be recoverable as a Petroleum Cost.

6.5 If the CONTRACTOR decides not to enter into either the second, third or fourth sub-period, as the case may be, it shall notify the GOVERNMENT at least thirty (30) days prior to the expiry of the then current sub-period.

6.6 If the CONTRACTOR has fulfilled its Minimum Exploration Obligations for any of the first four sub-periods of the Exploration Period but considers that additional work is required prior to deciding to commit to the next sub-period or submit an appraisal programme as provided under Article 12.2 of this Contract, the CONTRACTOR will be entitled to an extension of the then current sub-period of maximum [X] (X) Contract Years. Justification for such extension and its duration shall be submitted in writing to the GOVERNMENT at least thirty (30) days prior to the end of the current sub-period.

6.7 Upon expiry of the Exploration Period, if it considers it has not completed its evaluation of the Contract Area, the CONTRACTOR shall be entitled to an extension of the Exploration Period provided it so requests the GOVERNMENT in writing at least thirty (30) days prior to the end of the Exploration Period. Any such extension shall not exceed [X] (X) Contract Years.

6.8 At any time during the Exploration Period, upon thirty (30) days prior notice to the GOVERNMENT, the CONTRACTOR shall have the right to withdraw from this Contract provided that its then outstanding Minimum Exploration Obligations have been duly completed, or it has paid to the GOVERNMENT the amounts specified in Article 10 of this Contract.

6.9 If no Commercial Discovery has been made within the Contract Area at the end of the Exploration Period, or any extensions thereof, this Contract shall terminate.

Development Period

6.10 In the event the CONTRACTOR considers that a Crude Oil Discovery is a Commercial Discovery, the CONTRACTOR shall have the exclusive right to develop and produce
such Crude Oil Discovery. The Development Period for a Crude Oil Discovery shall be [X] years [up to twenty (20) years], with an automatic right to a five (5) year extension.

6.11 In the event the CONTRACTOR considers that a Natural Gas Discovery is a Commercial Discovery, the CONTRACTOR shall have the exclusive right to develop and produce such Natural Gas Discovery. The Development Period for a Natural Gas Discovery shall be [X] years [up to twenty (20) years], with an automatic right to a five (5) year extension.

6.12 In the event Commercial Production from a given Production Area is still possible at the end of its term as defined in Articles 6.7 or 6.8 above then, upon its request, the CONTRACTOR shall be entitled to an extension of such Development Period under the same terms as those provided in this Contract. Such request shall be made by the CONTRACTOR at least one (1) Year before the end of the said Development Period.

The term of any such extension of the Development Period shall be:

- [X] (X) Years for Crude Oil, and/or
- [X] (X) Years for Natural Gas.

6.13 The CONTRACTOR shall have the right to terminate Production Operations for any given Production Area at any time during the term of this Contract, subject to giving notice to the GOVERNMENT of at least ninety (90) days. This Contract shall terminate on the date of the final expiry of the last Production Area or when Production Operations for all Production Areas have terminated.

ARTICLE 7
RELINQUISHMENTS

7.1 The CONTRACTOR shall surrender portions of the Contract Area as follows:

(a) twenty five percent (25%) of the initial Contract Area, excluding any Production Areas, at the end of the first sub-period of the Exploration Period.
(b) an additional twenty five percent (25%) of the initial Contract Area, excluding any Production Areas, at the end of the second sub-period of the Exploration Period.
(c) an additional twenty five percent (25%) of the initial Contract Area, excluding any Production Areas, at the end of the third sub-period of the Exploration Period.
(d) the entirety of the Contract Area, excluding any Production Areas, at the end of the fourth sub-period of the Exploration Period (including any extensions thereof).

7.2 For the application of Article 7.1:
(a) any areas already relinquished pursuant to Article 7.3 below and any areas already covered by a production authorisation shall be deducted from areas to be surrendered; and
(b) the CONTRACTOR shall have the right to determine area, shape and location of the Contract Area to be kept.

7.3 Pursuant to Article 39 of the Kurdistan Petroleum Act, if the relinquishments referred to in Article 7.1 can only be achieved by including part of the area of a Discovery, these percentages shall be reduced to exclude the Discovery area.

7.4 During the Exploration Period, the CONTRACTOR may at any time surrender all or any part of the Contract Area by written notice sent to the GOVERNMENT at least thirty (30) days in advance of the date of surrender, subject to the provisions of this Article 7.4. Such voluntary surrenders during the Exploration Period shall be deemed equal to the obligatory relinquishments referred to under Article 7.1. This Contract shall terminate in the event of total surrender of the Contract Area.

7.5 No surrender provided under Article 7.4 above shall exempt the CONTRACTOR from its outstanding obligations. In the event the CONTRACTOR decides to surrender the entire Contract Area without having duly fulfilled its Minimum Exploration Obligations as provided in Article 10 below, or any other obligations to be fulfilled pursuant to Articles 13 and 15 below, the CONTRACTOR shall pay to the GOVERNMENT the amount based upon the outstanding Exploration Operations to be fulfilled pursuant to Article 9 of this Contract.

7.6 The boundaries of the area to be relinquished by the CONTRACTOR shall be communicated to the GOVERNMENT in accordance with Article 6.3 of this Contract.

ARTICLE 8
MANAGEMENT COMMITTEE

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

The Management Committee shall comprise an equal number of members designated by each Party: three (3) members designated by the GOVERNMENT and three (3) members designated by the CONTRACTOR.

Upon ten (10) days notice, each Party may substitute any of its members of the Management Committee. The Chairman of the Management Committee shall be one of the members designated by the GOVERNMENT.

Each Party shall have the right to invite observers as deemed necessary to attend the meetings in a non-voting capacity.
8.2 The Management Committee shall review, deliberate, decide and give advice, suggestions and recommendations to the Parties regarding the following subject matters:

(a) Work Programs and Budgets.
(b) the CONTRACTOR’s activity reports.
(c) Production levels submitted by the CONTRACTOR, based on generally accepted practice in the international petroleum industry.
(d) Accounts of Petroleum Costs.
(e) Tender procedures for potential Subcontractors, as provided under Art.23 of this Contract.
(f) Development Plan and Budget for each Petroleum Field.
(g) Any matter affecting Petroleum Operations.
(h) Any other subject matter the Parties are willing to consider.

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

Except as provided for in Article 8.4, the decisions of the Management Committee are taken by simply majority of the votes of members or their deputies.

8.4 Unanimous approval of the Management Committee shall be required for:

(a) approval of, and any revision to, Exploration Work Programs and Budgets prepared after the first Commercial Discovery;
(b) approval of, and any revision to, the Development Plan, the production Schedule, Lifting Schedule and Development and Production Work Programs and Budgets; and
(c) establishment of rules of procedure for the Management Committee.

8.5 Ordinary meetings of the Management Committee shall take place in Kurdistan, alternately at the offices of the GOVERNMENT and those of the CONTRACTOR, or at any other location agreed between Parties, at least twice a Contract Year prior to the date of the first Commercial Discovery and three times a Contract Year thereafter.

8.6 Either Party may call an extraordinary meeting of the Management Committee to discuss important issues or developments related to Petroleum Operations, subject to giving reasonable prior notice, specifying the matters to be discussed at the meeting, to the other Party. The Management Committee may from time to time make decisions by correspondence provided all the members have indicated their approval thereof such correspondence.

8.7 Unless at least one (1) member or its deputy of each Party is present, the Management Committee shall be adjourned for a period not to exceed eight (8) days. The Party being
present shall then notify the other Party of the new date, time and location for the meeting.

8.8 The agenda for meetings of the Management Committee shall be prepared by the Operator in accordance with instructions of the chairman and communicated to the Parties at least fifteen (15) days prior to the date of the meeting. The agenda shall include any subject matter proposed by either Party. The Operator shall be responsible for preparing and keeping minutes of the meetings and decisions. Copies of such minutes shall be forwarded to each Party.

8.9 If required, the Management Committee may request the creation of a technical sub-committee or any other sub-committee to assist it. Any such sub-committee shall be composed of an equal number of experts from the GOVERNMENT and the CONTRACTOR. After each meeting, the technical sub-committee or any other sub-committee shall deliver a written report to the Management Committee.

8.10 Any costs and expenditure incurred by the CONTRACTOR for meetings of the Management Committee shall be deemed Petroleum Costs and shall be recovered in accordance with Article 24.

Article 9
Guarantees

9.1 The minimum Exploration work obligations shall be secured by a financial guarantee substantially in the form set out in Annex X.
9.2 The financial guarantee referred to in the previous paragraph shall be given by the CONTRACTOR not later than thirty (30) days after the execution of this Contract, in respect of the minimum work obligations of the first Exploration sub-period, or after the commencement of each sub-period of the Exploration Period, in respect of the minimum work obligations of said sub-period.

9.3 The amount of the above referred financial guarantee shall in each sub-period be equal to US$[X].

9.4 In respect to the first Exploration sub-period, the financial guarantee shall be increased by US$[X] for the mandatory seismic program.

9.5 In the first Exploration sub-period, the above referred financial guarantee shall be reduced by the amount of US$[X] when the mandatory seismic program has been concluded, or for each amount paid.

9.6 The financial guarantee shall also be reduced by the amount of US$[X] when the drilling of each of the obligatory Exploration Wells for each sub-period of the Exploration Period is finished, or for each amount paid.

9.7 If, during any Year of any of the sub-periods of the Exploration Period, the CONTRACTOR should be deemed to have relinquished all of the Contract Area not converted to a Development Area(s), Contractor Group shall forfeit the full amount of the financial guarantee, reduced as provided for in paragraphs 5 and 6 of this Article.

9.8 Each of the entities comprising the CONTRACTOR shall also provide the GOVERNMENT, if so required by the latter, with a corporate guarantee substantially in the form shown in Annex X hereof or such other form as may be agreed between the GOVERNMENT and each of such entities, not later than sixty (60) days after the date of execution of this Contract.

**ARTICLE 10 MINIMUM EXPLORATION WORK OBLIGATIONS**

10.1 The CONTRACTOR shall start Exploration Operations within thirty (30) days of the approval of the Exploration Work Program and Budget in accordance with Article 8 of this Contract. The CONTRACTOR shall perform geological, geophysical and/or drilling works as provided under Articles 10.2 to 10.5 below (the “Minimum Exploration Obligations”). If applicable, the said works shall be performed diligently during each sub-period of the Exploration Period.

10.2 During the first sub-period of the Exploration Period, the CONTRACTOR shall perform geological and geophysical works, including seismic reprocessing, for a minimum amount of US$ [X].

10.3 During the second sub-period of the Exploration Period, the CONTRACTOR shall acquire [X] km of seismic for a minimum amount of US$ [X].
10.4 During the third sub-period of the Exploration Period, the CONTRACTOR shall drill [one] (1) Exploration Well for a minimum amount of US$ [X].

10.5 During the fourth sub-period of the Exploration Period, the CONTRACTOR shall drill [one] (1) Exploration Well for a minimum amount of US$ [X].

10.6 For the execution of the Minimum Exploration Obligations under Articles 10.2 to 10.5 above:

(a) commitments in the second, third or fourth sub-period of the Exploration Period shall only apply in case the CONTRACTOR has elected to commit to the phase in question;

(b) the CONTRACTOR shall be required to meet its Minimum Exploration Obligations for a specific sub-period, even if this entails exceeding the minimum financial amount for such sub-period. If the CONTRACTOR has satisfied its Minimum Exploration Obligations without having spent the minimum financial amount, it shall be deemed to have satisfied its Minimum Exploration Obligations for such sub-period;

(c) each Exploration Well shall be drilled to the depth agreed by the Management Committee unless:

- the formation is encountered at a lesser depth than originally anticipated;
- basement is encountered at a lesser depth than originally anticipated;
- continued drilling presents a hazard due to the presence of abnormal formation pressure;
- rock formations are encountered rendering it impractical to continue drilling with standard equipment;
- petroleum formations are encountered whose penetration requires laying protective casing not enabling the contractual depth to be reached.

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

(d) Any geological or geophysical work carried out or any Exploration Well drilled in excess of the Minimum Exploration Obligations and/or any amounts spent in excess of the minimum financial amount in any given sub-period, shall be carried forward to the next sub-period(s) and shall be taken into account to satisfy the Minimum Exploration Obligations and/or the minimum financial amount for any subsequent sub-period.

ARTICLE 11
EXPLORATION WORK PROGRAMS AND BUDGETS

11.1 Within forty-five (45) days following the Effective Date, the CONTRACTOR shall submit to the Management Committee a proposed Work Program and Budget relating
to Exploration Operations (the “Exploration Work Program and Budget”) for the
remainder of the Calendar Year. Thereafter, the CONTRACTOR shall submit a
proposed Exploration Work Program and Budget to the Management Committee at
least forty-five (45) days prior to the beginning of each Calendar Year.

11.2 Each Exploration Work Program and Budget shall include but not be limited to the
following:

(a) work to be undertaken, grouped by cost centre;
(b) material, goods and equipment to be acquired;
(c) cost estimate of services to be provided, including services by third parties
and/or Affiliated Companies;
(d) estimated expenditures, broken down by cost centre in accordance with the
Accounting Procedure.

11.3 The Management Committee shall meet within thirty (30) days following its receipt of
CONTRACTOR’s proposal to examine and approve the Exploration Work Program
and Budget.

11.4 Any modification to the Exploration Work Program and Budget requested by the
GOVERNMENT shall be submitted to the CONTRACTOR within fifteen (15) days
following receipt of the proposed Exploration Work Program and Budget by the
Management Committee, accompanied by all the documents justifying said request. If
the GOVERNMENT does not request any modifications to the Exploration Work
Program and Budget within the above set timeframe, the Work Program and Budget
shall be deemed approved by the Management Committee.

11.5 The CONTRACTOR shall communicate its comments on any such requested
modifications to the GOVERNMENT at the meeting of the Management Committee
and the decision of the CONTRACTOR shall be final and binding on the Parties.

11.6 The CONTRACTOR shall be authorised to make expenditures not budgeted in an
approved Exploration Work Program and Budget provided, however, that the
aggregate amount of such expenditures shall not exceed ten percent (10%) of the
approved Budget in any Calendar Year and provided further that such excess
expenditures shall be reported promptly to the Management Committee.

11.7 In cases of emergency, the CONTRACTOR may incur such immediate and
additional expenditures as it deems necessary to protect life, environment or property
and such expenditures shall be considered Petroleum Costs. Such additional
expenditures shall be reported promptly to the Management Committee.

ARTICLE 12
DISCOVERY AND DEVELOPMENT

12.1 If the drilling of an Exploration Well results in a Discovery, the CONTRACTOR
shall notify the GOVERNMENT within twenty-four (24) hours of completing tests
confirming the presumed existence of such Discovery. Within thirty (30) days
following notification of the said Discovery, the CONTRACTOR shall present to the Management Committee all technical data then available together with its opinion on the commercial potential of the said Discovery (the "Discovery Report"). The CONTRACTOR shall provide in a timely manner such other information relating to the Discovery as the GOVERNMENT may request.

Appraisal Program

12.2 If, pursuant to Article 12.1 above, the CONTRACTOR considers that the Discovery has commercial potential it shall, within ninety (90) days following notification to the GOVERNMENT, submit an appraisal program (the "Appraisal Program") to the Management Committee. The Management Committee shall examine the Appraisal Program within thirty (30) days of its receipt. The Appraisal Program shall be deemed approved by the Management Committee if it has not provided the CONTRACTOR with its objections within thirty (30) days following receipt of the said Appraisal Program.

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

(a) a detailed works program and budget;
(b) an estimated time-frame for completion of appraisal works;
(c) the delimitation of the area to be evaluated, the surface of which shall not exceed twice (2 x) the surface of the geological structure or prospect to be appraised (the "Appraisal Area").

12.3 If, following a Discovery a rig is available to drill a well, the CONTRACTOR may drill any additional well deemed necessary by the CONTRACTOR before or during the Management’s Committee review of the technical data provided in accordance with Article 12.1 above or its review of the Appraisal Program. Any well drilled to appraise a Discovery shall be deemed an Exploration Well.

Appraisal Report

12.4 The CONTRACTOR shall submit a detailed report relating to the Discovery (the “Appraisal Report”) to the Management Committee within ninety (90) days following completion of the Appraisal Program.

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

(a) geological conditions;
(b) physical properties of any liquids;
(c) sulphur, sediment and water content;
(d) type of substances obtained;
(e) Natural Gas composition;
(f) production forecast per well;
(g) a preliminary estimate of recoverable reserves.

Declaration of Commercial Discovery
12.6 Together with its Appraisal Report, the CONTRACTOR shall submit a written statement to the Management Committee specifying that:

(a) the CONTRACTOR has determined that the Discovery is a Commercial Discovery; or
(b) the CONTRACTOR has determined that the Discovery is not a Commercial Discovery; or
(c) the CONTRACTOR has determined that the Discovery is a significant Discovery, which may become a Commercial Discovery subject to additional exploration or appraisal works within or outside of the Appraisal Area.

12.7 In case the statement of the CONTRACTOR corresponds to Article 12.6(c) above, the CONTRACTOR shall submit a Work Program and Budget to the Management Committee within thirty (30) days following such statement. Any well drilled to evaluate the said significant Discovery shall be considered an Exploration Well.

Development Plan

12.8 If the Discovery has been declared a Commercial Discovery by the CONTRACTOR pursuant to Article 12.6 (a) above, the CONTRACTOR shall submit a proposed Development Plan to the Management Committee within one hundred eighty (180) days following the said declaration. Said Development Plan shall include but not be limited to the following:

(a) the delimitation of the Production Area, taking into account the results of the Appraisal Report regarding the importance of the Petroleum Field to be developed within the appraisal area;
(b) drilling and completion of Development Wells;
(c) drilling and completion of water or Natural Gas injection wells;
(d) laying of gathering pipelines;
(e) installation of separators, tanks, pumps and any other associated production and injection facilities for the production;
(f) treatment and transportation of Petroleum to the processing and storage facilities onshore or offshore;
(g) laying of export pipelines inside or outside the Contract Area to the storage facility or Delivery Point;
(h) construction of storage facilities for Petroleum;
(i) plan for the utilisation of Associated Natural Gas;
(j) training commitment in accordance with Article 23.4 of this Contract;
(k) a decommissioning and site restoration program in accordance with Article 38 of this Contract; and
(l) any other operations not explicitly provided for in this Contract but necessary for Development Operations, Production Operations and delivery of Petroleum produced, in accordance with generally accepted practice in the international petroleum industry.

12.9 The Development Plan shall be deemed approved by the Management Committee pursuant to Article 13.3 of this Contract if the GOVERNMENT, through its representatives on the Management Committee, have not requested any revisions
thereto within sixty (60) days after receipt of the said Development Plan by the Management Committee.

12.10 If the CONTRACTOR makes several Commercial Discoveries within the Contract Area, each such Commercial Discovery will entail a separate exploitation authorisation corresponding to a separate Production Area. The CONTRACTOR shall be entitled to develop and to produce each Commercial Discovery, and the GOVERNMENT shall provide the appropriate authorisations covering the Production Area. In case the area covered by the Commercial Discovery extends beyond the boundaries of the Contract Area, and to the extent such area outside the Contract Area is not the subject of a production-sharing or other arrangement with another contractor, the Production Area may cover the entire area of the Commercial Discovery, even if such area extends beyond the Contract Area, subject to further negotiations and terms to be agreed between the Parties.

ARTICLE 13
PRODUCTION WORK PROGRAMS AND BUDGET

13.1 Upon the approval of the Development Plan by the Management Committee in accordance with Article 12.9 of this Contract, the CONTRACTOR shall start the Development Operations for the Commercial Discovery in accordance with the Development Plan and the practices generally accepted in the international petroleum industry.

Approval of Annual Works Programs and Budget

13.2 Within ninety (90) days following approval of the Development Plan, the CONTRACTOR shall prepare and submit to the Management Committee a proposed Work Program and Budget for Production Operations (the “Production Work Program and Budget”) to be carried out in the Production Area during the following Calendar Year. To enable to forecast expenditures, the Production Work Program and Budget shall include but not be limited to the following:

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

The Management Committee shall decide on the Production Work Program and Budget within thirty (30) days from its receipt of the said proposal.

13.3 No later than 1st October in each Calendar Year, the CONTRACTOR shall submit to the Management Committee its planning for the Production Operations as well as the Production Work Program and Budget for the following Calendar Year.

If the GOVERNMENT does not request any modifications to the Work Program and Budget through its representatives in the Management Committee within the above set
timeframe, the Production Work Program and Budget shall be deemed approved by the Management Committee.

13.4 The CONTRACTOR shall be authorised to incur expenditures not budgeted in an approved Production Work Program and Budget provided the aggregate amount of such expenditure shall not exceed [X] percent of the approved Budget in any Calendar Year and provided further that such excess expenditures shall be reported promptly to the Management Committee.

13.5 In cases of emergency, the CONTRACTOR may incur such immediate and additional expenditure as it deems necessary to protect life, environment or property and any such expenditure shall be considered Petroleum Costs, pursuant to Article 35 of this Contract. Such additional expenditures shall be reported promptly to the Management Committee.

ARTICLE 14
NATURAL GAS

Use for the Petroleum Operations

14.1 All the provisions of this Contract shall apply mutatis mutandis to Natural Gas, in particular those of Articles 25 and 26 pertaining to the recovery of Petroleum Costs and the sharing of Profit Petroleum. However, to take account of specific conditions relating to Natural Gas and to promote its development in Kurdistan, the GOVERNMENT may grant specific benefits to the CONTRACTOR.

14.2 The CONTRACTOR may freely use any Natural Gas required for the Petroleum Operations. If technically and economically justified, the CONTRACTOR shall in priority use any Natural Gas for the purpose of enhancing recovery of Crude Oil in accordance with standard practices in the international petroleum industry as follows:

Associated Natural Gas

14.3 Any excess Associated Natural Gas produced that is neither used in the Petroleum Operations nor developed and sold by the CONTRACTOR shall, upon the GOVERNMENT’s request, be transferred free of charge to the GOVERNMENT. In such case, the GOVERNMENT shall be solely responsible for collecting, treating, compressing and transporting such Natural Gas and shall be solely liable for any additional direct and indirect costs associated therewith. The construction and operation of required facilities as well as the offtake of such excess Associated Natural Gas shall occur in accordance with best practice in the international petroleum industry and shall not interfere with the production, lifting and transportation of the Crude Oil by the CONTRACTOR.

To the extent the CONTRACTOR considers that re-injecting such excess Associated Natural Gas is not justified technically and economically and provided the GOVERNMENT decides not to take such Associated Natural Gas, the CONTRACTOR shall be authorized to flare any excess Associated Natural Gas.
In the event the **GOVERNMENT** finds a market for Associated Natural Gas, the **CONTRACTOR** may elect to participate in supplying such Associated Natural Gas within ninety (90) days following notification thereof by the **GOVERNMENT**. If the **CONTRACTOR** elects to participate in supplying Associated Natural Gas to such market, all expenditures associated with any necessary facilities shall be paid for by the **CONTRACTOR**. The terms for recovering any expenditure associated with such facilities and the production share to be allocated to the **CONTRACTOR** shall be as set forth in this Contract.

**Non Associated Natural Gas**

14.4 When any Non Associated Natural Gas is discovered within the Contract Area, the Parties shall implement a new agreement regarding the Appraisal and possible development and marketing of the Non Associated Natural Gas in the domestic and international markets.

14.5 If the Parties cannot reach a new agreement within six (6) months or any period mutually agreed upon, the **GOVERNMENT** will own and will or cause to appraise, develop or produce such Non Associated Natural Gas. The **GOVERNMENT** will take all necessary measures to avoid any effect which may hamper the Petroleum Operations of the **CONTRACTOR** while producing Crude Oil.

14.6 The Parties will agree on the shares of the **GOVERNMENT** and the **CONTRACTOR** for the revenues generated from the sale of Associated and Non Associated Natural Gas after deduction of recoverable Petroleum Costs. Such sharing of the Profit Natural Gas will depend on the feasibility of the development of the Natural Gas.

**Flaring**

14.7 In the course of activities provided for under this Contract, flaring of Associated and/or Non Associated Natural Gas, except short-term flaring necessary for testing or other operational reasons in accordance with practice generally accepted in the international petroleum industry, is prohibited, except on prior authorisation of the **GOVERNMENT**. The **CONTRACTOR** shall formulate such request to the **GOVERNMENT**, which shall include an evaluation of alternatives to flaring that have been considered along with information on the amount and quality of Natural Gas involved and the duration of the requested flaring.

**Price for Export**

14.8 The formula for fixing the price of Natural Gas shall be established, taking into account quantities to be sold, quality, geographic location of markets to be supplied as well as costs of production, transportation and distribution of Natural Gas from the Delivery Point to the relevant market, in accordance with standard practice in the international gas industry.
ARTICLE 15
ACCOUNTING AND AUDITS

15.1 The CONTRACTOR shall keep in its offices in Kurdistan copies of all books and accounts relating to the Petroleum Operations (hereinafter the “Accounts”). The Accounts shall reflect in detail expenditure incurred in function of the quantities and value of Petroleum produced. All books and accounts which are made available to the authorities in accordance with the provisions of this Contract shall be prepared in the English language.

The Accounts shall be kept in accordance with generally accepted practice and procedures in the international petroleum industry and in accordance with the provisions of the Accounting Procedure attached hereto as Annex B.

The Accounts shall be kept in Dollars, which shall be the reference currency for the purposes of Articles 25, 26, 27 and 31 of this Contract.

For information purposes only and to comply with applicable Kurdistan laws, the Accounts shall also be kept in Iraqi dinars in accordance with the provisions of the applicable accounting plan. The Accounts in Iraqi dinars shall be certified annually by an independent international accounting firm to be mutually agreed by the Parties.

15.2 Within sixty (60) days following the end of each Calendar Year, the CONTRACTOR shall submit to the GOVERNMENT an internationally recognised auditor’s report of all Petroleum Costs incurred during the said Calendar Year. The report shall also include a profit calculation pursuant to the provisions of Article 26 of this Contract. The right of the GOVERNMENT to examine, verify and audit the said statements of Petroleum Costs shall be exercised within a period of two (2) Calendar Years following the end of the said Calendar Year, failing which no adjustments shall be made later. Subject to the said timeframe, the GOVERNMENT may request in writing all information, justifications and clarifications as well as any documents, reports, accounting and financial records which it deems necessary or useful for its audit of Petroleum Costs.

Should the GOVERNMENT consider, on the basis of data and information available, that the CONTRACTOR made a mistake or there is any irregularity and considers that any corrections, adjustments or amendments should be made, the GOVERNMENT shall notify the CONTRACTOR in writing within the said required timeframe. The CONTRACTOR shall then have sixty (60) days to make necessary corrections, adjustments or amendments or to present its comments in writing or request a meeting with the GOVERNMENT. The GOVERNMENT shall notify the CONTRACTOR in writing of its position on the corrections, adjustments or amendments. If thereafter there still exists a disagreement between the GOVERNMENT and the CONTRACTOR, the dispute will be settled in accordance with Article 15.4 of this Agreement.
15.3 In addition to the yearly statements of Petroleum Costs as provided in Article 15.2 above, the CONTRACTOR shall provide the GOVERNMENT with such production statements and reports as provided in Article 16.4 below.

15.4 Any dispute between the Parties under this Article 15 that cannot be settled amicably may be submitted to an expert in accordance with the provisions of Article 41 of this Contract. However, in this specific instance the decision of the expert shall not necessarily be final and either Party may decide to submit the matter to arbitration in accordance with the provisions of Article 41 of this Contract.

ARTICLE 16
CONTRACTOR'S RIGHTS AND OBLIGATIONS

16.1 Permanent Representative

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

16.2 Conduct of Petroleum Operations

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

The CONTRACTOR shall be responsible for the conduct, management, control and administration of Petroleum Operations and shall be entitled to conduct Petroleum Operations in accordance with the provisions of this Contract. In conducting its Petroleum Operations, the CONTRACTOR shall have the right to use Subcontractors, independent contractors, consultants and agents. The employees, Subcontractors, agents and any other personnel employed by the CONTRACTOR shall at all times have free access to the Contract Area and any Production Areas for the purpose of carrying out Petroleum Operations.

16.3 Information and Reports

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

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

16.4 **Technical Appraisal**

If applicable, within ninety (90) days following completion of the Minimum Exploration Obligations, the **CONTRACTOR** shall provide the Management Committee with a technical appraisal report of any Petroleum discovered in the Contract Area.

16.5 **Supervision by the GOVERNMENT**

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

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

16.6 **Access to Facilities**

For the performance of the Petroleum Operations, the **CONTRACTOR** and its Subcontractors, their personnel, agents and representatives shall be granted access to the Contract Area and any facilities for the Petroleum Operations located within or outside of the Contract Area on terms no less favourable than those offered to other entities.

16.7 **Use of Facilities**

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

16.8 **Loss or Damage**

The **CONTRACTOR** shall be responsible for any loss or damage caused to third parties by its or its Subcontractors personnel resulting from their negligence, errors or omissions in accordance with applicable Kurdistan or other Iraqi laws.
16.9 Intellectual Property Rights

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

16.10 Litigation

The CONTRACTOR shall promptly inform the GOVERNMENT of any important litigation relating to this Contract.

16.11 Safety

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

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

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

16.12 Production Rates

In the event the production rate of the individual wells and reservoir is to be set below the MER as a consequence of a decision by any national or international regulatory body, the GOVERNMENT undertakes to allocate any such reduction fairly and equitably among the various operators (including the GOVERNMENT) then producing in Kurdistan, pro rata their respective production rates. In such event the GOVERNMENT shall grant an extension of the Development Period of any Petroleum Field so affected for a reasonable period of time.

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

16.14 Lifting

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

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

16.15 Kurdistan consumption requirements

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

**ARTICLE 17**
**USE OF LAND AND EXISTING INFRASTRUCTURE**

17.1 The **GOVERNMENT** shall make available to the **CONTRACTOR** any land or property required for the Petroleum Operations provided, however, the **CONTRACTOR** shall not request to use any such land unless there is a real need for it and shall refrain from claiming any land occupied by buildings or properties used by the **GOVERNMENT**. The **CONTRACTOR** shall have the right to build and maintain, above and below ground, any facilities required for the Petroleum Operations.

17.2 In the event it becomes necessary for conduct of the Petroleum Operations to occupy and use any land or property belonging to third parties, the **CONTRACTOR** shall endeavour to reach amicable agreement with the owners. In case such amicable agreement cannot be reached, the **CONTRACTOR** shall notify the **GOVERNMENT**, which shall determine the amount of compensation to be paid by
the CONTRACTOR to the owner if occupation will be for a short duration. The amount of such compensation shall take into account the rights of the owner and any effective use of the land or property by its owner at the time of occupation by the CONTRACTOR; or expropriate the land or property in accordance with applicable laws and regulations if occupation will be long lasting or makes it henceforth impossible to resume original usage of such land or property. Any property rights shall be acquired by and recorded in the name of the GOVERNMENT but the CONTRACTOR shall be entitled free use of the land or property for the Petroleum Operations for the entire duration of this Agreement. All reasonable costs, expenditure and fair and reasonable compensation determined pursuant to Article 31 of the Kurdistan Petroleum Act which results from such expropriation shall be borne by the CONTRACTOR.

17.3 For its Petroleum Operations, the CONTRACTOR shall have the right to use, subject to applicable laws and regulations, any railway, tramway, road, airport, landing field, canal, river, bridge or waterway, any telecommunications network and any existing pipelines or transportation infrastructure, whether owned by the GOVERNMENT or by third parties, on terms no less favourable than those offered to other entities.

17.4 Under exceptional circumstances such as, in the event of national emergencies due to catastrophe, disaster, internal or external peril, the GOVERNMENT shall have the right to request to use any transportation and communication facilities installed by the CONTRACTOR. In such cases, the request shall originate from the Minister for Natural Resources.

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

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

The CONTRACTOR shall have the right to take or use any water necessary for the Petroleum Operations provided it does not damage any existing irrigation or navigation systems and that land, houses or watering points belonging to third parties are not deprived of their use.
17.7 The **GOVERNMENT** shall have the right to build, operate and maintain roads, railways, airports, landing strips, canals, bridges, protection dams, police stations, military installations, pipelines and telecommunications networks in the Contract Area, provided this does not increase the costs, or compromise or substantially hinder performance of the Petroleum Operations.

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

17.9 Access to the Contract Area shall be granted to authorised third parties on reasonable terms and conditions, including persons authorised to construct, install and operate structures, facilities and installations, and to carry out other works.

**ARTICLE 18**

**ASSISTANCE FROM THE GOVERNMENT**

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

(a) securing any necessary authorizations for the use and installation of means of transportation and communications;
(b) securing regulatory authorizations in matters of customs or import/export;
(c) securing entry and exit visas, work and residence permits as well as any other administrative permits or authorizations for **CONTRACTOR**’s and its Subcontractors’ expatriate personnel (including their family members) working in Kurdistan and any other part of Iraq during the implementation of this Contract;
(d) securing any necessary authorizations to send abroad documents, data or samples for analysis or processing for the Petroleum Operations;
(e) relations with local authorities and administrations;
(f) securing any necessary environmental permits or authorizations;
(g) obtaining any other authorizations requested by the **CONTRACTOR** for the Petroleum Operations;
(h) access to any existing data and information, including data and information relating to the Contract Area held by previous operators or contractors.

18.2 Within the scope of services to be provided under this Article 18, reasonable and duly justified expenses incurred by the **GOVERNMENT** or paid to third parties shall be charged to the **CONTRACTOR** and shall be booked by the **CONTRACTOR** as Petroleum Costs in accordance with the provisions of the Accounting Procedure in Annex B.
ARTICLE 19
MATERIAL AND EQUIPMENT

19.1 The CONTRACTOR shall supply all materials, equipment, machinery, tools, spare parts and any other items or goods required for the Petroleum Operations.

19.2 Said equipment shall be provided by the CONTRACTOR in accordance with the Exploration and/or Production Work Programs and Budgets, as defined respectively in Articles 11 and 13 of this Contract.

19.3 As soon as possible after the Effective Date, the CONTRACTOR shall provide the Management Committee with a copy of its procedures for procurement of goods and/or services for the Petroleum Operations.

19.4 The CONTRACTOR shall give priority to supplies, material and equipment that are readily available in Kurdistan and other parts of Iraq to the extent their price, grade, quality, quantity, specifications, purchase, delivery and other commercial terms are competitive with those provided abroad.

ARTICLE 20
TITLE TO THE MATERIAL

20.1 During the Exploration Period, any material, equipment, machinery, articles and supplies ("Material") acquired by the CONTRACTOR for the Petroleum Operations shall remain the property of the CONTRACTOR or its Subcontractors, as the case may be.

20.2 During the Development Period, subject to Article 21 below, all Material acquired by the CONTRACTOR for the Petroleum Operations shall become the property of the GOVERNMENT under the following conditions:

(a) title to any immovable property shall be transferred to the GOVERNMENT upon its acquisition by the CONTRACTOR;
(b) title to any movable property shall be transferred to the GOVERNMENT:
   (i) upon its arrival in Kurdistan, when purchased abroad; and
   (ii) on the date of its delivery in the Contract Area or in the offices or facilities of the CONTRACTOR, when purchased in Kurdistan.

The provisions of this Article 20.2 shall not apply to any installations, equipment and material leased by the CONTRACTOR or belonging to its Subcontractors or their employees.

ARTICLE 21
USE OF THE MATERIAL

21.1 For its Petroleum Operations, the CONTRACTOR shall have the exclusive right to use, free of any charge, all Material described in Article 20, as well as for any
petroleum operations under other agreements in Kurdistan to which CONTRACTOR or any of its Affiliates is a party. The GOVERNMENT agrees not to transfer or otherwise dispose of any of such Material without the CONTRACTOR’s prior written approval.

21.2 The CONTRACTOR may freely move to the Contract Area any Material from any relinquished portion of the Contract Area, or from any other area in Kurdistan.

ARTICLE 22
SUBCONTRACTING

22.1 The CONTRACTOR shall ensure that any Subcontractors it employs have all the requisite experience and qualifications.

22.2 The CONTRACTOR shall give priority to Kurdistan and other Iraqi Subcontractors to the extent their rates, experience, reputation, qualifications, specialties, credit rating and terms of availability, delivery and other commercial terms are competitive with those of foreign companies. Subcontractors must be bona fide Kurdistan companies not related to any Public Officer, directly or indirectly, and must have adequate resources and capacity.

22.3 Selection of Subcontractors shall take place in accordance with procedures generally accepted in the international petroleum industry and provided to the Management Committee. The Government shall approve all Subcontractors.

22.4 The CONTRACTOR shall provide the GOVERNMENT with copies of agreements entered into with Subcontractors, where their amount exceeds the limit set by the Management Committee from time to time.

ARTICLE 23
PERSONNEL AND TRAINING

Personnel

23.1 For the Petroleum Operations, the CONTRACTOR and its Subcontractors shall give preference to Kurdistan and other Iraqi personnel to the extent such personnel have the requisite qualifications, competence and experience required to perform the work.

23.2 The CONTRACTOR shall give due consideration to the secondment of GOVERNMENT personnel during the various phases of the Petroleum Operations. Terms and conditions for such secondment shall be mutually agreed by the Parties and any costs associated therewith shall be considered Petroleum Costs.

23.3 The CONTRACTOR and its Subcontractors shall have the right to hire expatriates whenever the local personnel do not have the requisite qualifications or experience for positions to be filled. In the event any such expatriate personnel and/or a member of their family engage in unlawful activities or commit acts which the Management
Committee deem unacceptable, the **CONTRACTOR** shall, at the request of **GOVERNMENT**, take the necessary steps to repatriate such individual.

**Training**

23.4 In planned, systematic and various ways and in accordance with the provisions of this Article, the **CONTRACTOR** shall train all its Kurdistan and other Iraqi personnel directly or indirectly involved in the Petroleum Operations for the purpose of improving their knowledge and professional qualification in order that the Kurdistan and other Iraqi personnel gradually reach the level of knowledge and professional qualification held by the **CONTRACTOR'S** expatriate workers. Such training shall also include the transfer of the knowledge of petroleum technology and the necessary management experience so as to enable the Kurdistan and other Iraqi personnel to use the most advanced and appropriate technology in use in the Petroleum Operations, including proprietary and patented technology, "know how" and other confidential technology, to the extent permitted by applicable laws and agreements, subject to appropriate confidentiality agreements.

23.5 Besides other duties provided for in the Act, the recruitment, integration and training of the **CONTRACTOR'S** Kurdistan and other Iraqi personnel shall be included in three-year plans. In this respect, the **CONTRACTOR** undertakes to:

(a) prepare a draft of the initial plan and submit it to the **GOVERNMENT** within four (4) Months of the Effective Date;
(b) prepare a proposal for implementation of the plan and submit it to the **GOVERNMENT**;
(c) implement the approved plan in accordance with the directives of the **GOVERNMENT**, the **CONTRACTOR** being able, in this regard and with the approval of the **GOVERNMENT**, to contract outside specialists not associated with the **CONTRACTOR** to proceed with the implementation of specific aspects of the subject plan.

23.6 The plan referred to in Article 23.5 above shall provide for the allocation of the amount of Dollars [X] for each Contract Year.

23.7 The **CONTRACTOR** agrees to require in its contracts with Subcontractors who work for the **CONTRACTOR** for a period of more than one (1) Year, compliance with requirements for the training of work crews, to which requirements such Subcontractors are subject by operation of Kurdistan. The **CONTRACTOR** further agrees to monitor compliance with the aforementioned obligations.

23.8 The **CONTRACTOR** shall be responsible for the training costs of Kurdistan and other Iraqi personnel it employs, such costs being recovered as Petroleum Costs. Costs incurred by the **CONTRACTOR** for training programs for **GOVERNMENT** personnel will be borne in a manner to be agreed upon by the **GOVERNMENT** and the **CONTRACTOR**.
Local Infrastructure and Community Support, and Basic Environment Fund

23.9 From the start of production, the CONTRACTOR shall allocate the amount of Dollars \([X]\) each Contract Year for local infrastructure and community support projects, as approved by the Management Committee.

23.10 In addition to the amount prescribed in Article 23.9 above, the CONTRACTOR shall contribute the amount of Dollars \([X]\) each Contract Year into the Basic Environment Fund established by the GOVERNMENT for the benefit of the natural environment of Kurdistan, pursuant to the Kurdistan Petroleum Act.

23.11 Any expenditure incurred by the CONTRACTOR under this Article 23 shall be considered Petroleum Costs.

ARTICLE 24
ROYALTY

24.1 The CONTRACTOR shall pay to the GOVERNMENT a Royalty on any Petroleum produced from the Contract Area, as provided in this Article 24.

24.2 Such Royalty shall be applied on all Petroleum produced from the Contract Area except for those used in Petroleum Operations, re-injected in the Petroleum Field, lost, flared or for those that cannot be used or sold. For the purpose of this Article, any Petroleum produced and saved shall be valued at the International Market Price at the Export Point, as defined in Article 27.2 of this Contract, less any transportation costs between the Export Point and the Field Exit Point.

24.3 If payable in cash, the amount of the Royalty calculated by applying the Royalty rates provided under Article 24.4 below shall be paid by the CONTRACTOR as directed by the GOVERNMENT. If payable in kind, the quantity of Petroleum corresponding to the Royalty and calculated by applying the Royalty rates provided under Article 24.4 below, shall be delivered in kind to the GOVERNMENT in accordance with the provisions of Article 25.9 below.

24.4 The Royalty due on any Petroleum produced and saved in the Production Area shall be calculated incrementally on the average daily production from said Production Area during the preceding Month, by applying the following rates to each production increment:

a) For Crude Oil

[not less than seven point five percent (7.5%)] for production less than or equal to \([X]\) barrels per day;

\([X\%]\) for the portion of production greater than \([X]\) barrels per day and less than or equal to \([X]\) barrels per day;
[X%] for the portion of production greater than [X] barrels per day and less than or equal to [X] barrels per day;

[X%] for the portion of production greater than [X] barrels per day and less than or equal to [X] barrels per day;

[X%] for the portion of production greater than [X] barrels per day and less than or equal to [X] barrels per day; and

[X%] for the portion of production greater than [X] barrels per day.

In agreeing the schedule in paragraph a) above, the minimum rate of the royalty shall be no less than seven point five percent (7.5%) for oil with a gravity up to twenty (20) degrees American Petroleum Institute (API), eight point five percent (8.5%) for oil up to thirty (30) degrees API, and ten percent (10%) for oil over thirty (30) degrees API.

b) For Natural Gas

[not less than five percent (5%)] for the portion of production less than or equal to [X] standard cubic meters per day;

[X%] for the portion of production greater than [X] standard cubic meters per day and less than or equal to [X] standard cubic meters per day; and

[X%] for the portion of production greater than [X] standard cubic meters per day.

24.5 Pursuant to Article 28 of this Contract, upon the GOVERNMENT’s request, the CONTRACTOR shall assist the GOVERNMENT in selling all or part of the Crude Oil belonging to the GOVERNMENT in consideration of a commission per barrel payable to the CONTRACTOR, to be agreed between the Parties.

ARTICLE 25
RECOVERY OF PETROLEUM COSTS

Requirement for Petroleum Operations

25.1 The CONTRACTOR may freely use any Petroleum produced within the Contract Area for the Petroleum Operations. To the extent possible and economically justified, the CONTRACTOR shall make maximum use of any Natural Gas for such purpose in accordance with generally accepted practice in the international petroleum industry.

25.2 All Petroleum produced and saved from the Contract Area and not used for the Petroleum Operations shall, after deduction of any quantities due for Royalty pursuant to Article 24 of this Contract, be considered as “Available Crude Oil” or “Available Natural Gas”. Available Crude Oil or Available Natural Gas shall be valued at the Delivery Point.

Recovery of Petroleum Costs
25.3 Subject to the provisions of the Accounting Procedure and this Contract, from the outset of production in the Contract Area, the CONTRACTOR shall at any time be entitled to recover any Petroleum Costs incurred under this Contract, of fifty-five percent (55%) of Available Crude Oil for oil with a gravity more than thirty (30) degrees American Petroleum Institute (API), sixty percent (60%) for oil between twenty (20) and thirty (30) degrees API, sixty-five percent (65%) for oil between fourteen (14) and twenty (20) degrees API, and seventy percent (70%) for oil less than fourteen (14) degrees API.

25.4 Subject to the provisions of the Accounting Procedure and this Contract, from the outset of production in the Contract Area, the CONTRACTOR shall at any time be entitled to recover any Petroleum Costs incurred under this Contract of seventy percent (70%) of Available Natural Gas produced anywhere in the Contract Area within any Calendar Year.

25.5 For the application of Article 25.3 and 25.4, the CONTRACTOR shall keep a detailed account of Petroleum Costs in accordance with the provisions detailed in the Accounting Procedure attached to this Contract as Annex B. Recovery of Petroleum Costs shall occur in the following order:

(a) Production (operating costs);
(b) Exploration (including further exploration within the Contract Area);
(c) Development;

it being agreed that priority will be given to capital assets in the order of their acquisition (‘first in, first out’).

25.6 Total recovery of Petroleum Costs during any Calendar Year, expressed in quantities of Petroleum, shall not exceed the percentage indicated in Article 25.3 and 25.4 above. If in any Calendar Year, the Available Crude Oil and/or Available Natural Gas do not allow the CONTRACTOR to recover all its Petroleum Costs pursuant to this Article 25, the amount of un-recovered Petroleum Costs in such Calendar Year shall be carried forward indefinitely to the subsequent Calendar Years until all Petroleum Costs are fully recovered, but in no case after the termination of the Contract.

25.7 The provisions of Article 27 of this Contract shall be applied to determine the quantities of Crude Oil and/or Natural Gas due to the CONTRACTOR for the recovery of its Petroleum Costs.

25.8 Production Expenses in each Development Area shall be recovered only from Available Crude Oil from that Development Area, in the Calendar Year in which such expenditures are incurred.

25.9 The quantities of Petroleum corresponding to the Royalty (if payable in kind) and the share of Profit Petroleum due to the GOVERNMENT shall be delivered by the CONTRACTOR at the Delivery Point. Any expenditure associated with transporting such quantities of Petroleum from the Field Exit Point within the Production Area to the Export Point shall be considered Petroleum Costs and shall be
recovered by the CONTRACTOR in accordance with the provisions of Article 25.3 and 25.4 above.

25.10 Subject to Article 28 of this Contract, the CONTRACTOR shall have the right to freely export all Crude Oil to which it is entitled for recovery of its Petroleum Costs and for its Profit Petroleum.

25.11 For the avoidance of any doubt, the CONTRACTOR shall be entitled to fully recover under this Contract any costs incurred prior to the Effective Date for any work and operations relating to the Contract Area undertaken in the framework of the Memorandum of Understanding dated [insert the date of any MOU] and entered into between the GOVERNMENT and the CONTRACTOR.

ARTICLE 26
SHARING OF PROFIT PETROLEUM

26.1 Under this Contract, “Profit Petroleum” means the quantities of Available Crude Oil and/or Available Associated Natural Gas produced from a Production Area, after deduction of the quantities of Crude Oil and/or Associated Natural Gas allocated to the Royalty and the recovery of Petroleum Costs, in accordance with Article 25 of this Contract.

26.2 From the outset of production and as and when Petroleum is being produced, the CONTRACTOR shall be entitled to take a portion of Crude Oil and/or Associated Natural Gas representing Profit Petroleum in accordance with the applicable “R” ratio between Cumulative Revenues (as defined below) and Cumulative Petroleum Costs (as defined below).

26.3 To determine the percentage share of Profit Petroleum to which the CONTRACTOR is entitled in consideration for its investment in the Petroleum Operations, the “R” factor defined in Article 26.4 below shall be applied separately for each Production Area.

26.4 Subject to the provisions of the Accounting Procedure, the “R” factor shall be calculated as follows:

\[ R = \frac{X}{Y} \]

where:

\( X \): is equal to Cumulative Revenues actually received by the CONTRACTOR;
\( Y \): is equal to Cumulative Costs actually incurred by the CONTRACTOR from the date of the signature of this Contract.

For the purpose of this Article 26.4:
**Cumulative Revenues** means total Revenues, as defined hereafter, received by the CONTRACTOR until the end of the six (6) Months period preceding the date of calculation of the “R” factor.

**Revenues** means total amounts actually received by the CONTRACTOR for recovery of its Petroleum Costs and its share of Profit Petroleum.

**Cumulative Costs** means all Expenditure, as defined below, actually incurred by the CONTRACTOR until the end of the six (6) Months period preceding the date of calculation of the “R” factor.

**Expenditure** means all Petroleum Costs paid by the CONTRACTOR.

26.5 The share of Profit Petroleum to which the CONTRACTOR shall be entitled from the outset of production is equal to the quantities of Crude Oil resulting from the application of percentages as indicated below to the average daily volume of production of Crude Oil within the Production Area at the corresponding Delivery Point, after taking into account any quantities used for the Petroleum Operations or lost:

<table>
<thead>
<tr>
<th>“R” Factor</th>
<th>CONTRACTOR’s % Share of Profit Petroleum</th>
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<tbody>
<tr>
<td>0 &lt; R &lt;</td>
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</tbody>
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26.6 The CONTRACTOR’s Accounting shall account separately for all components for the calculation of “X” and “Y” values in the formula provided in Article 26.4 above.

26.7 The “R” factor shall be calculated each Semester, starting from the 1st of January of the Calendar Year following the Year in which Commercial Production began. The
CONTRACTOR shall calculate the “R” Factor for each day of the preceding Semester within thirty (30) days of the beginning of the current Semester.

26.8 If at any time an error occurs in the calculation of the “R” factor, the necessary correction shall be made and any adjustments shall apply from the Calendar Year the error occurred. The Party having benefited from a surplus of Profit Petroleum shall surrender such surplus to the other Party, beginning from the first day of the following Calendar Year. However, each lifting of Crude Oil relating to such error shall not exceed twenty-five percent (25%) of the share of Profit Petroleum to which such Party is entitled. Quantities of Crude Oil so lifted shall be valued from the unit value established at the date of the lifting. Interest of LIBOR plus one percent (+1%) shall be paid to the injured Party, to be applied on the value of un-lifted volumes of Crude Oil at the time the error occurred up to the date of delivery.

26.9 The CONTRACTOR shall be entitled to receive, take in kind and to export freely its share of Profit Petroleum in accordance with the provisions of this Contract and to retain overseas any proceeds from the sale of all quantities of Petroleum it is entitled to pursuant to this Contract.

26.10 The share of the Profit Petroleum to which the GOVERNMENT is entitled in any Calendar Year in accordance with Article 26.5 of this Contract may, subject to agreement between the GOVERNMENT and the CONTRACTOR, be deemed to include a portion representing the income tax imposed upon and due by each entity constituting the CONTRACTOR, and which will be paid directly by the GOVERNMENT on behalf of each such entity representing the CONTRACTOR to the appropriate tax authorities in accordance with Article 31.2 of this Contract.

26.11 Quantities of Crude Oil corresponding to Profit Petroleum shall be transported to the Delivery Point, which shall be operated and maintained by the CONTRACTOR. Title and risk of loss of such Crude Oil shall be transferred at the Delivery Point.

26.12 At the latest twenty-one (21) days prior to the date of start of production and, subsequently, thirty (30) days prior to the beginning of each Semester, the CONTRACTOR shall prepare and deliver to the GOVERNMENT a production program comprising the production forecast for the next Semester and the forecast of the quantities of Crude Oil to which each Party shall be entitled during the said Semester.

26.13 Within sixty (60) days following the end of each Calendar Year, the CONTRACTOR shall deliver an annual production report to the GOVERNMENT, stating the quantities of Crude Oil to which each Party is entitled, the quantities of Crude Oil lifted by each Party and the resulting over-lift or under-lift position of each Party.

26.14 Any costs or expenditure incurred by the CONTRACTOR, its Subcontractors or suppliers relating to the lifting of its share of Petroleum by the GOVERNMENT shall not be considered Petroleum Costs but shall be charged to the GOVERNMENT according to terms to be mutually agreed between the CONTRACTOR and the GOVERNMENT.
ARTICLE 27
VALUATION AND METERING OF CRUDE OIL

Valuation

27.1 For the purpose of this Contract, any Crude Oil produced in the Contract Area shall be valued at the end of each Quarter at the Delivery Point based on the International Market Price, as defined in Article 27.2 below, less any costs of transportation between the Field Exit Point and the Point of Export.

27.2 The “International Market Price” referred to in Article 27.1 above shall be the average FOB price per barrel, expressed in Dollars at the Export Point, obtained by the CONTRACTOR during the preceding Quarter for Arm's Length Sales of Crude Oil.

27.3 The CONTRACTOR shall bear the responsibility of demonstrating that Crude Oil is being sold on an Arm’s Length basis.

27.4 Notwithstanding the provisions of Article 27.2 above, if the CONTRACTOR does not demonstrate that more than half (50%) of the Crude Oil produced in the current Quarter was sold on an Arm’s Length basis, the applicable International Market Price for such Quarter shall be the average FOB prices per barrel obtained during the current Quarter from Arm's Length Sales of Crude Oil from other production areas sold in markets competing with Crude Oil produced from the Contract Area.

To determine such price, the Parties shall, prior to the commencement of Production, agree on a basket of Crude Oil comparable to those produced in the Contract Area and sold on the international market. Prices obtained shall be adjusted to account for any variations such as quality, specific gravity, sulphur content, transportation costs, product yield, seasonal variations in price and demand, general market trends and other terms of sale.

27.5 Unless agreed otherwise, the last calculated weighted average basket price shall serve as the provisional price for a Calendar Quarter until a new price is determined. If the Parties are not able to agree on the basket of Crude Oil referred to in Article 27.4 above, the Parties may refer the question for a final, non-revisable determination by an independent expert designated by the UK Institute of Petroleum. Pending such determination, the last calculated weighted average basket price shall continue to serve as the price.

Accounting Statement

27.6 In accordance with this Article 27.6, the GOVERNMENT and the CONTRACTOR shall establish a statement showing calculations of the value of Crude Oil produced and sold from the Contract Area. Such statement shall include following information:
(a) quantities of Crude Oil sold by the CONTRACTOR during the preceding Month constituting Arm’s Length Sales together with corresponding sale prices;

(b) quantities of Crude Oil sold by the CONTRACTOR during the preceding Month that do not fall in the category referred to in paragraph (a) above, together with sale prices applied during such Month;

(c) inventory in storage belonging to the CONTRACTOR at the beginning and at the end of the Month; and

(d) quantities of Natural Gas sold by the CONTRACTOR and the GOVERNMENT together with sale prices realized.

Metering

27.7 All Crude Oil shall be metered at the Delivery Point in accordance with generally accepted practice in the international petroleum industry. All metering equipment shall be installed and operated by the CONTRACTOR. The GOVERNMENT shall have the right to inspect any such metering equipment installed by the CONTRACTOR, as well as all relevant documents and supporting information. All metering equipment shall be subject to periodic technical inspections in accordance with standard practice in the international petroleum industry.

27.8 If any metering equipment is defective, the CONTRACTOR shall repair it within fifteen (15) days or replace it within forty-five (45) days from the date the defect became known. Such defect shall be deemed to have occurred in the middle of the period between last calibration of the equipment that led to normal results and the calibration evidencing the defect.

27.9 Any disputes arising under this Article 27 shall be settled by expert determination in accordance with the provisions of Article 41 of this Contract.

ARTICLE 28
SALE OF GOVERNMENT SHARE

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

ARTICLE 29
FINANCIAL PROVISIONS
29.1 Any payment to be made by the CONTRACTOR to the GOVERNMENT or to the Government of Iraq pursuant to this Contract shall be in Dollars and paid into the bank account duly designated by the GOVERNMENT.

29.2 Any currency conversion to be made under this Contract shall be at the exchange rate of the Central Bank of Iraq, provided such exchange rate applied to the CONTRACTOR shall not be less favourable than the rate offered by other private, commercial or industrial banks. The CONTRACTOR shall not realize any gain or loss due to exchange rate fluctuations and, consequently, any gain or loss resulting from exchange rate fluctuations shall be either debited or credited to the Petroleum Costs.

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

29.4 The CONTRACTOR shall at all times be entitled to freely convert into Dollars or any other foreign currency any Iraqi dinars received in the framework of the Petroleum Operations and to freely transfer the same abroad. The conversion rate shall be as provided under Article 29.2 above.

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

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

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

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

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

29.10 The CONTRACTOR shall have the right to pay in any foreign currency its Subcontractors and its expatriate personnel, either in Kurdistan, other parts of Iraq, or abroad. Said Subcontractors and expatriate personnel shall be obliged to transfer to Kurdistan the amount of foreign currency required for their local needs and they shall have the right to repatriate the proceeds of the sale of their belongings in accordance with the regulations in force in Kurdistan.
29.11 CONTRACTOR’s Subcontractors and their personnel shall equally benefit from the same rights as the CONTRACTOR and its personnel as regards this Article 29.

29.12 For the financing of Petroleum Operations, the CONTRACTOR shall have the right to have recourse to external financing from third parties or from its Affiliated Companies. Any interests, costs and financial charges, as well as any exchange losses associated with such financing, shall be considered Petroleum Costs and be recoverable in accordance with the provisions of Article 25 of this Contract.

ARTICLE 30
CUSTOMS PROVISIONS

30.1 All material, equipment, goods, consumables and products imported into Kurdistan and other parts of Iraq by the CONTRACTOR or its Subcontractors for use or consumption in the Petroleum Operations shall be admitted free and exempt from any customs duties, import taxes and any other charges or impositions on import. The CONTRACTOR and its Subcontractors shall have the right to re-export free from all taxes, duties or any other charges or impositions on export any material, equipment, goods, consumables and products that are no longer required for the Petroleum Operations.

30.2 The CONTRACTOR and its Subcontractors and their personnel shall have the right to freely import into Kurdistan and other parts of Iraq and re-export any personal belongings and furniture. The sale in Kurdistan and other parts of Iraq of personal belongings and furniture of expatriate personnel shall comply with any regulations in force in Kurdistan and other parts of Iraq.

30.3 Each entity constituting the CONTRACTOR shall be entitled to freely export from Iraq, free of any taxes, duties and other impositions or charges whatsoever, any Petroleum to which it is entitled pursuant to the provisions of this Contract.

30.4 The GOVERNMENT shall indemnify the CONTRACTOR for any charges or impositions referred to in Article 30.1 or 30.3 that may be levied by the Government of Iraq.

ARTICLE 31
TAX PROVISIONS

31.1 Subject to the provisions of this Contract (including but not limited to Article 30 above), the CONTRACTOR shall, except for any taxes that are assessed or based on its income, be subject to other taxes and impositions generally applicable to all other industries in Kurdistan.

31.2 Each entity constituting the CONTRACTOR shall be subject to income tax as provided in Article 31.3 below, which shall be deemed to be inclusive and in full and total discharge of any corporate income tax, any taxes on income from movable capital, any taxes on capital gains, any fixed taxes on transfers as well as all other
current or future Kurdistan taxes based or assessed on income of any kind. Apart from the said income tax, no other taxes, impositions or withholdings that are based or assessed on income shall be due by the entities constituting the CONTRACTOR, its Subcontractors, their representatives, agents or employees to Kurdistan or any of its subdivisions or administrations as a result of their activities under this Contract. Payment of the said income tax may, subject to agreement between the GOVERNMENT and the CONTRACTOR, be made directly to the appropriate Kurdistan tax authorities by the GOVERNMENT, for the account of each entity constituting the CONTRACTOR, from its share of the Profit Petroleum received pursuant to Article 26 of this Contract. The GOVERNMENT shall, within ninety (90) days after the end of each tax year, provide the appropriate tax receipts to each entity constituting the CONTRACTOR certifying the payment of its income tax and that it has met all its fiscal obligations in the preceding tax year.

31.3 The income tax shall be fixed at the rate of [X] percent (X%) during the entire term of this Contract. The GOVERNMENT and the CONTRACTOR may agree that income tax shall be calculated for each entity constituting the CONTRACTOR on only the quantities of Profit Petroleum received by each such entity from all its exploration and production activities within Kurdistan.

31.4 Each entity constituting the CONTRACTOR shall be exempt from payment of any income tax, duties and other impositions on constitutive and modifying acts of corporations for the entire duration of this Contract.

31.5 The CONTRACTOR shall be subject to Additional Profits Tax, as provided in this Article 31.5 [to be completed as necessary].

31.6 The CONTRACTOR shall be subject to Surface Tax, as provided in this Article 31.6 [to be completed as necessary].

31.7 The CONTRACTOR and Subcontractors shall be subject to the payment of Personal Income Tax on behalf of their employees, as provided in this Article 31.7 [to be completed as necessary].

31.8 It is acknowledged that Double Tax Treaties will have effect to give relief from taxes to, but not limited to, the CONTRACTOR, contractor parties, foreign subcontractors and expatriate employees in accordance with the provisions of such Double Tax Treaties, but not otherwise.

31.9 The GOVERNMENT agrees and commits to the CONTRACTOR, for the duration of this Contract, to maintain the stability of the fiscal conditions of this Contract. If at any time after this Contract has been signed there is a change in the applicable Kurdistan laws, regulations or other law applicable in Kurdistan related to fiscal matters, which to a material degree adversely affect the economic position of the CONTRACTOR, the terms and conditions of this Contract shall be altered so as to restore the CONTRACTOR to the same overall economic position as that which the CONTRACTOR would have been in, had this Contract been given full force and effect without amendment.
31.10 If the CONTRACTOR believes that its economic position has been adversely affected in the terms set out in Article 31.9 above, it may give notice to the GOVERNMENT describing how its position has been so affected and the Parties shall thereafter promptly meet with a view to reaching agreement on the remedial action to be taken. If matters have not been resolved within ninety (90) days or as otherwise agreed the matter may be referred to arbitration by any party in accordance with the provisions of Article 41 of this Contract.

ARTICLE 32
PRODUCTION BONUSES

The CONTRACTOR shall pay the following production bonuses to the GOVERNMENT:

- \([X]\) Dollars when average production of Crude Oil from a Production Area first reaches \([X]\) barrels per day for a period of ninety (90) consecutive days.
- \([X]\) Dollars when average production of Crude Oil from a Production Area first reaches \([X]\) barrels per day for a period of ninety (90) consecutive days.

In the event of a Natural Gas Discovery, the calorific equivalent value of the above mentioned production rates shall be applied to determine any production bonus to be paid.

ARTICLE 33
PIPELINES

33.1 The GOVERNMENT shall obtain any required authorizations for the transportation of Petroleum, as well as any necessary permits and easement rights for the construction of any pipelines and related facilities required for the Petroleum Operations.

33.2 The GOVERNMENT undertakes to transfer to the CONTRACTOR its rights for transportation of Petroleum by pipeline. The CONTRACTOR shall have the right to build, operate and maintain pipelines and any related installations for the transportation of Petroleum produced under this Contract.

33.3 Prior to the construction of any pipeline and related facilities, the CONTRACTOR shall submit following information to the Management Committee:

(a) proposed pipeline route and related facilities;
(b) forecasted pipeline flow rate and capacity;
(c) estimate of financial investment and operating costs of the pipeline and related facilities;
(d) proposed financing schedule;
(e) construction schedule;
(f) general technical description of the pipeline and related facilities;
(g) construction plans and tests;
(h) preventive measures for damage to the environment and third parties; and
(i) any other information relating to the pipeline project.
The Management Committee shall examine all the above information and shall approve the proposed pipeline project in accordance with the provisions of Article 8.3 of this Contract.

33.4 Subject to spare capacity being available and to their Petroleum being compatible, third parties shall be entitled to transport their Petroleum through the said pipeline on terms to be agreed between the CONTRACTOR and such third party. Those terms shall be reasonable commercial terms and shall not discriminate among third party users. The CONTRACTOR shall always have priority for access to its pipelines.

33.5 Any costs associated with the design, construction, operation and maintenance of the pipelines and related facilities shall be considered Petroleum Costs.

33.6 Notwithstanding the provisions of Article 20 of this Contract, granting to the GOVERNMENT title to the pipeline and its related facilities upon completion of their construction by the CONTRACTOR, the CONTRACTOR shall have the absolute right, without any exceptions and for the entire duration of this Contract, to transport Petroleum produced from any Production Area and to operate and maintain any pipeline and its related facilities, freely and without any additional costs.

33.7 Any tariffs received from third parties for use of the pipeline shall be applied to the recovery of Petroleum Costs until all costs (including financing costs) of construction, operation and maintenance of the pipeline and its related facilities have been fully recovered by the CONTRACTOR pursuant to the provisions of Article 25 of this Contract. The GOVERNMENT shall be entitled to receive any tariffs from third parties for their use of the pipeline when the said costs have been fully recovered by the CONTRACTOR.

33.8 Upon recovery by the CONTRACTOR of all design, construction, operating and maintenance costs of the pipeline and related facilities (including financing costs), the operating and maintenance costs of any pipeline and its related facilities shall be borne by the CONTRACTOR and shall be treated as Petroleum Costs.

33.9 The GOVERNMENT shall have the same rights as the CONTRACTOR for use, free of charge, of the pipeline and related facilities for the transportation of its share of Petroleum to which it is entitled under this Contract.

33.10 The CONTRACTOR shall bear the custody and maintenance of such assets and all risks of accidental loss or damage thereto while they are required for Petroleum Operations.

ARTICLE 34
UNITISATION

34.1 In the event a Petroleum Field extends beyond the Contract Area into adjacent areas where other entities are operating, or in the event a Petroleum Field of an adjacent
area extends into the Contract Area, the provisions of Article 49 of the Kurdistan Petroleum Act shall apply.

ARTICLE 35
LIABILITY AND INSURANCE

Liability

35.1 The CONTRACTOR, in its capacity as the entity responsible for the execution of the Petroleum Operations within the Contract Area, shall be liable to third parties to the extent provided under applicable law for any losses and damage it may cause to them in conducting the Petroleum Operations, and shall defend, indemnify and hold harmless the GOVERNMENT with respect to all claims for such loss or damage.

35.2 The CONTRACTOR shall not be liable to the GOVERNMENT for any damage or loss or claims of any kind resulting from its conduct of the Petroleum Operations unless such damage or loss is the result of wilful and deliberate misconduct or a failure to conduct Petroleum Operations. Provided, however, that such liability cannot result in the event of any omissions, errors or mistakes committed in good faith by the CONTRACTOR in the exercise of the powers and authorisations conferred upon the CONTRACTOR by virtue of this Contract, and further provided that in no event shall the CONTRACTOR be liable for any indirect or consequential loss or damage whatsoever.

35.3 The CONTRACTOR shall indemnify and hold harmless the GOVERNMENT against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the GOVERNMENT by any employee of the CONTRACTOR or any Subcontractor or dependent thereof, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non-performance of this Contract regardless of the fault or negligence in whole or in party of any entity or individual; provided, however, that such losses, damages and liabilities are not caused by or do not arise out of the performance or non-performance of this Contract by the GOVERNMENT, and the GOVERNMENT shall indemnify and hold the CONTRACTOR (including for this purpose any Affiliate, the Operator, and all Subcontractors) harmless against all such losses, damage and liabilities.

35.4 The CONTRACTOR shall take all necessary steps to respond to, and shall promptly notify the GOVERNMENT of, all emergency and other events (including explosions, leaks and spills), occurring in relation to the Petroleum Operations which are causing or likely to cause material environmental damage or material risk to health and safety. Such notice shall include a summary description of the circumstances and steps taken and planned by the CONTRACTOR to control and remedy the situation. The CONTRACTOR shall provide such additional reports to the GOVERNMENT as are necessary in respect of the effects of such events and the course of all actions taken to prevent further loss and to mitigate deleterious effects.
In the event of emergency situations as set out in Article 35.4 above, at the request of the **CONTRACTOR**, the **GOVERNMENT**, without prejudice and in addition to any indemnification obligations the **GOVERNMENT** may have, shall assist the **CONTRACTOR**, to the extent possible, in any emergency response, remedial or repair effort by making available any labour, materials and equipment in reasonable quantities requested by the **CONTRACTOR** which are not otherwise readily available to the **CONTRACTOR** and by facilitating the measures taken by the **CONTRACTOR** to bring into Kurdistan personnel, materials and equipment to be used in any such emergency response or remedial or repair effort. The **CONTRACTOR** shall reimburse the **GOVERNMENT’S** reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered Petroleum Costs.

**Insurance**

In accordance with standard practice in the international petroleum industry, the **CONTRACTOR** shall maintain any insurance required by applicable Kurdistan laws, as well as any insurance recommended by the Management Committee. Such insurance policies shall cover:

(a) loss of and damage to material and equipment used in the Petroleum Operations;
(b) personal injury, damage to third parties and risks of pollution associated with Petroleum Operations for reasonable amounts, within the limits recommended by the Management Committee.

Any insurance policy under this Contract shall name the **GOVERNMENT** as an additional insured party and shall include a waiver of subrogation protecting the **GOVERNMENT** and the Government of Iraq against any claim, loss and damage resulting from any operation conducted by or on behalf of the **CONTRACTOR** under this Contract. The **CONTRACTOR** shall not be liable for and shall not purchase insurance cover for any claims arising from negligence of the **GOVERNMENT** or any of its subcontractors and their personnel.

Upon its request, the **GOVERNMENT** shall be provided with insurance certificates, including necessary details, for any insurance maintained by the **CONTRACTOR**.

The **CONTRACTOR** shall be responsible for the filing of all claims. Any premiums and payments relating to such insurance policies shall be treated in accordance with the provisions of the Accounting Procedure.

In any insurance agreements, the amount for which the Contractor itself is liable (the “deductible amount”) shall be reasonably determined between the Contractor and the insurer and such deductible amount shall in the event of any insurance claim be considered a Petroleum Cost.

**ARTICLE 36**

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INFORMATION AND CONFIDENTIALITY

36.1 The CONTRACTOR shall keep all records, data and information relating to the Petroleum Operations in accordance with standard practice in the international petroleum industry. In addition, it shall provide the GOVERNMENT with the information and data obtained as provided under this Contract.

36.2 Upon the GOVERNMENT’s request, the CONTRACTOR shall provide the GOVERNMENT with samples of any rocks or any other items extracted during the Petroleum Operations.

36.3 Kurdistan shall have title to all data and information, whether raw, derived, processed, Interpreted or analysed, obtained pursuant to a Contract. Originals of reports and technical data recordings may not be taken out of Kurdistan without prior approval of the GOVERNMENT. The CONTRACTOR shall have the right, without any limitation, to send abroad copies of such reports and technical data magnetic tapes and other data relating to the Petroleum Operations. Magnetic tapes or other data, the original of which must be analysed and processed abroad may be shipped out of Kurdistan provided that a comparable record is maintained in Kurdistan, and that they remain available at all times to the GOVERNMENT, which shall be entitled to require their return.

36.4 Any representatives authorized by the GOVERNMENT shall, at any time, have access to information and data relating to the Contract Area in the possession of the CONTRACTOR. It is understood that, when exercising such right, the GOVERNMENT shall ensure it does not unduly interfere with or hinder CONTRACTOR’s activities.

36.5 The CONTRACTOR shall provide the GOVERNMENT with all information, reports, tapes or other data (geological, geophysical, logs, interpretations, drilling reports, etc.) related to the Petroleum Operations, including any documents and supporting documents relating to recoverable costs as provided under Article 25 of this Contract. All available originals shall be transferred to the GOVERNMENT at the end of this Contract.

36.6 Apart from the exceptions stated in this Article 36, the Parties undertake to keep all data and information relating to this Contract and the Petroleum Operations confidential during the entire term of this Contract and not to divulge or disclose such data or information to third parties without the specific consent of the other Party, such consent not to be unreasonably withheld or delayed. The foregoing confidentiality obligation shall not apply to information or data in the public domain, is known to the receiving party at the date of disclosure or with regard to public announcements or press releases required to be made under any applicable law, rules or regulations, by a government agency having jurisdiction over the entity constituting the CONTRACTOR, by a court order or pursuant to the regulations of a recognized stock exchange on which the shares of the entity constituting the CONTRACTOR or its Affiliate are listed.
Notwithstanding the foregoing in Article 36.6, to the extent such third party has entered into a confidentiality undertaking, in accordance with standard practice in the international petroleum industry, such data and information may be disclosed to:

(a) Affiliated Companies;
(b) employees, officers and directors of each entity constituting the CONTRACTOR and their respective Affiliated Companies;
(c) consultants or agents retained by any entity constituting the CONTRACTOR for the purpose of analysing or evaluating information or data;
(d) banks or financial institutions retained by any entity constituting the CONTRACTOR with a view to financing Petroleum Operations, including any professional consultants retained by such bank or financial institution;
(e) bona fide prospective assignees of a participating interest under this Contract; and
(f) any other person or entity, upon the prior written approval of the non-disclosing Party.

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

The CONTRACTOR may not sell nor exchange any data related to the Petroleum Operations without the approval of the GOVERNMENT, which approval shall not be unreasonably withheld or delayed where, in CONTRACTOR’s reasonable opinion, such sale or exchange would benefit the Petroleum Operations. However, the entities constituting the CONTRACTOR shall have the right to disclose data and information relating to this Contract or the Petroleum Operations to prospective co-ventures or assignees of a participating interest in this Contract (including any entity with which any entity constituting the CONTRACTOR is conducting bona fide negotiations towards a merger or consolidation), provided such prospective co-venture or assignee enters into a confidentiality agreement with substantially similar terms as those set forth in this Article 36.

ARTICLE 37
ENVIRONMENTAL PROVISIONS

During the performance of the Petroleum Operations, the CONTRACTOR shall take necessary measures to ensure that it, its Subcontractors and agents attend to the protection of the environment and prevention of pollution, in accordance with standard practice in the international petroleum industry and any environmental regulations in force in Kurdistan.
37.2 Prior to surrendering a portion of the Contract Area, the CONTRACTOR shall take reasonable measures to clean the area to be surrendered in accordance with standard practice in the international petroleum industry. Such measures shall include, inter alia, removal of facilities, material and equipment together with reasonable measures necessary for the preservation of fauna, flora and ecosystems, all in accordance with generally accepted practice in the international petroleum industry. The CONTRACTOR shall not be responsible for site restoration or environmental damage to the extent they pertain to petroleum operations undertaken by other operators or previous contractors.

37.3 The CONTRACTOR shall take reasonable precautions and measures to prevent any pollution, protect the environment (fauna and flora), water sources and any other natural resources.

37.4 The CONTRACTOR shall respect the preservation of property, agricultural areas, and fisheries.

37.5 Before starting Exploration Operations within the Contract Area, the CONTRACTOR shall conduct and submit an environmental impact assessment.

Nature Reserve Areas

37.6 The CONTRACTOR shall take all reasonable measures to minimize any negative impact on nature reserves in accordance with generally accepted environmental practices in the international petroleum industry.

37.7 The GOVERNMENT represents and warrants that, on the Effective Date, there are no national parks, reserves or other protected areas located in whole or in part within the Contract Area where the CONTRACTOR shall not be entitled to carry out Petroleum Operations.

ARTICLE 38
DECOMMISSIONING

38.1 To enable the CONTRACTOR to face the costs associated with future Petroleum Field decommissioning and site restoration and any other similar expenditure to be borne by the CONTRACTOR under this Contract, the CONTRACTOR shall have the right to establish a reserve fund for future decommissioning and site restoration. Such fund may be established during the final ten (10) Calendar Years of the term of the production authorisation of a Petroleum Field but, upon the duly justified request by the CONTRACTOR, the GOVERNMENT shall allow the CONTRACTOR to establish such fund over a longer period. Once established, the CONTRACTOR shall make regular contributions to the said reserve fund based upon estimated Petroleum Field decommissioning and site restoration costs in accordance with standard principles and technical norms generally accepted in the international petroleum industry. Any
contributions by the CONTRACTOR to the reserve fund shall be made in Dollars and shall be considered recoverable Petroleum Costs. Contributions to the said fund shall be placed with a first rate bank mutually agreed between the CONTRACTOR and the GOVERNMENT. If at the end of the term of the production authorisation of the Petroleum Field, the GOVERNMENT decides to take over production operations in the Petroleum Field and become liable for its future decommissioning and site restoration, the contributions and any interest accumulated in the reserve fund shall be paid to the GOVERNMENT, the GOVERNMENT shall release the CONTRACTOR from any obligations relating to decommissioning and site restoration and shall indemnify the CONTRACTOR for any costs associated therewith. In case the CONTRACTOR undertakes the Petroleum Field decommissioning and site restoration works, the contributions and any interest accumulated in the reserve fund shall be paid to the CONTRACTOR and shall be used for the Petroleum Field decommissioning and site restoration. The CONTRACTOR shall undertake any such decommissioning operations in accordance with standard practice in the international petroleum industry. In case the fund paid to the CONTRACTOR is not sufficient to cover all costs of decommissioning and site restoration, the balance shall be paid by the CONTRACTOR and may be recovered as Petroleum Costs from any other Production Areas or, if applicable, from any other areas of the CONTRACTOR or any of its Affiliates anywhere in Kurdistan.

38.2 Any expenditure incurred by the CONTRACTOR in relation with this Article 35, including but not limited to any contributions to the reserve fund, shall be considered Petroleum Costs.

ARTICLE 39
ASSIGNMENT

Assignment to Affiliates

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

Assignment to third parties

39.2 Each entity constituting the CONTRACTOR shall have the right to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract to any third party with the prior consent of GOVERNMENT, which consent shall not be unreasonably delayed or withheld. Such consent shall be deemed having been received if, after thirty (30) days from the date of such request, the GOVERNMENT has not made any objections in writing.
39.3 To be effective, any deed of sale, assignment, transfer or other disposal to a third party provided under Article 39.2 shall be subject to the following procedure, which must be implemented within thirty (30) days following the GOVERNMENT’s approval:

(a) the third party shall provide reasonable evidence of its technical and financial capabilities and;
(b) the deed of assignment shall include an undertaking by such third party to fulfil any obligations under this Contract pro rata the participating interest it will acquire.

39.4 In the event an entity constituting the CONTRACTOR assigns or in any other way transfers its rights and interests under this Contract, whether in whole or in part, such assignment or transfer shall not give rise to any Kurdistan tax, imposition or payment whatsoever, whether currently existing or which may become applicable in future.

39.5 The GOVERNMENT may at any time transfer all its rights and obligations under this Contract to a company or entity one hundred percent (100%) owned by the Government. However, any such transfer shall not exonerate the GOVERNMENT from its existing obligations or liabilities under this Contract.

ARTICLE 40
FORCE MAJEURE

40.1 No delay, default, breach or omission of the CONTRACTOR in the execution of any of its obligations under this Contract shall be considered failure to perform this Contract or be the subject of a dispute if such delay, default, breach or omission is due to a case of Force Majeure. In such event the CONTRACTOR shall promptly notify the GOVERNMENT in writing and take all reasonably appropriate measures to perform its contractual obligations to the extent possible. The time resulting from any such delay or curtailment in the execution of obligations, increased by the time necessary to repair any damage resulting from or occurred during such delay or curtailment, shall be added to any time period provided under this Contract. The Parties shall meet as soon as possible after the notification of Force Majeure with a view to mitigating the effects thereof.

40.2 For the purpose of this Contract, Force Majeure means any event that is unforeseeable, insurmountable and irresistible, not due to any error or omission by the CONTRACTOR but due to circumstances beyond its control, which temporarily prevent execution of all or part of its obligations under this Contract. Such events shall include but not be limited to following:

(a) war, whether declared or not, civil war, insurrection, riots, civil commotion, any other hostile acts, whether internal or external;
(b) strikes or other labour conflicts;
(c) accidents or blowouts;
(d) quarantine restrictions or epidemics;
(e) any act, event, happening or occurrence due to natural causes, in particular floods, storms, cyclones, fires, lightning, or earthquakes;
(f) environmental restrictions, which the GOVERNMENT has not notified to the CONTRACTOR; and
(g) any acts or order of GOVERNMENT.

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

ARTICLE 41
ARBITRATION – EXPERT DETERMINATION

Arbitration

41.1 Subject to the provisions of Articles 41.6 to 46.10 of this Contract, in the event of any dispute between the Parties (or between any entity constituting the CONTRACTOR and the GOVERNMENT) arising out of or relating to this Contract, including any dispute regarding its existence, validity or termination, the Parties shall first seek settlement of the dispute by negotiation.

41.2 If the dispute cannot be resolved by negotiation, the Parties shall seek settlement of the dispute by mediation in accordance with the London Court of International Arbitration (LCIA) Mediation Procedure, which Procedure shall be deemed to be incorporated by reference into this Article.

41.3 If the dispute is not settled by mediation within thirty (30) days of the commencement of the mediation, or such further period as the Parties shall agree in writing, the dispute shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules shall be deemed to be incorporated by reference into this Article.

41.4 The GOVERNMENT and the CONTRACTOR shall each appoint one (1) arbitrator; the two arbitrators so appointed shall attempt to agree on the appointment of the third arbitrator, who will be chairing the arbitral tribunal. In case of failure to appoint an arbitrator or to agree on the appointment of the third arbitrator, Rules of the London Court of International Arbitration shall apply.

41.5 Arbitration shall take place in London (England) and the governing law of this Contract shall be the substantive law of Kurdistan and the laws of England. Where there is conflict, the laws of England shall prevail. The language to be used in the mediation and in the arbitration shall be English. In the absence of any Kurdistan or English law on a
specific matter, the arbitrators shall refer to general legal principles, generally accepted
international practice and generally applicable case law on the subject matter. During the
arbitration procedure and until the arbitral decision, no Party shall act in a manner that
may affect the rights of the other Party under this Contract. The arbitral award may be
enforced by any competent court. Any award shall be expressed in Dollars. Any costs
associated with the arbitration shall be borne by the losing Party provided, however, that
each Party shall be responsible for its own costs and attorneys’ fees and costs.

41.6 The Parties agree that the arbitral award shall be final and not subject to any appeal.

41.7 The arbitration procedure shall not exempt the Parties from fulfilling their respective
legal and/or contractual obligations.

Expert Determination

41.8 Any disagreement between the Parties relating to Articles 8.3, 15.4 and 27.9 of this
Contract, as well as any disagreement the Parties agree to refer to an expert, shall be
submitted to an expert. The Management Committee shall prepare appropriate terms of
reference relating to the disagreement to be submitted to the expert.

41.9 The disagreement shall be submitted to an expert appointed by mutual agreement of the
Parties within thirty (30) days following the date of preparation of the terms of reference
mentioned in Article 41.8 above. In case the Parties cannot agree on the choice of the
expert within 30-days after the Management Committee has prepared the terms of
reverence, at the request of either Party, the expert shall be appointed by the President of
the Energy Institute in London (Great Britain). Any Expert appointed must have the
necessary qualifications for reviewing and deciding on the subject matter of the
disagreement.

41.10 The duties of the expert shall be stated in the terms of reference prepared by the
Management Committee. The Management Committee shall promptly provide the expert
with the terms of reference relating to the disagreement. Each Party shall have the right to
give to the expert in writing any information which it considers useful. The expert shall
have the right to review and verify any information he deems useful to assist him in his
review of the disagreement.

41.11 The expert shall render his decision within forty-five (45) days of his receipt of the terms
of reference and the information referred to in Article 41.8 above. Subject to the
provisions of Article 15.4 of this Contract, any decision of the expert shall be final and
shall not be subject to any appeal, except in the case of manifest error, fraud or
malpractice. Any costs and expenses associated with the expert determination shall be
shared equally between the Parties.

ARTICLE 42
GOVERNING LAW - AMENDMENTS
Governing Law

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

42.2 The CONTRACTOR has entered into this Contract on the basis of the legal, fiscal and economic framework prevailing at the date of entering into this Contract. If, at any time after such date, there are any changes in the legal, fiscal and/or economic framework in Kurdistan which detrimentally affect the CONTRACTOR then, upon the CONTRACTOR’s request, the Parties shall meet to agree on any necessary measures or making any appropriate adjustments to the terms of this Contract with a view to re-establishing the economic equilibrium between the Parties and restoring the CONTRACTOR in the same rights and obligations as those agreed at the date of signature of this Contract. Should the Parties be unable to agree on the merit of amending this Contract and/or any amendments to be made to this Contract, the CONTRACTOR may refer the matter in dispute to international arbitration as provided in Article 41 of this Contract.

Without prejudice to the generality of the foregoing, the CONTRACTOR shall be entitled to request the benefit of any future changes to the petroleum legislation or any other legislation complementing, amending or replacing it.

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

Amendments

42.4 Any amendment to this Contract shall be the subject of a formal amendment, duly approved by the Parties and subject to the same conditions of validity as this Contract.

42.5 This Contract constitutes the entire agreement of the Parties and supersedes any and all prior understandings or agreements (including but not limited to the Memorandum Of Understanding between the Parties dated [insert date of any MOU] in respect of the subject matter of this Contract.

42.6 No failure or delay of any Party to exercise any right, power or remedy under this Contract shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or future exercise thereof or the exercise of any other right, power or remedy.
ARTICLE 43
NOTICES

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

For the GOVERNMENT:

Attention:
Address:
Fax:
Email:

For the CONTRACTOR:

[insert name of CONTRACTOR signatory]
Attention:
[insert CONTRACTOR address]
Email:

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

ARTICLE 44
TERMINATION

44.1 Subject to the provisions of Article 44.3 below, the GOVERNMENT shall have the right to terminate this Contract in the event the CONTRACTOR:

(a) fails to meet its financial obligations as stated in this Contract; or
(b) does not comply with the provisions of Article 9 of this Contract; or
(c) does not fulfill a substantial part of its duties and obligations resulting from the Kurdistan Petroleum Act or this Contract; or
(d) interrupts Production for a period of more than ninety (90) days with no cause or justification acceptable under normal international petroleum industry practice; or
(e) intentionally extracts or produces any mineral which is not covered by the object of this Contract, unless such extraction or production is expressly authorized or
unavoidable as a result of operations carried out in accordance with accepted international petroleum industry practice; or
(f) intentionally submits false information to the \textit{GOVERNMENT}; or
(g) continuously refuses with no justification to comply with Kurdistan law; or
(h) discloses confidential information related to the Petroleum Operations without having previously obtained the necessary authorization thereto if such disclosure causes prejudice to the \textit{GOVERNMENT}; or
(i) is declared bankrupt by a court of competent jurisdiction; or
(j) does not abide any arbitration decision under Article 41 of this Contract.

44.2 The \textit{GOVERNMENT} may also terminate the Contract if the majority of the share capital of any entity constituting the \textit{CONTRACTOR} is transferred to a non-Affiliate third party without having obtained the prior required authorization from the \textit{GOVERNMENT}.

44.3 At any time prior to the Development Period, the \textit{CONTRACTOR} shall have the right to terminate this Contract by surrendering the entire Contract Area in accordance with the provisions of Article 7 of this Contract. During the Development Period, the \textit{CONTRACTOR} shall have the right to terminate this Contract at any time by surrendering all Production Areas, provided its then outstanding obligations have been satisfied.

44.4 If one of the Parties does not respect its contractual obligations, including but not limited to those provided in Article 44.1 a) and b) above, the other Party shall have the right to terminate this Contract, it being understood that:

(a) The complaining Party shall notify the other Party of its intention to terminate this Contract stating the reasons for such termination and requesting the latter:
   (i) to remedy the default within three (3) months; or
   (ii) to propose acceptable compensation.

(b) If, within the said three (3) month period referred to in Article 44.4 (a) above, the complaining Party is not satisfied, the Contract shall be terminated unless one of the Parties issues a notice of dispute as provided under Article 41 of this Contract, in which case this Contract shall remain in force until a final settlement of the dispute has been reached in accordance with the dispute resolution provisions of Article 41 of this Contract.

Provided, however, that in case of a dispute whether there has been breach of agreement which has been submitted to arbitration pursuant to Article 41 of this Contract, no Party shall be entitled to exercise its right to terminate this Contract prior to a decision regarding the dispute having been rendered by the arbitration tribunal.

44.4 If the \textit{GOVERNMENT} terminates this Contract pursuant to the provisions of Article 44.1 above, the \textit{CONTRACTOR} shall lose all its rights and interests under this Contract.
ARTICLE 45
APPLICATION OF CORRUPTION LAWS

45.1 If obtained in violation of the laws of Kurdistan, including laws concerning corruption, this Contract is void ab initio.

45.2 If the CONTRACTOR is at any time in breach of the laws of Kurdistan concerning corruption, the CONTRACTOR may lose this Contract or part of the Contract.

ARTICLE 46
EFFECTIVE DATE

This Contract shall become effective and be binding on the Parties upon its signature by the duly authorised representatives of the GOVERNMENT and the CONTRACTOR.

Entered into in three (3) originals in [ ] on [ ] 2006.

For the KURDISTAN REGIONAL GOVERNMENT

For [insert name of Contractor]

[Insert name of Chairman]
Chairman