

Commentary on the Iraq Draft Technical Service Contract
February 11, 2009
Pedro van Meurs

EXECUTIVE SUMMARY

I am asked by the Chairman of the Oil & Gas Natural Resources Committee of the Iraqi Council of Representatives to provide my expert views on the draft Technical Service Contract (“TSC”) for the development of large oil fields in Iraq. This commentary contains my views and opinions.

The most positive feature of the draft is that it is an improvement on drafts previously proposed by the Ministry. The remuneration for incremental production is now on a per-barrel basis. This rewards Contractors for achieving maximum production: a primary objective of Iraq.

Nevertheless, there are numerous weaknesses and other features of this draft that make it very unsuitable for Iraq's present and longer-term interests.

The bid process contemplated in the TSC will not lead to transparency and the possibility for changes to the contract after it has been approved and signed opens the door widely for improper practices.

In order to promote an efficient petroleum industry, profits should be higher if costs are lower. It encourages companies to be efficient. However, under the draft TSC, profitability is higher if costs are higher. The TSC therefore leads to inefficiency and does not encourage the application of the latest technology.

The TSC requires the Contractors to observe "general business ethics". However, the draft contains many “corruption inducing” features and provisions. These include arbitrary and non-transparent decision-making, particularly affecting rewards under the contract. These “corruption inducing” features are some of the worst features of the TSC.

Decision-making under the model TSC is convoluted and unaccountable. It is excessively complex. This complexity is likely to generate indecision and stagnation. This is counter-productive for the early achievement of the highest possible incremental production in Iraq's most important oil fields.

The TSC provisions that should encourage the highest degree of Iraqization, such as related to employment, training, technology transfer and local content are among the weakest in the world compared to other petroleum arrangements.

In summary, the draft TSC is still an inferior unsatisfactory model and does not measure up to the appropriate international standards. It would be much more effective and more in the interest of Iraq if the Ministry of Oil would include in the TSC advanced production sharing style fiscal features.

These various points are set out in more detail in the commentary below and specific recommendations are made in order to improve the TSC for the benefit of Iraq.

The contract that was provided to me is hereby attached as Annex B.

INTRODUCTION

I am asked by the Chairman of the Oil & Gas Natural Resources Committee of the Iraqi Council of Representatives to provide my expert views on the following. The Ministry of Oil of Iraq has announced a bidding round for six oil fields and two gas fields. As part of this process they have made a Draft Model Contract available to the potential bidders. The contract is called a "Technical Service Contract" ("Contract") for an Oil Field. The version of the contract that became available to me was dated "November 2008".

The contract is between a Regional Oil Company ("ROC"), which is a state oil company owned by the Republic of Iraq, and a consortium of oil companies, which are collectively called the "Contractor".

Under the twenty year contract, the Contractor will provide "state-of-the-art" services and technology for the rehabilitation, improved production and enhanced recovery of oil from the oil field. Furthermore, the Contractor will provide all financial resources and will be rewarded with services fees. The service fees consist of the recovery of costs and a remuneration per barrel. The fees in cash can be converted to a volume of export oil at the delivery point.

Iraq's stated aim is to increase production by 1.5 million barrels per day from the oil fields. It is indeed a very positive moment for Iraq that the security situation has now improved to the point where the country can invite foreign oil companies to make investments on a large scale to further develop its petroleum resources for the benefit of the people of Iraq. The people of Iraq have suffered long enough and contracts with foreign oil companies to develop rapidly the very large oil potential could in principle be of great benefit to Iraq.

However, the question is now whether the proposed draft model contract is indeed a good contract that would maximize the benefit for the people of Iraq. The model contract has several positive features compared to earlier models for field development provided by the Ministry of Oil. However, several other features of the proposed draft model raise serious concerns about the ability to maximize the economic benefits for Iraq from its oil and gas fields.

The contract ends with a remarkable Article 43 that takes a strong stance on the matter of "general business ethics". The Ministry of Oil can be commended for taking a strong position in its efforts to combat corruption. Corruption is a global problem; and, according to numerous international reports, Iraq has been plagued by it for a number of years.

The recent arrest of the Governor of Illinois for trying to sell a US senate seat to the highest bidder is an important reminder that corruption is indeed a global problem.

In this respect it is very important to scrutinize the Draft Technical Service Contract in order to determine whether the details of the contract are structured in a way that are "corruption inducing" or "corruption inhibiting". The more the contract induces corruption, the more difficult it will be for the Ministry of Oil to be successful in its fight against corruption.

Eliminating corruption is less about commitments not to bribe, than about avoiding provisions that allow arbitrary and non-transparent decision-making, particularly affecting rewards under the contract. Unfortunately, the contract contains several features that are “corruption inducing”. This should therefore be of concern both to Iraqi citizens, their representatives and to investors.

Given the fact that the Minister of Oil has indicated that the final contracts will be approved by the Council of Ministers, there is hope that the need to make improvements is recognized before they do so. The purpose of this commentary is to inform the Council of Representatives in order to encourage the Government of Iraq to insist upon such revisions in the draft model for the benefit of the country.

BID PROCESS

The Petroleum Regulations require a transparent bid process.

The Contract contains at least three variables that are indicated as bid variables:

- The Enhanced Production Target
- The Maintenance Remuneration Fee, and
- The Incremental Remuneration Fee

The Contract contains many further “blanks”. Some of these blanks would in some cases logically also be offered by the bidder.

It is difficult to see how on the basis of at least three bid variables there could be a transparent commercial bid process.

A higher Enhanced Production Target requires typically a higher Incremental Remuneration Fee, because such higher levels of production would involve more costly production methods. There would also be a balance between the Maintenance Remuneration Fee and the Incremental Remuneration Fee. Similar gross revenues for the Contractor could be created with different fee combinations for a given scenario, but these fee combinations would result in different results under alternative scenarios.

With the minimum of three bid variables the winning bidder would most likely be a subjective judgment. It is therefore unlikely that the bid process would be transparent, as the Petroleum Regulations require.

A transparent commercial bid process requires a single number that immediately after the bids have been opened can be identified has the best bid.

The first step that could be taken to make the bid process more transparent is to simply fix the Base Production and the Maintenance Remuneration Fee. This would reduce the bid process to the two key variables: Enhanced Production Target and related Incremental Remuneration Fees.

The only way to create a single point bid with remaining two variables would be to introduce a pre-determined and self-assessable point system that results in a single point bid, based on allocating points on the basis of pre-determined formulas for the two variables. For instance, a single formula could be:

$$\text{Points} = \text{EPT} \times a - \text{IRF} \times b$$

In this way the highest points can be obtained by offering the highest Enhanced Production target at the lowest Incremental Remuneration Fees. The values “a” and “b” could by themselves be formulas. The detailed nature of the formula would reflect the policy of the Ministry of Oil with respect to the relative importance the Ministry attaches to the enhanced production target and incremental remuneration fees. Since the bidders will be provided with the details of the formula, each bidder can calculate his own points. Therefore, the bid is “self-assessable”. After the opening of the bids, the highest bid automatically wins.

Without such or similar point system, the bid process would clearly be “corruption inducing” because no objective comparison of bids is possible and the selection can be manipulated.

Very troublesome is the fact that Article 2 of the Contract permits the parties to change the service fees after the Contract has been approved by Council of Ministers.

Also, the contract provides for the fact that the service fees only apply to the main reservoirs. These are the reservoirs that would result in the Enhanced Production Target.

However, the Contractor can propose to develop in addition to the main reservoirs also “discovered and undeveloped reservoirs”. This would presumably result in a higher level of production. In order to achieve the development of these additional reservoirs, the parties can negotiate a revision of the service fees. Also, additionally, unexplored reservoirs below a certain depth can be explored based on a separate additional further agreement.

It appears therefore, that significant “add-ons” are possible to the Contract after the Contract has been approved and signed. It seems that such “add-ons” would be beyond the scope of the scrutiny of the Council of Ministers; and thus cannot be subject to competition because the Contractor will have been selected and the Contract signed.

This could open the door widely for a rigged bid process. It would enable a bidder to make a winning bid with unrealistically low service fees based on a tacit agreement with certain government or state company officials to increase the service fees later. This feature of the contract is therefore “strongly corruption inducing”.

Of course, it is important for Iraq to encourage the Contractor to develop additional reservoirs. It is also very important to encourage exploration of deeper reservoirs. The correct way to do so is

by providing clear and predictable incentives; not by introducing unverifiable and unaccountable future negotiations after the Contract has been awarded.

The nature of the current model of the Technical Services Contract does not permit such flexibility and it therefore requires renegotiation after the contract has been signed. The contract is therefore poorly conceived in this respect.

It would have been much better to design from the beginning a well defined flexible fiscal system that would permit the Contractor to develop all additional reservoirs and explore for deeper reservoirs based on terms known and agreed at the approval and signing of the contract, as most developing oil producing countries in the world would do. This could be done under a much improved Technical Service Contract, by including in this contract some of the fiscal concepts found in advanced production sharing contracts.

SERVICE FEES: PETROLEUM COSTS

Article 19.2 states that the Contractor can start charging the Petroleum Costs to the Operating Account from the Effective Date. However, service fees are only due and payable after the end of the Rehabilitation Period. The Rehabilitation Period is as a maximum 24 months. This means that the Contractor will not receive cost recovery during the first two years of the contract.

Once, the rehabilitation period has ended, the Contractor will be able to recover the costs directly from the production, subject to a percentage limit of the oil. The percentage limit is jointly for the Petroleum Costs and the Remuneration Fees. It should be noted that the percentage limit is not an absolute limit. Any unrecovered costs upon the termination of the contract can be recovered. The percentage limit remains the same even during periods of high oil prices, when lower costs limits could have been used to ensure adequate administration and deferring cost recovery to the Contractor.

In principle, the concept of not permitting the recovery of costs during the Rehabilitation Period is a good concept. It creates a cash flow for the investor that is more similar to a new development of a field.

It creates a commitment on the part of the Contractor to Iraq. There is an incentive for the investor to “stick with the project” at least until payout. It is a way for a service contract to create conditions that simulate more traditional investor behavior.

However, the vast majority of the capital expenditures and operating costs will be incurred **after** the Rehabilitation Period, i.e. over the remaining 18 years of the contract. During this period the Contractor will receive all his costs back immediately. This means that as soon as payout has been achieved, early in the life of the cash flow, the investor has no longer any interest in efficient operations. All costs will be refunded on a quarterly basis as export oil. Higher costs mean automatically higher volumes of export oil.

This is another feature of the contract that is “corruption inducing”. Normally, under other upstream petroleum arrangements, improper payments will result in lower profits for the Contractor. Under the proposed TSC model scheme, payments for improper purposes will actually result in more export oil and therefore actually benefit both the Contractor and the party involved in the improper transactions. This could be highly detrimental to Iraq.

In this respect the specific design of this Technical Services Contract is vastly inferior to, say, a production sharing contract.

Under a production sharing contract, higher costs and therefore more cost oil means less profit oil for the contractor because the total amount of oil to be shared remains the same. Therefore, the cost oil structure under a production sharing contract creates an automatic incentive for the investor to be efficient. Lower costs means more profits to the Contractor. Under a production sharing contract, the Contractor is therefore rewarded for increasing production at lower costs.

Under the Draft proposed Model Technical Services Contract, there is no such incentive to be efficient. This could be very detrimental to Iraq since it also does not provide an automatic incentive to apply the best possible and most advanced technology.

Lower costs means less Export Oil and a decrease of profits as will be explained below.

It would be relatively easy to address these issues. A simple solution is to only permit the recovery of a fixed percentage of the capital and operating costs, for instance 70%, not the full amounts. This would force the bidders to bid correspondingly higher Incremental Remuneration Fees, which in turn would be a stronger incentive to achieve higher production. Furthermore, rather than providing immediately recovery of capital expenditures, it is easy to create a depreciation system whereby the capital costs are being recovered over, say, five years. Such provisions would induce the Contractor to be cautious with its expenditures and would create a direct penalty for inefficient operators and a direct reward for efficient operators.

SERVICE FEES: REMUNERATION FEES

As noted above, the Contractor will bid two remuneration fees:

- The Maintenance Remuneration Fee expressed in US \$ per barrel for the Base Line Production. The Base Line Production is a fixed amount of production for the duration of the contract. It is a blank in the contract and it is unclear whether this would be a bid item or would be fixed for each field in the contract prior to bidding.
- The Incremental Remuneration Fee expressed in US \$ per barrel for the Incremental Production over the Base Line Rate.

In principle, it is a good concept to have a per-barrel fee for remuneration. It is a superior concept than the remuneration index that was proposed in earlier models by the Ministry of Oil.

Iraq needs higher levels of production. Per-barrel fees create an incentive for the investors to produce as much oil as economically possible for a particular fee level. This is therefore the right concept. Also per-barrel fees are highly transparent and this is therefore certainly a “corruption inhibiting” feature of the contract.

In this respect it is also a good feature that the fees will be reduced, as per Article 19.5 of the contract, if the contractor does not achieve the enhanced production target that was bid during the bid process.

Effect of inflation: It should be noted that the fees are not adjusted for inflation. Therefore, if during the 20 year term of the contract significant inflation occurs in the United States, the value of the per-barrel fees in real terms would rapidly decline.

This would reduce the interest of the Contractor to maximize production during the later years of the contract. This could become a serious impediment to encourage the Contractor to maximize production towards the latter part of the contract period, with a potential loss of recoverable reserves.

It also creates an incentive for the bidders to bid initially relatively high fees, in order to cover this inflation risk. In other words Iraq will have to pay for this inflation risk up front. Given the great uncertainty of world economic developments under the current financial crisis, this seems a reckless strategy for Iraq.

An alternative method of indexation would be to index the fees directly to the oil price. This is not proposed either under the contract.

Effect of flat fees: The fact that the fees are flat irrespective of the oil price creates an interesting dynamic. It means that during periods of low oil prices and low costs, the relative profitability of the Iraq projects compared to other investment opportunities around the world may be attractive. During periods of high oil prices and high costs, the relative profitability of the Iraq investments may be rather unattractive.

Investors have therefore an incentive to accelerate investments during low oil prices, while slowing down investments during high oil prices. Whether this dynamic is in the interest of Iraq is debatable.

More damaging is the fact that bidders will be induced to bid high fees in order to cover the oil price risk. Again, Iraq may end up paying up front for the fact that companies like their Iraq project to be competitive with possible future higher oil prices.

It is more in the interest of Iraq to have a sustained level of investment by the Contractors, in line with levels of international investment under certain levels of oil price and to ensure bids for the lowest possible fees. This could be achieved by indexing the fees to the international oil price.

The effect of the R-factor: A damaging feature of the Draft Model Contract is the so-called R-factor for the Incremental Fees.

The R-factor is the ratio between the revenues of the contractor and the expenditures of the contractor. It is a factor that indicates profitability of the contractor operations. With the aim of avoiding windfall profits to the contractor, the incremental remuneration fee to the contractor goes down as the R-factor goes up.

In other words the incremental remuneration fee starts at the level that was the bid by the contractor. However, as the profitability of the operations goes up, the fees go down based on a percentage scale in the contract.

It is a worthwhile goal for governments to seek to avoid windfall profits to the investors. R-factors are successfully used in some petroleum arrangements around the world to achieve this goal.

In the particular case of the Draft Technical Service Contract, this structure has an undesirable side effect. If the contractor has higher expenditures, the R-factor will be lower and therefore the fees will be higher. Consequently, a more costly project will result in a higher remuneration to the contractor than a lower cost project.

In other words if the contractor opts for a higher cost development plan, the contractor will not only receive all the higher costs back, but will also increase the amount of remuneration. Higher costs result in higher remuneration.

In case the oil prices are high, the cap will be high and the contractor will almost immediately recover all his costs. In this scenario, it could actually be more profitable to have a high cost project than a low cost project. This is known as “gold plating”. Annex A to this commentary shows a calculation where the NPV10 (net present value discounted at 10%) is actually higher for the high cost project, encouraging inefficiency and penalizing Iraq.

This certainly is not in the interest of Iraq.

What is very troublesome of this particular design of the R-factor is that higher costs as a result of corrupt expenditures actually result in more profits for the contractor. It is profitable for the contractor to be corrupt, regardless of the other benefits that the contractor may receive as a result of such corruption. This feature of the contract must therefore be considered “strongly corruption inducing”.

Again it is relatively easy to make improvements with respect to this matter in the Draft Technical Services Contract. One could simply scrap the R-factor concept and adopt a fixed Incremental Remuneration Fee and introduce other features to avoid windfall profits.

PARTICIPATION

Article 27 of the Draft Model Contract establishes that a State Partner shall have a participating interest of 51%.

Addendum One to the Draft Model Contract stipulates how all hard currency expenditures have to be advanced by the private partners at the interest rate of LIBOR plus 1% is the State Partner so requests.

Since a large share of the expenditures will be hard currency expenditures, the State Partner is therefore carried for most of its share of development costs.

The private partners will therefore have to contribute almost 100% of the development capital expenditures. The private partners will receive most of the oil until the loan is paid back. After that, they will receive 49% of the oil.

As an automatic consequence of this State partner carried interest, the private partners will be forced to bid much higher maintenance and incremental remuneration fees in order to have the same level of profitability.

Therefore, Iraq will not gain from this participation clause in terms of cash flow to Iraq. The Contractors will make bids that will result in the same profits, with or without the participation clause, because the State Partner is not an effective contributor to the investment.

The only effect of the participation clause is the creation of a “free” cash flow to the State Partner. In other words, instead of the cash going directly to Iraq, part of the cash will now go to the State Partner.

In general, the purpose of participation by a State entity in the contract is that it helps in the development of a national capability in the petroleum industry. Nationals get exposed to the management practices and decision-making procedures of the world petroleum industry. Assets and reserves are built up to provide a strong national presence in the petroleum industry. For Iraq this could be desirable objectives.

However, it is unclear what benefits for Iraq result from the precise proposed participation arrangement is for Iraq.

Normally, desirable national objectives are achieved if the national companies actively co-invest alongside the private partners. This results in a framework where the interests of the national oil company are closely aligned with the foreign investors. This in turn provides the basis for the transfer of management knowhow. The creation of a free cash flow without effort for the State Partner does not achieve this goal.

If the State Partner in turn would have to transfer this cash flow to the State of Iraq, the entire arrangement is merely an extra complication, and an unnecessary extra expense.

The objective of the proposed Draft Technical Service Contract could be to create strong State Partners that subsequently can use this cash to re-invest in further oil and gas development. As indicated above, the fees may be too low to induce the development of marginal fields or reservoirs. The State Partner could assume such tasks and thereby add to the total level of national production. However, Iraq has an abundance of truly economic fields to develop, which could be developed with direct foreign investment. Therefore, it does not seem to be a rational national objective to orient cash flows to the development of marginal fields through a State Partner.

A more troublesome effect may be that part of this cash flow could be diverted to other purposes. Unfortunately, in many parts of the world cash flows to national partners have not been used for re-investments in the petroleum industry, but have often served to enrich the related officials and businesses friendly to government.

Such officials, with respect to the use of the free cash flow would be beyond the scope of Article 43 (the provision outlawing corruption). This is yet another feature of the contract has the potential to be “corruption inducing”.

Interestingly, the proposed arrangement in the Contract creates a strong interest on the part of the State Partner to select only the most expensive projects, since these projects result in the highest cash flow to the State Partner.

Since the State Partner does not have to actually contribute the hard currency investments, the high cost projects generate more cash for the State Partner than low cost projects. Automatically, high cost projects will be more profitable for the State Partner.

The State Partner has a veto on the development plans since 70% of the vote in the Operating Committee is required to approve a project. The State Partner could therefore use its voting rights to promote high cost projects, since that would be in the State Partners interest.

In order to ensure that the national interest is being protected a knowledgeable, strong and honest administration will be required to ensure that projects are being executed at the lowest possible costs.

This leads to the issue as to what the oversight role of Iraq is.

OPERATORSHIP AND SUPERVISION

The management structure under the Draft Technical Service Contract is highly unusual and unique in the world. Normally, the entities forming the Contractor would appoint an “Operator” to conduct the activities under the general supervision of the national oil company. However, this is not the case under this Contract.

Under the Contract, the ROC operates the Contract initially. Then there will be a transfer of Operatorship to a so-called Field Operating Division (“FOD”). The FOD is a non-incorporated “special status entity” within the organizational structure of the ROC.

The Contractor then appoints one of its consortium members as “Co-operator”. The contract provides for the fact that the Co-operator shall take a “substantial role” in the planning, decision-making and activities in order to ensure efficient petroleum operations. However, it is not clear how the Co-operator would exercise this role. The contract also requires that the Contractor shall make available to the FOD, as Operator, the appropriate managerial and technological skills and personal. Despite the fact that the FOD is “Operator” it is the Contractor obligation to ensure that the production targets are being met. It is unclear how the Co-operator can ensure this.

The FOD shall operate the field jointly with the Co-operator under the supervision of the Joint Management Committee. The ROC will appoint the General Manager of the FOD, who will also be the CEO. The Co-operator will appoint the Deputy General Manager.

As Operator the FOD shall provide all personnel, giving first priority to Iraqis, taking into consideration qualification and experience. Article 9.19 of the contract ensures that in paying Iraqis “equitability shall be observed between basic salaries and terms of employment between Iraqis and Non-Iraqis of similar qualification and experience”.

This seems to suggest that the salaries of the Iraqis employed by the FOD will be vastly superior to the salaries normally paid to Iraqis in typical state companies and by Ministries. This could open the door to favorable rewards for the appointment of employees that are friends and family of government and ROC officials. This must therefore be considered a “strongly corruption inducing” provision of the Model Contract.

At the same time it creates the dynamic that every Iraqi that has any qualification or experience would want to work for the “special status entity” FOD rather than for the ROC or the Ministry.

It is difficult to see how under this scheme the ROC and the Ministry would be able to attract the highly qualified and honest professionals that would be required to supervise properly the activities of the Operator and Co-operator and ensure that operations are carried out at the lowest possible costs. This will make it far more difficult for the Ministry of Oil and the ROC to effect to any anti-corruption strategies.

The Contractor has to pay all expenses of the Operator. The Contractor also has to indemnify FOD for any losses, claims or damages as a result of the petroleum operations despite the fact that the Contractor does not control these operations (It is difficult to see how any responsible oil company in its right mind would accept such an indemnity obligation).

Despite the fact that the FOD is Operator, the FOD does not have any control or supervision over the Co-operator. Therefore, the FOD will not be able to ensure low cost and efficient operations.

This is supposed to be the role of the Joint Management Committee (“JMC”) under Article 13 of the Draft Model Contract. The JMC consist of 8 members, of which 4 are appointed by the ROC and 4 by the Co-operator. The JMC is in charge of approving all subcontracts and recommending work programs and budgets for approval. All costs of the JMC are paid by the Contractor. The FOD in turn prepares all proposals to the JMC.

All decisions of the JMC are unanimous. In case of dispute it is simply referred back to senior management of the ROC and the Co-operator.

ROC will have to approve all work programs and budgets proposed by the JMC. There is no further review by the Ministry, since the ROC is the competent Iraqi authority to deal with this. Only programs approved by ROC can be carried out. It does not state in the Contract what happens if a proposal is not approved.

The ROC approval or disapproval is entirely discretionary. This could open the door for practices whereby ROC approval is made conditional on the Contractor doing certain favors and is therefore a “corruption inducing” aspect of the Contract.

The above process must rank as one of the most convoluted processes in the world under any type of petroleum agreement.

The decision making process seems to be the following:

1. The Joint Operating Committee, with a controlling vote by the State Partner approves a program.
2. The Operator and Co-operator somehow afterwards will develop the proposal for the JMC with relatively undefined roles for the Operator and the Co-operator.
3. The JMC, in which the ROC and Co-operator equally participate, recommends the proposal to the ROC.
4. The ROC gives the final approval or disapproval on a discretionary basis.

It is highly likely that this process will create stagnation and delays. Certainly, this is not a framework for efficient and low cost petroleum operations.

This convoluted process replaces a simple procedure whereby the Contractor proposes work programs and budgets to the national oil company for approval, with an arbitration provision in case of disputes. The entire Operatorship and control process must therefore be considered “strongly corruption inducing”.

What should be most troublesome to Iraqi citizens is that the entire contract structure gives ample opportunity to enrich a relatively small group surrounding the Ministry of Oil, ROCs and State Partners rather than create the obligation for the ROC to pursue broader national interests. All of this occurs in a fiscal framework whereby the Contractor is being rewarded with extra profits and increased volumes of export oil for incurring excessive costs.

It would be far preferable to introduce a simple decision making process as is contained in most production sharing contracts based on an Operator that is indeed the Operator of the entities forming the consortium and the ROC as single supervisor and manager of the activities.

It seems that the main argument for the convoluted process proposed in the Draft Technical Service Contract is the supposed aim of a successful Iraqization of the Iraq petroleum industry. Obviously, this is a very important objective for Iraq. Therefore, an important question is how effective the Draft Technical Service Contract is in terms of employment, training and technology transfer and provisions for local goods and services.

EMPLOYMENT, TRAINING AND TECHNOLOGY TRANSFER AND LOCAL GOODS AND SERVICES

Article 26 deals with employment, training and technology transfer. In a contract of 86 pages, the matters of employment, training and technology transfer are dealt with in precisely half a page. In comparison with many other PSCs and risk service contracts, the provisions of the TSC are rudimentary and non-specific.

The Contractor has the obligation to employ qualified Iraqis to the maximum extent possible. This is a minimum obligation that one finds in every production sharing and risk service contract in the world.

The contractor has the obligation to provide an “agreed number” of Iraqi citizens with on the job training, but it is not explained how this number is agreed.

Also the contract provides for a minimum annual expenditure for training. The contract has a blank where the amount is supposed to be. It is not clear whether this would be a bid item or an item that would be filled out by the Ministry of Oil prior to the bid process.

The annual amount does not provide for adjustment with inflation, so this means that the amount of training will decline during the contract. Also the training budget is a non-recoverable cost. Therefore the Contractor will have absolutely no incentive to offer more training than the minimum amount, despite the fact that the training is actually included in the R-factor calculation.

The entities comprising the Contractor are required to negotiate in good faith after the signing of the contract, commercially proven technology that they “may” make available. Presumably, Iraq will pay for this technology because it is not indicated in the contract that the technology will be made available for free. This is not a particular benefit to Iraq. Iraq can always offer to pay for technology irrespective of the Model Contract to any service-providing company.

There are no provisions in the contract at all with respect to support for petroleum research and development activities in Iraq or support of education and training programs in Iraqi universities.

Article 30 deals with local goods and services. This article is only one third of a page. It just refers to the fact that the Contractor has to give preference to local goods and services as long as they are not more than 10% more costly than those in the international market.

However, there are no details on the related procurement procedures. Therefore, there does not seem to be any obligation on the part of the Contractor to invite local companies to bid for goods and services in the first place.

This opens the door for practices whereby FOD could promote suppliers of goods and services that are approved by or proposed by FOD. Only these suppliers would benefit from the 10% provisions. In this respect it should be noted that this concept stimulates the creation of intermediaries that import goods and services, add 10% to the price, and get priority treatment from FOD since they are “local”.

The creation of this 10% margin for intermediaries and the lack of adequate procurement obligations in the contract is therefore “corruption inducing”. The contract provides in Article 9.19, subparagraph c, for the fact that procurement has to be competitive. However, there are no details in the contract how a competitive procurement would be achieved.

Also there is no comprehensive local goods and service policy attached as an Annex to the Contract, as is the case in some PSCs. Therefore, there are no guidelines at all as to how the Contractor would go about maximizing local content.

In summary, the Draft Technical Service Contract is about as weak and non-committal as one can make it with respect to the entire process of Iraqization.

An important part of the technical qualification during the bid process could have been the requirement to make specific commitments on the part of the bidders with respect to all these areas of importance for Iraq. Alternatively, the Draft Model Contract could have included detailed and specific commitments on all these matters.

The absence of these concepts is a truly disastrous situation for Iraq because Iraq will only have one opportunity to offer its largest oil fields for bids. .

Given the difficult situation that Iraq is in today, the Ministry of Oil should have developed comprehensive policies with respect to employment, training, transfer of technology, research and development and maximization of local content. These policies should have been reflected in the bid process or the Contract or both.

The goal should have been to achieve the creation of a modern petroleum industry in Iraq with maximum national participation in all aspects of the economy in the shortest possible time frame.

It can therefore be recommended to strengthen the contract considerably in all these areas.

ACCOUNTING PROCEDURE

The accounting procedure provides for the fact that interest or any other costs related to raising money are non-allowable for recovery of costs. This is a good provision and is “corruption inhibiting” since in some production sharing contracts much of the benefits to the contractor is generated through unjustified financing charges.

However, as stated earlier, Article 9.19, subparagraph c, of the Contract provides for the fact that the procurement concept has to be competitive, but does not provide further details, for instance set out in a Procurement Annex. Relatively damaging is the fact that Article 10 related to “non-allowable costs” does not make a specific reference to the fact that the part of the costs that is in excess of fair market value should be “non-allowable”. Without such provision the concept of having “competitive” procurement is very weak.

A number of other features are not listed in the “non-allowable” costs which typically would be found in production sharing contracts. For instance, it does not state that costs for which no adequate documentation exists would be non-allowable. This opens the door for a sloppy administration.

In general, some important improvements could be made to the Accounting Procedure.

CONCLUSION

The Draft Model Contract is a better service contract than earlier models proposed by the Ministry of Oil, because this remuneration is now largely production based. This rewards Contractors for achieving maximum production: a primary objective of Iraq.

Nevertheless, in terms of maximizing benefits to Iraq, the economic structure of the Draft Technical Service Contract remains far inferior compared to a modern advanced production sharing contract or other possible forms of risk service contracts in terms of benefits to Iraq.

In order to promote an efficient petroleum industry, profits should be higher if costs are lower. This is the basic driver of the petroleum industry. It encourages companies to be efficient and to apply the latest possible technology.

Under the Draft Model Contract profits are higher if the costs are higher.

At the same time there are many provisions in the Draft Technical Service Contract that would be “corruption inducing” or “strongly corruption inducing”. These include those related to the ability to renegotiate fees and the convoluted decision-making process.

The weak provisions with respect to employment, training, technology transfer and local content are potentially disastrous for Iraq. Many advanced PSCs have much better provisions in this respect. The Ministry of Oil should have developed a broadly based strategy to maximize all benefits to the nation from oil and gas, rather than focusing on benefits only for a limited group.

RECOMMENDATIONS

A number of recommendations can be made to improve the Draft Technical Services Contract in order to create incentives for an efficient petroleum industry, reduce the inducement for corruption and enhance broad national economic benefits.

These recommendations are:

- **Fix all “blanks” in the contract and reduce the number of bid variables to the two that really matter: the Enhanced Production Target and the Incremental Remuneration Fees. Create a point formula between these two variables to create a self-assessable single point commercial bid.**
- **Create a more sophisticated fiscal framework, to be agreed upon the signing of the contract, which applies to all reservoirs to be developed and discovered without the need for renegotiation of fees.**
- **Permit the recovery of only a percentage of the capital and operating costs and require depreciation of recovery of capital costs.**
- **Abandon the R-factor based Incremental Remuneration fee and establish a fixed fee, with a more robust system of preventing windfall profits that does not create high cost “gold plating”.**
- **Index the fees with the world oil price**
- **Eliminate the veto of the State Partner in the Operating Committee. And develop specific procedures for the use of the cash flow generated by the State Partner.**
- **Greatly simplify the decision making process, by having a normal Operator selected by the consortium responsible to the ROC, with a well defined and balanced decision making process.**
- **Greatly strengthen the provisions with respect to employment, training, transfer or technology, research and development and maximization of local content, with specific detailed annexes to the contract for each of these issues.**
- **Create an annex with a transparent and competitive and non-discriminatory procurement procedure that also clarifies the role in the maximization of local content.**
- **Improve the accounting procedure, in particular by making costs in excess of fair market value non recoverable.**

With these improvements Iraq could have an acceptable Technical Service Contract.

Annex A

Analysis of Gold Plating effect

Following is an analysis of a case illustrating the “gold plating” effect.

The following assumptions were made:

- Field with enhanced recovery – 2 billion barrels
- Base production rate – 100,000 bopd
- Enhanced total production rate - 400,000 bopd for 7 years
- Fee Cap - 30%
- Oil Price - \$ 140 per barrel during cost recovery
- Total capital expenditures - \$ 5 billion
- Operating Expenditures - \$ 3 per barrel, for total of \$ 6 billion
- Maintenance Fee - \$ 3 per barrel
- Incremental Fee - \$ 6 per barrel

It was assumed that the following R-factor scale was included in the Contract

Incremental Remuneration

R-fac	Fees (\$/bbl)	Percent
1	6.00	
1.25	4.80	80%
1.5	4.20	70%
1.75	3.00	50%
2	2.40	40%
>2	1.80	30%

For simplicity it was assumed that the R-factor would be calculated yearly rather than quarterly and that the Fees would be based on the R-factor that would be achieved at the end of the previous year.

Also the corporate income tax was excluded from the calculation since this does not impact on the R-factor calculation and the fees. The 51% state participation with the loan on hard currency was also omitted, since it does not impact on the calculation either.

For the base costs assumed above this would result in the following cash flow.

Years	Production per day	Production per year	Incr Prod per year	Cap for Service Fees	capex	opex	Cum Costs	Cum Remuner	Remun Base	Remun Incr	Fee Entitlement	Service Fee Payments	Carry Forward	Cum Revenues	EOY R-fac	Net Cash Flow	NPV10
1	40000	14.6	0	0.0	500	43.8	543.8	0.0	0	0.0	543.8	0	0.0	0.0	0.000	-543.8	-543.8
2	80000	29.2	0	0.0	500	87.6	1131.4	0.0	0	0.0	1131.4	0	0.0	0.0	0.000	-587.6	-534.2
3	100000	36.5	0	0.0	800	109.5	2040.9	109.5	109.5	0.0	2150.4	0	0.0	0.0	0.000	-909.5	-751.7
4	240000	87.6	51.1	2146.2	800	262.8	3103.7	525.6	109.5	306.6	3629.3	2146.2	1483.1	2146.2	0.691	1083.4	814.0
5	360000	131.4	94.9	3985.8	500	394.2	3997.9	1204.5	109.5	569.4	3056.2	3056.2	0.0	5202.4	1.301	2162.0	1476.7
6	400000	146.0	109.5	4599.0	500	438.0	4935.9	1773.9	109.5	459.9	1507.4	1507.4	0.0	6709.8	1.359	569.4	353.6
7	400000	146.0	109.5	4599.0	100	438.0	5473.9	2343.3	109.5	459.9	1107.4	1107.4	0.0	7817.2	1.428	569.4	321.4
8	400000	146.0	109.5	4599.0	100	438.0	6011.9	2912.7	109.5	459.9	1107.4	1107.4	0.0	8924.6	1.484	569.4	292.2
9	400000	146.0	109.5	4599.0	100	438.0	6549.9	3482.1	109.5	459.9	1107.4	1107.4	0.0	10032.0	1.532	569.4	265.6
10	400000	146.0	109.5	4599.0	100	438.0	7087.9	3920.1	109.5	328.5	976.0	976.0	0.0	11008.0	1.553	438.0	185.8
11	400000	146.0	109.5	4599.0	100	438.0	7625.9	4358.1	109.5	328.5	976.0	976.0	0.0	11984.0	1.571	438.0	168.9
12	400000	146.0	109.5	4599.0	100	438.0	8163.9	4796.1	109.5	328.5	976.0	976.0	0.0	12960.0	1.587	438.0	153.5
13	360000	131.4	94.9	3985.8	100	394.2	8658.1	5190.3	109.5	284.7	888.4	888.4	0.0	13848.4	1.599	394.2	125.6
14	320000	116.8	80.3	3372.6	100	350.4	9108.5	5540.7	109.5	240.9	800.8	800.8	0.0	14649.2	1.608	350.4	101.5
15	280000	102.2	65.7	2759.4	100	306.6	9515.1	5847.3	109.5	197.1	713.2	713.2	0.0	15362.4	1.615	306.6	80.7
16	240000	87.6	51.1	2146.2	100	262.8	9877.9	6110.1	109.5	153.3	625.6	625.6	0.0	15988.0	1.619	262.8	62.9
17	200000	73.0	36.5	1533.0	100	219.0	10196.9	6329.1	109.5	109.5	538.0	538.0	0.0	16526.0	1.621	219.0	47.7
18	180000	65.7	29.2	1226.4	100	197.1	10494	6526.2	109.5	87.6	494.2	494.2	0.0	17020.2	1.622	197.1	35.0
19	160000	58.4	21.9	919.8	100	175.2	10769.2	6701.4	109.5	65.7	450.4	450.4	0.0	17470.6	1.622	175.2	31.5
20	120000	43.8	7.3	306.6	100	131.4	11000.6	6832.8	109.5	21.9	362.8	362.8	0.0	17833.4	1.621	131.4	21.5
TOTAL		2000.2	1299.4	54574.8	5000.0	6000.6			1971.0	4861.8		17833.4				6832.8	2712.3

Under this arrangement the total service fees that would be paid would be \$ 17,833 million. The undiscounted total net cash flow would be \$ 6,833 million. This is on an undiscounted basis equal to the remuneration. The NPV10 (net present value discounted at 10%) would be \$ 2,712 million. As can be seen the highest R-factor in the last year is 1.621, which brings the fees at 50% of the incremental fees that were bid. The total amount of export oil is 127.4 million barrels (assuming \$ 140 per barrel for the whole cash flow).

If we now assume that the capital and operating expenditures would be 50% higher the following table would result.

Years	Production per day	Production per year	Incr Prod per year	Cap for Service Fees	capex	opex	Cum Costs	Cum Remuner	Remun Base	Remun Incr	Fee Entitlement	Service Fee Payme	Carry Forward	Cum Rev	EOY R-fac	cashflow	NPV10
1	40000	14.6	0	0.0	750	65.7	815.7	0.0	0	0.0	815.7	0	0.0	0.0	0.000	-815.7	-815.7
2	80000	29.2	0	0.0	750	131.4	1697.1	0.0	0	0.0	1697.1	0	0.0	0.0	0.000	-881.4	-801.3
3	100000	36.5	0	0.0	1200	164.25	3061.35	109.5	109.5	0.0	3170.9	0	0.0	0.0	0.000	-1364.3	-1127.5
4	240000	87.6	51.1	2146.2	1200	394.2	4655.55	525.6	109.5	306.6	5181.2	2146.2	3035.0	2146.2	0.461	552.0	414.7
5	360000	131.4	94.9	3985.8	750	591.3	5996.85	1204.5	109.5	569.4	5055.2	3985.8	1069.4	6132.0	1.023	2644.5	1806.2
6	400000	146.0	109.5	4599.0	750	657	7403.85	1839.6	109.5	525.6	3111.5	3111.5	0.0	9243.5	1.248	1704.5	1058.3
7	400000	146.0	109.5	4599.0	150	657	8210.85	2474.7	109.5	525.6	1442.1	1442.1	0.0	10685.6	1.301	635.1	358.5
8	400000	146.0	109.5	4599.0	150	657	9017.85	3044.1	109.5	459.9	1376.4	1376.4	0.0	12062.0	1.338	569.4	292.2
9	400000	146.0	109.5	4599.0	150	657	9824.85	3613.5	109.5	459.9	1376.4	1376.4	0.0	13438.4	1.368	569.4	265.6
10	400000	146.0	109.5	4599.0	150	657	10631.85	4182.9	109.5	459.9	1376.4	1376.4	0.0	14814.8	1.393	569.4	241.5
11	400000	146.0	109.5	4599.0	150	657	11438.85	4752.3	109.5	459.9	1376.4	1376.4	0.0	16191.2	1.415	569.4	219.5
12	400000	146.0	109.5	4599.0	150	657	12245.85	5321.7	109.5	459.9	1376.4	1376.4	0.0	17567.6	1.435	569.4	199.6
13	360000	131.4	94.9	3985.8	150	591.3	12987.15	5829.8	109.5	398.6	1249.4	1249.4	0.0	18816.9	1.449	508.1	161.9
14	320000	116.8	80.3	3372.6	150	525.6	13662.75	6276.5	109.5	337.3	1122.4	1122.4	0.0	19939.3	1.459	446.8	129.4
15	280000	102.2	65.7	2759.4	150	459.9	14272.65	6662.0	109.5	275.9	995.3	995.3	0.0	20934.6	1.467	385.4	101.5
16	240000	87.6	51.1	2146.2	150	394.2	14816.85	6986.1	109.5	214.6	868.3	868.3	0.0	21803.0	1.471	324.1	77.6
17	200000	73.0	36.5	1533.0	150	328.5	15295.35	7248.9	109.5	153.3	741.3	741.3	0.0	22544.3	1.474	262.8	57.2
18	180000	65.7	29.2	1226.4	150	295.65	15741	7481.0	109.5	122.6	677.8	677.8	0.0	23222.0	1.475	232.1	45.9
19	160000	58.4	21.9	919.8	150	262.8	16153.8	7682.5	109.5	92.0	614.3	614.3	0.0	23856.3	1.476	201.5	36.2
20	120000	43.8	7.3	306.6	150	197.1	16500.9	7822.7	109.5	30.7	487.3	487.3	0.0	24323.6	1.474	140.2	22.9
TOTAL		2000.2	1299.4	54574.8	7500.0	9000.9			1971.0	5851.7		24323.6				7822.7	2744.4

Since all costs would be recovered, the cost recovery is now 50% higher. However, also the R-factor now does not exceed 1.476. In other words the contractor will receive as a minimum 70% of the incremental fee that was bid. This means that his profits also go up. The total fees are now \$ 24,324 million. His total remuneration and undiscounted cash flow is now \$ 7,823 million or almost one billion dollars more than before. This in turn results in an NPV10 of \$ 2,744 which is higher than the base case. The amount of export oil is now 173.7 million barrels or 46 million barrels more.

In other words if the contractor has costs that are 50% higher than the base case, the cost recovery is automatically 50% more, the cash flow is a billion dollars more, the export oil is 46 million barrels more and the NPV10 is slightly improved. This would be a more attractive proposition for the contractor.

Annex B

(November 2008 DRAFT MODEL PFTSC)

**TECHNICAL SERVICE CONTRACT
FOR _____. OIL FIELD**

BETWEEN

_____ OF THE REPUBLIC OF IRAQ

AND

**TECHNICAL SERVICE CONTRACT
FOR _____ OIL FIELD**

TABLE OF CONTENTS

ARTICLE 1 – DEFINITIONS	28
ARTICLE 2 – SCOPE OF CONTRACT	32
ARTICLE 3 – TERM OF CONTRACT.....	33
ARTICLE 4 – SIGNATURE BONUS.....	34
ARTICLE 5 – RELINQUISHMENT.....	34
ARTICLE 6 – MINIMUM WORK AND EXPENDITURE OBLIGATIONS	34
ARTICLE 7 – ROC’S ASSISTANCE	35
ARTICLE 8 – TERMINATION.....	36
ARTICLE 9 – CONDUCT OF PETROLEUM OPERATIONS.....	37
ARTICLE 10 – GAS	40
ARTICLE 11 – DEVELOPMENT PLANS AND WORK PROGRAMS	41
ARTICLE 12 – APPROVAL OF DEVELOPMENT PLANS AND WORK PROGRAMS.....	42
ARTICLE 13 – JOINT MANAGEMENT OF PETROLEUM OPERATIONS	44
ARTICLE 14 – DATA AND SAMPLES.....	45
ARTICLE 15 – REPORTS AND RECORDS.....	45
ARTICLE 16 – ACCESS AND INSPECTION	46

ARTICLE 17 – MEASUREMENT, TRANSFER, AND DELIVERY OF CRUDE OIL/ EXPORT OIL	46
ARTICLE 18 – VALUATION OF EXPORT OIL	47
ARTICLE 19 – SERVICE FEES.....	48
ARTICLE 20 – BOOKS OF ACCOUNT, ACCOUNTING AND AUDIT	50
ARTICLE 21 – EXCHANGE AND CURRENCY CONTROL.....	51
ARTICLE 22 – TITLE TO ASSETS.....	52
ARTICLE 23 – TAXES.....	52
ARTICLE 24 – PARTNERSHIP, INDEMNITY AND INSURANCE.....	52
ARTICLE 25 – IMPORTS AND EXPORTS.....	53
ARTICLE 26 – EMPLOYMENT, TRAINING, AND TECHNOLOGY TRANSFER	54
ARTICLE 27 – PARTICIPATION	54
ARTICLE 28 – ASSIGNMENT	55
ARTICLE 29 – LAWS AND REGULATIONS	56
ARTICLE 30 – LOCAL GOODS AND SERVICES	56
ARTICLE 31 – FORCE MAJEURE.....	56
ARTICLE 32 – ENTIRE AGREEMENT AND AMENDMENTS.....	57
ARTICLE 33 – CONFIDENTIALITY AND TECHNOLOGY OWNERSHIP.....	57

ARTICLE 34 – HEADINGS OF ARTICLES	58
ARTICLE 35 – LANGUAGE	58
ARTICLE 36 – CONTRACTOR'S OFFICE IN IRAQ.....	59
ARTICLE 37 – GOVERNING LAW, CONCILIATION AND ARBITRATION.....	59
ARTICLE 38 – NOTICES.....	60
ARTICLE 39 – RATIFICATION AND EFFECTIVE DATE	61
ARTICLE 40 – WAIVER	61
ARTICLE 41 – PROTECTION OF THE ENVIRONMENT.....	61
ARTICLE 42 – SITE RESTORATION AND DECOMMISSIONING	64
ARTICLE 43 – GENERAL BUSINESS ETHICS.....	64
ANNEX A – DESCRIPTION OF CONTRACT AREA.....	66
ANNEX B – MAP OF CONTRACT AREA	67
ANNEX C – ACCOUNTING PROCEDURE	68
ANNEX D – DEFINITION OF RESERVOIRS	80
ANNEX E – MINIMUM WORK OBLIGATIONS	81
ANNEX F – FORM OF PARENT COMPANY GUARANTEE	83
ADDENDUM ONE – HEADS OF JOINT OPERATING AGREEMENT.....	85
ADDENDUM TWO – HEADS OF CRUDE OIL TRANSFER AGREEMENT.....	89

**ADDENDUM THREE – HEADS OF AGREEMENT ON THE FIELD OPERATING
DIVISION92**

ADDENDUM FOUR – HEADS OF EXPORT OIL SALES AGREEMENT97

**TECHNICAL SERVICE CONTRACT
FOR _____ OIL FIELD**

This Technical Service Contract ("Contract") is made and entered into this ____ day of _____ 2009, by and between: _____, an Iraqi State oil company, the Republic of Iraq ("Regional Operating Company or ROC") of the **First Part**, and _____, a company established and existing under the laws of _____, having its registered head office at _____ ("_____"); and _____, _____ a company established and existing under the laws of _____, having its registered head office at _____ ("_____") ("Company(s)"); together with _____, an Iraqi State entity established and existing under the laws of Iraq ("State Partner"),

Company(s) and State Partner are collectively referred to as "Contractor", of the **Second Part**;

ROC and Contractor are referred to, individually, as "Party", or, collectively, as "Parties".

WITNESSETH

WHEREAS, all oil and gas resources within the territory and offshore areas of Iraq are owned by all the people of Iraq; and the State of Iraq, being the sole representative of the whole people; acting through the Iraqi Government, has sole right to explore, develop, extract, exploit and utilize such natural resources, therefrom; and

WHEREAS, ROC, in its role as an Iraqi State oil and gas company, is exclusively entrusted with and authorized for development and production of _____ Oil Field, in accordance with applicable laws and regulations in force in Iraq; and

WHEREAS, Contractor has sound financial standing, technical competency, and professional skills to provide any and all of the technical services warranted for rehabilitation, improved production, enhanced recovery, and generally all and any Petroleum Operations as defined herein; and

WHEREAS, the Parties mutually represent that they have the power, authority and desire to enter into this Technical Service Contract for the _____ Oil Field as defined herein;

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

ARTICLE 1 – DEFINITIONS

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

1.1 “Accounting Procedure” means the accounting procedures and requirements set out in Annex C.

1.2 “Additional Appraisal Program” means as defined in Article 11.1(b).

1.3 "Affiliate" in relation to any entity constituting Contractor, means:

- a company which controls such entity, or
- a company which is controlled by such entity, or
- a company which is controlled by a company which controls such entity.

For the purpose of this definition, "control" means the power to dictate and conduct the policy of a company through the control, directly or indirectly, of more than fifty percent (50%) of the shares or voting rights in such company. For the purposes of this Contract, subsidiaries of ROC as well as companies and enterprises of Iraq’s Ministry of Oil or Iraq National Oil Company (when established) shall be considered as ROC’s Affiliates.

1.4 “Appraisal” or “Appraisal Operations” shall include, but not be limited to, such geological, geophysical, aerial and any other surveys and any interpretation of data relating thereto and the drilling of such shot-holes, core holes, stratigraphic tests, holes for the appraisal of Petroleum and other related holes and wells, the production testing and the purchase or acquisition of such supplies, materials and equipment therefore, as may be contained in approved Plans and Work Programs.

1.5 “Barrel” means a liquid quantity consisting of forty two (42) United States gallons under a pressure of one (1) atmosphere and a temperature of sixty (60) degrees Fahrenheit.

1.6 "Baseline Production", for the purpose of Article 19, for a certain period of time, means Net Production for the said period of time; but not exceeding the Baseline Production Rate.

1.7 "Baseline Production Rate", in Barrels of Crude Oil per day, means the Net Production Rate of the Field as specified in Article 19 to constitute the datum for any Incremental Production under the Contract.

1.8 “Calendar Month” or “Month” means, in respect of any month in a Calendar Year, a period commencing on the first day of such month and ending on the last day of the same month.

1.9 “Calendar Quarter” or “Quarter” means a period of three consecutive Months commencing on the first day of January, April, July or October in any Calendar Year.

1.10 “Calendar Year” means a period of twelve (12) consecutive months commencing with the first day of January and ending with the last day of December, according to the Gregorian calendar.

1.11 “Capital Cost” means all recoverable costs and expenditure, excluding Operating Cost, which are incurred by Contractor in carrying out further Appraisal and Redevelopment

- Operations in accordance with approved Work Programs and budgets. It is understood that all Petroleum Costs during the Rehabilitation Period shall be considered as Capital Cost.
- 1.12 "Cash Receipts" means as defined in Article 19.4.
- 1.13 "Contract" means this agreement between the Parties, including the Annexes and Addenda attached hereto, as amended or supplemented from time to time in accordance with this Contract.
- 1.14 "Contract Area" means _____ Oil Field area covered by this Contract; the coordinates of which are described in Annex A and outlined in Annex B.
- 1.15 "Contractor" means, on the Effective Date, Company(s) and State Partner, and at any time thereafter shall include their legal successors and permitted assignees.
- 1.16 "Co-operator" means one of the entities of which Contractor is comprised that is appointed as from the Effective Date to participate in the conduct of Petroleum Operations; initially, by the ROC and, finally, by the dedicated FOD, and to coordinate, on behalf of Contractor, all the activities and issues related to the conduct of Petroleum Operations by the ROC or the FOD.
- 1.17 "Crude Oil" means all hydrocarbons regardless of gravity which are produced and saved from the Field in the liquid state at an absolute pressure of fourteen decimal six nine six (14.696) pounds per square inch and a temperature of sixty (60) degrees Fahrenheit, including asphalt, tar, distillates or condensates obtained from Gas at facilities within the Contract Area other than a Gas plant.
- 1.18 "Decommissioning Reserve Fund" means as defined in Article 42.2.
- 1.19 "Delivery Measurement Point" or "DMP" means the point, immediately upstream the Delivery Point, where the volume and quality of Export Oil that may be lifted by Contractor under the Contract is measured.
- 1.20 "Delivery Point" or "DP" means the point(s), at the relevant loading terminal(s), where ROC shall receive Crude Oil from Transporter, and where Contractor may lift Export Oil in lieu of its due and payable Service Fees.
- 1.21 "Development/Redevelopment Operations" means any and all Petroleum Operations other than Appraisal and Production Operations, including primary and subsequent (secondary, tertiary or other) recovery projects and pressure maintenance, conducted with a view to redeveloping the Field including, but without limitations: the drilling, deepening, completing, plugging, side-tracking, re-completing and equipping of evaluation and development wells; the engineering, building and erecting or laying of production plants and facilities (such as, without limitation, separators, compressors, generators, pumps and tankage, gathering lines, pipelines, and all facilities required to be installed for production, pressure maintenance, treatment, storage and transportation of Petroleum, and loading the same into seagoing tankers); the obtaining of such materials, equipment, machinery, articles and supplies as may be required or expedient for the above activities; and all auxiliary operations, activities and services required or expedient for the better conduct or result of the above activities, all in accordance with approved Plans and Work Programs and good international petroleum industry practices.
- 1.22 "Development/Redevelopment Plan" or "Plan" means a scheduled program and cost estimate specifying the Petroleum Operations required to develop/redevelop and/or increase the production capacity of the Field or enhance the recovery of Petroleum therefrom, which includes the Rehabilitation Plan, the Enhanced Redevelopment Plan, and any subsequent Revisions thereof.
- 1.23 "Dinar" or "IQD" means the Iraqi Dinar.
- 1.24 "Dollar" or "USD" means the United States Dollar.
- 1.25 "Effective Date" means the date upon which the signed contract becomes valid and enforceable as notified by ROC to Contractor in writing in accordance with the

- provisions of Article 39.
- 1.26 "Enhanced Production Target" means the Incremental Production Rate that is targeted to be achieved by Contractor pursuant to Article 2.2 (a) (ii).
- 1.27 "Enhanced Redevelopment Plan" means, pursuant to Article 2.2, the full Field Redevelopment Plan, based on all knowledge existing prior to Effective Date as well as additional knowledge derived from the execution of the Rehabilitation Plan; all with the objective of increased and optimized production and enhanced recovery of Petroleum from the Field.
- 1.28 "Expenditure" means as defined in Article 19.4.
- 1.29 "Export Oil" means crude oil of standard Iraqi export blend that will result from the possible blending of Crude Oil with crude oils from other fields of nearest quality to the Crude Oil stream(s) produced from the Field.
- 1.30 "Export Oil Price" means the price per Barrel of Export Oil Free on Board ("FOB") at the Delivery Point, determined in accordance with the provisions of Article 18.
- 1.31 "Field" means _____ Oil Field, subject to the provisions of Article 5 hereof.
- 1.32 "Field Operating Division" or "FOD" means a non-incorporated, dedicated, special status entity within the organizational structure of the ROC that is established in accordance with Article 9.3, exclusively to serve as Operator of the Field for conducting Petroleum Operations.
- 1.33 "Financial Year" means the Calendar Year starting on January 1st and ending on December 31st of the same year, both dates being inclusive.
- 1.34 "Force Majeure" means as defined in Article 31.
- 1.35 "Gas" means a mixture of hydrocarbons and varying quantities of non-hydrocarbons that exist either in the gaseous phase or in solution with Crude Oil in natural underground reservoirs and when produced remain in gaseous phase at atmospheric conditions of temperature and pressure, and is classified as either Associated Gas or Non-Associated Gas.
- 1.36 "Government" means the Government of the Republic of Iraq.
- 1.37 "Gross Negligence or Wilful Misconduct" means any unjustifiable act or omission that constitutes an intentional, deliberate, reckless or conscious disregard of the best practices of the international petroleum industry or terms of the Contract, in connection with Petroleum Operations.
- 1.38 "Improved Production Target" means the Incremental Production Rate that is targeted to be achieved by Contractor pursuant to Article 2.2 (a) (i).
- 1.39 "Incremental Remuneration Fee" or "IRF" means the fee paid to Contractor for Incremental Production as defined in Article 19.3(b).
- 1.40 "Incremental Production", during a certain period of time, means the incremental volume of Net Production from the Field during the said period that is realized in excess of the Net Production volume at the Baseline Production Rate.
- 1.41 "Incremental Production Rate" in Barrels of Crude Oil per day, means the Incremental Production of Crude Oil for a certain period of time divided by the number of calendar days in that period of time.
- 1.42 "Joint Management Committee" or "JMC" means that committee as defined in Article 13.
- 1.43 "Lifting Quarter" means the Quarter during which Export Oil is available for lifting by Contractor, under the Contract and Addendum Four, at the Delivery Point.
- 1.44 "Maintenance Remuneration Fee" means as defined in Article 19.3(a).
- 1.45 "Measurement Point" means the place(s) at which volumes and qualities of Crude Oil pumped out, received, transmitted or delivered shall be measured, such as the Production Measurement Point and Delivery Measurement Point.

- 1.46 "Minimum Work and Expenditure Obligations" means the minimum work and financial commitments undertaken by Contractor under Article 6, and Annex E.
- 1.47 "Net Production", over a certain period of time, means all Barrels of Crude Oil actually produced from the Field over the said period of time, less base sediments and water, saved, measured at the Production Measurement Point, and received by Transporter at the Transfer Point.
- 1.48 "Net Production Rate", in Barrels of Crude Oil per day, means the Net Production of Crude Oil for a certain period of time divided by the number of calendar days in that period of time.
- 1.49 "Operating Cost" means recoverable Contractor's costs, expenses, duties, fees, and charges related to Production Operations beyond the Rehabilitation Period; pursuant to Annex C.
- 1.50 "Operator" means the entity that is designated under this Contract to conduct Petroleum Operations in accordance with Article 9.
- 1.51 "Participating Interest" means, in respect of each entity constituting Contractor, the undivided share expressed as a percentage for such party's participation in the rights, benefits, privileges, duties, liabilities and obligations of Contractor under the Contract.
- 1.52 "Petroleum" means all hydrocarbons including liquid and gaseous hydrocarbons produced and saved from the Field under this Contract.
- 1.53 "Petroleum Costs" means recoverable costs and expenditures incurred and/or payments made by Contractor in connection with or in relation to the conduct of Petroleum Operations (except corporate income taxes paid in Iraq or as otherwise stipulated herein) determined in accordance with the provisions of this Contract, including Annex C.
- 1.54 "Petroleum Operations" means all Appraisal, Development/Redevelopment, and Production Operations and other activities related thereto, under this Contract.
- 1.55 "Production Measurement Point" or "PMP" means the point, immediately upstream the Transfer Point, where the volume and quality of Net Production is measured.
- 1.56 "Production Operations" means, in respect of Contractor, any and all operations related to production of Petroleum beyond the Rehabilitation Period, including (but not limited to) workovers, stimulations, operating, staffing, supervising, servicing, repairing and maintaining of any and all wells, plants, equipment, pipelines, tank-farms, terminals and all other installations and facilities.
- 1.57 "Regional Operating Company" or "ROC" means the Iraqi State oil and gas company that happens to be operating the Field prior to the Effective Date, like South Oil Company (SOC) or North Oil Company (NOC) or Missan Oil Company (MOC), as the case may be.
- 1.58 "Rehabilitation Plan" means, pursuant to Article 11.1, the initial plan to be submitted by Operator, based on existing knowledge of the Field, for the rehabilitation and improved/optimized production therefrom.
- 1.59 "Rehabilitation Period" means the period starting from the Effective Date and ending either twenty four (24) months after the approval date of the Rehabilitation Plan or when Contractor first achieves an Incremental Production Rate of no less than ten percent (10%) of Baseline Production Rate over thirty (30) consecutive days, whichever is the earlier.
- 1.60 "R-Factor" is the ratio of cumulative Cash Receipts to Expenditures in the conduct of Petroleum Operations as defined in Article 19.
- 1.61 "Remedial Program" means as defined in Article 11.1(a).
- 1.62 "Remuneration Fees" means those payments to the Contractor as defined in Article 19.3.
- 1.63 "Revision" means as defined in Article 12.4.
- 1.64 "Service Fees" means those Petroleum Costs and Remuneration Fees as defined in

Article 19.

- 1.65 "SOMO" means Iraq Oil Marketing Company
- 1.66 "Sub-Contractor" means any company or person contracted by the Contractor and/or Operator to provide goods or services with respect to Petroleum Operations.
- 1.67 "Tax Year" means the period of twelve (12) consecutive months according to the Gregorian calendar for which tax returns or reports are required according to any applicable tax laws and regulations of Iraq.
- 1.68 "Term" means the term of this Contract as defined in Article 3.2.
- 1.69 "Transfer Point" means the inlet flange(s) of the outgoing pipeline(s), immediately downstream the Production Measurement Point, where Transporter shall receive Net Production of Crude Oil or Gas from Operator for transportation to the Delivery Point.
- 1.70 "Transporter" means the entity designated by ROC to transport Crude Oil beyond the Transfer Point pursuant to Article 17 and Addendum Two; all on behalf of ROC.
- 1.71 "Transportation Facilities" means the pipelines, pumps, tanks, meters, and other transportation facilities that are built by Operator beyond the Transfer Point and integrated into the Transportation System pursuant to the Contract.
- 1.72 "Transportation System" means, at any time, any and all transportation facilities beyond the Transfer Point down to and including the loading flange(s) at the relevant loading terminal(s) operated by or under control of the Transporter, that are necessary for transportation, storage, metering and loading of Crude Oil / Export Oil under Addendum Two and the subsequent Crude Oil Transfer Agreement.
- 1.73 "Work Program" means an itemisation and time schedule of Petroleum Operations.
- 1.74 "Year" means a period of twelve (12) consecutive months to the Gregorian calendar, starting at some date and ending at the anniversary thereof.

(End of Article 1)

ARTICLE 2 – SCOPE OF CONTRACT

- 2.1 This Contract is a Technical Service Contract for the rehabilitation of, improved production, and enhanced recovery of Petroleum from, _____Field in accordance with the provisions herein. It includes 43 Articles, Annexes A, B, C, D, E, and F, and Addenda One, Two, Three, and Four; all attached hereto and made part hereof. In the event of a conflict between the Contract Articles and the Annexes or Addenda, the provisions of the Articles shall prevail.
- 2.2 Contractor, subject to the provisions herein contained, shall:
 - (a) Provide or arrange to provide state-of-the-art services and technologies to rehabilitate, further appraise, and re-develop the Field for improved production and enhanced recovery of Petroleum from the Field in order to achieve the production targets set out below, which may be revised from time to time in accordance with approved Plans:
 - (i) The Improved Production Target at a Net Incremental Production Rate of _____ (_____) Barrels of Crude Oil per day within thirty (30) Months from the approval date of the Rehabilitation Plan, pursuant to Article 11.1.
 - (ii) The Enhanced Production Target at the Incremental Production Rate of [_____] Barrels of Crude Oil per day that was bid by the winning Company(s) for an expected minimum plateau period of seven (7) years commencing within three (3) years from the approval date of

the Enhanced Redevelopment Plan, pursuant to Article 11.3. It is understood that the Enhanced Production Target shall not include any production from undeveloped reservoirs.

- (b) Adopt state-of-the-art technology, methodology, and services in order to determine, within six (6) Years from the Effective Date, the maximum volume of recoverable reserves of Petroleum in the Contract Area;
 - (c) Provide or arrange to provide all capital, technology and services necessary for conducting Petroleum Operations;
 - (d) Incur all Petroleum Costs required for conducting Petroleum Operations in order to achieve the production levels set out in this Article 2; and
 - (e) Fulfil all financial and other obligations of Contractor and enjoy all rights and benefits, in accordance with the provisions of this Contract.
- 2.3 Discovered but undeveloped reservoirs, as described in Annex D, may be developed and produced under this Contract but shall be subject to a mutually agreed revision on the applicable Service Fees. If no such agreement is reached within the period set forth in Article 5, ROC shall be free to develop such reservoirs at any time and in any manner it may deem appropriate, taking care not to hinder or unduly interfere with Petroleum Operations.
- 2.4 Undiscovered potential reservoirs below _____ Reservoir, as per Annex D, may be explored and developed under a separate agreement. If no such agreement is reached within the period set forth in Article 5, ROC shall be free to explore and develop such reservoirs at any time and in any manner it may deem appropriate, taking care not to hinder or unduly interfere with Petroleum Operations.
- 2.5 In the event of unintentional infringement on the undeveloped or undiscovered reservoirs, the Parties shall convene to agree in good faith on a proper course of action, taking into consideration the quantities of Petroleum involved, safeguarding the interests of ROC.
- 2.6 At any time, the entities then constituting Contractor, apart from the State Partner, shall be jointly and severally responsible towards ROC for all obligations of Contractor under the Contract; while the State Partner shall remain responsible to the other entities constituting Contractor for any obligations fulfilled on its behalf by such other entities.

(End of Article 2)

ARTICLE 3 – TERM OF CONTRACT

- 3.1 This Contract shall come into force on the Effective Date.
- 3.2 The basic term of this Contract ("Term") shall be twenty (20) Years from the Effective Date. This Term is extendable pursuant to Article 31 and elsewhere in the Contract.
- 3.3 At least one (1) Year prior to the Contract expiry date, Contractor may submit a written request to ROC for an extension of the Term for a maximum period of five (5) Years, subject to newly negotiated terms and conditions.

(End of Article 3)

ARTICLE 4 – SIGNATURE BONUS

The Company shall within thirty (30) days from the Effective Date deposit in cash into a bank account designated by ROC, a non-recoverable signature bonus of the sum of ten million USD (US\$10,000,000.00) plus fifty USD (US\$50.00) for each Barrel per day by which the Base Production Rate exceeds one hundred thousand (100,000) Barrels per day.

(End of Article 4)

ARTICLE 5 – RELINQUISHMENT

- 5.1 Contractor shall relinquish to ROC within three (3) Years from the approval date of the Enhanced Redevelopment Plan, any undeveloped reservoir(s) not targeted in the Enhanced Redevelopment Plan or for which development has not effectively started.
- 5.2 ROC shall be free to explore, appraise, develop and produce relinquished reservoir(s) taking care not to hinder or unduly interfere with Petroleum Operations.

(End of Article 5)

ARTICLE 6 – MINIMUM WORK AND EXPENDITURE OBLIGATIONS

- 6.1 Contractor shall provide or arrange to provide all the required services, within the respective periods of time and according to the provisions set out in Annex E, to fulfil the Minimum Work and Expenditure Obligations specified therein, for the following activities:
- (a) Preparation of the Rehabilitation Plan, Enhanced Redevelopment Plan and Revisions.
 - (b) Conduct of 3-D seismic surveys, including processing and interpretation thereof.
 - (c) Conduct of detailed geological and reservoir engineering studies, including (3-D) simulation for the reservoirs targeted for enhanced production.
 - (d) Drilling appraisal and/or development wells with the aim of further appraisal of the relevant reservoirs defined in Annex D, and achieving planned production in accordance with the Rehabilitation Plan.
 - (e) Conduct of detailed laboratory and reservoir engineering studies to evaluate most suitable secondary and/or enhanced recovery mechanisms for the reservoirs targeted under the Rehabilitation and Enhanced Redevelopment Plans.
 - (f) Performing engineering studies and building/upgrading all necessary surface installations required for improved/optimized production, enhanced recovery, transport, storage and pumping facilities, and initiation of engineering work and infrastructure facilities required by the Rehabilitation and Enhanced Redevelopment Plans.
- 6.2 Contractor shall spend a minimum amount of ___ million USD (US\$____) in implementing the Minimum Work and Expenditure Obligations in accordance with the provisions of Annex E, within the first three (3) Years from the Effective Date (“Minimum Expenditure Obligation”).

- 6.3 Notwithstanding the provisions of Article 6.2, for the purpose of achieving the objectives of the Contract, the Contractor shall invest the sums consistent with the amounts and timing contemplated in the relevant approved Plans, subject to the terms and conditions set forth in this Contract.
- 6.4 Except for the State Partner, the performance of each entity constituting Contractor and the fulfilment of its contractual and financial obligations under the Contract shall be guaranteed by its Parent Company(s) through an instrument in the form set out in Annex F; such guarantee being delivered to ROC on the date of execution hereof in respect of Company(s), and as provided in Article 28 in respect of assignees.
- 6.5 Substantial failure of Contractor to perform timely the levels of investment and work contemplated in the approved Plan shall lead to Contract termination in accordance with the provision of Article 8.1.1 (c).

(End of Article 6)

ARTICLE 7 – ROC’S ASSISTANCE

ROC shall:

- 7.1 provide Contractor with such pertinent technical data, if any, (in addition to information provided to Company(s) during the bidding process) which may become available from time to time, to be used exclusively for Petroleum Operations.
- 7.2 provide Contractor within thirty (30) days of the Effective Date the available technical data, not already provided, related to the discovered but undeveloped reservoirs.
- 7.3 make available to Contractor and Operator such land as may reasonably be required for the conduct of Petroleum Operations. Such land shall be free of any hazardous war remnants and free of any claims by third parties. Any expenditure that Contractor may incur to prepare the said land for Petroleum Operations shall be considered as Petroleum Costs.
- 7.4 provide assistance to Contractor and Operator as may reasonably be required to secure and renew all entry visas or work permits for employees of Contractor and Operator or Sub-Contractors and their dependents, all permits and registrations required for Contractor to open and maintain a branch office in Iraq, all customs and other clearances required for imports and exports of equipment and supplies required for Petroleum Operations and assist Contractor and Operator in obtaining the office space, its equipment, accommodation, communication facilities and permits, way-leaves, easements, rights of way, licences and renewals thereof, all for the purpose of conducting Petroleum Operations.
- 7.5 provide Contractor and Operator free of charge:
- (a) access to the Contract Area and to the existing roads and bridges leading to it.
 - (b) use of water available in the vicinity of the Contract Area for the purpose of Petroleum Operations, provided that all installations for off-take, treatment, distribution, and disposal of water shall be the responsibility of Contractor.
 - (c) use of Petroleum produced by Contractor from the Field for Petroleum Operations.
 - (d) use of existing wells and facilities related to the Field within the Contract Area.

(End of Article 7)

ARTICLE 8 – TERMINATION

8.1 Termination by ROC

- 8.1.1 ROC may terminate the Contract (i) by giving Contractor written notice if the last remaining Contractor's entity (or its parent company that provides a guarantee), other than State Partner, becomes bankrupt or is declared insolvent, or (ii) by giving Contractor three (3) months written notice if Contractor commits a breach of a material obligation of the Contract, including but not limited to:
- (a) Contractor knowingly submits a false statement to ROC which is of material consideration for the execution of the Contract.
 - (b) Last remaining Contractor's entity, other than State Partner, assigns any interest, right or obligation under the Contract contrary to the provisions of Article 28.
 - (c) Contractor fails substantially to comply with approved Plans, Work Programs and budgets.
- 8.1.2 If Contractor has remedied its breach pursuant to Article 8.1.1(ii) within three (3) months' notice period of Article 8.1.1, ROC shall consider the notice as being ineffective. If ROC reasonably believes that Contractor is doing its best to remedy the breach and its efforts look promising then ROC may extend the notice period accordingly.
- 8.1.3 If ROC terminates the Contract in accordance with Article 8.1.1, Contractor shall:
- (a) forfeit all its rights and interests under the Contract as from the date of termination.
 - (b) release ROC from any and all actions, claims, demands and proceedings that may arise out of such termination.
 - (c) pay ROC any unspent portion of the Minimum Expenditure Obligation referred to in Article 6.2. Otherwise, ROC shall be entitled to recover such balance from Contractor by any means it may deem proper.
- 8.1.4 If Petroleum Operations are suspended or seriously jeopardized for a period exceeding eighteen (18) Months due to Force Majeure, (but for reasons other than legislation/order of Government), ROC may terminate this Contract by giving Contractor two (2) months written notice. Upon such termination, ROC shall compensate Contractor for due and payable Service Fees up to the date of termination.
- 8.1.5 If Contractor suspends its obligations in respect of Petroleum Operations by order or decree of the government of any of the non-Iraqi entities constituting Contractor, ROC shall have the right to assume full responsibility for Petroleum Operations in any way it deems appropriate after giving Contractor one (1) month written notice to this effect. However, if such suspension continues for a period exceeding one (1) Year, ROC shall have the right to terminate the Contract after giving Contractor two (2) months written notice. Upon such termination, the provisions of Article 8.1.3 shall apply and Contractor shall be entitled to no compensation whatsoever.
- 8.1.6 However, if at any time during the period when Contractor has suspended its obligations and prior to the end of termination notice, Contractor gives ROC notice that it is able and willing to resume its obligations toward Petroleum Operations, ROC and Contractor shall agree on the best course of action to resume Contractor's obligations and on the payment by ROC of the outstanding Service Fees that were due and payable to Contractor prior to the period of

suspension. It is understood that Contractor shall not be entitled to any Service Fees during the period of suspension.

- 8.1.7 If Contractor fails to establish a presence in Iraq or to take all necessary actions on its part to commence actual in-field Petroleum Operations within six (6) months after the approval date of the Rehabilitation Plan, ROC shall have the right to terminate this Contract after giving Contractor two (2) months written notice. Upon such termination, the provisions of Article 8.1.3 shall apply, and Contractor shall be entitled to no compensation whatsoever.

8.2 Termination by Contractor:

If Contractor elects to terminate this Contract before the end of its Term, Contractor shall give ROC three (3) months notice to this effect giving reasons for such election. If by the end of the said notice period the Parties have not agreed on a course of action other than termination then Contractor may terminate the Contract after giving ROC a further notice of one (1) month. Upon such termination the provisions of Article 8.1.3 shall apply, and Contractor shall be entitled to no compensation whatsoever.

- 8.3 In the event of termination of the Contract (whether by ROC or by Contractor), in accordance with this Article 8, Contractor hereby warrants that it shall not obstruct, hinder or otherwise interfere in anyway with Petroleum Operations by ROC or any third party.
- 8.4 The provisions of this Contract that by their nature survive termination or expiry of the Contract (including indemnities, liabilities, audit, confidentiality, governing law and arbitration) shall remain in full force and effect for a period of three (3) Years after such termination or expiry.

(End of Article 8)

ARTICLE 9 – CONDUCT OF PETROLEUM OPERATIONS

- 9.1 Petroleum Operations shall continue to be carried out by the ROC that happens to be operating the Field prior to the Effective Date until the dedicated FOD is established and takes over the conduct of Petroleum Operations. As from Effective Date, ROC shall operate the Field in close coordination and consultation with Co-operator, all under the supervision and Control of the JMC. FOD shall operate the Field jointly with Co-operator, all under the supervision and Control of the JMC and in accordance with Addendum Three. In case permission would be granted to third parties to operate within the Contract Area, such as for operations that are not related to Petroleum Operations and/or petroleum operations for the reservoir(s) that are excluded under Article 2.3 or those relinquished pursuant to Article 5, or for sole-risk operations under Article 12.6, if any, ROC shall take necessary measures to ensure that such operations within the Contract Area shall not obstruct, hinder, or unduly interfere with Petroleum Operations.
- 9.2 Contractor shall appoint one of the entities of which it is comprised to serve as Co-operator. Hence, the Co-operator upon the Effective Date shall be _____.
Contractor shall not change the Co-operator without prior written consent of ROC. As from Effective Date, the Co-operator shall take a substantial role in all planning, decision-making and activities to ensure the efficient conduct of Petroleum Operations by the ROC and shall represent Contractor in all matters related to the set-up of the dedicated FOD, all in accordance with the Contract, approved Development Plans, Work

- Programs and budgets, and Addendum Three.
- 9.3 Within thirty (30) days of the Effective Date, and in close consultation and coordination with the Co-operator, ROC shall establish within its organizational structure a dedicated, special status FOD, which shall take over the conduct of Petroleum Operations under the general supervision and control of the JMC in accordance with the Contract, approved Plans, Work Programs and budgets, and Addendum Three.
- 9.4 The Co-operator and ROC shall agree in due time to a plan and procedure for the transfer of direct operatorship from ROC to FOD, taking into consideration that the transfer plan shall include but not be limited to;
- (a) An arrangement for the establishment of the FOD;
 - (b) A list of the various positions to be taken over by the FOD;
 - (c) A schedule of transfer stages pursuant to which transfer shall be completed within twelve (12) months of the Effective Date;
 - (d) Inventories of the relevant facilities, equipment, documents, manuals, data and information necessary for the Petroleum Operations; and
 - (e) A list of the activities, facilities and infrastructure that will remain under the direct management and responsibility of ROC.
- 9.5 ROC shall in accordance with the transfer schedule as per Article 9.4 above, transfer to FOD control of all facilities and equipment relating to Petroleum Operations and all documents, manuals, data and information regarding the use and operation of such facilities and equipment so that FOD personnel are able to manage and handle such facilities and equipment in accordance with the best practices of the international petroleum industry. ROC shall manage the common activities and facilities that remain under its direct responsibility, as per 9.4(e) above, in close coordination and consultation with the FOD.
- 9.6 The transfer in respect of the accounting and financial aspects shall be handled in accordance with Clause 12 of Annex C attached hereto.
- 9.7 After the FOD has taken over conduct of Petroleum Operations and has become Operator, Contractor (through Co-operator) shall have a major role in all the planning, decisions, surveillance, and day-to-day conduct of Petroleum Operations by the FOD, as set forth in more detail in Addendum 3. In general, Contractor shall make available appropriate managerial and technological skills and personnel to the FOD to ensure that Petroleum Operations can be performed in accordance with the best practices of the international petroleum industry. The establishment of the FOD shall in no way relieve Contractor of its obligations to achieve the production targets under the Contract.
- 9.8 Expenses directly incurred by the ROC and approved by the JMC in conducting Petroleum Operations, in the set-up of the FOD, and in the transfer and takeover of Petroleum Operations by the FOD, shall be paid by Contractor and charged to the Operating Account in accordance with the provisions of Annex C.
- 9.9 Not later than the twentieth (20th) day of each Calendar Month, the Operator shall furnish Contractor with a detailed written estimate of its total cash requirements for the succeeding Calendar Month expressed in Dollars, in accordance with all current and approved Work Programs and budgets.

Such estimate shall take into consideration any cash expected to be on hand at Calendar Month end. Payment by Contractor for the appropriate period of each Calendar Month shall be made directly to the correspondent bank designated in Article 9.10 below on the first (1st) day and fifteenth (15th) day respectively, or the next following working day, if such day is not a working day.

- 9.10 Operator is authorized to keep at its own disposal abroad in an account opened with a

correspondent bank to an Iraqi bank, the foreign funds advanced by Contractor. Interest or similar income generated by the account shall be credited to the account. Withdrawals from said account shall be used to pay for goods and services abroad and to transfer to a local bank in Iraq the required amounts to meet expenditures in Dinars for the Operator in connection with its activities under this Contract, converted at the applicable rate of exchange available as published by the Iraqi Central Bank on the date of conversion. Within sixty (60) days after the end of each Financial Year, Operator shall submit to the appropriate exchange control authorities in Iraq a statement, duly certified by a recognized firm of independent auditors, showing the funds credited to the account, the disbursements made out of the account and the balance outstanding at the end of such Financial Year.

- 9.11 Co-operator shall open and maintain a branch office in the Republic of Iraq. ROC shall assist Co-operator in this respect. The said branch office shall serve as Contractor's office under Article 36.
- 9.12 Operator shall diligently conduct Petroleum Operations in compliance with applicable Iraqi laws and regulations, and in accordance with the best practices of the international petroleum industry.
- 9.13 Operator's activities aboveground and underground shall be designed to achieve efficient and safe production of Petroleum from the Field. Operator shall ensure that all materials, equipment, and facilities used in Petroleum Operations comply with generally accepted engineering norms, are of proper and acceptable construction, and are kept in good working order throughout the Term of the Contract. The Parties shall at least one (1) Year before the expiry of the Contract agree on a detailed procedure for handing-over the Field and related facilities to ROC as a going concern.
- 9.14 Operator shall take all appropriate and necessary measures, in accordance with Iraqi laws and international standards to safeguard the environment and prevent pollution which may result from Petroleum Operations, and to minimise the effect of any pollution which may occur.
- 9.15 Each of Contractor and Operator shall take all appropriate and necessary measures, in accordance with Iraqi laws and international standards, to uphold transparency, accountability, general business ethics, and fight corruption.
- 9.16 Operator shall conduct Petroleum Operations in accordance with the provisions of this Contract, and under the general supervision and control of the JMC.
- 9.17 Operator shall:
 - (a) provide all personnel required for the Petroleum Operations, giving first priority to Iraqi nationals, taking into consideration qualifications and experience.
 - (b) adhere to employment and training programs which shall aim at the Iraqization of Operator's manpower pursuant to a plan to be submitted by the Operator and approved by the JMC; no later than three (years) from the Effective Date.
 - (c) utilize Sub-Contractors and suppliers of proven capability and professional experience on competitive basis, subject to the provisions of Article 29, keeping JMC informed accordingly.

However, prior approval shall be obtained before an award of any individual purchase order or sub-contract as follows, giving details of bids received and the basis for recommended award:

- by JMC if exceeding ten (10) million USD (US\$ 10,000,000.00) in value.

- by ROC if exceeding twenty (20) million USD (US\$ 20,000,000.00) in value.
 - (d) prepare and issue reports pursuant to Article 15, and provide any further information as may reasonably be required by ROC.
- 9.18 Operator shall place fixtures and installations inside and outside the Contract Area, as shall be necessary to carry out Petroleum Operations, in accordance with the approved Plans. Fixtures and installations relating to the Transportation System shall be handed over upon completion and commissioning to the Transporter which will thereafter be responsible for the operation and maintenance thereof in accordance with the provisions of Addendum Two and the subsequent Crude Oil Transfer Agreement.
- 9.19 Promptly after the Effective Date, but not later than six (6) months thereafter, Contractor and Operator shall prepare and submit for ROC's approval, in accordance with Article 12, the following operating procedures:
- (a) Employment procedures and personnel regulations for locally recruited personnel including scales of salaries, wages, benefits, and all allowance applicable to the respective grade of staff and employees, together with employment requirements such as standard job descriptions and qualifications to fill the jobs, all in accordance with applicable laws and regulations. Equitability of basic salaries and terms of employment between Iraqis and non-Iraqis of similar qualification and experience shall be observed; differences being the allowances and special benefits as appropriate for non-Iraqis.
 - (b) Benefits and allowances to be paid in Iraq to assigned personnel referred to in Annex C during the assignment for Petroleum Operations.
 - (c) Tendering, bidding and contract awarding procedures for engineering, drilling, construction and other service contracts, and procedures for purchasing materials and equipment, all on competitive basis, taking into account the provisions of the Contract and applicable laws and regulations.
 - (d) Detailed accounting system to be adopted by Contractor and Operator based on the provisions of Annex C.

(End of Article 9)

ARTICLE 10 – GAS

- 10.1 Gas shall not be flared except pursuant to applicable Iraqi laws and regulations, and as provided herein.
- 10.2 Operator shall submit to the JMC, as part of the Rehabilitation or Enhanced Redevelopment Plans, proposed economically and technically feasible schemes for utilization, and/or disposal of all the excess Gas not used in Petroleum Operations. Gas may also be used for re-injection into the reservoir(s) for the purpose of pressure maintenance, enhanced recovery or temporary storage, and any other feasible utilization.
- 10.3 Operator may use, free of charge, the quantity of Gas necessary for Petroleum Operations.
- 10.4 All Gas produced from the Field, which is neither used in Petroleum Operations nor utilized pursuant to Articles 10.2 above shall be delivered to ROC, at agreed Transfer Point(s) and subject to specifications to be defined in the Rehabilitation and Enhanced

- Redevelopment Plans. Quantities of Gas made available to, but not received by, ROC may be flared.
- 10.5 Upon prior consent of the Ministry of Oil, Operator may flare Gas; provided, however, that the period and volume of Gas flaring shall be kept to the absolute minimum. Gas may also be flared in limited quantities for testing and maintenance purposes and in emergency cases.
- 10.6 Transportation Facilities built by Operator related to the transportation of Gas beyond the Transfer Point shall be handed over upon completion and commissioning to the relevant Iraqi entity designated by ROC, which shall thereafter be responsible for the operation and maintenance thereof.
- 10.7 All costs and expenses incurred by Contractor in connection with the production, re-injection, treatment, delivery, and disposal of Gas under the Contract, shall be recovered as Petroleum Costs.

(End of Article 10)

ARTICLE 11 – DEVELOPMENT PLANS AND WORK PROGRAMS

- 11.1 Promptly after the Effective Date, and in any case not later than six (6) months thereafter, the Co-operator, jointly with the Operator (ROC or FOD, if it has taken over conduct of the relevant Petroleum Operations), shall prepare and submit to the JMC for final ROC's approval the Rehabilitation Plan, based on the available knowledge of the Field. While focusing on near-term Petroleum Operations related to additional Appraisal activities and increased production from the Field, the said Plan shall also anticipate the overall targets and phases of redevelopment of the Field for the duration of the Contract. The Rehabilitation Plan shall particularly include:
- (a) A "Remedial Program" for the immediate and near-term actions to be taken to halt any non-optimal operations, to arrest production decline, and to achieve a sustainable and improved production rate pursuant to Article 2.2 (i), all in accordance with the best practices of the international petroleum industry.
 - (b) An "Additional Appraisal Program" for the currently producing as well as undeveloped reservoir(s) of the Field which require and justify further Appraisal works, including a time schedule for geophysical surveys and any interpretations of data relating thereto, geological and reservoir engineering studies, as well as laboratory work and Field data gathering programs. The additional Appraisal Program is aimed at acquiring technical data required to conceive the Enhanced Redevelopment Plan.
- 11.2 Operator shall, within sixty (60) days of ROC's approval of the Rehabilitation Plan, prepare a detailed Work Program and budget for the remainder of the current Calendar Year. Thereafter, Operator shall similarly prepare annual Work Programs and budgets, including production schedules for the succeeding Calendar Years, not later than the first of October of each Calendar Year.

Each annual Work Program and budget shall set out in detail by Quarter all aspects of proposed Petroleum Operations to be carried out including all relevant data and information, estimated cost, duration of each operation, estimated monthly rate of production for each reservoir of the Field. Annual Work Programs shall also include forecasts of yearly activities for the four (4) year period following the end of the relevant Calendar Year or the period up to the termination of the Contract whichever is shorter.

- 11.3 Within six (6) months after the completion of the Additional Appraisal Program, but no later than three (3) Years from Effective Date, Operator shall submit to the JMC for final ROC's approval the Enhanced Redevelopment Plan, which shall, upon approval by ROC, supersede the Rehabilitation Plan.
- 11.4 Operator shall conduct Petroleum Operations in a manner that is designed to achieve the Improved Production Target and the Enhanced Production Target pursuant to Article 2.2. The Enhanced Redevelopment Plan (and any Revision) submitted by Operator for approval must contemplate achieving the Enhanced Production Target unless doing so would be inconsistent with the standard set forth in Article 11.6. In order for ROC to approve an Enhanced Redevelopment Plan (or Revision) that does not contemplate meeting the Enhanced Production Target, the proposed Plan must include a demonstration (primarily on the basis of information that was not available to Contractor as of the date of this Contract) that meeting such target would not be consistent with the standard set forth in Article 11.6. For the avoidance of doubt, the approval of a Plan with a different objective shall not impact the Enhanced Production Target used for purposes of the calculation of Service Fees pursuant to Article 19.
- 11.5 Operator shall further prepare and submit for ROC's final approval Revisions of the Enhanced Redevelopment Plan as deemed necessary in the course of production from the Field.
- 11.6 All Plans and production schedules shall be based on sound geological, reservoir, engineering and economical principles, all in accordance with the best practices of the international petroleum industry and with the objective of optimizing production and maximizing the volume of recoverable reserves of Petroleum from the Field.

(End of Article 11)

ARTICLE 12 – APPROVAL OF DEVELOPMENT PLANS AND WORK PROGRAMS

- 12.1 No Petroleum Operations shall be carried out unless and until the relevant Work Program, Plan, or their Revisions have been duly approved by ROC in writing.
- 12.2 In a timely manner, the Operator shall prepare and submit to the JMC its proposals concerning the Rehabilitation Plan, the Enhanced Redevelopment Plan, or their Revisions as well as the associated annual Work Programs and budgets, and any administrative, accounting or other operating procedures, complete with supporting studies, data and information, for approval in accordance with the following procedure:
- (a) Within thirty (30) days of receipt of the Operator's proposal, the JMC shall review the proposal and shall submit it to ROC and Contractor with recommended changes, if any.
 - (b) Within sixty (60) days of receiving the said proposal from the JMC, ROC shall make its final decision in respect of the proposal and any final amendments, which shall be passed to the Contractor and Operator for incorporation and implementation.
 - (c) If the ROC does not approve the relevant Work Program, Plan or their Revisions, it shall identify the specific elements of said proposal with which it disagrees and all other elements of the proposal shall be deemed approved. However, in the event of no response from ROC within sixty (60) days of receiving the original proposal, the same shall be deemed approved.

Time periods in this Article shall be subject to appropriate extensions corresponding to any delay resulting from Force Majeure or by agreement between ROC and Contractor.

- 12.3 After the approval of the annual Work Program and budget by ROC, it shall be implemented by Operator under the general supervision and control of the JMC. Operator may make minor changes to the details of an approved Work Program and budget, provided, however, such changes shall not change the budgeted amount for each major line item by more than ten percent (10%), change the total approved budget by more than five percent (5%), or alter the general objectives of the Work Program.

Otherwise, the change shall be considered a "Revision" calling for ROC's prior approval unless such changes are warranted under emergency or extraordinary circumstances requiring immediate action, including but not limited to safeguarding lives or property, protection of the environment or health reasons. Such emergency changes shall be reported by Operator to JMC and ROC within five (5) working days.

- 12.4 Any modification to the approved Plan that alters the general objectives of the approved Plan or changes the total estimated cost by more than ten percent (10%), shall be considered as a Revision of said Plan which shall be subject to ROC's approval in accordance with this Article 12.

- 12.5 ROC shall have the right to review the proposed level of production in respect of any proposed or approved annual Work Program and may, upon written notification, require Contractor and Operator to increase or decrease the rate of production from the Field for any of the following reasons:

- (a) To avoid material damage to reservoirs;
- (b) To minimize Gas wastage;
- (c) For safety consideration;
- (d) For operational consideration; and
- (e) For Government imposed curtailment.

In case reduction of production of Crude Oil is to be applied by the Government as per (e) above, ROC shall apply such reduction in a non-discriminatory manner to all of its production from the Republic of Iraq. Contractor and Operator shall comply with such reduction upon receipt of notification from ROC to this effect. As soon as the imposed production curtailment is over, the Parties shall meet to agree in good faith on a possible revised Field production schedule with a view to compensating Contractor as soon as practicable for lost revenue, as a result of the reduction, all in accordance with the best practices of the international petroleum industry.

- 12.6 ROC may, at any time, by written notice, request Contractor and Operator to execute specific works or build specific facilities related to Petroleum Operations. Within ninety (90) days of receiving such notice, Contractor and Operator shall amend the relevant Work Program and budget or Development Plan accordingly. If Contractor decides not to share the possible risks and rewards of such works and facilities in accordance with this Contract, the expenditure incurred shall be borne by ROC, and the said works shall be for ROC's sole risk and reward.

(End of Article 12)

ARTICLE 13 – JOINT MANAGEMENT OF PETROLEUM OPERATIONS

- 13.1 The Parties shall establish, within thirty (30) days from the Effective Date, a joint management committee, referred to herein as the "Joint Management Committee" or "JMC", for the purpose of general supervision and control of Petroleum Operations. The JMC shall consist of eight (8) members. The ROC shall nominate four (4) members, including the Chairman. Contractor (through Co-operator) shall nominate four (4) members, including the Deputy Chairman and the Secretary. The Parties shall also designate one alternate to each of their representatives and shall promptly inform each other in writing of any change of the representatives or alternates.
- 13.2 The JMC shall have the following duties and authorities:
- (a) Review and recommendation of Plans and any Revisions thereof.
 - (b) Review and recommendation of annual Work Programs, budgets and production schedules, and any Revisions thereof.
 - (c) Review and recommendation of operating procedures prepared pursuant to Article 9.
 - (d) Review and/or approval of the award of sub-contracts and purchase orders as applicable pursuant to Article 9.
 - (e) Approval of training programs and Iraqization plans for developing Iraqi personnel in various aspects of Petroleum Operations, pursuant to Articles 9 and 26.
 - (f) Supervision and control of the implementation of approved Plans and Work Programs and the overall policy of Operator.
 - (g) Review and/or approval of manpower strength and organisation chart of Operator with respect to Petroleum Operations.
 - (h) Review of Quarterly statements, annual accounts and other financial statements related to Petroleum Operations.
 - (i) Review of periodical and other reports submitted by Contractor or Operator and issue of comments and recommendations to ensure proper implementation of Petroleum Operations in accordance with the provisions of the Contract.
 - (j) Recommendation of the appointment of the independent international auditor as per Article 20.
- 13.3 Decisions of the JMC shall be taken by unanimous vote of the members or their alternates present at the meeting or by proxy. In the event that the JMC is unable to reach unanimous decision in respect of any issue under the Contract, then the issue shall be promptly referred to the senior management of the Parties for resolution. Quorum shall be at least three (3) representatives or alternates of each Party. Decisions taken by the JMC shall be recorded in official minutes signed by the members present and communicated by Operator to the Parties.
- 13.4 The JMC shall meet whenever necessary or expedient for the implementation of the Contract and at any time a Party requests a meeting to be held. In any event JMC shall meet at least once every Quarter. A meeting of the JMC may be convened by either Party giving not less than twenty (20) days prior written notice to the other Party or, in a case requiring urgent action, by giving reasonable shorter notice, with decisions by way of circulated written resolutions. Operator shall prepare the agenda and necessary documents prior to such meetings and communicate the same to the members of the JMC.
- 13.5 The JMC may adopt such procedures as it deems appropriate regarding the

- conduct of its functions, meetings, and other related matters. For the purpose of facilitating the conduct of its functions, JMC may appoint such appropriate sub-committees as shall from time to time be required.
- 13.6 All reasonable costs incurred by Contractor and approved by the JMC for the carrying out of their duties shall be considered as Petroleum Costs.

(End of Article 13)

ARTICLE 14 – DATA AND SAMPLES

- 14.1 All original data and samples obtained by Contractor or the Operator shall be the property of ROC.
- 14.2 Contractor and Operator shall provide ROC, free of charge, with copies of any and all data obtained as a result of Petroleum Operations including, but not limited to, geological, geophysical, geochemical, petrophysical, engineering, well logs, maps, magnetic tapes, cores, cuttings and production data as well as all interpretative and derivative data, including reports, analyses, interpretations and evaluation prepared in respect of Petroleum Operations (hereinafter referred to as "Data"). Contractor and Operator shall have the right to make use of such Data, free of charge, for the purpose of Petroleum Operations.
- 14.3 Contractor and Operator may, for use in Petroleum Operations, retain copies or samples of material or information constituting the Data and, with the approval of ROC, original material. Where such material is capable of reproduction and when representative samples of equivalent quality, size and quantity, have first been delivered to ROC, Contractor and Operator may export samples or other original material for processing or laboratory examination or analysis. Contractor and Operator shall guarantee their proper handling and keeping, and that such exports shall be returned to Iraq within a maximum period of three (3) months from the date of completion of any study, analysis or processing thereof, except for the consumable samples and materials.
- 14.4 Contractor and Operator shall save and keep in Iraq, for a minimum period of one (1) Year, representative portions of each sample of cores and cuttings taken from drilled wells, to be disposed of or forwarded in a manner directed by ROC.

(End of Article 14)

ARTICLE 15 – REPORTS AND RECORDS

- 15.1 Operator shall report in writing to ROC the progress of Petroleum Operations according to the following schedule:
- (a) Within one (1) month of the last day of March, June, September and December covering the previous Quarter; and
 - (b) Within three (3) months of the last day of December covering the previous Calendar Year.
- 15.2 A report under Article 15.1 shall contain, without limitation, the following in respect of the period which it covers:
- (a) Details of Petroleum Operations and the factual information obtained;
 - (b) Description of the area in which Operator has operated;

- (c) Account of the expenditure on Petroleum Operations in accordance with the Accounting Procedure;
 - (d) Maps indicating all bore-holes, wells and other Petroleum Operations.
- 15.3 Contractor and Operator shall prepare at all times during the Term of this Contract accurate and current records of their operations. Such records shall be maintained by Contractor and Operator in accordance with procedures to be established by the JMC in accordance with the best practices of the international petroleum industry.
- 15.4 Operator's reports on Petroleum Operations shall comply with the applicable petroleum laws and regulations in force in Iraq.

(End of Article 15)

ARTICLE 16 – ACCESS AND INSPECTION

16.1 ROC's Inspectors

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

16.2 Government Authorities

Competent Government authorities shall have access to the Contract Area and to the operations conducted thereon by Operator, in the course of carrying out their duties in accordance with relevant laws and regulations. Operator shall offer the necessary assistance and services to such officials free of charge in order to facilitate their objectives.

- 16.3 Reasonable costs and expenses incurred by Contractor or Operator in implementing the provisions of this Article shall be considered as Petroleum Costs.

(End of Article 16)

ARTICLE 17 – MEASUREMENT, TRANSFER, AND DELIVERY OF CRUDE OIL/ EXPORT OIL

- 17.1 The volume and quality of Crude Oil shall be measured at a PMP. The location of the PMP and Transfer Point shall be agreed upon by the Parties to be within or close to the Contract Area.

- 17.2 In accordance with Addendum Two, the Operator shall deliver Net Production to Transporter (on behalf of ROC) at the Transfer Point. The transportation of Crude Oil from the Transfer Point to the Delivery Point shall be carried out by the Transporter, under the terms of Addendum Two and the Crude Oil Transfer Agreement entered into pursuant thereto. Transporter shall act exclusively on behalf of ROC, and the Contractor shall have no rights or obligations in respect of the transportation of Crude Oil from the Transfer Point to the Delivery Point (except as set forth in Article 17.6 and Addendum Two).
- 17.3 Methods and procedures for measurement of volume and quality of Crude Oil at the Transfer Point shall be as per Addendum Two and the Crude Oil Transfer Agreement. Methods and procedures for measurement of volume and quality of Crude Oil at the Delivery Point shall be as per standard practice of SOMO in respect of the export of Crude Oil of the relevant type.
- 17.4 Crude Oil may be commingled with crude oil produced from other fields. If the Contractor chooses to receive Service Fees in the form of Export Oil, the quality of Export Oil that may be lifted by Contractor at the Delivery Point shall be any available standard Iraqi export blend of nearest quality to that produced from the Field.
- 17.5 The volume of Export Oil that may be lifted by Contractor at the Delivery Point shall be determined in accordance with Articles 18 and 19 and Addendum Four.
- 17.6 Operator shall build in a timely manner the necessary Transportation Facilities for the transportation of Crude Oil to the Delivery Point, as set forth in the Development Plan. The Transportation Facilities shall be handed over to the Transporter upon completion and commissioning.
- 17.7. All cost and expenses incurred by Contractor or Operator pursuant to Article 17.6 shall be considered as Petroleum Costs.

(End of Article 17)

ARTICLE 18 – VALUATION OF EXPORT OIL

- 18.1 It is the intent of both Parties that the Export Oil Price for each quality of Export Oil that may be lifted by Contractor, during any Quarter, shall reflect the prevailing market price F.O.B. Delivery Point for the said quality of Export Oil for that Quarter.
- 18.2 If a sales price formula, per a standard quality of Export Oil, is published by SOMO, such sales price formula shall apply and the resulting computed price shall be the Export Oil Price for that quality of Export Oil for the period to which such price formula shall apply.
- 18.3 In the event that Export Oil market conditions oblige SOMO to adopt a different pricing mechanism from the one envisioned in Article 18.2, the Parties shall promptly convene to discuss in good faith the new pricing mechanism and agree on the same, subject to the provisions of Article 18.1.
- 18.4 The determination of the Export Oil Price, as above, shall also include an estimate of a provisional price for the next applicable Lifting Quarter, which shall be used for calculating the quantities of Export Oil that may be lifted by Contractor in the said Lifting Quarter, pursuant to Addendum Four
- 18.5 Contractor shall cooperate with SOMO in areas such as:
- (a) Assessment of worldwide evolution in export qualities of crude oil.
 - (b) Market studies and outlet forecasts in various market areas.
 - (c) Other information concerning Export Oil market conditions.

(End of Article 18)

ARTICLE 19 – SERVICE FEES

19.1 For the Petroleum Operations performed under the Contract, Contractor is entitled to Service Fees comprising: (i) "Petroleum Costs" and (ii) "Remuneration Fees".

19.2 Petroleum Costs

Contractor shall start charging Petroleum Costs to the Operating Account, as from the Effective Date, in accordance with the Contract and Accounting Procedure, but the same shall be due and payable only after the end of the Rehabilitation Period.

19.3 Remuneration Fees

Contractor shall qualify for Remuneration Fees and shall start charging the same to the Operating Account only after the end of the Rehabilitation Period.

The Remuneration Fees shall be of two kinds:

- (a) The "Maintenance Remuneration Fee" at a fixed unit rate of _____ USD per Barrel that was bid by the winning Company(s) for each Barrel of Net Production at or below the Baseline Production Rate.

For each Calendar Quarter, commencing with the Calendar Quarter during which the end of the Rehabilitation Period occurs under this Contract, the Maintenance Remuneration Fee shall be an amount equal to the product of the unit Maintenance Remuneration Fee applicable to such Quarter, multiplied by the Baseline Production applicable to such Quarter.

- (b) The "Incremental Remuneration Fee" at a maximum unit rate of _____ USD per Barrel that was bid by the winning Company(s) for each Barrel of Incremental Production.

For each Calendar Quarter, commencing with the Calendar Quarter during which the end of the Rehabilitation Period occurs under this Contract, the Incremental Remuneration Fee shall be an amount equal to the product of the unit Incremental Remuneration Fee applicable to such Quarter, multiplied by the Incremental Production applicable to such Quarter.

Subject to the performance adjustment in Article 19.5 for the actual Incremental Production Rate, the unit Incremental Remuneration Fee ("IRF") applicable for all Calendar Quarters during any given Calendar Year (commencing with the Calendar Year during which the end of the Rehabilitation Period occurs) shall be determined on the basis of the R-Factor calculated at the end of the preceding Calendar Year for the Field as follows:

R-Factor	Contractor's IRF US\$/barrel
Less than 1.00	x.xx (IRF as bid)
1.00 to less than 1.25	X% *[IRF]
1.25 to less than 1.50	X% *[IRF]
1.50 to less than 2.00	X% *[IRF]
2.00 and above	X% *[IRF]

19.4 For the purposes of calculating the R-Factor, "Cash Receipts" of Contractor from Petroleum Operations in any Calendar Year is the aggregate value for that Year of:

- (a) Service Fees paid to Contractor as provided in Articles 19.9; plus
- (b) Any Contractor's incidental income (of the type specified in the Accounting Procedure) arising from Petroleum Operations; and

"Expenditure" made by Contractor on the Field in any Calendar Year is the aggregate value for that Year of:

- (a) Capital Cost; plus
- (b) Operating Cost; plus
- (c) Signature bonus as per Article 4 and Training Budget as per Article 26 (for the avoidance of doubt, these are included as Expenditures for purposes of determining the R-Factor, but shall not be Petroleum Costs).

The R-Factor achieved by Contractor as at the end of any Calendar Year shall be calculated by dividing the aggregate value of Cash Receipts from the Effective Date up to and including that Calendar Year by the aggregate of Expenditure over that same time frame.

19.5 Pursuant to Article 19.3 (b), in any Quarter where the Incremental Production Rate is less than the Enhanced Production Target that was bid by the winning Company(s) for the Incremental Production Rate above Baseline Production Rate, the Incremental Remuneration Fee in that Quarter shall be reduced for lower performance by multiplying by the ratio of the Incremental Production Rate to the Enhanced Production Target.

19.6 For the purposes of determining the Incremental Production Rate and Remuneration Fees under Article 19.3, the Baseline Production Rate shall be _____ (xxx,xxx) Barrels per day.

19.7 The Service Fees due to Contractor shall be paid without interest in cash or, at Contractor's option, in Export Oil at the Delivery Point. For payment in Export Oil, the Export Oil Price shall be in accordance with Article 18. Contractor shall notify ROC of its election whether to receive Service Fees in cash or in Export Oil no later than the end of the Rehabilitation Period. Such election shall remain in effect for the remainder of this Contract, except as otherwise agreed by ROC.

19.8 The Service Fees shall be deemed to cover all costs, expenses, liabilities and remuneration to Contractor under this Contract. ROC shall not be obliged to pay any other compensation whatsoever to the Contractor for the fulfilment of its obligations under the Contract.

19.9 Service Fees shall become due and payable starting with the first Calendar Quarter following the Quarter in which the end of the Rehabilitation Period occurs and shall be paid to the extent of the deemed revenues (based on the valuation method set forth in the following paragraph) of a maximum of _____ percent (____%) of the Incremental

Production in accordance with the provisions of this Contract. Any due and payable Service Fees that remain unpaid in respect of any Calendar Quarter shall be carried forward and paid in succeeding Quarter(s) until fully paid.

For the purpose of payment of Service Fees, the Baseline Production and Incremental Production of Crude Oil shall be valued at the Export Oil Price applicable to any Iraqi standard export blend that happens to be of nearest quality to that of the Crude Oil stream(s) from the Field, pursuant to Articles 17 and 18.

- 19.10 Subject to Article 8, any due and payable Service Fees that remain outstanding at the expiry or termination of the Contract shall become immediately due and payable within thirty (30) days thereof.
- 19.11 In case the Service Fees are paid in Export Oil, ROC shall arrange with SOMO to deliver to Contractor at the Delivery Point an amount of Export Oil, at the relevant Export Oil Price, equivalent to the amount of Service Fees owed and payable hereunder. Contractor's Quarterly lifting of Export Oil shall be estimated in advance on the basis of unpaid Service Fees carried forward, production schedule and estimated Export Oil Price. Contractor's final lifting shall be adjusted on the basis of actual amounts of Service Fees owed as computed under this Article 19, and on the applicable Export Oil Price in accordance with the provisions of Article 18 and Addendum Four.

(End of Article 19)

ARTICLE 20 – BOOKS OF ACCOUNT, ACCOUNTING AND AUDIT

- 20.1 Contractor and Operator shall maintain at its business offices in Iraq books of account, in accordance with the Accounting Procedure and accepted accounting practices generally used in the international petroleum industry, and such other books, records and original supporting documents necessary to show the work performed and expenditures and costs incurred including the quantity and value of all Petroleum produced, saved, and delivered under this Contract as well as the quantity and value of Export Oil received by Contractor at the Delivery Point.
- 20.2 Contractor and Operator shall keep books of account and accounting records in Dollars and in the English language. Contractor and Operator shall also prepare and keep an Arabic summary of the main items of these books of account and accounting records.
- 20.3 Operator shall furnish to the Parties or their designees monthly reports showing the quantity of Petroleum produced and saved from the Field. Such reports shall be prepared in accordance with practices generally used in the international petroleum industry and in a form agreed upon with the Parties and shall be signed by the authorised representative of Operator or his deputy and delivered to the Parties or their designees within thirty (30) days after the end of the Month covered by such report.
- 20.4 The Parties shall mutually appoint an independent auditor of international qualification and standing to audit the books and accounts of Contractor and Operator and report thereon. The costs of such audit, together with the audit fees of the Iraqi Supreme Auditing Board for statutory audit of the Contractor's branch office in Iraq, shall be considered as Petroleum Costs. For cost recovery purposes, the auditors shall determine, *inter alia*, whether:
- (i) The record of costs is correct; or

- (ii) The costs are in accordance with the Contract governing such costs; or
 - (iii) The costs are properly classified in accordance with the expenditure classification; or
 - (iv) Documentation exists to justify such costs and expenditures; or
 - (v) Evidence exists of fraudulent records and accounts in respect of the costs incurred.
- 20.5 Contractor shall, within forty five (45) days after the end of each Quarter, submit to ROC a statement of Petroleum Costs showing costs incurred by Contractor during such Quarter, and when applicable a statement for cost recovery for that Quarter as per Annex C.
- 20.6 Contractor and Operator shall submit to ROC a set of accounts audited by the independent auditor for each Calendar Year within three (3) months from the last day of said Calendar Year to show the results of Petroleum Operations.
- 20.7 Contractor's and Operator's books, records and necessary supporting documents shall be made available for auditing by ROC at any time during regular working hours for twenty four (24) months from the end of each Quarter to which such documents relate. If within such twenty four (24) months, ROC has not advised Contractor and Operator of its objections, the said books, records and supporting documents shall be considered approved.
- 20.8 If the ROC has an objection to any costs or expenses as reported by the Contractor, the ROC will notify the Contractor of its objection in writing. Upon receipt of the objection from the ROC, the Contractor shall remove disputed costs from the statement for recovery as Petroleum Costs. Within three (3) months period from the date of Contractor's receipt of ROC's objection, Contractor and ROC shall mutually agree to either seek in good faith an acceptable solution or nominate one (1) or more Experts to settle the matter. If the matter is referred to an Expert, the Expert shall, within the three (3) month period following their appointment, provide their solution to the dispute that is in line with the provisions of the Contract and Annex C. Failing such settlement, either Party may refer the matter to arbitration pursuant to Article 37.
- 20.9 The books of account and other books and records referred to above shall be made available by Contractor and Operator at all reasonable times for auditing by duly authorised representatives of the Government, in accordance with prevailing laws and regulations.

(End of Article 20)

ARTICLE 21 – EXCHANGE AND CURRENCY CONTROL

- 21.1 Contractor and Operator shall have the right of availability, free possession, use of, and internal and external disposal of foreign currency.
- 21.2 Contractor shall provide funds necessary for Petroleum Operations in Iraq under this Contract in freely convertible foreign currencies supplied from abroad.
- 21.3 Contractor and Operator are authorized to open and operate accounts in foreign banks outside Iraq and shall have the right to make payments out of the said accounts directly in foreign currencies for goods and services obtained for Petroleum Operations in Iraq and to charge such payments in accordance with the provisions of this Contract without having first to transfer the funds for such payments to Iraq.
- 21.4 Contractor and Operator and any non-Iraqi Sub-contractors shall have the right to open and maintain bank accounts in foreign and/or local currencies in Iraq in accordance with Central Bank of Iraq regulations and retain or dispose of any funds therein for its

Petroleum Operations in Iraq in accordance with Central Bank of Iraq regulations.

(End of Article 21)

ARTICLE 22 – TITLE TO ASSETS

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

(End of Article 22)

ARTICLE 23 – TAXES

- 23.1 Each entity constituting Contractor shall be individually liable for and shall pay its corporate income tax in accordance with the laws of the Republic of Iraq but subject to the provisions of this Contract.
- 23.2 Each entity shall be liable for payment of corporate income tax of thirty five percent (35%); payable on its net taxable profits. Net taxable profits shall be the annual aggregate of the Remuneration Fee actually received by such entity during the relevant Financial Year. For the avoidance of doubt, any corporate income tax paid in respect of a Financial Year under any other corporate income tax regime of Iraq shall be credited against the amount payable pursuant to this Article 23.2 in respect of the same Financial Year.
- 23.3 The corporate income tax is payable in US Dollars to the General Department of Taxation on a quarterly basis in arrears during the Calendar Year paid in accordance with regulations issued by Iraq's Ministry of Finance.
- 23.4 All books of account shall be kept and corporate income tax returns filed by the entity of Contractor in US Dollars, and shall not be converted to any other currency at any stage.

(End of Article 23)

ARTICLE 24 – PARTNERSHIP, INDEMNITY AND INSURANCE

- 24.1 It is expressly agreed that it is not the purpose or intention of this Contract to create, nor shall this Contract be construed as creating, any mining partnership, joint venture, commercial partnership or other partnership.
- 24.2 Contractor shall indemnify and hold ROC harmless against all and any claims, actions, demands and proceedings made by third parties arising out of any loss or damage,

- resulting from an act or omission of Contractor and/or Operator or their Sub-Contractors in their conduct of Petroleum Operations. All costs incurred by Contractor to indemnify and hold ROC harmless as aforesaid shall be considered as Petroleum Costs except in the case of Gross Negligence or Wilful Misconduct on the part of the Contractor and/or Operator or their Sub-Contractors.
- 24.3 Contractor shall be liable for any loss of or damage to any installations belonging to ROC or any third party arising from Gross Negligence or Wilful Misconduct of Contractor and/or Operator or their Sub-Contractors. Notwithstanding the foregoing, under no circumstances shall Contractor be liable for consequential damages such as loss of profit and loss of production.
- 24.4 Contractor shall obtain and maintain insurance from an Iraqi insurance company or foreign insurance company in Iraq to cover the risks associated with the Petroleum Operations and any other activities related thereto and as may be required by law in Iraq during the Term of the Contract, including third party liability and environmental damage and injury. The insurance company shall arrange, in co-operation with Contractor to the extent needed, re-insurance placement for coverages on the international market for the part of exposure in excess of the insurance company's net retention.
- 24.5 Contractor shall establish an insurance plan, to be approved by the JMC, for its operations hereunder and obtain the insurance policies in accordance therewith. Such insurances shall cover the types of exposure that are normally covered in the international petroleum industry, including but not limited to damages to equipment, installations and third party liabilities. Contractor and Operator shall ensure that Sub-Contractors adequately insure their risks under their relevant sub-contracts.
- 24.6 The cost of insurance obtained and maintained by Contractor and/or Operator and any amounts paid for deductibles, losses, or claims in excess of such insurances and not attributable to the Gross Negligence or Wilful Misconduct of Contractor and/or Operator or Sub-Contractors under this Contract shall be considered as Petroleum Costs.
- 24.7 Contractor and/or Operator shall notify ROC of the issue and terms of all insurance policies obtained by it under this Contract.

(End of Article 24)

ARTICLE 25 – IMPORTS AND EXPORTS

- 25.1 Contractor and Operator and respective Sub-Contractors engaged in carrying out Petroleum Operations under this Contract shall be permitted to import and shall be exempted from customs duties with respect to the importation of machinery, equipment, vehicles, materials, supplies, consumables and movable property to be used solely for the purpose of carrying out Petroleum Operations and supporting activities under this Contract. Contractor and Operator and respective Sub-Contractors shall comply with the applicable administrative formalities in this respect.
- 25.2 Expatriate employees of Contractor and Operator and Sub-Contractors shall be permitted to import and shall be exempted from customs duties with respect to the reasonable importation of household goods and personal effects, provided that such property is imported for the sole use of the employee and his family and provided further that such imported property shall be re-exported by employee, without any export duty or impost upon termination of his employment, or be disposed of in Iraq in accordance with the prevailing Government rules and regulations.
- 25.3 Items imported by Contractor and Operator or Sub-Contractors on temporary basis and no longer required for Petroleum Operations or supporting activities shall, unless

- otherwise agreed by ROC, be re-exported without any export duty or impost.
- 25.4 The sale in Iraq of any imported items under this Contract shall be subject to ROC's prior consent and to the relevant Government rules and regulations.
- 25.5 Customs duties, as used herein, shall include all duties, taxes and other financial imposts which may be due as a result of the importation of the above-mentioned items but, shall not include charges, dues or fees of general application to be paid to Governmental entities for services rendered.
- 25.6 Contractor shall be exempted from any export duty or impost with respect to the Export Oil that Contractor may lift under the Contract, except for port dues of general application to all buyers which are payable for services rendered by the port authorities. Such port dues shall not be considered Petroleum Costs. .

(End of Article 25)

ARTICLE 26 – EMPLOYMENT, TRAINING, AND TECHNOLOGY TRANSFER

- 26.1 Without prejudice to the right of Contractor and Operator to select and employ such number of personnel as, in the opinion of the Contractor or Operator, are required for carrying out Petroleum Operations in a safe, cost effective and efficient manner, Contractor and Operator shall, to the maximum extent possible, employ, and require Sub-Contractors to employ, Iraqi nationals having the requisite qualifications and experience.
- 26.2 The Contractor and Operator shall offer an agreed number of Iraqi nationals the opportunity for on-the-job training and practical experience in Petroleum Operations. Not later than six (6) months of the Effective Date, the Operator shall, in consultation with ROC, establish and implement training programs for staff positions in each phase and level of Petroleum Operations including skilled, technical, executive and management positions, with a view to insuring increased employment of Iraqi nationals and a commensurate reduction of expatriate employees.
- 26.3 The foreign entities constituting Contractor shall separately negotiate, in good faith, technical assistance agreements with ROC whereby every entity may make available commercially proven technology and information of a proprietary nature for use in Iraq by the ROC and its Affiliates.
- 26.4 As a minimum, Contractor shall allocate during the Term of the Contract an annual amount of ____USD (US\$____) as "Training budget" for the purpose of training a number of personnel from ROC in various specialties related to the oil industry. This Training budget shall not be recoverable as Petroleum Costs.

(End of Article 26)

ARTICLE 27 – PARTICIPATION

- 27.1 The State Partner shall have fifty one percent (51%) of Contractor's total Participating Interest and the Company(s) shall have the remaining Participating Interest of forty nine percent (49 %).
- 27.2 Participation shall further be subject to the provisions of Addendum One to this Contract.

(End of Article 27)

ARTICLE 28 – ASSIGNMENT

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

(End of Article 28)

ARTICLE 29 – LAWS AND REGULATIONS

- 29.1 Contractor and Operator shall be bound and shall comply, in all respects, with the provisions of all laws, regulations, by-laws and orders from time to time in force in Iraq. Contractor shall indemnify and save ROC harmless against all penalties, fines and other liabilities of every kind for breach by Contractor or Operator of any such laws, regulations, by-laws or orders.
- 29.2 Notwithstanding the provisions of Article 29.1, Contractor and Operator shall be exempted from customs and stamp duties on the execution of the Contract, and from restrictions concerning work licences and employment of expatriates, subject to the provisions of Article 9.19. However, Contractor and Operator shall submit all data and information required by the relevant Iraqi authorities in this respect.
- 29.3 Contractor and Operator shall in all their sub-contracts, include a provision whereby Sub-Contractors shall undertake to abide by and comply with all Iraqi laws, regulations, by-laws and orders as above.
- 29.4 Without prejudice to the provisions of Article 12.5, if, after the Effective Date, the financial interests of Contractor are adversely and substantially affected by the issuance of new laws and/or regulations or by any amendments to the laws and/or regulations by the Government or by the amendment to the laws and regulations which were in force in the Republic of Iraq on the Effective Date, or by revocation, modification, or non renewal of any approvals, consents or exemptions granted to Contractor pursuant to this Contract (other than as a result of Gross Negligence or Wilful Misconduct of Contractor or Operator), the Parties shall, within ninety (90) days, agree on necessary adjustments to the relevant provisions of this Contract in order to maintain Contractor's financial interests under the Contract reasonably unchanged.

(End of Article 29)

ARTICLE 30 – LOCAL GOODS AND SERVICES

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

(End of Article 30)

ARTICLE 31 – FORCE MAJEURE

- 31.1 The non-performance or delay in performance by either Party of its obligations or duties under this Contract shall be excused if and to the extent that such non-

- performance or delay is caused by Force Majeure.
- 31.2 The Party affected by Force Majeure shall notify the other Party thereof, in writing within fourteen (14) days, stating the cause and the extent of effect of such Force Majeure and shall keep the other Party informed of significant developments. The affected Party shall use all reasonable diligence to remove or overcome the Force Majeure situation as quickly as possible in a cost-effective manner.
- 31.3 Force Majeure shall mean any cause or event, unforeseen or beyond the reasonable control of the Party claiming to be affected by such event, and shall include, but without limitation, Act of God, war (whether declared or undeclared), force of nature, insurrection, riot, fire, legislation/order of the Government and other acts and unforeseen circumstances beyond the control of either Party affected by it, provided always that such acts or circumstances are not attributable to the Party invoking Force Majeure or its Affiliates. The inability to pay monies due shall not constitute a condition of Force Majeure.
- 31.4 In the event that the Petroleum Operations are delayed, curtailed or prevented due to Force Majeure for a period exceeding ninety (90) consecutive days, then the Term of this Contract together with all rights and obligations thereunder shall be extended accordingly, subject to the provisions of Article 8.
- 31.5 It is agreed by the Parties that the conditions prevailing in the Field at the Effective Date, in particular, and in Iraq, in general, shall not constitute a condition of Force Majeure for either Party.

(End of Article 31)

ARTICLE 32 – ENTIRE AGREEMENT AND AMENDMENTS

- 32.1 This Contract constitutes the entire agreement between ROC and Contractor relating to the Field. Hence it supersedes any previous representations, whether explicit or implicit, and any prior agreement of any kind or nature, whether oral or written, in this respect.
- 32.2 This Contract shall not be amended or supplemented except by an instrument in writing signed by duly authorized representatives of both Parties authorised for those purposes hereto.
- 32.3 If any provision of this Contract shall be found by any court, tribunal or administrative body of competent jurisdiction to be invalid or unenforceable, the invalidity or unenforceability shall not affect the other provisions of this Contract and all provisions not affected by such invalidity or unenforceability shall remain in full force and effect. The Parties shall attempt to substitute, for any invalid or unenforceable provision, a valid and enforceable provision that achieves to the greatest possible extent, the principal objectives of the invalid or unenforceable provisions
- 32.4 The provisions of this Contract shall inure to the benefit of and be binding upon the successors and permitted assignees of the Parties.

(End of Article 32)

ARTICLE 33 – CONFIDENTIALITY AND TECHNOLOGY OWNERSHIP

- 33.1 All information and data obtained in connection with or in relation to this Contract shall be kept confidential by both Parties and their Affiliates and by any entity constituting Contractor and shall not be disclosed or communicated to any third party without the other Party's prior written consent, except (i) to Affiliates; (ii) to any professional

- consultant retained by a Party or (iii) where it is necessary for the implementation and/or financing of Petroleum Operations under the Contract; provided that in all cases of disclosure the party to whom the information is disclosed shall agree to the same confidentiality obligation as contained herein.
- 33.2 The confidentiality undertaking in Article 33.1 shall not apply;
- (a) Upon the confidential information becoming public knowledge other than by default on the part of a Party;
 - (b) Upon such confidential information becoming available to a Party from a third party (unless the third party acts in violation of a confidentiality obligation of which the Party is aware);
 - (c) If such confidential information is independently developed by a Party or its Affiliates; or
 - (d) To the extent that such confidential information is required by law, judicial proceedings or applicable stock exchange regulations, to be disclosed.
- 33.3 The foregoing provisions of Articles 33.1 and 33.2 shall continue in force for three (3) years following termination of this Contract.
- 33.4 To the fullest extent permitted by applicable law or agreements, the entities constituting Contractor agree to make available on reasonable terms their most appropriate technical expertise and technology (and that of their Affiliates) for use in the conduct of the Petroleum Operations, including such technology as can best improve the economic yield or performance of the Petroleum reservoirs operated by the Operator under this Contract. Any such technology shall remain the property of the relevant Contractor entities (or their Affiliates), subject to any licensing or other appropriate arrangements entered into in connection with Petroleum Operations. The Operator shall be entitled to use such technology only for Petroleum Operations under this Contract, subject to the terms of such licensing or other arrangements.
- 33.5 Any technology specifically developed by the Contractor or the Operator in the course of their activities under this Contract shall be owned by both the entities constituting Contractor and ROC, and may be used by any of them or their Affiliates in their own operations without the consent of the other and without making any payment to the other.

(End of Article 33)

ARTICLE 34 – HEADINGS OF ARTICLES

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

(End of Article 34)

ARTICLE 35 – LANGUAGE

- 35.1 This Contract is executed in the Arabic and English languages, both having equal force. However, if there shall be any conflict between the two versions the English version shall prevail to the extent of the conflict.
- 35.2 Communication between the Parties may be in English. However, Contractor and Operator shall use Arabic language or both Arabic and English in all their correspondence and dealings with Government entities in Iraq.
- 35.3 Contractor and Operator shall have no obligation to use any language other than English in their contractual relationships with Sub-Contractors and vendors in connection with

this Contract and Petroleum Operations.

(End of Article 35)

ARTICLE 36 – CONTRACTOR'S OFFICE IN IRAQ

- 36.1 Contractor shall, within ninety (90) days of the Effective Date, establish an office in Baghdad, Iraq and shall maintain such office for the Term of the Contract in accordance with the relevant laws and regulations in Iraq. ROC shall assist Contractor in establishing and maintaining the said office.
- 36.2 Contractor shall notify ROC of the address of its office in Baghdad and of the name of its authorised representative in Iraq who shall be assigned on full time resident status. The said representative shall be entrusted with sufficient powers and authorities to represent and bind Contractor in all dealings with the Government, ROC and third parties in Iraq, to receive legal notices served on Contractor, and to comply with lawful directions and orders given by the competent Government authorities and ROC in connection with or in relation to the Contract.
- 36.3 Contractor shall notify ROC of any change in the address of its office or the appointment of its representative at least ten (10) days prior to the effective date of such change.

(End of Article 36)

ARTICLE 37 – GOVERNING LAW, CONCILIATION AND ARBITRATION

- 37.1 This Contract and the rights and obligations of the Parties shall be governed, interpreted, and construed shall be determined in accordance with the laws of the Republic of Iraq.
- 37.2 The Parties shall endeavour to settle amicably any dispute ("the Dispute") arising out of or in connection with or in relation to this Contract or any provision or agreement related thereto. Where no such settlement is reached within thirty (30) days of the date when one Party notifies the other Party of the Dispute, then the matter may, as appropriate, be referred by the Parties to their senior management for resolution. Where no such settlement is reached within thirty (30) days of such referral to management, any Party to the Dispute may refer the matter, as appropriate, to an independent expert or, by giving sixty (60) days notice to the other Party, refer the matter to arbitration as stipulated hereunder. It is understood that no Party shall have the right to claim immunity from legal proceedings or judgement enforcement in this respect.

Expert

- 37.3 If any Dispute arises between the Parties to this Contract with respect to relevant technical matters, such Dispute may, at the election of either Party, be referred to an independent expert ("Expert") for determination. Such Expert shall be agreed upon by the Parties to the Dispute and shall be willing to undertake such evaluation, and shall be independent, shall not be originated from, or have been at any time a citizen of, the country in which any of the Parties to the Dispute is organized, and shall have no interest in or relation to either Party or with any of the entities constituting the Parties and shall be qualified by education, experience and training to evaluate the matter in Dispute. The Expert shall render its decision within one (1) month following the Expert's formal acceptance of its appointment, or within such further time as the Parties may agree in

writing.

The Expert shall act as an expert and not as an arbitrator. The costs of the Expert determination shall be shared equally by the Parties in Dispute.

Arbitration

- 37.4 All Disputes arising out of or in connection with this Contract, other than those Disputes that have been finally settled by reference to either senior management or Expert, shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.
- 37.5 The seat of the arbitration shall be Paris, France, unless agreed otherwise by the Parties to the Dispute.
- 37.6 The language of arbitration shall be the English language. The award of arbitration shall be in English and shall be final and binding on the Parties to the Dispute. Judgment on the award rendered may be entered in any court having jurisdiction in recognition and enforcement thereof.
- 37.7 Unless otherwise agreed by the Parties, the operations and the activities of the Parties with respect to the performance of the Contract shall not be stopped or delayed pending the award of arbitration.
- 37.8 Any arbitration under this Contract must be initiated within two (2) years of the date on which one Party notifies the other Party of the Dispute, and in any event within three (3) years of the date of the termination of the Contract.

(End of Article 37)

ARTICLE 38 – NOTICES

- 38.1 All notices, statements and other communication to be given, submitted or made by any Party to another under this Contract shall be deemed sufficient when sent in writing and shall be addressed to the Parties at their addresses set out below or such other address as may be notified in writing by the Parties in accordance herewith.

ROC

Contractor

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

(End of Article 38)

ARTICLE 39 – RATIFICATION AND EFFECTIVE DATE

The signed Contract shall not be valid unless it is ratified by the competent authorities in Iraq. ROC shall promptly notify Contractor in writing of the enforceability and of the Effective Date of the Contract, which Effective Date shall be subsequent to the date of such notification by ROC.

(End of Article 39)

ARTICLE 40 – WAIVER

- 40.1 Failure or delay on the part of either Party to exercise any right, power or privilege under the Contract shall not operate as a waiver thereof.
- 40.2 No waiver by either Party of any one or more obligations or defaults by the other Party in the performance of this Contract shall operate or be construed as a waiver of any other obligations or defaults whether of a like or of a different character.

(End of Article 40)

ARTICLE 41 – PROTECTION OF THE ENVIRONMENT

- 41.1 ROC and the Contractor and Operator recognize that Petroleum Operations will cause some impact on the environment in the Contract Area. Accordingly, in performance of the Contract, Contractor and Operator shall conduct Petroleum Operations with due regard to concerns with respect to protection of the environment and conservation of natural resources and shall in particular;
- (a) Adopt modern oilfield and petroleum industry practices and standards including advanced techniques, practices and methods of operation for the prevention of environmental damage in conducting its Petroleum Operations and take necessary and adequate steps to:
 - (i) prevent environmental damage and, where some adverse impact on the environment is unavoidable, to minimize such damage and the consequential effects thereof on property and people;
 - (ii) ensure proper compensation for injury to persons or damage to property caused by the effect of Petroleum Operations; and
 - (b) comply with the requirements of applicable laws and reasonable requirements of ROC from time to time.
- 41.2 If Contractor or Operator fails to comply with the provisions of paragraph (a)(i) of Article 41.1 or contravenes any relevant law, and such failure or contravention results in any environmental damage, Contractor or Operator shall forthwith take all necessary and reasonable measures to remedy the failure and the effects thereof.
- 41.3 If ROC in accordance with Iraqi laws has good reason to believe that any works or installations erected by Contractor or Operator or any operations conducted by Contractor or Operator are endangering or may endanger persons or any property of any person, or are causing or may cause pollution, or are harming or may harm fauna or flora or the environment to a degree which ROC deems unacceptable, ROC may require Contractor and Operator to take remedial measures within such reasonable period as may be determined by ROC and to repair any such damage. If ROC deems it necessary, it may also require Contractor and Operator to suspend Petroleum Operations in whole or in part

- until Contractor or Operator has taken such remedial measures or has repaired any damage caused.
- 41.4 The measures and methods to be used by Contractor and Operator for the purpose of complying with the terms of paragraph (a)(i) of Article 41.1 shall be determined in timely consultation with ROC upon the commencement of Petroleum Operations or whenever there is a significant change in the scope or method of conducting Petroleum Operations and shall take into account the international standards applicable in similar circumstances and the relevant environmental impact study carried out in accordance with Article 41.5 below. Contractor and Operator shall notify ROC, in writing, of the measures and methods finally determined by Contractor and Operator and shall cause such measures and methods to be reviewed from time to time in the light of prevailing circumstances.
- 41.5 Contractor and Operator shall cause a person or persons with special knowledge on environmental matters, to carry out two environmental impact studies in order:
- (a) to determine at the time of the studies the prevailing situation relating to the environment, human beings and local communities, the flora and fauna in the Contract Area and in the adjoining or neighbouring areas; and
 - (b) to establish the likely effect on the environment, human beings and local communities, the flora and fauna in the Contract Area and in the adjoining or neighbouring areas in consequence of the relevant phase of Petroleum Operations to be conducted under this Contract, and to submit, for consideration by the Parties, methods and measures contemplated in Article 41.4 for minimizing environmental damage and carrying out site restoration activities.
- 41.5.1 The first of these environmental impact studies shall be concluded before commencement of any fieldwork relating to a seismographic or other survey or drilling work.
- 41.5.2 The second environmental impact study shall be submitted by Contractor and Operator as part of the Final Development Plan.
- 41.5.3 The studies mentioned in Article 41.5 above shall contain proposed environmental guidelines to be followed in order to minimize environmental damage and shall include, but not be limited to, the following, to the extent appropriate to the respective study taking into account the phase of operations to which the study relates:
- (a) Proposed access cutting;
 - (b) Clearing and timber salvage;
 - (c) Wildlife and habitat protection;
 - (d) Fuel storage and handling;
 - (e) Use of explosives;
 - (f) Camps and staging;
 - (g) Liquid and solid waste disposal;
 - (h) Cultural and archaeological sites;
 - (i) Selection of drilling sites;
 - (j) Terrain stabilization;
 - (k) Protection of freshwater horizons;
 - (l) Blow-out prevention plan;
 - (m) Flaring during completion and testing of Gas and Crude Oil Wells;
 - (n) Abandonment of Wells;
 - (o) Rig dismantling and site completion;
 - (p) Reclamation for abandonment;
 - (q) Noise control;

- (r) Debris disposal; and
- (s) Protection of natural drainage and water flow.

41.5.4 Subject to the provision of all applicable laws and notifications on protection of environment, any new project or expansion or modernization projects for Petroleum Operations for which a proposal is submitted by Contractor and Operator, ROC shall ponder the assessment of the project within a period of ninety (90) days from the receipt of the requisite documents and data from the project authorities. The decision of ROC on the proposal of Contractor and Operator for environmental clearance shall be conveyed within thirty (30) days thereafter.

41.6 Contractor and Operator shall ensure that:

- (a) Petroleum Operations are conducted in an environmentally acceptable and safe manner consistent with the best practices of the international petroleum industry and that such Petroleum Operations are properly monitored;
- (b) the pertinent completed environmental impact studies are made available to its employees and to its contractors and Subcontractors to develop adequate and proper awareness of the measures and methods of environmental protection to be used in carrying out Petroleum Operations; and
- (c) the contracts entered into between Contractor and Operator and their contractors and Sub-Contractors relating to its Petroleum Operations shall include the provisions stipulated herein and any established measures and methods for the implementation of Contractor's and Operator's obligations in relation to the environment under this Contract.

41.7 Contractor and Operator shall, prior to conducting any drilling activities, prepare and submit for review by ROC contingency plans for dealing with crude oil spills, blowouts, fires, accidents and emergencies, designed to achieve rapid and effective emergency response. The plans referred to above shall be discussed with ROC and concerns expressed shall be taken into account.

41.7.1 In the event of an emergency, accident, oil spill or fire arising from Petroleum Operations affecting the environment, Contractor and Operator shall forthwith notify ROC and shall promptly implement the relevant contingency plan and perform such site restoration as may be necessary in accordance with the best practices of the international petroleum industry.

41.7.2 In the event of any other emergency or accident arising from the Petroleum Operations affecting the environment, Contractor and Operator shall take such action as may be prudent and necessary in accordance with the best practices of the international petroleum industry.

41.8 In the event that Contractor and Operator fail to comply with any of the terms contained in Article 41.7, ROC, after giving Contractor and Operator reasonable notice in the circumstances, may take any action which may be necessary to ensure compliance with such terms and to recover from Contractor, immediately after having taken such action, all costs and expenditures incurred in connection with such action together with such interest as may be determined in accordance with Annex C of this Contract.

41.9 Where the Contract Area is partly located in areas forming part of certain national parks, sanctuaries, mangroves, wetlands of national importance, biosphere reserves and other biologically sensitive areas passage through these areas shall generally not be permitted. However, if there is no passage, other than through these areas to reach a

particular point beyond these areas, permission of the appropriate authorities shall be obtained by ROC for the benefit of Operator.

- 41.10 The obligations and liability of Contractor and Operator for the environment hereunder shall be limited to damage to the environment which:
- (a) occurs after the Effective Date and prior to the expiry or termination of the Contract; and
 - (b) results from an act or omission of Contractor or Operator.

(End of Article 41)

ARTICLE 42 – SITE RESTORATION AND DECOMMISSIONING

- 42.1 On expiry or termination of this Contract or relinquishment of part of the Contract Area, Contractor shall, subject to Article 5, remove all equipment and installations from the relinquished area or former Contract Area in a manner agreed with ROC pursuant to an abandonment plan; and
- 42.2 Contractor shall prepare in a timely manner before the expiry of the Contract a proposal for site restoration including a decommissioning plan and a "Decommissioning Reserve Fund". This will be submitted for the consideration and approval of the ROC. Once established, Contractor shall make regular contributions to the said Fund based upon estimated site restoration and decommissioning costs in accordance with standard principles and technical norms generally accepted in the international petroleum industry, and taking into account interest received and future interest expected to be earned on the said Fund. Any paid contributions by Contractor into the Fund shall be deemed Petroleum Costs.

The Decommissioning Reserve Fund shall be placed with a first rate bank approved by the Joint Management Committee.

Upon expiry of the Contract and upon takeover by ROC of Petroleum Operations of the Field:

- (a) ROC shall become liable for its future site restoration and decommissioning;
 - (b) the contributions and any interest accrued in the Decommissioning Reserve Fund, to the extent that such contributions have been recovered as Petroleum Costs, shall be paid to ROC; and
 - (c) ROC shall release Contractor from any obligations relating to site restoration and decommissioning and shall indemnify Contractor for any costs, liabilities, claims or obligations associated therewith.
- 42.3 If Contractor undertakes the Field site restoration and decommissioning works, the contributions and any interest accrued in the Decommissioning Reserve Fund shall be paid to Contractor and shall be used for field decommissioning operations. ROC shall bear the shortfall or collect the excess of the Decommissioning Reserve Fund.

(End of Article 42)

Article 43 – GENERAL BUSINESS ETHICS

- 43.1 In the performance of this Contract, Contractor's entities and ROC shall ensure

- that they each strictly comply with general business ethics.
- 43.2 Contractor and Operator shall in their subcontracts stipulate their right to terminate the subcontracts with immediate effect in case of violation of the general business ethics by subcontractor and Contractor and Operator shall indeed terminate a subcontract in case of such a violation, if ROC requests Contractor or Operator to do so.
- 43.3 Neither Contractor's entities nor ROC shall give or receive from any director, employee or agent of the other or its Affiliate in connection with the Contract, any gift, entertainment or other benefit of significant cost or value or any commission, fee or rebate.
- 43.4 Each of ROC and Contractor's entities warrant that it and its Affiliates have not made, offered, or authorized and will not make, offer, or authorize with respect to the matters which are the subject of this Contract, any payment, gift, promise or other advantage, whether directly or indirectly through any other person or entity, to or for the use or benefit of any public official (i.e. any person holding a legislative, administrative or judicial office, including any person employed by or acting on behalf of a public agency, a public enterprise or a public international organization) or any political party or political party official or candidate for office, where such payment, gift, promise or advantage would violate (i) the applicable laws of the Republic of Iraq; (ii) the laws of the country of incorporation of such entity or such entities ultimate parent company and of the principal place of business of such ultimate parent company; or (iii) the principles described in the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed in Paris on December 17, 1997, which entered into force on February 15, 1999. Each entity shall defend, indemnify and hold the others harmless from and against any and all claims, damages, losses, penalties, costs and expenses arising from or related to, any breach by such first entity of such warranty. Such indemnity obligation shall survive termination or expiration of this Contract.

(End of Article 43)

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

For and on behalf of ROC
 _____ Witness _____
 For and on behalf of Contractor
 _____ Witness _____
 (Company)
 _____ Witness _____
 (State Partner)

ANNEX A – DESCRIPTION OF CONTRACT AREA

This Annex A is attached to and made part of the Technical Service Contract for _____ Field.

The Contract Area is defined by the corner points numbered from A to _____ connected by straight lines as shown in Annex B. The U.T.M. coordination of corner points are given hereunder.

U.T.M. Coordinates

POINTS	NORTHING	EASTING
A		
B		
C		
D		
E		
F		
G		

(End of Annex A)

ANNEX B – MAP OF CONTRACT AREA

This Annex B is attached to and made part of the Technical Service Contract for
_____ Oil Field.

(End of Annex B)

ANNEX C – ACCOUNTING PROCEDURE

This Annex C shall be attached to and made part of the Technical Service Contract of _____ Oil Field. Terms defined in the Technical Service Contract shall have the same meanings for the purpose of this Annex C.

1. GENERAL PROVISIONS

1.1 Definitions

Terms used in this Accounting Procedure shall have the meanings ascribed to them in the Contract. In addition:

"Operating Account" shall mean the account or set of accounts maintained by Contractor and Operator to record Petroleum Costs.

"Material" shall mean and include any and all materials, equipment, machinery, articles and supplies.

1.2 Purpose of Accounting Procedure

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

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

1.3 Operating Account and Records

Contractor and Operator shall open and maintain all accounts and records necessary to document in reasonable detail and in separate accounts the transactions relating to Petroleum Operations, in accordance with generally accepted and recognised accounting principles consistent with the best practices of the international petroleum industry, all in accordance with and subject to the provisions of the Contract.

1.3.1 The accounts and records should show, among other things, the following:

1.3.1.1 Costs of assets including:

- (a) Cost of drilling in general and cost of each well.
- (b) Cost of production facilities such as flow lines and degassing stations in sufficient details.
- (c) Cost of Crude Oil and Gas Transportation Facilities.
- (d) Cost of tankfarms and pumping stations.
- (e) Cost of infrastructure facilities and industrial centres.

1.3.1.2 Cost of Materials showing in details cost and quantity of each

item. The method of pricing should be stated.

1.3.1.3 Operating costs analysed by main items such as salaries, Materials and services as defined or described in this Accounting Procedure.

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

1.3.3 Accounts may be kept according to the usual accounting system of Operator.

1.3.4 Contractor and Operator shall maintain appropriate cost control records to meet the requirements and obligations under the Contract.

1.3.5 Petroleum production, storage and transfer records shall be maintained according to the Contract and to the best practices of the international petroleum industry.

1.3.6 Expenditures shall be charged in Dollars as follows:

1.3.6.1 All Dollar expenditures shall be charged in the amount incurred;

1.3.6.2 For accounting purposes, all Dinar expenditures shall be translated into Dollars at the exchange rate prevailing on the date of the relevant expenditure in accordance with the regulations of the Central Bank of Iraq;

1.3.6.3 Expenditures in currencies other than Dollars or Dinars, shall be charged in the equivalent amount in Dollars, using the actual exchange rate applied by the relevant first class international bank on the date of payment;

1.3.6.4 A record shall be kept of the exchange rates actually used in converting Dinars and other non-Dollar expenditures into Dollars.

1.3.6.5 On the date of each balance sheet, monetary items in currencies other than Dollars shall be translated to Dollars at the rate of exchange applicable on such balance sheet date.

1.4 Statements

1.4.1 Quarterly Statements

Contractor and Operator shall submit to ROC within forty five (45) days from the end of each Quarter, a statement of Petroleum Costs together with reports and statement of the Operating Account of the said Quarter.

1.4.2 Yearly Statements

Contractor and Operator shall submit to ROC within three (3) months from the last day of each Calendar Year, a statement of Petroleum Costs together with reports and statement of the Operating Account of the said Calendar Year.

1.5 Audits

Yearly statements shall be supported by a report issued by an independent auditor of international qualification appointed according to Article 20.4 of the Contract. The auditor report shall include a statement that the accounts and statements are prepared according to the terms and conditions of the Contract and this Accounting Procedure.

2. **OPERATING ACCOUNT**

Subject to the provisions of the Contract, Article 19 of the Contract, and this Accounting Procedure, Contractor shall charge the Operating Account with Service Fees. Petroleum Costs shall start being charged as from the Effective Date, while Remuneration Fees shall start being charged as from the end of the Rehabilitation Period.

Maintenance and Incremental Remuneration Fees shall be computed pursuant to Article 19 and charged accordingly to the Operating Account. Petroleum Costs shall be prepared on a cash basis and shall include, but not be limited to, the following items:

2.1 Personnel

2.1.1 Operator's Locally Recruited Personnel

The actual cost of all of Operator's locally recruited personnel who are engaged in Petroleum Operations under the Contract shall be charged as Petroleum Costs. Such costs shall include gross pay, all personnel benefits, employer contributions, taxes and other assessments levied on Operator as an employer by Government authorities, transportation and relocation costs of the personnel and such personnel's family within Iraq or elsewhere on temporary assignment in the interest of Petroleum Operations (provided that no relocation costs for the personnel's family shall be charged if the temporary assignment is for less than six (6) consecutive Months) and such other costs that are statutory or customary for Operator. This procedure shall also be applied with respect to personnel of ROC seconded to Operator.

2.1.2 Assigned Personnel

The cost of the personnel of Operator's Affiliates working in Iraq or in countries other than the country of Operator (hereafter referred to as "Countries of Assignment") for Petroleum Operations on a long-term assignment (more than six (6) consecutive Months). The cost of these personnel shall be as per rates or actual cost as the case may be, representing the Operator's Affiliates actual cost which is consistent with the standard employment policies of the head office Affiliate or of other Affiliates employing such personnel.

These rates shall include all costs of salaries, wages, benefits, indemnities and social charges according to laws, regulations or contractual agreements applicable to such personnel. In addition, they shall include reimbursement of personnel administrative charges according to the standard practice of Operator's Affiliates.

The charges for personnel assigned on a temporary basis (less than six (6) consecutive Months) shall be made in accordance with Article 2.5.3.

2.1.3 Personnel Engaged in Other Activities

If local personnel or assigned personnel are engaged in other activities in Iraq in addition to Petroleum Operations, the cost of such personnel or assigned personnel shall be allocated on a time sheet or pro rata basis according to sound and acceptable accounting principles.

2.1.4 Training Costs

All costs and expenses incurred by Contractor and Operator in organising, setting up and conducting training activities for their Iraqi personnel engaged in Petroleum Operations or Contractor's training activities under Addendum Two, including the planning, designing, constructing, commissioning and running training facilities and the related software.

All such training costs shall be subject to JMC prior approval.

2.2 Materials

The cost of Materials purchased for or furnished to Petroleum Operations as detailed under Article 4.1 hereinafter.

2.3 Transportation

2.3.1 Transportation of Personnel and Materials

Transportation of Materials necessary for the performance of Petroleum Operations, including costs of packaging, brokerage, insurance and other related costs. Personnel transportation costs, to the extent covered by the established policy of Operator, shall include travel expenses for personnel and their immediate families to and from the personnel's points of origin at the time employment commences, at the time of final departure and for vacations, as well as travel expenses in Iraq for personnel and their immediate families incurred as a result of transfers from one location to another, and travel expenses relating to the periodical recuperation leaves of field personnel. Costs related to immediate families shall be charged for personnel assigned to work in Iraq for periods exceeding six (6) consecutive Months.

2.3.2 Transportation and Delivery of Crude Oil

All costs and expenses for the transportation and delivery of Crude Oil up to Delivery Point according to Article 17 of the Contract and Addendum Two attached thereto.

2.4 Buildings and Equipment

- 2.4.1 Costs of buildings, equipment, furniture and fixtures and their maintenance and related costs and rents paid for all offices, houses, warehouses and other types of buildings and costs of supplies necessary for the operation of such buildings and facilities, all in Iraq;
- 2.4.2 Costs of vehicles and their maintenance and operation;
- 2.4.3 Costs of computers and software and their maintenance and operation.

2.5 Services

The services required by Operator for Petroleum Operations which may include but are not limited to:

- 2.5.1 Outside services of consultants, contract services, utilities and other services procured from outside sources, rentals or compensation paid for the use of any equipment and facilities.
- 2.5.2 Use of equipment and facilities of Operator for Petroleum Operations on rental basis at rates to be approved by the JMC.
- 2.5.3 All Specific Services performed under an assistance agreement between Operator and its head office Affiliate.

"Specific Services" shall mean services, activities, studies and projects of a technical nature as well as computer services, carried out or procured by the head office Affiliate at the Operator's specific request under a purchase order procedure, for the benefit of Petroleum Operations. Specific Services shall also mean studies and specific tasks such as, administrative, accounting, financial, and legal services when requested by Operator under a purchase order

Specific Services shall be charged at cost in accordance with the tariffs and price lists established each Year by the head office Affiliate and approved by the JMC for each Calendar Year.

2.6 Damages and Losses

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident or any other cause not controllable by Contractor through exercise of reasonable care and diligence in operations and not resulting from Contractor's failure to timely file and diligently pursue claims against insurance companies. Contractor shall furnish ROC with written notice with details of damages or losses sustained in excess of ten thousand Dollars (US\$10,000) per occurrence as soon as practicable.

2.7 Legal Expenses

All costs and expenses of litigation or arbitration or legal services necessary or expedient for the protection of the Contract Area against third party claims, including attorney's fees and expenses as hereinafter provided, together with all judgements obtained against the Parties or any of them on account of Petroleum Operations under the Contract, and actual expenses incurred by Contractor and/or ROC in securing evidence or expert advice for the purpose of defending any such

action or claim pursued or urged in connection with operations under the Contract.

In the event actions or claims affecting the Parties' interests under the Contract shall be handled by the legal staff of ROC in Iraq, a compensation commensurate with cost of providing and furnishing such services shall be paid to ROC and charged to the Operating Account.

2.8 Taxes

Pursuant to Article 23 and subject to other provisions of the Contract, taxes (other than corporate income tax), levies, duties, imposts (if any) and/or charges and fees paid by Contractor (but not previously paid directly by ROC) to Government authorities as assessed or levied upon or in connection with Petroleum Operations.

2.9 Insurance and Claims

2.9.1 The premium of any insurance policy secured by Operator pursuant to the Contract.

2.9.2 Any costs sustained by Contractor arising out of an event covered by insurance. Such costs include, but are not limited to, repairs and replacements of Materials in the Contract Area resulting from damage or loss incurred because of fire, flood, storm, theft, accident, or any other similar risk.

2.9.3 All costs and expenses associated with suing, working or travelling for, or any other cost incurred in consequence of, or because of insurance related disputes or litigation with any party including any insurer and/or any insurer's representatives or agents to the extent that such costs and expenses are not refunded for whatever reasons, by insurance and/or not awarded by an arbitrator or a court of law.

2.9.4 Any compensation received, or any claim collected from insurers or third parties shall be credited to the Operating Account. If no insurance is carried for a particular risk, all related actual expenditures incurred and paid by Contractor in settling any and all losses, claims, damages, judgement and other expenses, including related legal expenditures. Any such loss, claim or damage shall be charged to the Operating Account unless it is a direct result of Contractor's failure to act in accordance with the standards of insurance required by the Contract or instructions of the JMC.

2.10 Currency Exchange

The gain or loss, if any, through currency translation or exchange pursuant to the provisions of Article 21 of the Contract and Article 1.3.6 of this Accounting Procedure.

2.11 Tariffs

Subject to the provision of Article 3 of the Annex, all sums paid to ROC, contractor(s) on petroleum fields other than the Field, or any third party in compensation for the use of facilities in connection with Petroleum Operations

such as, but not limited to, pipelines, hydrocarbon treatment plants and storage facilities, on a basis of a mutually agreed tariff.

2.12 Surface Rights

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

2.13 Environment

All costs incurred for the protection, cleanup or restoration of the environment pursuant to the Contract and applicable laws and regulations.

2.14 Administrative Overhead and General Expenses

The services of all personnel of Contractor's head office or its Affiliates not otherwise chargeable, as well as the contribution of Contractor's head office or its Affiliates to Petroleum Operations of an intangible nature and any overhead or its indirect cost incurred by Contractor's head office or its Affiliates shall be compensated by a charge based on one percent (1%) of total expenditure during each Calendar Year or a fraction thereof.

The basis of applying this percentage shall be the total cost and expenses incurred in respect of Petroleum Operations and charged under this Accounting Procedure to the Operating Account during each Financial Year or fraction thereof, excluding administrative overhead as allowed in this section.

The payment for the above administrative overhead charges shall be shared equally between Contractor and the Regional Operating Company.

3. INFORMATION TO JMC AND ROC

Upon submitting the annual Work Program and budget for approval in accordance with Article 12 of the Contract, Operator shall provide in writing the following details in respect of personnel, Specific Services and tariffs in connection with Petroleum Operations to be charged during the relevant Year.

3.1 Regarding Personnel Costs

- 3.1.1 Estimate of the overall amount thereof;
- 3.1.2 Analysis and explanation of the applicable personnel policy and practice of Operator and Operator's Affiliates;
- 3.1.3 Reasonable breakdown of the aforesaid expenditures as per details stated in this Annex;
- 3.1.4 Rates and/or methods of apportionment of such costs.

3.2 Regarding Specific Services

- 3.2.1 Estimate of the overall amount thereof;
- 3.2.2 Reasonable breakdown of such services by major type;

3.2.3 Tariffs and rates expected to apply in respect to such services, especially to assigned personnel.

3.3 Regarding Tariffs

3.3.1 Estimate of the overall amount to be paid;

3.3.2 Reasonable breakdown of the tariff expenditures.

4. CHARGING PRINCIPLES

4.1 Purchases

4.1.1 All Materials purchased for Petroleum Operations shall be purchased at competitive prices from reputable manufacturers or suppliers.

Materials and equipment purchased from third parties shall be charged at net cost paid by Contractor after deduction of all discounts received. Net cost shall include but not be limited to such items as transportation, insurance, licence fees and purchasing and forwarding costs.

4.1.2 The Parties may furnish Materials from their own stock according to the following conditions:

4.1.2.1 New Materials

New Material transferred from the warehouses or other facilities of Company or the State Partner or their respective Affiliates, shall be priced at cost, provided that such cost is not higher than the price for Material of the same quality, obtained on comparable terms and conditions, prevailing in the international market at the time such Material was supplied to Contractor.

4.1.2.2 Used Material

Generally, all Materials shall be new. However and only to the extent reasonably practical and economical used Materials in good conditions, may be procured.

The price charged for used Materials will be original price discounted by a percentage representing the Materials utilisation. Such percentage shall be assessed by a special committee according to the conditions of the Materials.

All used Materials shall be covered by inspection certificates from independent third party inspectors. Costs of such certificates shall be charged to the Operating Account.

4.2 Direct and Indirect Costs

Costs shall be charged to the Operating Account using consistent

methods from Year to Year, and such methods shall be agreed upon by the Parties subject to the following principles:

4.2.1 Costs that may be directly charged to a relevant subdivision of the Operating Account shall be so charged:

4.2.2 Costs that cannot easily be charged directly to any subdivision of the Operating Account shall be apportioned either on a time basis or on a pro rata basis. Costs of services that cannot be assessed accurately may be charged according to standard rates and adjusted to actual costs at Year end.

4.3 Use of Equipment and Facilities Owned by Entities Constituting Contractor

For the use of any equipment or facilities that are wholly owned by entities constituting Contractor, the Operating Account shall be charged a rental commensurate with the cost of ownership.

The rental rates, which will not include any profit element, will be approved by the JMC each Calendar Year. Such rates should be in line with those currently prevailing in the area where Petroleum Operations are located for equipment and facilities comparable in terms of availability, safety, efficiency and quality.

5. INVENTORIES

At all times, Contractor shall maintain inventories of Materials at optimum levels required for Petroleum Operations and shall be subject to:

5.1 Periodic Inventories, Notices and Representation

At reasonable intervals, and at least once annually, inventories shall be taken by Contractor and Operator of the Materials charged to the Operating Account, which shall include all such Materials as are ordinarily considered controllable by operators in the international petroleum industry. Written notice of intention to take inventory shall be given by Contractor and Operator at least ninety (90) days before any inventory is to begin so that ROC may be represented when any inventory is to be carried out.

5.2 Reconciliation and Adjustment of Inventories

Reconciliation of inventory with the Operating Account shall be made and a list of overages and shortages shall be furnished to ROC. Inventory adjustments shall be made by Contractor and Operator to the Operating Account if required; provided, however, that any inventory adjustment exceeding a value of ten thousand Dollars (US\$10,000) shall be reported to ROC.

6. DISPOSAL OF MATERIALS

Contractor and Operator shall inform the JMC and ROC of any excess or disposable Materials. ROC shall instruct Operator on the action then required. Any proceeds of disposal of such Materials shall be credited to the Operating Account.

7. SUMS RECEIVED FROM THIRD PARTIES

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

8. BASIS OF ACCOUNTING

The Operating Account may be maintained on an accrual basis, that is, costs shall be recorded and entered in the Operating Account when the liability thereto first arises, and revenues shall be recorded and entered in the Operating Account when the title thereto is acquired.

However, for the purposes of cost recovery as per Article 19 of the Contract, the relevant calculations shall be made on a cash basis, that is, costs shall be considered only when paid and revenues only when collected.

9. PAYMENT OF SERVICE FEES

Contractor shall, pursuant to Article 19 of the Contract, render to ROC as promptly as practical but not later than forty five (45) days after the end of the last Month of a Quarter, an invoice of due and payable Service Fees for the Quarter based on the Operating Account and showing the following details:

- 9.1 Due Service Fees brought forward from the previous Quarter, if any;
- 9.2 Service Fees during Quarter;
- 9.3 Total Service Fees for the Quarter (9.1 + 9.2);
- 9.4 Service Fees received and/or quantity and value of Export Oil lifted by Contractor for the Quarter according to the lifting procedure as referred to in Addendum Four;
- 9.5 Amount of Service Fees to be carried forward into the succeeding Quarter if any (9.3 – 9.4), and
- 9.6 Excess, if any, of the value of Service Fees received and/or Export Oil lifted by Contractor over Service Fees due for the Quarter (9.4 – 9.3). Such excess shall be set off in the next calculation of Contractor's outstanding Service Fees payable in the immediately succeeding Quarter in accordance with Article 19 of the Contract.

10. NON- ALLOWABLE COSTS

Unless otherwise provided elsewhere in this Contract, the following non-exhaustive list of items shall be treated as non-allowable and non-recoverable costs for the purpose of cost recovery:

- 10.1 Costs incurred as a result of any proven Gross Negligence or Wilful Misconduct of Contractor/Operator including any amount paid in settlement of any claim alleging Gross Negligence or Wilful Misconduct whether or not Gross Negligence or Wilful Misconduct is admitted or whether such sum is stated to be paid on an ex-gratia or similar basis;
- 10.2 Replacement and/or repair costs in respect of assets or other property which is uninsured or under-insured and liability incurred to third parties on the basis of strict liability, or in cases where Contractor had agreed with ROC to insure against loss but failed to do so;
- 10.3 Any bonus payment under Article 4 of the Contract;
- 10.4 Any expenditure incurred directly or indirectly in connection with the raising of money to finance Petroleum Operations and other incidental costs and charges related thereto by whatever method raised; such expenditure includes, but is not limited to, interest, commissions, fees and brokerage;
- 10.5 Any costs, charges or expenses including donations relating to public relations or enhancement of Contractor's corporate image and interests;
- 10.6 Any expenditure incurred which is not related to Petroleum Operations or on matters or activities beyond the Delivery Point(s);
- 10.7 Any other expenditure which is stated elsewhere in the Contract to be non-recoverable expenditure.

11. CONTROL STATEMENTS AND MAJOR ACCOUNTS

- 11.1 Contractor shall annually prepare, from the statements of expenditure prepared pursuant to Article 1.4 hereof, a statement showing for the relevant Year the excess or deficit in development expenditure compared to the Minimum Work Obligations. Such statement shall be rendered to ROC not later than ninety (90) days following the end of such Year.
- 11.2 For the purpose of classifying costs, expenses and expenditures for cost recovery and Minimum Work Obligations, costs, expenses and expenditures shall be recorded in major accounts including Capital Cost and Operating Cost.

12. TRANSFER PROCEDURE FOR THE OPERATING ACCOUNT

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

13. EXTERNAL AUDITOR'S CERTIFICATE

Contractor shall provide ROC with a certificate from the external auditor of Co-operator's head office evidencing that the charges and the rates applied pursuant to Articles 2.1.2 to 2.5.3 represent actual costs.

(End of Annex C)

ANNEX D – DEFINITION OF RESERVOIRS

This Annex D is attached to and made part of the Technical Service Contract for ... Field.

SECTION 1 – MAIN RESERVOIRS

Following are the main reservoirs, which are targeted under the Rehabilitation and Enhanced Redevelopment Plans within the scope of the Contract.

(a) _____ RESERVOIR

The _____ reservoir includes all the porous intervals of ____ to ____ m (from MSL) of _ - 1 well and its lateral equivalents.

(b) _____ RESERVOIR

The _____ reservoir includes all the porous intervals of ____ to ____ m (from MSL) of _ - 1 well and its lateral equivalents.

(c) _____ RESERVOIR

The _____ reservoir includes all the porous intervals of ____ to ____ m (from MSL) of _ - 1 well and its lateral equivalents.

SECTION 2 – OTHER RESERVOIRS

Other drilled reservoirs of __ Field include those of _____ and ____ between _____ and _____ reservoirs. Contractor shall appraise the other reservoirs and either include them in the Rehabilitation and Enhanced Redevelopment Plans of the Field, where their levels and schedules of production shall be stipulated, or relinquish them to ROC as per Article 5 of the Contract.

SECTION 3 – UNDRILLED POTENTIAL RESERVOIRS

The un-drilled potential reservoirs are all reservoirs which may exist below the base of the _____ Formation, defined as _____ (from MSL) in _____ - 1 well and its lateral equivalents.

(End of Annex D)

ANNEX E – MINIMUM WORK OBLIGATIONS

This Annex is attached to and made part of the Technical Service Contract for _____ Field.

Contractor shall undertake the following Minimum Work Obligations during the first three (3) Years following the Effective Date:

SECTION 1 – PLANS AND WORK PROGRAMS

- (a) Pursuant to Article 11.1 of the Contract, Contractor shall cause Operator to submit to ROC the Rehabilitation Plan, with corresponding cost estimates within a period not exceeding six (6) months from the Effective Date.
- (b) Pursuant to Article 11.2 of the Contract, Contractor shall cause Operator to submit to ROC the necessary annual Work Programs and budgets.
- (c) Pursuant to Article 11.3 of the Contract, Contractor shall cause Operator to submit to ROC the Enhanced Redevelopment Plan and corresponding cost estimates within a period not exceeding three (3) Years from the Effective Date.

SECTION 2 – ADDITIONAL APPRAISAL OPERATIONS

Within a period of thirty six (36) months from the Effective Date, Contractor undertakes:

- (a) performing a 3-D seismic survey of _____ square kilometres (____km²) on the Field, including processing and interpretation thereof,
- (b) drilling appraisal wells at the appropriate location in the Contract Area with the view to better delineating and evaluating the producing and potential reservoirs of the Field; and
- (c) performing detailed geological and reservoir engineering studies, including 3-D simulation for the reservoirs, and carry out detailed laboratory and reservoir engineering studies to evaluate most suitable recovery mechanism for all the producing and potential reservoirs that will be the subject of the Rehabilitation and Enhanced Redevelopment Plans, integrating all relevant available data and information, including such data existing prior to the execution of the Appraisal Work.

SECTION 3 – REHABILITATION WORK

Within a period of three (3) Years from the Effective Date, Contractor shall undertake to:

- (a) Drill ____ (____) new producer and injector wells;
- (b) Workover _____(____) existing wells;
- (c) Initiate pressure maintenance and artificial lift systems;
- (d) Perform engineering studies for improved and enhanced production, including transport, and storage and booster pumping facilities, plus initiate any engineering studies required under the Enhanced Redevelopment Plan, including the studies for the improved utilisation and disposal of Gas;
- (e) Build additional field gathering and processing facilities necessary to cope

with the expected production levels resulting from implementation of the Development/Redevelopment Plan;

- (f) Build additional Gas gathering, treatment, and transportation facilities between the Field and relevant tie-in points on the nearest gas trunk lines;
- (g) Build additional Crude Oil gathering, treatment, storage and transportation facilities from the Field up to the relevant Transfer Point(s);
- (h) Build the necessary Transportation Facilities beyond the Transfer point(s) and integrating the same into the existing Transportation System;
- (i) Commence building necessary infrastructure facilities required for the subsequent phase of enhanced production in accordance with the Enhanced Redevelopment Plan.

(End of Annex E)

ANNEX F – FORM OF PARENT COMPANY GUARANTEE

FORM I: for Company and Affiliated Assignee

We refer to the Technical Service Contract for ----- Oil Field, (hereinafter referred to as the "Contract") entered into on this day of 200-, betweenX... and ROC, Iraq.

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

The obligations ofY hereunder shall be to the extent of the Participating Interest thatX.....may have at the time under the Contract.

This Guarantee shall extend to any Affiliated assignee ofX..... which may become a Party to the Contract.

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

Signed for and on behalf of

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

FORM 2: for Non-Affiliated Assignees

We refer to the Technical Service Contract for ----- Oil Field, (hereinafter referred to as the "Contract") where.....X..... holds a Participating Interest of percent (....%)

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

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

The obligations ofZ..... hereunder shall be to the extent of the Participating Interest thatY..... may have at the time under the Contract.

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

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

Signed for and on behalf of

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

(End of Annex F)

ADDENDUM ONE – HEADS OF JOINT OPERATING AGREEMENT

This Addendum One is attached to and made part of the Technical Service Contract of _____ Oil Field. Terms defined in the Technical Service Contract shall have the same meanings for the purpose of this Heads of Agreement.

1. SCOPE

This Heads of Agreement is to provide for the basic principles to be included in a Joint Operating Agreement ("JOA") to be executed among the entities constituting Contractor (hereinafter referred to as "Partner" or "Partners").

2. PARTICIPATING INTEREST

Each Partner shall have the undivided percentage interest determined under the Contract and/or as agreed by the Partners ("Participating Interest"), provided that each Partner's Participating Interest shall not be less than five percent (5 %). Each Partner shall participate in proportion to its respective Participating Interest in all costs, expenses and liabilities incurred pursuant to the Contract or JOA and shall own, in the same proportion, the Contractor's rights under the Contract and the Partners' right under the JOA.

3. CO-OPERATOR

- 12.1 The Co-operator appointed in accordance with the Contract shall act for the Partners.
- 12.2 The Co-operator may, at any time resign as such by giving the Partners notice in writing. Co-operator shall cease to be Co-operator if: (a) it dissolves, liquidates or terminates its legal existence; (b) it becomes insolvent, bankrupt or is placed in receivership; (c) its Participating Interest is reduced to less than ten percent (10%); or (d) it takes no action within thirty (30) days after notification to it by a Partner to remedy a material breach of the JOA. Pursuant to Article 9 of the Contract, a substitute Co-operator shall be subject to prior ROC's approval.

4. OPERATING COMMITTEE

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

5. WORK PROGRAMS AND BUDGETS

For each Calendar Year, the Co-operator shall prepare and submit to the Partners work programs and budgets not later than the first day of September of the preceding Year. Each such work program and budget shall set out in a reasonably detailed manner the work to be carried out and shall include an itemised estimate of the corresponding expenditures. The Operating Committee shall review and discuss the work program and budget submitted by Co-operator for the following Calendar Year and shall adopt not later than September 30 a work program and budget to be submitted to the Operator for further study and possible modification before referring to the JMC pursuant to Article 12.2 toward ROC's final for approval.

6. COSTS AND EXPENSES

All costs and expenses of Petroleum Operations, except in the case of operations undertaken for the sole risk of the ROC under Article 12, shall be borne by the Partners in proportion to their respective Participating Interest. All costs and expenses that are incurred in the conduct of operations under JOA shall be determined and recorded according to an accounting procedure (without prejudice to Annex-C of the Contract) and generally accepted accounting principles and shall be subject to periodic inspection and audit.

7. DEFAULTS

7.1 Any Partner, excluding the State Partner, that fails to pay when due its Participating Interest share of costs and expenses shall be in default (hereinafter referred to as "Defaulting Partner"). The Operator shall as soon as practicable notify all Partners of such default and the Operator shall keep the Partners informed thereafter of material events in relation thereto. The amount not paid by the Defaulting Partner shall bear interest from the date due until paid in full. After any default has continued for thirty (30) days, the Defaulting Partner shall not be entitled to attend Operating Committee meetings or to vote on any matter coming before the Operating Committee during the period such default continues. Non-Defaulting Partners (excluding State Partner) shall pay the defaulted amount on behalf of the Defaulting Partner, in proportion to their Participating Interests or in any other proportion they may agree upon

7.2 The Defaulting Partner shall have the right to remedy the default at any time prior to forfeiture, as hereinafter provided, by payment in full to the Operator or, if the Non-Defaulting Partners have paid any amounts under Article 7.1, to the Non-Defaulting Partners, in proportion to the amounts so paid by them, of all amounts which the Defaulting Partner has failed to pay together with interest thereon on a day to day basis at the rate of LIBOR plus five percent (5%) per annum.

If a Defaulting Partner has not remedied the default by the thirtieth (30th) day, then, during the continuance of such default, the Defaulting Partner shall not be entitled to its Participating Interest share of Service Fees, which shall vest in and be the property of the Non-Defaulting Partners. The Service Fees due to the Defaulting Partner shall proportionately be

paid to the Non-Defaulting Partners, which Fees shall be credited against all monies advanced by such Non-Defaulting Partners on behalf of the Defaulting Partner. The balance of such fees, if any, shall be paid to the Defaulting Partner when such default has been remedied.

- 7.3 State Partner may ask the other Partners by a prior notice to pay its Participating Interest share of costs and expenses in foreign currency on its behalf. The other Partners shall share such costs and expenses in proportion to their Participating Interest, unless agreed otherwise. The amount so paid by the other Partners on behalf of State Partner shall bear interest at the rate of LIBOR plus one percent (1%) per annum with effect from its due date until it is fully recovered by other Partners from the Service Fees due and payable to the State Partner under the Contract. The other Partners shall be entitled to the State Partner's share of Service Fees until such time as all amounts so paid on the State Partner's behalf, plus interest, have been recovered.

8. WITHDRAWAL

After the Minimum Work and/or Expenditure Obligations have been fulfilled, any Partner shall have the right to elect, by giving notice to the other Partners, to withdraw from the Contract and the JOA. Each of the other Partners may also give notice that it desires to withdraw from the Contract and the JOA. Should all Partners give such notice of withdrawal, the Partners shall proceed to abandon the Contract area and terminate the Contract and JOA. If less than all of the Partners give such notice of withdrawal, then the withdrawing Partners shall execute and deliver all necessary instruments and documents to assign their Participating Interest to the non-withdrawing Partners, without any compensation whatsoever. Such assignment to the non-withdrawing Partners shall be in proportion to their Participating Interests, unless otherwise agreed among them. The non-withdrawing Partners shall take the assignment of all of the withdrawing Partners' Participating Interests; otherwise, the Partners shall be deemed to have decided to withdraw from the Contract and the JOA.

9. ASSIGNMENT

Each Company may transfer, subject to any requirement under the Contract, all or part of, its Participating Interest under the Contract and the JOA to an Affiliate without the consent of the other Partners; provided that such Company shall remain responsible for the performance of the financial and other obligations under the Contract and the JOA to the same extent as if the transfer had not occurred and provided further that Company shall notify the other Partners of any such transfer. Without prejudice to the provisions of the Contract, no transfer of any interest under the Contract and the JOA to third Partners may be made by any Partner without the written consent of the other Partners which consent shall not be unreasonably withheld. The transfer by a Partner of its interest under the Contract and the JOA to third Partners shall be subject to ROC's approval and its pre-emptive right and to the preferential rights of the other Partners. The assignee or transferee shall be bound by the Contract and the JOA.

10. RELATION OF THE PARTNERS

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

11. GOVERNING LAW AND ARBITRATION

The JOA shall be governed by, construed, interpreted and applied in accordance with the laws of Iraq. Any dispute, controversy or claim arising out of or in relation to or in connection with the JOA or the operations carried out thereunder, including without limitation any dispute as to the validity, interpretation, enforceability or breach of the JOA, shall be settled by arbitration in Paris, France in accordance with the Rules of Conciliation and Arbitration of the International Chamber of Commerce conducted in the manner contemplated in Article 37 of the Contract.

12. EFFECTIVE DATE AND TERM

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

13. JOINT OPERATING AGREEMENT (JOA)

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

(End of Addendum One)

ADDENDUM TWO – HEADS OF CRUDE OIL TRANSFER AGREEMENT

1. DEFINITIONS

This Addendum Two is attached to and made part of the Technical Service Contract for ___ Oil Field. Terms defined in the Technical Service Contract shall have the same meanings for the purpose of this Heads of Agreement.

2. SCOPE

This Heads of Agreement prescribes the basic principles to be included in a Crude Oil Transfer Agreement to be executed by and between the Operator and Transporter for transportation of Net Production of the Field to the Delivery Point under the Contract.

3. SCOPE OF CRUDE OIL TRANSFER AGREEMENT

Provided Operator complies with its obligations under the Contract and this Addendum related to the Transportation System, Transporter, on behalf of ROC, shall receive from Operator at the Transfer Point the Net Production from the Field for transportation to the Delivery Point.

4. FACILITIES AT THE TRANSFER POINT

For the purpose of the transfer of Crude Oil, Operator may use a parcel of land at the Transfer Point and construct necessary facilities thereon.

5. TRANSFER RATE

Operator shall have the right and the obligation to tender Crude Oil at the Transfer Point at a certain average rate as per the current approved production schedule for the Field based on the approved Development Plan. However, Operator in co-ordination with Transporter may transfer Crude Oil at a peak rate up to twenty percent (20%) above the approved average rate for temporary periods to compensate for any operational constraints. In the event that the throughput capacity of the pipeline system or the related facilities is constrained for unforeseeable reasons beyond the control of the Transporter and that the throughput of the pipeline system is consequently restricted, Operator shall reduce its deliveries accordingly.

6. TRANSFER CONDITIONS

Crude Oil shall be transferred at the Transfer Point from one or more Crude Oil quality streams in accordance with the approved Development Plan, and at the pressure commensurate with the pressure required by the existing Transportation System. The quality of each Crude Oil stream transferred at the Transfer Point shall be subject to certain conditions and specifications to be agreed upon by Transporter and Operator. Operator shall not mix any additives with the Crude Oil tendered for transportation, without prior written approval of Transporter.

7. MEASURING

Operator shall install, maintain and operate all facilities necessary for the measurement of Crude Oil at each Production Measurement Point. Operator shall notify ROC prior to any calibration of such measurement facilities and allow ROC's representatives to attend such calibration activities. Unless agreed otherwise by the Parties to the Contract, any inaccuracy determined during such calibration activities shall be deemed to have existed since the mid-point between the last calibration and the current calibration. Similarly, Export Oil that may be lifted by Contractor shall be measured at the Delivery Measurement Point in accordance with standard SOMO measurement practices.

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

8. TRANSPORTATION SYSTEM

8.1 Operator shall build Transportation Facilities in support of the Transportation System pursuant to the approved Development Plan, which shall be handed over to Transporter upon completion and commissioning.

8.2 Operator shall ensure the participation of Transporter's representatives during engineering and construction of the Transportation Facilities, as well as the training of Transporter's personnel concerning operation and maintenance to be conducted before handing Transportation Facilities over to Transporter. Operator shall provide Transporter with all documents and guarantees relating to the said Facilities. Operator and Transporter shall agree in advance on a procedure for smooth hand-over of the Transportation Facilities after completion and commissioning.

8.3 In order to improve the efficiency and/or to increase the capacity of the Transportation System, ROC, Transporter, or Operator may propose to construct facilities in addition to or to modify the existing transportation facilities including major replacements. Such additions and/or modifications shall be carried out by Operator or Transporter. Operator shall participate in the financing of the same in proportion to the production of the Field in relation with other users and such participation shall be considered recoverable Petroleum Costs.

9. EFFECTIVE DATE AND TERM

This Heads of Agreement shall be valid and effective as from the Effective Date of the Contract and shall continue in effect until the Contract terminates or upon the Operator and Transporter entering into the Crude Oil Transfer Agreement, whichever is the earlier.

10. GOVERNING LAW AND ARBITRATION

The Crude Oil Transfer Agreement shall be governed by, construed, interpreted and applied in accordance with the laws of Iraq. Any dispute, controversy or claim

arising out of or in relation to or in connection with the Crude Oil Transfer Agreement or the operations carried out thereunder, including without limitation any dispute as to the validity, interpretation, enforceability or breach of the Crude Oil Transfer Agreement, shall be settled by arbitration in Paris, France in accordance with the procedures set forth in Article 37 of the Contract.

11. RELATED PROCEDURES

Procedures existing on the Effective Date for lifting, storage, tanker nomination and other related activities may later be adjusted to support the efficient implementation of the Export Oil Sales Agreement.

12. TRANSPORTATION AGREEMENT

Within six (6) months from the Effective Date of the Contract, the Operator shall enter into the Crude Oil Transfer Agreement with Transporter which shall embody the principles in this Heads of Agreement and it may include such other provisions as customarily used by international petroleum industry and shall continue in effect as long as the Contract is in effect.

(End of Addendum Two)

ADDENDUM THREE – HEADS OF AGREEMENT ON THE FIELD OPERATING DIVISION

This Addendum Three is attached to and made part of the Producing Oilfield Technical Service Contract for ... Field. Terms defined in the Contract shall have the same meanings for the purposes of this Heads of Agreement.

1. ESTABLISHING OF THE FIELD OPERATING DIVISION (“FOD”)

- 1.1 Pursuant to Article 9 of the Contract, and in close consultation and coordination with the Co-operator, the Regional Operating Company (ROC) shall establish within its organizational structure a non-incorporated but dedicated special status Field Operating Division (“FOD”) with the necessary special authorities to enable it discharge its duties in this regard. The FOD shall be established promptly after the Effective Date, but shall take over the conduct of Petroleum Operations within twelve (12) months from the Effective Date.
- 1.2 FOD shall conduct its activities in accordance with the provisions of the Contract, this Addendum Three and such agreements as may be entered into in the future by the parties to this Addendum Three.
- 1.3 Co-operator and ROC shall agree, at least three (3) months prior to FOD taking over Operatorship, on the procedure to secure a smooth transfer of Petroleum Operations from ROC to FOD.

2. FOD NAME

The name of FOD shall be [name of Oil Field] Operating Division.

3. HEADQUARTERS OF FOD

The FOD shall have its own head office distinct from that of ROC.

4. FOD OBJECTIVES

- 4.1 FOD shall assume the authorities and duties of the Operator to the extent they apply to the conduct of Petroleum Operations, but on behalf of the Parties to the Contract, and to the account of Contractor, all in accordance with the provisions of the Contract and this Addendum Three.
- 4.2 FOD shall prepare and, after approval, implement Development Plans, Work Programs and budgets in accordance with the Contract. FOD shall keep account of all costs, expenses and expenditures for such Petroleum Operations under the terms of the Contract and Annex C attached thereto.
- 4.3 In conducting Petroleum Operations under the Contract, FOD and its Sub-Contractors shall comply with applicable laws, regulations, by-laws and orders from time to time in force in Iraq in accordance with Article 29 of the Contract.

5. ROLE OF CONTRACTOR AND CO-OPERATOR

After the FOD has taken over conduct of Petroleum Operations and has become Operator, Contractor (through Co-operator) shall have a major role in all the planning, decisions, surveillance, and day-to-day conduct of Petroleum Operations by the FOD, as set forth in more detail in this Section 5. In general, Contractor shall make available appropriate managerial and technological skills and personnel to the FOD with a view to ensuring that Petroleum Operations can be performed in accordance with the best practices of the international petroleum industry. The role of Co-operator with respect to Petroleum Operations shall include the following:

- 5.1 Working together with FOD in the preparation of the Rehabilitation Plan or Enhanced Redevelopment Plan, the Development Plan and all Revisions, as well as Work Programs and budgets (in a manner so that FOD shall progressively assume maximum direct responsibility for these matters over time).
- 5.2 Providing assistance to FOD in connection with the use of advanced technology provided by Contractor in connection with Petroleum Operations, including where appropriate providing necessary technical experts, and field supervisors, and providing training to Operator with a view to allowing FOD to take the greatest responsibility practicable for the day-to-day conduct of such activities.
- 5.3 Assisting FOD with respect to the organization of Engineering, Procurement, Installation and Construction procedures, including the establishment of contracting procedures in accordance with international petroleum industry practices and relevant Iraqi laws and regulations.
- 5.4 Providing assistance to FOD and the JMC in connection with financial and accounting matters, including the organization of financing for Petroleum Operations and the negotiation of appropriate financing documentation; the implementation of internal control and financial reporting systems sufficient to allow compliance with the requirements of the Contract and applicable Iraqi law; the negotiation of engagement arrangements with external auditors (subject to approval by the JMC) including the determination of the scope of work and remuneration of such auditors.
- 5.5 Providing necessary administrative support with respect to the organization of activities of the JMC, including assistance in establishing operating procedures for meetings and written consents of the JMC members, assistance in preparing reports and presentations for the JMC, establishment of administrative support services for the JMC (maintenance of minute books, payment of reasonable expenses relating to meetings, furnishing of documents and information prior to JMC meetings).
- 5.6 Providing such additional support and assistance as may be reasonably required in order to allow Petroleum Operations to be conducted in accordance with best practices in the international petroleum industry, and as may be approved or requested by the JMC.

Co-operator shall provide the foregoing services and assistance either by making personnel with relevant technical or financial expertise available to FOD, or by providing such services and assistance directly, as determined by the JMC.

6. FINANCING

FOD shall have neither profit nor loss. Costs, expenses and expenditures, incurred and paid by FOD to carry out Petroleum Operations, shall be financed by Contractor and recovered as Petroleum Costs according to the Annual Work Program and budget recommended by its JMC and approved by ROC in accordance with the provisions of the Contract.

7. FUNCTION OF FOD

FOD shall not own any right, title or interest under the Contract or in the Petroleum produced from the Field. FOD shall function as Operator and shall assume all relevant responsibilities of Operator under the Contract.

8. JOINT MANAGEMENT COMMITTEE

A JMC shall be formed pursuant to Article 13 of the Contract for the purpose of overall supervision and control of Petroleum Operations. In addition to the authorities and duties set forth in Article 13.2 of the Contract, following the establishment of FOD, the JMC Co-operator shall have the following duties and authorities:

- 8.1 Overall supervision and control of FOD.
- 8.2 The establishment of the operating organisation and procedure.
- 8.3 The structuring of the accounting system and of the financial controls as well as the financial planning insofar as it is necessary to manage FOD.
- 8.4 The establishment of the procedures for the funding of Petroleum Operations by Contractor.
- 8.5 The appointment and replacement of the General Manager, the Deputy General Manager and the other senior divisional managers of FOD, and the definition of their respective powers, subject to the approval of the ROC.
- 8.6 The establishment and update of the organisation chart of FOD, including the identification of the positions to be filled through secondment from ROC or Contractor, respectively, and those to be filled through direct employment or on a contractual basis. The Co-operator should be prepared to fill positions within the FOD as and where required upon the request of the JMC.
- 8.7 Establishment of the employment procedures and personnel regulations of FOD.
- 8.8 Prior approval of the terms of the service or secondment agreements to be entered into by FOD with ROC and Contractor.
- 8.9 Any other not specifically conferred to ROC by law or by the charter of FOD, and which the JMC has not entirely delegated.

9. MANAGEMENT

The General Manager and Deputy General Manager of FOD shall be nominated by the Regional Operating Company and Co-operator, respectively. Divisional Managers of FOD shall be appointed by the General Manager and Deputy General Manager. The General Manager shall be the chief executive officer of the FOD.

10. EMPLOYMENT REGULATIONS

FOD shall give preference to Iraqi personnel in accordance with Article 9 of the Contract.

The JMC shall approve the regulations covering the terms and conditions of employment of the personnel of FOD employed directly by FOD.

11. LIABILITY

Neither FOD nor the Co- operator (in such capacities) shall have any liability to the Contractor or ROC for acts or omissions undertaken in connection with Petroleum Operations or otherwise under the Contract, except any losses (excluding consequential damages) caused by the Gross Negligence or Wilful Misconduct of FOD or Co- operator (as the case may be). The Contractor shall indemnify FOD and Co- operator against any losses, claims or damages arising from or in connection with Petroleum Operations, except losses, claims or damages caused by the Gross Negligence or Wilful Misconduct of FOD or Co- operator (as the case may be).

12. DURATION OF FOD

The minimum duration of FOD shall extend up to the end of the Term of the Contract, including any extensions thereof.

13. FULL AGREEMENT ON THE FOD

Pending the conclusion by the Parties of the full agreement, these Heads of Agreement setting forth the principal terms of the agreement shall apply.

14. HAND-OVER OF OPERATORSHIP

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

15. GOVERNING LAW AND ARBITRATION

All laws and regulations, by-laws and orders from time to time in force in Iraq shall apply to FOD, if and to the same extent they apply to Contractor, Operator and/or the Contract in accordance with Article 29. The FOD agreement shall be governed by, and construed in accordance with, the laws of the Republic of Iraq. Any dispute arising from or in connection with the FOD agreement shall be

settled in accordance with Article 37 of the Contract.

16. CONFIDENTIALITY

Confidentiality provisions of Article 33 of the Contract shall apply for these Heads of Agreement, subsequent full agreement and operations of FOD.

17. EFFECTIVE DATE AND TERM

These Heads of Agreement shall come into force on the Effective Date of the Contract and shall continue in effect until the Contract terminates or upon the full FOD agreement taking effect, whichever is the earlier.

(End of Addendum Three)

ADDENDUM FOUR – HEADS OF EXPORT OIL SALES AGREEMENT

This Addendum Four is attached to and made part of the Technical Service Contract of _____ Oil Field. Terms defined in the Technical Service Contract shall have the same meanings for the purpose of this Heads of Agreement.

SPECIAL TERMS (PART 1)

1. ADDITIONAL DEFINITIONS

For the purpose of this Heads of Agreement, terms defined in the Contract shall have the same meanings. In addition:

"Seller" means Iraq Oil Marketing Company "SOMO", on behalf and for the account of ROC.

"Buyer" means Contractor.

"Parties" means Seller and Buyer.

"Lifting Quarter" means the Quarter during which Export Oil is available for lifting by Contractor, under the Contract, at the Delivery Point where any Lifting Quarter shall be the Quarter following a Quarter for which Service Fees are due and payable.

2. QUANTITY

(a) Forward Quantity Statement

No later than the first day of the first Month of the Quarter immediately preceding any Lifting Quarter, Contractor shall invoice ROC the outstanding Service Fees due and payable to Contractor under the Contract as these will stand on the first day of the said Lifting Quarter. ROC shall review the invoice and will either confirm its accuracy, or advise Contractor of any errors. The invoice shall be agreed by the 15th of said first Month.

Accordingly, no later than the first day of the second Month, the Buyer shall furnish to the Seller a statement of the volume of Export Oil to be lifted from each standard export quality in each Month of the said Lifting Quarter ("Forward Quantity Statement"). The Forward Quantity Statement will be based on the Service Fees due and payable to Contractor as agreed by ROC, divided by the relevant Export Oil Price which shall be determined in accordance with Article 18 of the Contract, applicable for the Month before the Forward Quantity Statement or for the preceding Month if the former is not available ("Provisional Price"). However, the volume of Export Oil to be lifted by Contractor in any Lifting Quarter shall not exceed the upper limit set for payment of due Service Fees, and the balance of such Service Fees, at the end of the said Lifting Quarter, shall be carried forward, all pursuant to Article 19 and the Accounting Procedure (Annex C).

The Price used for calculating the volume from each standard export quality for the first Lifting Quarter shall be the official Export Oil Price of the Seller for that quality, or such other price as the Parties may agree upon.

The volumes of the different qualities of Export Oil to be lifted by the Buyer in a Lifting Quarter shall be in the same proportion as the different qualities of Net Production from the Field during the Quarter, or as otherwise agreed between the Seller and the Buyer.

ROC shall review the Forward Quantity Statement, and will either confirm its accuracy, or advise Contractor of any errors in the calculation of the volumes to be lifted. The nominal quantity agreed for each Month may be varied by up to plus or minus five percent (5%) as operational tolerance at the time of actual loading. Actual quantity lifted is based on net bill of lading.

For smooth and timely lifting and reporting under this Agreement, the Parties may establish a specialized "Joint Committee" with representatives from ROC, Contractor, and SOMO.

(b) Lifting Statement

The Seller shall furnish to the Buyer and the Joint Committee a statement setting out the actual Barrels of the Export Oil lifted during a Lifting Quarter and the actual Price for the Month of lifting ("Lifting Statement"), within fifteen (15) days after the end of each Lifting Quarter. The Buyer shall review the Lifting Statement, and will advise the Seller of any errors in the calculations contained therein, within fifteen (15) days after receipt of the Lifting Statement, with a copy to the Joint Committee. Notwithstanding the above, it is agreed that the final certified shipping documents shall be controlling as to volumes lifted. Attachment A to this Agreement contains a sample schedule of notifications, lifting and adjustments applicable for lifting during a Year.

(c) Seller's Option to Deliver Excess Volumes

The Seller may, at its option, elect to deliver excess Export Oil over and above the offset volumes required in any Lifting Quarter under the Contract. The actual value of any such excess Export Oil lifted by the Buyer under the price clause hereunder will reduce the outstanding balance of due Service Fees under the Contract, as reflected in the then most current Quarterly report. If the Seller wishes to exercise this option to deliver excess Export Oil in any Lifting Quarter, the Seller must notify the Buyer of such election no later than the first day of the second Month of the preceding Quarter.

3. DELIVERY

F.O.B relevant Iraqi loading terminal

4. EFFECTIVE DATE AND TERM

This Heads of Agreement shall come into effect from the Effective Date of the Contract and shall continue in effect until the Contract terminates or the Buyer and the Seller enter into the Export Oil Sales Agreement whichever is earlier.

5. PRICE

Export Oil Price shall be determined pursuant to Article 18 of the Contract. The value of the quantity of Export Oil lifted ("Proceeds") shall be credited to Seller's account, immediately upon receipt by the Buyer, under the Contract.

6. PAYMENT

The Proceeds receivable by the Seller under this Agreement shall be used to reduce the amounts owed to the Buyer by the ROC under the Contract and, therefore, no payments to the Seller are required for such Export Oil deliveries. The Buyer shall not be required to pay the Seller nor post letters of credit or other guarantees of payment, relative to such deliveries, except for deliveries in excess of amounts owed to the Buyer under the Contract.

7. EXPORT OIL SALES AGREEMENT

Contractor and SOMO shall in due time enter into the Export Oil Sales Agreement which shall embody the principles set out in this Heads of Agreement and it may include such other provisions as customarily used by international petroleum industry and shall continue in effect for the Term of the Contract. Pending the execution of the Export Oil Sales Agreement, the provisions of this Heads of Agreement shall apply.

GENERAL TERMS AND CONDITIONS (PART 2)

All other terms and conditions in Seller's General Terms and Conditions for Export Oil Sale/Purchase Contracts ("GTC") apply, except as amended in the special conditions here-above.

Any provisions in Seller's GTC which allow the Seller to suspend or terminate all or part of this Heads of Agreement or the subsequent Export Oil Sales Agreement shall act only to cancel affected lifting which will be rescheduled by mutual agreement. The arbitration provisions of the Contract shall apply *mutatis mutandis*.

Attachment A to Addendum Four- Export Oil Lifting and Reporting

		Export Oil Lifting and Reporting (Assuming first lifting in January)	No Later Than
Quarter preceding First Lifting Quarter	Oct.	Quarterly Service Fees Reports agreed (for next Quarter)	15 th
	Nov.	Forward Quantity Statement for First Lifting Quarter (Price = October price)	1 st
	Dec.	January crude nomination (acceptance of all Month nominations by 20th)	10 th
First Lifting Quarter	Jan.	February crude nomination Quarterly Service Fees Report agreed	10 th 15 th
	Feb	Forward Quantity Statement, for Second Lifting Quarter (Price=January price) March crude nomination	1 st 10 th
	Mar	April crude nomination	10 th
Second Lifting Quarter	Apr	May crude nomination Lifting Statement and Quarterly Service Fees Report agreed (Adjustment made for First Quarter actuals)	10 th 15 th
	May	Forward Quantity Statement (For Third Quarter) (Price = April price) June crude nomination	1 st 10 th
	June	July crude nomination	10 th
Third Lifting Quarter	July	August crude nomination Lifting Statement and Quarterly Service Fees Report agreed (Adjustment made for Second Quarter actuals)	10 th 15 th
	Aug.	Forward Quantity Statement (For Fourth Quarter) (Price = July price) September crude nomination	1 st 10 th
	Sep.	October crude nomination	10 th
Fourth Lifting Quarter	Oct.	November crude nomination Lifting Statement and Quarterly Service Fees Report agreed (Adjustment made for Third Quarter actuals)	10 th 15 th
	Nov.	Forward Quantity Statement (For next Quarter) (Price = October price) December crude nomination	1 st 10 th
	Dec.	January crude nomination	10 th

(End of Addendum Four)

