

PETROLEUM ACT
OF THE KURDISTAN REGION OF IRAQ

**FINAL DRAFT FOR SUBMISSION TO THE
PARLIAMENT OF KURDISTAN**

(Subject to approval by the Council of Ministers)

9 SEPTEMBER 2006

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PETROLEUM ACT OF THE KURDISTAN REGION OF IRAQ, 2006**PREAMBLE**

Whereas, the Parliament is the legislative authority of Kurdistan and consists of the representatives of the people chosen through free and fair elections,

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

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

Whereas, the supremacy of Kurdistan law is recognised by Articles 115 and 121 of the Constitution of Iraq,

Whereas, the development of petroleum wealth in Kurdistan shall be consistent with Articles 111 and 112 of the Constitution of Iraq, concerning oil and gas resources, and

Whereas, the Government of Kurdistan has established, by Act of the Parliament, a Ministry of Natural Resources in Kurdistan, with responsibility for all natural resources except for water, and forestry,

The Parliament enacts as follows:

CHAPTER I - DEFINITIONS AND GENERAL PROVISIONS**Article 1: Citation**

This Act may be cited as the “Petroleum Act”.

Article 2: Definitions

In this Act:

“Access Authorisation” means an authorisation granted pursuant to Article 29 of this Act;

“Act” means this Petroleum Act, as amended or modified from time to time, and regulations made and directions given under it;

“Affiliate” means, as regards any of the companies or entities constituting a Contractor, a company or other legal entity which:

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

“Asset” means any item of immovable property, whether public or private;

“Associated Natural Gas” means any gaseous Petroleum produced in association with Crude Oil under reservoir conditions;

“Authorisation” means an Access Authorisation, a Petroleum Contract, a Prospecting Authorisation or any agreement made in respect of such an Authorisation or Contract;

“Authorised Area” means the area that is from time to time the subject of an Authorisation;

“Authorised Person” means:

- (a) in respect of a Petroleum Contract, a Contractor; and
- (b) in respect of any other Authorisation, the Person to whom the Authorisation has been granted;

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

“Contract Area” means the Authorised Area under a Petroleum Contract;

“Contractor” means a Person with whom the Ministry has made a Petroleum Contract;

“Control” means direct or indirect control of the majority of the voting rights at the shareholders meetings or their equivalent;

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

“Current Field” means a Petroleum Field which has been in commercial production prior to 22 August 2005, 22 August 2005 being the date on which the text of Article 112 of the Constitution of Iraq was agreed;

“Decommission” means, in respect of the Authorised Area or a part of it, as the case may be, to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property, and other works, used in Petroleum Operations in the Authorised Area, to clean up the Authorised Area and make it good and safe, and to protect the environment;

“Delivery Point” means the point, after extraction, at which the Crude Oil and Natural Gas is ready to be taken and sold, consistent with international practice, and the point at which a Person may acquire title to Petroleum in accordance with Article 5 of this Act;

“Discovered Petroleum” means Petroleum encountered in a Reservoir in a Contract Area which has not previously been found, and which is recoverable at the surface in a flow measurable by accepted petroleum industry testing methods;

“Disputed Territories” means the disputed territories including Kirkuk referred to in Article 58 of the Law of Administration for the State of Iraq for the Transitional Period and Article 140 of the Constitution of Iraq;

“Environment Fund” means the fund, administered by the Government, to which Contractors are required to contribute pursuant to the terms of a Production Sharing Contract, as specified in Article 42 of this Act;

“Federal Petroleum Committee” means any institution established by the Government of Iraq with competencies set out in Annex B of this Act;

“Future Field” means a Petroleum Field that was not in commercial production prior to 22 August 2005, and any other Petroleum Field that may have been, or may be, discovered as a result of subsequent exploration;

“Good Oil Field Practice” means such practices and procedures employed in the petroleum industry worldwide by prudent and diligent operators under conditions and circumstances similar to those experienced in connection with the relevant aspect or aspects of the Petroleum Operations, principally aimed at ensuring:

- (i) conservation of Petroleum resources, which implies the utilization of adequate methods and processes to maximise the recovery of hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline, and to minimise losses at the surface;
- (ii) operational safety, which entails the use of methods and processes that promote occupational security and the prevention of accidents;
- (iii) environmental protection, that calls for the adoption of methods and processes which minimise the impact of Petroleum Operations on the natural environment;

“Government” means the Government of Kurdistan, which holds office under the Constitution of Kurdistan;

“Government of Iraq” means the Federal Government of the Republic of Iraq, which holds office under the Constitution of Iraq;

“Governorate” has the same meaning as in the Constitution of Iraq;

“Inspector” has the meaning in Article 38 of this Act;

“Kurdistan” means the Kurdistan Region of Iraq recognised by the Constitution of Iraq pursuant to Article 117 of that Constitution, and shall include any Disputed Territories where the citizens in those Disputed Territories, in the referendum required by Article 140 of the Constitution of Iraq, decide that those Disputed Territories are to be part of Kurdistan;

“Minister” means the person appointed by the Prime Minister of Kurdistan, and approved by the Parliament, to direct the Ministry;

“Ministry” means the Ministry of Natural Resources of Kurdistan;

“Model Production Sharing Contract” means a model Petroleum Contract that may be promulgated and revised from time to time by the Ministry, which contains, *inter alia*, an element of commercial risk undertaken by the Contractor in exchange for a share of production, and which may be used as the basis for negotiations for a Petroleum Contract between the Government and Persons who have expressed an interest in carrying out Petroleum Operations;

“Natural Gas” means all gaseous hydrocarbons and inerts, including wet gas, dry gas, casing head gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not Crude Oil;

“Operator” means an Authorised Person or other Person named in an Authorisation to manage Petroleum Operations;

“Other Contract” means any contract other than a Petroleum Contract;

“Parliament” means the Parliament of Kurdistan;

“Person” means a natural person, a corporation or other legal entity, whether local or foreign, or public or private;

“Petroleum” means:

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

“Petroleum Contract” means a contract, licence, permit or other authorisation made or given pursuant to Article 28 of this Act;

“Petroleum Field” means a Reservoir or group of Reservoirs within a common geological structure or feature from which Petroleum may be commercially produced under the prevailing technical and economic conditions;

“Petroleum Operations” means activities in Kurdistan and in Disputed Territories where Kurdistan is a party to the dispute, for the purposes of:

- (i) prospecting for Petroleum;
- (ii) exploration for, development, exploitation, marketing, transportation, refining, storage, sale or export of Petroleum; or
- (iii) construction, installation or operation of any structures, facilities or installations for the development, exploitation, transportation, refining, storage, and export of Petroleum, or decommissioning or removal of any such structure, facility or installation;

“Prospecting Authorisation” means an authorisation granted pursuant to Article 27 of this Act;

“Public Authority” means the Kurdistan Exploration and Production Company (KEPCO), the Kurdistan National Oil Company (KNOC), the Kurdistan Oil Marketing Organisation (KOMO), the Kurdistan Organisation for Downstream Operations (KODO), the Kurdistan Oil Trust Organisation (KOTO), and any other company or organisation established by law for activities related to Petroleum Operations;

“Public Officer” means a civil servant, including a member or employee of a Public Authority, a member of the Parliament or a member of Government;

“Region” means the Kurdistan Region, or any other Region of Iraq which may be created pursuant to Article 118 and 119 of the Constitution of Iraq, and laws passed under that Constitution;

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

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

“State Oil Marketing Organisation” or “SOMO” means any organisation established by the Government of Iraq to export and market produced Petroleum that falls within the authority of the Government of Iraq, pursuant to Article 112 of the Constitution of Iraq;

“State Oil Trust Organisation” or “SOTO” means any organisation established by the Government of Iraq to receive revenues from petroleum operations that fall within the authority of the Government of Iraq pursuant to Article 112 of the Constitution of Iraq;

“Well” means a perforation in the earth’s surface dug or bored through subsurface rock formations for the purpose of exploring for, inspecting or producing Petroleum; and

“Wellhead” means the point where the Well and associated systems intersect the earth’s surface.

Article 3: Territorial scope of Act

This Act applies to the territory of Kurdistan and Disputed Territories where Kurdistan is a party to the dispute.

Article 4: Material scope of Act

Section 1: This Act applies to Petroleum Operations, whether carried out by public companies or by private sector companies, whether Iraqi-owned or foreign.

Section 2: All activities related to Petroleum Operations in Kurdistan, and in Disputed Territories where Kurdistan is a party to the dispute, shall be governed by this Act.

Section 3: Pursuant to Article 115 and Section 3 of Article 121 of the Constitution of Iraq, no legislation or other law, and no agreement, contract, memorandum of understanding or other instrument shall have application to Petroleum Operations in Kurdistan or in those Disputed Territories where Kurdistan is a party to the dispute, except with the express agreement of the Government and pursuant to the provisions of this Act.

Article 5: Title to Petroleum and Government rights

Section 1: Petroleum in Kurdistan is owned by the people of Kurdistan, in a manner consistent with Article 111 of the Constitution of Iraq. Revenue derived from such Petroleum shall be shared with all the people of Iraq, pursuant to Article 112 of the Constitution of Iraq and this Act.

Section 2: The Ministry shall oversee and regulate all Petroleum Operations, pursuant to Article 115 of the Constitution of Iraq and in a manner consistent with Article 112 of the Constitution of Iraq. The Government may licence Petroleum Operations to third parties to maximise timely returns from the oil and gas resources of Kurdistan.

Section 3: The Ministry shall oversee and regulate the marketing of all extracted Petroleum from the Delivery Point, where that Petroleum has been extracted from Petroleum Operations.

Section 4: The Government shall receive all revenue derived from all Petroleum Operations for the benefit of the people of Kurdistan subject to Article 17 and Annex A of this Act, and consistent with Article 112 of the Constitution of Iraq.

Section 5: A Person may acquire title to Petroleum only at the Delivery Point.

Article 6: Infrastructure and downstream activities

Section 1: All infrastructure used directly or indirectly for Petroleum Operations currently located in Kurdistan, including but not limited to Assets for production, refining, transportation including pipelines, valve stations, pump stations, compressor stations and associated installations, and distribution, including

all centres and buildings, shall be overseen and regulated by the Ministry to optimise Petroleum production in Kurdistan.

Section 2: All downstream Petroleum Operations, including refining, transportation, storage, and the production of petrochemicals, shall be administered by the Ministry.

Section 3: All infrastructure referred to in Section 1 of this Article shall be available, pursuant to the provisions of this Act, to the Government of Iraq and to all other producing Regions and Governorates for the benefit of all the people of Iraq, to integrate with Iraq national policy for export and distribution.

Section 4: The main pipeline network shall also be available to any Persons lawfully conducting Petroleum Operations in Iraq, and such access shall be agreed by the Ministry on terms to be defined by contract.

CHAPTER II - THE MINISTRY

Article 7: General competencies

Section 1: The Ministry is the competent organ of the Government to administer Petroleum Operations. The responsibilities of the Ministry include, but are not limited to, the formulation, regulation and monitoring of Petroleum Operation policies, as well as the administration, planning, implementation, supervision, inspection, auditing and enforcement of all Petroleum Operations by all Persons and all activities relating thereto, including the marketing of Petroleum.

Section 2: The Ministry is responsible for negotiating, agreeing and executing all Authorisations, including Petroleum Contracts, entered into by the Government, as well as for amending the terms of any Authorisation to ensure that Petroleum Operations are carried out for the benefit of the people of Kurdistan.

Article 8: Public Authority regulation

Section 1: The Ministry is responsible for regulating the operations of:

- (a) the Kurdistan Exploration and Production Company (KEPCO), as set out in Article 12 of this Act;
- (b) the Kurdistan National Oil Company (KNOC), as set out in Article 13 of this Act;
- (c) the Kurdistan Oil Marketing Organisation (KOMO), as set out in Article 14 of this Act;
- (d) the Kurdistan Organisation for Downstream Operations (KODO), as set out in Article 15 of this Act, and
- (e) the Ministry is also responsible, under the supervision of the Parliament, for overseeing the operations of the Kurdistan Oil Trust Organisation (KOTO), as set out in Article 17 of this Act.

Section 2: The Ministry may recommend the creation of, and regulate the operations of, other Public Authorities for gas exploration, production and for the supply and procurement of services to facilitate the effective running of Petroleum Operations.

Article 9: Encouragement of investment

Section 1: The Ministry shall encourage public and private sector investment in Petroleum Operations in a manner that ensures efficient management of the natural oil and gas resources to provide maximum timely returns to the people of Kurdistan.

Section 2: The Ministry shall encourage the construction of all new downstream operations and plants, including pipelines and refineries, to be built, where possible, by, or in partnership with, the private sector.

Article 10: Organisation of the Ministry

Section 1: The Minister may organise the Ministry, and appoint such staff as he may deem necessary, including Directors-General, Officers, and advisers from Kurdistan, other parts of Iraq, or foreign advisers, in any way that is compatible with modern standards and management structures.

Section 2: All present organisations, offices, centres and institutions directly or indirectly under the authority and control of the Government that have responsibilities for Petroleum Operations in Kurdistan shall be appropriately organised or reorganised by the Minister, taking into account the responsibilities set out in this Chapter.

Section 3: All present organisations, offices, centres and institutions directly or indirectly under the authority and control of the Government that have responsibilities for Petroleum Operations in the Disputed Territories shall come under the joint control of the Ministry and the designated authorities of the Government of Iraq, and may be organised or reorganised at the joint discretion of the Minister and the designated authorities of the Government of Iraq, until such time as the future of the Disputed Territories is decided in the referendum required by Article 140 of the Constitution of Iraq.

Section 4: All positions in the Ministry shall be filled on the basis of appropriate qualifications, capability and experience.

Section 5: The Minister shall, wherever possible, fill available positions with citizens of Kurdistan and other citizens of Iraq. Where necessary, persons who are not citizens of Iraq may be employed or retained by the Ministry.

Section 6: The Ministry may establish representative offices outside Kurdistan to promote investment in Kurdistan Petroleum Operations.

Article 11: Exercise by the Ministry of its powers and functions

The Ministry shall exercise its powers and discharge its functions under this Act, including under Authorisations made hereunder, in such a manner as:

- (a) to ensure sound resource management;
- (b) to ensure that Petroleum is developed in a way that minimises damage to the natural environment, is economically sustainable, promotes further investment and contributes to the long-term development of Kurdistan; and
- (c) is reasonable and consistent with Good Oil Field Practice.

Before exercising any such power or discharging any such function, the Ministry may give opportunity to Persons likely to be affected to make timely representations to it, and shall give consideration to such relevant representations received by it, provided that the interests of the people of Kurdistan are not thereby adversely affected.

CHAPTER III - THE PUBLIC AUTHORITIES

Article 12: Establishment and competencies of KEPCO

Section 1: The Kurdistan Exploration and Production Company (KEPCO) is hereby established.

Section 2: KEPCO is a public company.

Section 3: Members of the Board of KEPCO, including the Chief Executive Officer, shall be appointed by the Government, and approved by a two-thirds majority of Parliament. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Section 4: Subject to an agreement pursuant to Article 22 of this Act, an additional Board member may be appointed by the designated institution of the Government of Iraq.

Section 5: KEPCO may, subject to the approval of the Government on a case by case basis:

- (a) compete for Authorisations for Future Fields;
- (b) enter into joint ventures and similar contractual arrangements, whether in Kurdistan, in other Regions and Governorates of Iraq or abroad; and
- (c) create operating subsidiaries for particular Petroleum Operations in respect of Future Fields.

Section 6: KEPCO shall be governed by this Act, the regulations issued by the Ministry, and other applicable laws and rules.

Article 13: Establishment and competencies of KNOC

Section 1: The Kurdistan National Oil Company (KNOC) is hereby established.

Section 2: KNOC is a public company.

Section 3: Members of the Board of KNOC, including the Chief Executive Officer, shall be appointed by the Government, and approved by a two-thirds majority of Parliament. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Section 4: Subject to any agreement pursuant to Article 22 of this Act, an additional Board member may be appointed by the designated institution of the Government of Iraq.

Section 5: KNOC shall be responsible for operating Current Fields.

Section 6: Subject to the approval of the Government, KNOC may enter into joint ventures with reputable and experienced international petroleum companies for Petroleum Operations to enhance production from Current Fields, to maximise early returns. Subject to an agreement pursuant to Article 22 of this Act, such a joint venture will also be subject to the approval of the appropriate institution of the Government of Iraq.

Section 7: KNOC may, subject to the approval of the Government on a case by case basis, compete for Authorisations for Future Fields.

Section 8: KNOC shall be governed by this Act, the regulations issued by the Ministry, and other applicable laws and rules.

Article 14: Establishment and competencies of KOMO

Section 1: The Kurdistan Oil Marketing Organisation (KOMO) is hereby established.

Section 2: KOMO is a public company.

Section 3: Members of the Board of KOMO shall be appointed by the Government. The Chairman of KOMO shall be the Minister.

Section 4: KOMO shall be governed by this Act, the regulations issued by the Ministry, and other applicable laws and rules.

Section 5: KOMO shall market and/or regulate the marketing of the Government's share of Petroleum from Petroleum Operations, and may, with the agreement of a Contractor to a Production Sharing Contract, market the Contractor's share of Petroleum.

Article 15: Establishment and competencies of KODO

Section 1: The Kurdistan Organisation for Downstream Operations (KODO) is hereby established.

Section 2: KODO is a public company.

Section 3: Members of the Board of KODO, including the Chief Executive Officer, shall be appointed by the Government, and approved by a two-thirds majority of Parliament. Members shall be independent of the Ministry, and shall have petroleum or other appropriate technical and management qualifications.

Section 4: The Ministry may assign some of its downstream rights in respect of Petroleum Operations to KODO.

Section 5: KODO shall be governed by this Act, the regulations issued by the Ministry, and other applicable laws and rules.

Section 6: KODO shall manage all current infrastructure related to Petroleum Operations referred to in Article 6 of this Act, and shall make available such infrastructure, including the main pipeline network, to the Government of Iraq and to all other producing Regions and Governorates to integrate with Iraq national policy for export and distribution.

Section 7: KODO, subject to the approval of the Government, may compete for Authorisations, may in its own right create operating subsidiaries for particular Petroleum Operations, and may enter into joint ventures, and similar contractual arrangements, whether in Kurdistan, or in other Regions and Governorates.

Section 8: KODO may enter into partnership with international oil companies or with the local private sector for new downstream Petroleum Operations, subject to the approval of the Government.

Section 9: KODO may licence the management of such infrastructure to third parties with the approval of the Ministry.

Article 16: Application of company law

KEPCO, KNOC, KOMO, and KODO shall each be subject to the general company law of Kurdistan, and held accountable as commercial enterprises and subject to the same rules, regulations and obligations.

Article 17: Establishment and competencies of KOTO

Section 1: The Kurdistan Oil Trust Organisation (KOTO) is hereby established.

Section 2: KOTO is supervised by the Parliament.

Section 3: Members of the governing body of KOTO shall be nominated by the Council of Ministers and approved by the Parliament, and the powers and accountabilities of its members shall be defined in detail by law.

Section 4: Consistent with Article 115 of the Constitution of Iraq, all revenues from Petroleum Operations that are the subject matter of this Act may be received by KOTO on behalf of the people of Kurdistan, subject to Article 19 of this Act and any agreement pursuant to Article 22 of this Act.

Section 5: All revenues from Petroleum Operations that shall be remitted by the Government of Iraq to Kurdistan shall be received by KOTO on behalf of the people of Kurdistan.

Section 6: KOTO shall maintain two accounts: one for revenues from Petroleum Operations in respect of Current Fields (the Current Fields Account); and one for revenues from Petroleum Operations in respect of Future Fields (the Future Fields Account). Both accounts shall be part of the general revenue of Kurdistan under the authority of the Parliament.

Section 7: The Current Fields Account and the Future Fields Account shall be subject to independent audit, and such audit shall be available to the public. In all other respects KOTO shall discharge its responsibilities consistent with the Principles and Criteria of the Extractive Industries Transparency Initiative (EITI) as set out in the EITI Source Book of March 2005.

CHAPTER IV - COOPERATION WITH FEDERAL AUTHORITIES

Article 18: Strategic policy formulation

The Government shall, together with the Government of Iraq, formulate strategic policies to develop the Petroleum wealth of Iraq in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of market principles and encouraging investment, consistent with Article 112 of the Constitution of Iraq.

Article 19: Revenue sharing

The Government shall share revenues from Petroleum Operations pursuant to the provisions of Annex A of this Act, and subject to Article 22 of this Act.

Article 20: Restructuring of the industry in Iraq

The Government shall cooperate with the Government of Iraq to restructure the petroleum industry of Iraq pursuant to Annex B of this Act, and subject to Article 22 of this Act.

Article 21: Regional role of federal institutions

The Government shall agree that the two upstream federal institutions referred to in paragraph (f) of Annex B of this Act shall have a role in Kurdistan, subject to Article 22 of this Act.

Article 22: Conditional cooperation

Section 1: Without prejudice to Kurdistan's constitutional rights, the cooperation of the Government referred to in Articles 19, 20 and 21 of this Act is conditional upon the Government of Iraq

- (a) concluding an agreement with the Government on revenue sharing, distribution and administration of extracted Petroleum as set out in Annex A of this Act,
- (b) restructuring the petroleum industry of Iraq pursuant to Annex B of this Act, and
- (c) accepting the role for federal institutions in the Regions pursuant to Annex C of this Act.

Section 2: If the conditions set out in Section 1 of this Article are not met in full within three (3) months of the date of entry into force of this Act, then, consistent with this Act, including Articles 4, 5 and 6 of this Act, and consistent with the rights of Kurdistan as specified in the constitution of Iraq, Kurdistan shall retain exclusive control of Petroleum Operations, including marketing. In those circumstances, Kurdistan shall also retain exclusive management and control of Petroleum revenues from Petroleum Operations, which shall be administered by KOTO pursuant to Section 7 of Article A1, and Section 8 of Article A2, of Annex A of this Act.

CHAPTER V - ANTI-CORRUPTION PROVISIONS

Article 23: Restrictions to rights of public officers

Section 1: A Public Officer shall not acquire, attempt to acquire or hold:

- (a) an Authorisation or an interest, whether direct or indirect, in an Authorisation; or
- (b) a share in a corporation (or an Affiliate of it) that holds an Authorisation, unless as part of a non-discriminatory transparent process of privatization of a Government-owned company.

Section 2: Any instrument that grants or purports to grant, to a Public Officer, an interest, whether direct or indirect, in an Authorisation shall, to the extent of the grant, be void.

Section 3: The acquisition or holding of an Authorisation, interest or share by the minor children or spouse of a Public Officer shall be deemed to be an acquisition or holding by the Public Officer.

Section 4: The Minister shall require, by regulation, that all Public Officers be subject to the filing of financial disclosure statements, which, in the case of senior Public Officers, shall be made public.

Section 5: The laws of Kurdistan concerning corruption shall apply to all Public Officers.

Article 24: Application of corruption laws

Section 1: If any Authorisation obtained in violation of the laws of Kurdistan, including laws concerning corruption, the Authorisation is void *ab initio*.

Section 2: An Authorised Person who is in breach of the laws of Kurdistan concerning corruption may lose the Authorisation or part of the Authorisation and a clause to this effect shall be included in all Authorisations.

Article 25: Criminal law

A Person who is in breach of the laws concerning corruption may be prosecuted according to the applicable laws of Kurdistan.

CHAPTER VI - AUTHORISATIONS

Article 26: Division into parcels of land

For the purposes of this Act, the territory of Kurdistan, or parts of the territory of Kurdistan, shall be divided into parcels of land by the Ministry from time to time, and shall be defined by Universal Transverse Mercator (UTM) and Geographic coordinates.

Article 27: Prospecting

Section 1: The Ministry may grant a Prospecting Authorisation, in respect of a specified area, to a Person or a group of Persons.

Section 2:

- (a) A Prospecting Authorisation grants a right to perform geological, geophysical, geochemical and geotechnical surveys in the Authorised Area.
- (b) The Prospecting Authorisation may require the Authorised Person to report on the progress and results of such prospecting, and to maintain confidentiality with respect to such prospecting.
- (c) Nothing in a Prospecting Authorisation authorises the holder to drill a Well or to have any preference or right to make a Petroleum Contract.

Section 3: Prior to granting a Prospecting Authorisation in respect of an area that is the subject of an existing Authorisation, the Ministry shall give written notice to the holder of the existing Authorisation.

Section 4:

- (a) The holder of a Prospecting Authorisation may surrender it at any time by written notice to the Ministry, provided that the Authorised Person has fulfilled all its obligations thereunder.

- (b) If the holder has not complied with a condition to which the Prospecting Authorisation is subject, the Ministry may terminate it by written notice to the holder.

Article 28: Exploration and Development

Section 1: The Ministry may conclude a Petroleum Contract for exploration and development in respect of a specified area, with a Person or a group of Persons, provided that if a group, such group enters into a joint operating agreement approved by the Ministry under Article 35 of this Act. The Person, or a group of Persons, may include Kurdistan and other Iraqi companies, as well as foreign oil companies.

Section 2: Petroleum Contracts may be based on a Model Production Sharing Contract, or on other contracts which the Ministry considers to provide good and timely returns to the people of Kurdistan. The fiscal terms to be contained in a Production Sharing Contract are specified in CHAPTER VIII of this Act. In no circumstances shall a Petroleum Contract guarantee a rate of return to the Contractor.

Section 3: In order to be eligible to enter into a Petroleum Contract, a Person must demonstrate:

- (a) the financial capability, and the technical knowledge and technical ability, to carry out the Petroleum Operations in the Contract Area, including direct experience in carrying out similar petroleum operations; and
- (b) a record of compliance with principles of good corporate citizenship, and a commitment to the Ten Principles of the Global Compact, launched by the United Nations on 26 July 2000.

Section 4:

- (a) Without prejudice to Article 29 of this Act, a Petroleum Contract grants to the Contractor the exclusive right to conduct Petroleum Operations in the Contract Area.
- (b) The Petroleum Contract may be limited to Crude Oil, Natural Gas or other constituents of Petroleum.

Section 5:

- (a) A Contractor shall give written notice to the Ministry within forty eight (48) hours whenever any Petroleum is encountered in its Authorised Area.
- (b) The Contractor shall provide in a timely manner such information relating to the Discovered Petroleum as requested by the Ministry.

Section 6: A Petroleum Contract shall oblige the Contractor to carry on Petroleum Operations only in accordance with work programs, plans and budgets approved by the Ministry.

Article 29: Access

Section 1:

- (a) The Ministry may grant an Access Authorisation, in respect of a specified area, to a Person or a group of Persons.
- (b) The Ministry may not grant an Access Authorisation in respect of an area that is the subject of a Petroleum Contract or a Prospecting Authorisation until it has taken into account any submissions made by the holders of such Authorisations in such a way that there is no undue interference with the rights of that other Authorised Person.

Section 2:

- (a) An Access Authorisation, while it remains in force, authorises the holder to do one or more of the following:
 - (i) construct, install and operate structures, facilities and installations; and
 - (ii) carry out other works;

as specified in the Authorisation in the Authorised Area.

- (b) Nothing in an Access Authorisation authorises the holder to drill a Well.

Section 3:

- (a) An Access Authorisation:
 - (i) may be surrendered by the holder by written notice to the Ministry, provided that the Authorised Person has fulfilled all its obligations thereunder; and
 - (ii) may be terminated by the Ministry at any time by written notice to the holder, if the holder has not complied with a condition to which the Authorisation is subject.
- (b) The Ministry shall provide written notice of the surrender or termination to any Authorised Person in whose Authorised Area operations were authorised to be carried on by the Access Authorisation concerned.

Section 4: The Ministry may give a direction to the holders of Access Authorisations and to other Authorised Persons regarding the coordination of their respective Petroleum Operations.

Article 30: Third party access

Every Petroleum Contract and Access Authorisation shall require that third party access be granted on reasonable terms and conditions.

Article 31: Invitations and awards

Section 1:

- (a) The Ministry may invite, by public notice, applications for Authorisations.
- (b) The Ministry may, where it is in the public interest to do so, elect to award Authorisations through direct negotiation.
- (c) The invitation may stipulate that applications be submitted in Kurdish, Arabic, or English.

Section 2:

- (a) An invitation shall specify the area of the Authorisation, the proposed activities, the criteria upon which applications will be assessed, the applicable fees to be paid with the application, and the date and the manner in which the applications may be made.
- (b) Unless the invitation otherwise states, the Ministry may choose not to award an Authorisation to any of the applicants.

Section 3:

- (a) An application for an Authorisation shall include proposals for:
- (i) securing the health, safety and welfare of persons involved in or affected by the Petroleum Operations;
 - (ii) protecting the environment, preventing, minimising and remedying pollution, and other environmental harm from the Petroleum Operations;
 - (iii) training of, and giving preference in employment in the Petroleum Operations to, citizens of Kurdistan and other citizens of Iraq; and
 - (iv) the acquisition of goods and services from Persons based in Kurdistan and other parts of Iraq.
- (b) An Authorisation awarded to an applicant obliges it to comply with its proposals set out in Section 3(a) of this Article.

Section 4: The Ministry shall not grant an Authorisation in respect of an area until it has given due consideration to all applications made in response to, and in compliance with, an invitation.

Section 5: The Ministry shall not grant an Authorisation with a value greater than fifty million United States Dollars (USD \$50,000,000.00) or, any Authorisation which is a Production Sharing Contract, until it has:

- (a) received a formal report from a Contract Evaluation Committee, whose members shall be approved by Parliament; and
- (b) obtained the approval of the Council of Ministers.

CHAPTER VII – CONDUCT OF PETROLEUM OPERATIONS

Article 32: Work practices

Section 1: Production of Petroleum shall take place:

- (a) in such a manner that as much as possible of the Petroleum in place in each individual Petroleum deposit, or in several deposits in combination, will be produced;
- (b) in accordance with Good Oil Field Practice and sound economic principles; and
- (c) in such a manner that waste of Petroleum or reservoir energy is avoided.

Section 2: Contractors shall carry out regular evaluation of Petroleum production strategy and technical solutions and shall take the necessary measures in order to achieve the objectives of Section 1 of this Article.

Article 33: Petroleum exploitation

Section 1: The existence of Petroleum Authorisations in force in a given area does not prevent permissions for the exploration and exploitation of mineral substances other than Petroleum, provided that such other activity does not seriously hinder the proper performance of the Petroleum Operations.

Section 2: In the event that exercise of the rights and obligations referred to in Section 1 of this Article are incompatible, the Ministry shall decide which of the rights and obligations shall prevail and under what

terms, without prejudice to any compensation which may be due to the holders of the rights thereby overridden.

Article 34: Restrictions on exercise of rights

Section 1:

- (a) An Authorised Person shall not exercise any of the rights granted under an Authorisation or under this Act for the following or similar cases:
 - (i) on any public Asset without the consent of the responsible authority;
 - (ii) on any private Asset of the Government without the consent of the responsible authority; or
 - (iii) on any private Asset without payment of fair and reasonable compensation to the owner.
- (b) The owner of any Asset in an Authorised Area retains rights to the use of its Asset except in so far as the use interferes with Petroleum Operations.
- (c) An Authorisation may limit or otherwise control the use by an Authorised Person of public infrastructure, and the consumption of other natural resources, including trees, sand, gravel, rock and water.
- (d) An Authorisation does not constitute a waiver of the obligation to seek the written consent of responsible authorities.

Section 2:

- (a) The Authorised Person is liable to pay fair and reasonable compensation if, in the course of Petroleum Operations, it:
 - (i) disturbs the rights of the owner of any Asset, or causes any damage thereon; or
 - (ii) demonstrably interferes with any other lawful activities.
- (b) If the value of any benefits have been enhanced by the Petroleum Operations because of violations under Section 2(a) of this Article, compensation payable in respect of such rights shall not exceed any amount which would be payable if the value had not been so enhanced.

Section 3: A fair and reasonable compensation under this Article shall be estimated and decided by the Ministry, after having considered representations by interested parties. The Authorised Person shall be entitled to arbitration by an independent international expert appointed by the Minister and the Authorised Person.

Article 35: Approvals

Section 1: Any joint operating agreement, any lifting arrangement and any agreement related to the Petroleum Operations, as well as any changes to such agreements, shall be subject to prior approval by the Ministry.

Section 2:

- (a) Any changes in Control of an Authorised Person shall be subject to prior approval by the Ministry which shall not be unreasonably withheld or delayed.

- (b) Where a change in Control occurs without the prior approval of the Ministry, the Ministry may terminate the applicable Authorisation.
- (c) For the purposes of Section 2(a) of this Article, change in Control includes a Person ceasing to be in Control (whether or not another Person becomes in Control), and a Person obtaining Control (whether or not another Person was in Control).

Section 3: Except with the prior written consent of the Ministry, or as explicitly provided in the terms of the Authorisation, no assignment, transfer, conveyance, novation, merger, encumbrance or other similar dealing in respect of an Authorisation shall be of any force or effect.

Article 36: Joint and several liability

If there is more than one Authorised Person in respect of a particular Authorisation, the obligations and liabilities of the Authorised Person under an Authorisation are the obligations and liabilities of them all, jointly and severally.

Article 37: Title to data

Section 1: Kurdistan shall have title to all data and information, whether raw, derived, processed, interpreted or analysed, obtained pursuant to any Authorisation.

Section 2: Notwithstanding Section 1 of this Article, Authorised Persons may retain copies of such data and information and freely use some or all for the duration of a relevant Authorisation but shall have no title to such data after the termination of the Authorisation.

Section 3: Data and information acquired during the course of Petroleum Operations may, with the permission of the Ministry, be freely exported by Authorised Persons provided that the Ministry may require that an original, or in the case of a core, rock, fluid or other physical sample, a usable portion of the original, of all data and information, both physical and electronic, be kept in Kurdistan.

Article 38: Audit and inspection

Section 1: The Ministry may appoint a person to be an inspector for the purposes of this Act (an "Inspector"). The Inspector, who shall be an official of the Ministry, will have the powers and rights provided to him in the regulations.

Section 2: On request, an Authorised Person shall make its books and accounts available to the Ministry for auditing.

Article 39: Termination of Authorisations

Section 1:

- (a) Termination of an Authorisation for any reason is without prejudice to rights and obligations expressed in this Act or the Authorisation to survive termination, or to rights and obligations accrued thereunder prior to termination, and all provisions of an Authorisation reasonably necessary for the full enjoyment and enforcement of those rights and obligations survive termination for the period so necessary.

- (b) The Ministry shall have the power to terminate an Authorisation as set out in the Authorisation.

Section 2: If there is more than one Authorised Person in respect of a particular Authorisation and circumstances arise in which the Ministry may terminate an Authorisation, the Ministry may elect to terminate an Authorisation only in respect of those Authorised Persons whose acts or omissions have led to such circumstances, and shall so notify the remaining Authorised Persons.

Section 3: In the event that the Ministry elects to terminate an Authorisation pursuant to Section 2 of this Article, the interest of those Authorised Persons whose Authorisation has been terminated shall revert to the Ministry and shall be used for the best interests of the people of Kurdistan.

Article 40: Indemnification of the Government and Ministry

Section 1: An Authorised Person shall defend, indemnify and hold harmless the Government and Ministry from all claims by third parties resulting, directly or indirectly, from Petroleum Operations.

Section 2: An Authorised Person shall, unless the Ministry is satisfied, after consultation with the Authorised Person, that the potential liability under Section 1 of this Article can be covered by other means, maintain insurance in respect thereof on a strict liability basis for such amount as the Ministry requires from time to time.

Article 41: Decommissioning and Restitution

Section 1: An Authorised Person shall Decommission on the earlier of:

- (a) termination of the Authorisation; and
- (b) when no longer required for Petroleum Operations;

and, in either case:

- (i) except with the consent in writing of the Ministry and in accordance with the conditions of the consent; or
- (ii) unless the Authorisation otherwise provides.

Section 2: Without prejudice to any criminal liability, a Person who engages in Petroleum Operations other than pursuant to an Authorisation shall:

- (a) make restitution to Kurdistan of an amount equal to the market value of Petroleum developed, exploited or exported, together with late payment interest thereon at a rate not to exceed the legal rate of interest to be determined by the Ministry;
- (b) either forfeit all infrastructure and equipment used in engaging in those Petroleum Operations, or remove such infrastructure and equipment or be liable for the payment of the costs of such removal; and
- (c) clean up pollution resulting from those Petroleum Operations, or reimburse the costs of clean-up to Kurdistan;

cumulatively or not, as is determined to be appropriate by the Ministry in order to place Kurdistan in the position in which it would have been were it not for the Petroleum Operations engaged in other than pursuant to an Authorisation.

Section 3: The liabilities under Section 2 of this Article of Persons who, together, are engaged in, or have engaged in, Petroleum Operations are the liabilities of them all, jointly and severally.

CHAPTER VIII - CONTRACT TERMS

Article 42: Production Sharing Contract terms

Section 1: The terms defined in Sections 2, 3 and 4 of this Article shall apply to any Contractor, whether local or foreign.

Section 2: The terms of a standard Production Sharing Contract shall include the following:

- (a) An initial exploration term of a maximum of five (5) years, divided into two sub-periods, of three (3) years and two (2) years, extendable on a yearly basis for up to a maximum total of seven (7) years;
- (b) relinquishment of twenty-five percent (25%) after the initial exploration term, with a further twenty-five percent (25%) of the remaining area at the end of each renewal period. If these percentages of relinquishments can only be achieved by including part of the area of a discovery, these percentages shall be reduced to exclude the discovery area. Voluntary relinquishment at the end of each Contract year is permitted;
- (c) an exploration commitment, which shall be negotiable, usually involving the purchase and interpretation of all existing data, including seismic data, where available, and seismic acquisition in the first sub-period, with exploration drilling in the second sub-period and a well in each of the annual extensions;
- (d) a development period, following discovery, to be twenty (20) years, with an automatic right of a five (5) year extension, with possible further extensions to be negotiated;
- (e) Royalty, with a minimum rate at seven point five percent (7.5%) for oil with a gravity up to twenty (20) degrees American Petroleum Institute (API), eight point five percent (8.5%) for oil up to thirty (30) degrees API, and ten percent (10%) for oil over thirty (30) degrees API, and with a minimum rate of five percent (5%) for Natural Gas, increasing based on daily production, and paid in accordance with Article 45 of this Act;
- (f) cost recovery from a portion of production, to a maximum not exceeding seventy percent (70%) for oil with a gravity up to fourteen (14) degrees American Petroleum Institute (API), sixty-five percent (65%) for oil between fourteen (14) and twenty (20) degrees API, sixty percent (60%) for oil between twenty (20) and thirty (30) degrees API, and fifty-five percent (55%) for oil over thirty (30) degrees API, and with a maximum rate of seventy percent (70%) for Natural Gas;
- (g) production sharing from remaining production after Royalty and allowable cost recovery according to a formula which takes into account cumulative revenues and cumulative petroleum costs and provides the Contractor with reasonable returns; but that formula shall not guarantee a rate of return to the Contractor;
- (h) annual surface rental during exploration phases;

- (i) Government participation for a direct working interest in development and production with participation terms which must be fixed and defined in each Contract, and which shall be kept to a minimum;
- (j) a commitment to the payment of a prescribed amount into an Environment Fund, to be administered by the Government for the benefit of the natural environment of Kurdistan, and
- (k) provisions for securing the health, safety and welfare, environmental protection, training, and acquisition of goods and services, consistent with international standards and with the proposals made pursuant Section 3 of Article 31 of this Act.

Section 3: For any Production Sharing Contract that the Ministry considers to involve an unusually high element of commercial risk (such as a Production Sharing Contract involving frontier exploration) or to require an unusually high amount of up-front capital (such as major integrated upstream and downstream projects), the minimum Royalty percentage stated in Section 1(e) of this Article may be reduced to zero percent (0%) and the cost recovery percentage stated in Section 1(f) this Article may be increased to one hundred percent (100%).

Section 4: For any Production Sharing Contract that the Ministry considers to involve an unusually low element of commercial risk (such as a Production Sharing Contract for a Contract Area in which there is Discovered Petroleum), a Royalty percentage up to the maximum, and a cost recovery percentage down to the minimum, may be applied.

Section 5: Any Production Sharing Contract shall clearly define the applicable terms with respect to Associated and non-Associated Natural Gas in such a manner to facilitate the development of a gas industry in Kurdistan and in Disputed Territories where Kurdistan is a party to the dispute. Those terms shall include provisions for the optimal utilisation of surplus volumes of produced Natural Gas, and terms to minimise the flaring of Natural Gas.

Article 43: Other Contracts

The Ministry may enter into Other Contracts, which may include service contracts, field management contracts, guaranteed rate of return contracts, supply and installation contracts, construction contracts, consulting contracts, or any other types of contracts that the Ministry may from time to time require to efficiently manage the Petroleum resources of Kurdistan. Such Other Contracts may contain some element of risk to reward the contractor for performance, timely completion, and achieving high value targets.

Article 44: Taxation

Section 1: Contractors, Authorised Persons and other Persons associated with Petroleum Operations may be liable for Kurdistan taxes, including:

- (a) surface tax;
- (b) personal income tax;
- (c) corporate income tax;
- (d) customs duties and any other similar taxes;
- (e) windfall profits or additional profits tax; and
- (f) any other tax, levy or charge expressly included in its Petroleum Contract or this Act.

Section 2: The Petroleum Contract shall clearly state the taxation liability of a Contractor. This provision shall apply notwithstanding a commitment by the Government to pay that liability on behalf of the Contractor and to issue taxation certificates to the Contractor to that effect.

Section 3: The Parliament shall, in due course, promulgate a Petroleum Operations Taxation Act.

Section 4: Pursuant to Article 115 and Section 2 of Article 121 of the Constitution of Iraq, Kurdistan taxes shall be the only taxes that apply to Petroleum Operations.

Article 45: Royalty payment

Section 1: Contractors with a Production Sharing Contract shall pay a Royalty to the Government in the amount set forth in their Petroleum Contract. Unless the Royalty has been fixed at zero percent (0%) pursuant to Section 3 of Article 42 of this Act, those Production Sharing Contracts shall provide for levels of Royalty increasing above the minimum rate defined in Section 2 of Article 42 of this Act based on incremental daily production rates.

Section 2: The volume of Petroleum constituting the Royalty shall be calculated directly by applying the percentage specified in the Petroleum Contract for a given level of daily production to the total amount of Petroleum produced and saved as from the date the relevant level of daily production is reached.

Section 3: The Royalty may be required by the Ministry to be paid in kind or in cash, fully or partially. Unless otherwise required, it shall be understood that the Ministry has elected to receive the Royalty in full and in cash and the Royalty shall be paid at least quarterly or more frequently as provided for in the applicable Petroleum Contract.

Section 4: When the Ministry elects to receive the Royalty in cash, the producing Contractor shall pay such Royalty on the basis of the selling price of the Petroleum.

Article 46: Disputed Territories

Section 1: The Ministry may enter into Petroleum Contracts for Petroleum Operations in Disputed Territories where the Minister concludes after consultation with other governmental authorities in Kurdistan that it is likely that the citizens in those Disputed Territories, in the referendum required by Article 140 of the Constitution of Iraq, will decide that those Disputed Territories are to be part of Kurdistan.

Section 2: The Ministry may, together with the Government of Iraq, jointly manage Petroleum Operations in Disputed Territories until such time as the future of the Disputed Territories is decided in the referendum required by Article 140 of the Constitution of Iraq.

Section 3: In the event of a decision of the citizens of those Disputed Territories in the referendum required by Article 140 of the Constitution of Iraq, that those Disputed Territories are to be part of Kurdistan, Petroleum Operations in those Disputed Territories may be the subject of any agreement pursuant to Article 22 of this Act.

Section 4: A Petroleum Contract concluded pursuant to Section 1 of this Article shall include an undertaking by the Ministry that in the event of a decision of the citizens of those Disputed Territories in the referendum required by Article 140 of the Constitution of Iraq, that those Disputed Territories are not to be part of Kurdistan:

- a) the Petroleum Contract shall be transferred to the Government of Iraq or to the adjacent Region or Governorate, as appropriate, and

- b) if the Government of Iraq does not accept the contract terms previously agreed with the Government, the Contractor shall be indemnified by the Government for fair value in reliance upon the Petroleum Contract.

Article 47: Kurdistan consumption requirements

All Contractors are obliged to sell and transfer to the Government, upon written request of the Ministry, any amounts of Petroleum that the Government shall deem necessary to meet Kurdistan internal consumption requirements. The sales price of Petroleum shall be established pursuant to the applicable Petroleum Contract, or in the absence thereof, fair market value.

Article 48: Government and Contractor returns

Section 1: When concluding any Petroleum Contract, the Ministry shall conduct its own inquiry into the likely Contractor compensation from the proposed Petroleum Operations, to ensure that the return to the people of Kurdistan and all of Iraq is maximised, but allows the Contractor terms which are fair and consistent with international standards.

Section 2: Where the Ministry is concluding a Petroleum Contract for areas that contain proven Petroleum, the Ministry shall ensure that the Petroleum Contract provides adequate returns for the Government, while allowing a reasonable return to the Contractor.

CHAPTER IX - LOCAL PARTICIPATION

Article 49: Local content

Section 1: Authorised Persons shall give priority to partnering with competent local companies owned by Persons from Kurdistan and other parts of Iraq. Such a local partner must:

- (a) be a bona fide company not related to any Public Officer, directly or indirectly;
- (b) have adequate resources and capacity to add value to the Petroleum Operations carried out by the Authorised Person, and
- (c) must be approved by the Ministry, according to clear criteria which the Ministry shall prescribe by regulation.

Section 2: Authorised Persons shall give preference to the employment of Kurdistan and other Iraqi personnel to the extent such personnel have the requisite qualifications, competence and experience required to perform the work.

Section 3: Authorised Persons shall give priority to the purchase of local products and services from Kurdistan and other parts of Iraq, wherever they are competitive in terms of price, quality and timely availability.

Article 50: Training and technology transfer

Section 1: An Authorisation shall include a clearly defined training program for local employees of the Authorised Person, which may be carried out in Kurdistan or in foreign countries, and may include scholarships and other financial support for education.

Section 2: An Authorisation shall include, where possible, a commitment by the Authorised Person to maximise knowledge transfer to the people of Kurdistan, and to establish in Kurdistan any necessary facilities for technical work, including the interpretation of data.

Article 51: Contractor offices in Kurdistan

A Contractor shall maintain an office in Kurdistan.

CHAPTER X - UNITISATION

Article 52: Unitisation of Reservoirs within Kurdistan

Section 1: If a Reservoir lies entirely within Kurdistan, any unitisation of the Reservoir shall be the responsibility of the Ministry.

Section 2: The unitisation of Reservoirs within Kurdistan shall be consistent with international standards in the petroleum industry.

Section 3: If a Reservoir lies partly within a Contract Area, and partly in another Contract Area,

- (a) The Ministry may require by written notice the Contractors to enter into a joint unitisation agreement for the Reservoir with each other for the purpose of securing the more effective and optimised production of Petroleum from the Reservoir; and
- (b) if no joint agreement has been reached within a reasonable period of time from receipt of written notice stated in paragraph (a) above, the Ministry shall decide on the unitisation, and the Contractors will be entitled to independent arbitration pursuant to the provisions of Article 55 (Resolution of Disputes) of this Act.

Section 4: If a Reservoir lies partly within a Contract Area and partly in an area that is not the subject of any other Petroleum Contract:

- (a) The Ministry may require by written notice the Contractor to enter into a joint unitisation agreement for the Reservoir with the Ministry for the purpose of securing the more effective and optimised production of Petroleum from the Reservoir; and
- (b) if no agreement has been reached within a reasonable period of time from receipt of written notice as required in paragraph (a) above, the Ministry shall decide on the unitisation, and the Contractor shall be entitled to independent arbitration, or the decision shall be according to the conditions of the Petroleum Contract where such a process is provided for under the Contract.

Section 5: Without limiting the matters to be dealt with in the unitisation agreement, any agreement reached shall define the amount of Petroleum in each area covered by the unitisation agreement, and shall appoint the Operator responsible for production of the Petroleum covered by the unitisation agreement.

Section 6: The Ministry may approve the development or exploitation of Petroleum from the Reservoir only after it has approved or decided the unitisation agreement.

Section 7: Any changes to the unitisation agreement shall be subject to prior approval by the Ministry.

Article 53: Unitisation of Reservoirs across a Kurdistan boundary, but within Iraq

Section 1: If a Reservoir lies across a Kurdistan border into other areas that are part of Iraq, the unitisation of the Reservoir shall be the responsibility of the Ministry.

Section 2: For any Reservoir described in Section 1 of this Article, the Ministry shall endeavour to reach agreement with the Government of Iraq to manage the Reservoir as a single entity for development purposes.

Section 3: Any such agreement shall achieve the highest benefit to the people of Kurdistan and all of Iraq using the most advanced techniques and market principles to encourage investment, consistent with Article 112 of the Constitution of Iraq.

Section 4: In reaching such an agreement, the Ministry shall, if necessary, submit with the Government of Iraq the matter to arbitration by an independent international expert to be appointed by the Minister and representatives of the Government of Iraq.

Section 5: Such an agreement may specify that the unitised Reservoir be administered by a joint management body which shall comprise representatives of the Ministry and the Government of Iraq.

Article 54: Unitisation of Reservoirs across international borders

Section 1: If a Reservoir lies across a Kurdistan border into areas that are part of the domain of a neighbouring country, the unitisation of the Reservoir shall be the responsibility of the Ministry.

Section 2: For any Reservoir described in Section 1 of this Article, the Ministry shall endeavour to reach agreement with the neighbouring country to treat the Reservoir as a single entity for management and development purposes.

Section 3: Any such agreement shall lead to a complete equitable benefit for both parties from the exploitation of Petroleum from the Reservoir.

Section 4: If it becomes necessary, the Ministry shall assign to the Government of Iraq the right to represent the interests of Kurdistan in any such agreement.

Section 5: Any agreements leading to the exploitation of Petroleum from such a Reservoir shall require the prior approval of the Ministry and ratification by the Parliament and the President of Kurdistan.

CHAPTER XI - RESOLUTION OF DISPUTES

Article 55: Resolution of disputes

Section 1:

- (a) The Ministry may inquire into and decide on processes to resolve all disputes involving Persons engaged in Petroleum Operations, including disputes:
 - (i) among the Persons themselves, where agreements between them do not specify a dispute resolution mechanism; or
 - (ii) in relation to other parties (other than the Government) not so engaged.

- (b) The Ministry may refuse to decide any dispute referred to it and, if it does so, it shall notify the parties to the dispute in writing.
- (c) The Ministry may, taking into account all relevant circumstances, give any direction which may be necessary for the purpose of giving effect to its decision in proceedings pursuant to this Article, including ordering the payment, by any party to a dispute, to any other party to the dispute of such compensation as may be fair and reasonable.

Section 2:

- (a) If a dispute arises relating to the interpretation and/or application of the terms of an Authorisation between an Authorised Person and the Ministry, the parties shall attempt to resolve that dispute by means of negotiation.
- (b) If the dispute cannot be resolved by negotiation, either party may submit the dispute to arbitration.
- (c) Any arbitration between the Ministry and an Authorised Person shall be conducted, by agreement between the Parties, in accordance with:
 - (i) the 1965 Washington Convention, or the regulations and rules of the International Centre for the Settlement of Investment Disputes (ICSID) between States and Nationals of other States; or
 - (ii) the rules set out in the ICSID Additional Facility adopted on 27 September 1978 by the Administrative Council at the ICSID between States and Nationals of other States, whenever the foreign entity does not meet the requirements provided for in Article 25 of the Convention; or
 - (iii) the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL); or
 - (iv) the arbitration rules of the London Court of International Arbitration (LCIA); or
 - (v) such other rules of recognised standing (as agreed by the Parties, in respect of the conditions for implementation, including the method for the designation of the arbitrators and the time limit within which the decision must be made).
- (d) The obligations of the Ministry and the Authorised Person under the Authorisation shall continue pending the resolution of any matter submitted to arbitration.

Article 56: Exemption from or variation of conditions

The Ministry may exempt an Authorised Person from complying with the conditions of its Authorisation, and may also agree to vary or suspend those conditions, either with or without conditions and either temporarily or permanently.

CHAPTER XII – PUBLIC INFORMATION

Article 57: Publications by Ministry

Section 1: The Ministry shall publish:

- (a) notice of the grant of Authorisations,
- (b) invitations for applications for Authorisations; and
- (c) notice of the termination of Authorisations.

Section 2: The Ministry shall publish invitations for applications for Authorisations in the media, in such manner as is required by regulation.

Section 3: Publications of the Ministry required by this Act shall, wherever possible, be issued on a searchable website maintained by the Ministry.

Article 58: Information available to public

Section 1:

- (a) The Ministry shall make available to the public:
 - (i) details of all Authorisations and amendments thereto, whether or not terminated;
 - (ii) details of exemptions from, or variations or suspensions of, the conditions of an Authorization; and
 - (iii) copies of all unitisation agreements.
- (b) The Ministry shall make available to any member of the public, within a reasonable period of time of a request having been made by that person, summary details of:
 - (i) the Authorisations (and amendments, whether or not terminated) and unitisation agreements;
 - (ii) an approved Development Plan;
 - (iii) all assignments and other dealings consented to in respect of Authorisations, subject to commercial confidence as to the commercial terms.
- (c) The Ministry shall make available to the public, within a reasonable period of time of a request having been made, the summary details pertaining to Petroleum Operations.

Section 2: Within ten (10) business days of a request having been made, the Ministry shall publish brief reasons for:

- (a) granting an Authorisation subsequent to an invitation;
- (b) granting an Authorisation without inviting applications;
- (c) approving a Development Plan under a Petroleum Contract;
- (d) granting an exemption from, or agreeing to a variation or suspension of, the conditions of an Authorization; and
- (e) making any decision or granting any approval that, under an Authorisation, requires publication.

Section 3:

- (a) Companies shall report on their compliance with requirements under the Act and Authorisations in such manner and detail as required by their Authorisation and as provided by regulation.

- (b) The Ministry shall make available such reports to the public.

Section 4: The Ministry and Public Authorities shall make available to the public such reports by Authorised Persons on payments relating to Petroleum Operations made to the Government of Kurdistan as are required by law.

Section 5: The information contemplated in this Article shall be available to any Person on payment of the required fee, to be provided by regulation.

CHAPTER XIII – REGULATIONS AND DIRECTIONS

Article 59: Regulations

Section 1: The Ministry may make regulations under this Act relating to the following:

- (a) graticulation of the territory of Kurdistan;
- (b) Petroleum exploration and production;
- (c) the use and disclosure of data, information, records and reports;
- (d) the measurement and sale or disposal of Petroleum;
- (e) health and safety;
- (f) protection and restoration of the environment;
- (g) resources management;
- (h) structures, facilities and installations;
- (i) the clean-up operations and other appropriate methods to remedy and remove the effects of the escape of Petroleum;
- (j) abandonment and decommissioning;
- (k) the control of movement into, within and out of Kurdistan of persons, aircraft, vehicles and any other man-made structures;
- (l) work programs and budgets;
- (m) the control of tariffs charged for any third party access;
- (n) the auditing of an Authorised Person and of its accounts and records;
- (o) reporting by Authorised Persons on compliance with obligations set out in the Act and Authorisations, including in relation to:
 - (i) the training and employment of Kurdistan citizens and other citizens of Iraq,
 - (ii) procurement of Kurdistan and Iraqi goods and services,
 - (iii) occupational health and safety, and
 - (iv) environmental protection.
- (p) fees to be paid, including by applicants for Authorisations, Authorised Persons, and Persons wishing to inspect the public register; and
- (q) any other matters relating to this Act.

Section 2: The Ministry shall publish regulations.

Article 60: Directions

In addition to its power to give directions under Article 28 (Exploration and Development) of this Act and Article 55 (Resolution of Disputes) of this Act, the Ministry may give directions to an Authorised Person:

- (a) relating to any matter set out in Article 59 of this Act; or
- (b) otherwise requiring compliance with this Act or an Authorisation.

CHAPTER XIV – PENALTY PROVISIONS

Article 61: General law

The provisions of this Chapter are without prejudice to criminal and civil liability under the general law of Kurdistan.

Article 62: Unauthorised activities

Section 1: Whoever engages in any Petroleum Operations other than pursuant to an Authorisation shall be prosecuted and may face punishment under the laws of Kurdistan.

Section 2: Notwithstanding the provisions of Section 1 of this Article, the Ministry may also impose a financial penalty appropriate to the damage and inconvenience caused.

Article 63: Danger to people, property and environment

Whoever, by conduct that contravenes the provisions of this Act, endangers the life or physical integrity of a person, endangers any property of high value, or gravely endangers the environment, may be punished by:

- (a) Appropriate punishment under the laws of Kurdistan and the punishment level shall depend on whether the conduct and the creation of the danger are malicious, or arising from negligence;
- (b) Appropriate fine by the Ministry appropriate to the danger caused.

Article 64: Hindering the exercise of powers by the Inspector

Section 1: Whoever, directly or indirectly, in any measure or by any means, hinders, or leads someone else to hinder, the exercise of powers and rights by the Inspector, may be punished under the laws of Kurdistan, and attract financial penalty by the Ministry.

Section 2: An attempt to hinder may be punishable under laws of Kurdistan.

Article 65: Misleading information

Whoever, in, or in connection with, any application under this Act, knowingly or recklessly gives information that is materially false or misleading; or in any report, return or affidavit submitted under any provision of this Act or an Authorisation pursuant to this Act, knowingly or recklessly includes or permits to be included, any information which is materially false or misleading; may be punished under the laws of Kurdistan and may also attract financial penalty by the Ministry.

Article 66: Accessory penalty for non-compliance with Regulations or Directions

Section 1: Where a Person fails or neglects to comply with a regulation to which Article 59 of this Act refers, and/or with a direction to which Article 60 of this Act refers, the Ministry may cause to be done all or any of the things required by the regulation or direction to be done at the cost and expense of that Person.

Section 2: Costs and expenses incurred by the Ministry under the previous paragraph, together with interest thereon at a rate to be determined by the Ministry, shall be a debt due to the Government.

Article 67: Accessory penalties

In relation to the crimes provided for in the Act, the following accessory penalties may be applied:

- (a) Temporary deprivation of the right to participate in public tenders concerning Petroleum Operations, in particular those regarding Authorisations and the procurement of goods and services;
- (b) Embargo of any construction works, in such cases as they may result in irreversible damage to relevant public interests;
- (c) Disability, up to a maximum of two (2) years, of the exercise of activities, if the Person has, within the period of one (1) year starting from the date of the first contravention, contravened this Act, or regulations or directions issued thereunder;
- (d) Termination of Authorisations;
- (e) Good conduct bond;
- (f) Disability of rights to subsidies awarded by public entities or services;
- (g) Publication of the sentence; and/or
- (h) Other writs of prevention which are adequate taking into account the circumstances of the case in question.

Article 68: Liability of legal persons, corporations and other legal entities

Section 1: Legal persons, corporations or any other legal entities, including those without juridical personality, are liable for contraventions provided for in this Chapter when committed by its organs or representatives in its name.

Section 2: The liability is excluded where the agent has acted against express orders or instructions properly issued.

Section 3: The liability of the entities mentioned in Section 1 of this Article does not exclude the individual liability of the respective agents.

Section 4: The entities mentioned in Section 1 of this Article are jointly and severally liable, as provided for in civil law, for the payment of any fines or compensations, or for the fulfillment of any obligations, derived from the facts or with incidence on matters covered by the scope of this Act.

Article 69: Fines to legal persons, corporations and other legal entities

Section 1: In the case of legal persons, corporations or any other legal entities, including those without juridical personality, the daily rate for fines corresponds to an amount between five United States Dollars (USD \$5.00) and ten thousand United States Dollars (USD \$10,000.00), as determined by the Ministry, taking into account the economic and financial situation and burdens of the legal person, corporation or other legal entity.

Section 2: If the fine is applied to an entity without juridical personality, its payment will be guaranteed by the entity's assets and, in the event of non-existence of such assets or under-capitalisation, jointly and severally, the assets of each of the associates.

Article 70: Inspection

It is the competency of the Ministry and the Inspector, as well as any other organs of the public administration to whom such competency is delegated, in accordance with law and regulations, to ensure the inspection of compliance with the provisions of this Act, without prejudice to competencies which the law confers upon other public entities.

Article 71: Extrajudicial writ of execution

For purposes of coercive collection under general law, a certification issued by the Ministry in relation to a debt constituted, or amount due, as a result of the application of the provisions of this Act, which is not paid within a reasonable period to be determined by the Ministry, and which shall be notified in writing to the debtor, constitutes an extrajudicial writ of execution.

Article 72: Subsidiary legislation

The general criminal law of Kurdistan, both substantive and adjectival, as well as relevant administrative legislation, are applicable in a subsidiary manner, with the required adaptations, to the extent necessary to give effect to the provisions of this Chapter.

CHAPTER XV – OTHER AND FINAL PROVISIONS

Article 73: Transitional provisions: Kurdistan agreements

Section 1: Consistent with Article 141 of the Constitution of Iraq, all agreements related to Petroleum Operations concluded by the Government since 1992 remain in force, and the Ministry may review such agreements to bring them into conformity with this Act.

Section 2: The Ministry may review all agreements related to Petroleum Operations concluded by the Government after 15 October 2005 and prior to the date of entry into force of this Act to bring them into conformity with this Act.

Section 3: The fiscal terms of agreements referred to in Sections 1 and 2 of this Article may remain in force, if the Ministry at its sole discretion concludes that such fiscal terms are reasonable, taking into consideration the historical risks taken by the parties to such agreements.

Section 4: For the purposes of this Article, “agreements” includes any contracts, licenses, permits, memoranda of understanding, or any other legal acts or dealings of any sort.

Article 74: Transitional provisions: Government of Iraq agreements

Section 1: The Ministry shall consult the Government of Iraq and review all agreements concluded by the Government of Iraq prior to the date of entry into force of this Act with respect to Petroleum Operations located in Kurdistan, to bring those agreements into conformity with this Act. Such agreements shall be invalid unless they come under the exclusive control of the Government. If deemed necessary by the Government, those agreements may remain in force with some continuing technical and administrative assistance from the Government of Iraq, to be approved by the Government.

Section 2: The Ministry shall consult the Government of Iraq and review all agreements concluded by the Government of Iraq prior to the date of entry into force of this Act with respect to Petroleum Operations located in Disputed Territories where Kurdistan is a party to the dispute, to bring those agreements into conformity with this Act. Such agreements may remain valid provided they are jointly managed between the Government and the Government of Iraq subject to an agreement pursuant to Article 22 of this Act, until such time as the future of the Disputed Territories is decided in the referendum required by Article 140 of the Constitution of Iraq.

Section 3: For the purposes of this Article, “agreements” includes any contracts, licenses, permits, memoranda of understanding, or any other legal acts or dealings of any sort.

Article 75: New agreements

For the avoidance of doubt, any agreements related to Petroleum Operations located in Kurdistan or Disputed Territories where Kurdistan is a party to the dispute that are concluded after the date of entry into force of this Act shall be invalid unless approved by the Government and concluded according to this Act.

Article 76: Annexes

The Annexes of this Act are integral parts of this Act, and may be amended by the Minister with the approval of the Council of Ministers.

Article 77: Interpretation

Section 1: Notwithstanding the jurisdiction of the courts of Kurdistan, the Ministry shall have authority to resolve all questions related to the interpretation of this Act and the regulations.

Section 2: All legislation inconsistent with the provisions of this Act is hereby revoked.

Article 78: Entry into force

This Act enters into force upon publication in the Official Gazette of Kurdistan.

**ANNEX A UNDER ARTICLES 19 AND 22 OF THIS ACT:
REVENUE SHARING**

Article A1: Current Fields revenues

Section 1: Notwithstanding the provisions of Article 5 and Article 17 of this Act, and consistent with Article 112 of the Constitution of Iraq, the Government may, subject to Section 2 of this Article, enter into agreements with the Government of Iraq for all revenues from Petroleum Operations from Current Fields to be directly received by the SOTO on behalf of the Government of Iraq.

Section 2: Consistent with Article 112 of the Constitution of Iraq, any agreement concluded pursuant to Section 1 of this Article shall clearly require SOTO by law, on behalf of the Government of Iraq, to:

- (a) distribute AA percent of the total revenues received by the Government of Iraq from Current Fields in Iraq to KOTO; and
- (b) distribute, for a period of N years, an additional BB percent of the total revenues received by the Government of Iraq from Current Fields in Iraq to KOTO, which amount is an allotment for a specified period in recognition that Kurdistan is a damaged region which was unjustly deprived of revenues by the former regime; and
- (c) define the percentage share of revenues for Kirkuk and each of the other Disputed Territories where Kurdistan is a party to the dispute (collectively being CC% for all the areas that, under the referendum required by Article 140 of the Constitution of Iraq, are likely to agree to become part of Kurdistan); and
- (d) clearly define the percentage share for the Government of Iraq, for each Region other than Kurdistan, and each Governorate, in a manner consistent with Article 112 of the Constitution of Iraq.

Section 3: The symbols “AA”, “BB” and “CC” represent fair and reasonable percentages, and the symbol “N” represents a fair and reasonable period of time. The percentages represented by “AA”, “BB”, “CC” and the period “N” are to be determined in the agreement and are to be acceptable to the Government.

Section 4: Consistent with Articles 112 and 140 of the Constitution of Iraq, any agreement concluded pursuant to this Article shall clearly require SOTO, on behalf of the Government of Iraq, to add the percentage share of revenues for Kirkuk and all other Disputed Territories where Kurdistan is a party to the dispute to the percentages stated in Section 2(a) and (2(b) of this Article at such time as any of those Disputed Territories become part of Kurdistan.

Section 5: Any agreement concluded pursuant to this Article shall also require SOTO to pay all payments due to any Authorised Person operating in Kurdistan and the Disputed Territories under the applicable terms of the Authorisation, including any payment for Petroleum lifted.

Section 6: If an agreement pursuant to this Article is in force, the Government may, with the approval of Parliament, licence the Government of Iraq to regulate the marketing of extracted Petroleum from Current Fields after the Delivery Point, for a fee or any other arrangement.

Section 7: Consistent with Article 115 of the Constitution of Iraq, if an agreement pursuant to this Article is at any time not in force, or if payments to KOTO are withheld for any reason, KOMO may carry out all sales of Petroleum from Current Fields in Kurdistan and Disputed Territories where Kurdistan is a party to the dispute, and, pursuant to Article 17 of this Act, KOTO may retain all proceeds in the Current Fields Account. In those circumstances, KOTO will determine the extent of Kurdistan’s entitlement to the proceeds of the sale of Petroleum from Current Fields in all of Iraq and, where the proceeds are greater than the entitlement, pay the net balance to SOTO. In determining the net balance, the percentage of revenues payable to SOTO shall be based on the formula $[1-(AA + BB+CC)]$ as the case may be.

Section 8: Royalties, signature bonuses and interim bonuses, and taxes where applicable, shall constitute revenue for the purposes of this Act.

Article A2: Future Fields revenues

Section 1: Notwithstanding the provisions of Article 5 and Article 17 of this Act, and the supremacy of Kurdistan law as recognised by Article 115 of the Constitution of Iraq, the Government may, at its discretion and subject to Section 2 of this Article, enter into agreements with the Government of Iraq for revenues from Petroleum Operations from Future Fields to be directly received by SOTO on behalf of the Government of Iraq.

Section 2: Any agreement concluded pursuant to Section 1 of this Article shall have an initial term of five (5) years. Such an agreement shall be automatically renewed for further terms of five (5) years, unless terminated by the Government for breach of the terms of the agreement.

Section 3: Any agreement concluded pursuant to Section 1 of this Article shall clearly require SOTO by law, on behalf of the Government of Iraq, to:

- (a) distribute XX percent of the total revenues received by the Government of Iraq from Future Fields in Iraq to KOTO; and
- (b) distribute, for a period of N years, an additional YY percent of the total revenues received by the Government of Iraq from Future Fields in Iraq to KOTO, which amount is an allotment for a specified period in recognition that Kurdistan is a damaged region which was unjustly deprived of revenues by the former regime; and
- (c) define the percentage share of revenues for Kirkuk and each of the other Disputed Territories where Kurdistan is a party to the dispute (collectively being ZZ% for all the areas that, under the referendum required by Article 140 of the Constitution of Iraq, are likely to agree to become part of Kurdistan); and
- (d) clearly define the percentage share for the Government of Iraq, for each Region other than the Kurdistan, and each Governorate, in a manner consistent with Article 112 of the Constitution of Iraq.

Section 4: The symbols “XX”, “YY” and “ZZ” represent percentages, and the symbol “N” represents a period of time, to be accepted by the Government. The percentages represented by “AA”, “BB”, “CC” and the period “N” are to be determined in the agreement.

Section 5: Consistent with Article 140 of the Constitution of Iraq, any agreement concluded pursuant to this Article shall clearly require SOTO, on behalf of the Government of Iraq, to add the percentage share of revenues for Kirkuk and all other Disputed Territories where Kurdistan is a party to the dispute to the percentages stated in Section 2(a) and 2(b) of this Article at such time as any of those Disputed Territories become part of Kurdistan.

Section 6: Any agreement concluded pursuant to this Article shall also require SOTO to pay all payments due to any Authorised Person operating in Kurdistan and the Disputed Territories under the applicable terms of the Authorisation, including any payment for Petroleum lifted.

Section 7: If an agreement pursuant to this Article is in force, the Government may, with the approval of Parliament, licence the Government of Iraq to regulate the marketing of extracted Petroleum from Future Fields after the Delivery Point, for a fee or any other arrangement. Any such licence shall have an initial term of five (5) years, and shall be automatically renewed for further terms of five (5) years, unless terminated by the Government for breach of the terms of the licence.

Section 8: Consistent with Article 115 of the Constitution of Iraq, if an agreement pursuant to this Article is at any time not in force, or if payments to KOTO are withheld for any reason, KOMO may carry out all sales of Petroleum from Future Fields in Kurdistan and the Disputed Territories, and, pursuant to Article 17 of this Act, KOTO may retain all proceeds in the Future Fields Account. In those circumstances, KOTO will determine the extent of Kurdistan's entitlement to the proceeds of the sale of Petroleum in all of Iraq from Future Fields and, where the proceeds are greater than the entitlement, pay the net balance to SOTO. In determining the net balance, the percentage of revenues payable to SOTO shall be based on the formula $[1-(XX+YY+ZZ)]$ as the case may be.

Section 9: Royalties, signature bonuses and interim bonuses, and taxes where applicable, shall constitute revenue for the purposes of this Act.

Article A3: Accounting between Kurdistan and Iraq

Section 1: All moneys owed by the Government to the Government of Iraq pursuant to Articles A1 and A2 of this Annex shall be accounted for monthly and paid to the Government of Iraq within seven (7) days of the end of each calendar month.

Section 2: Any agreement concluded pursuant to Articles A1 and A2 of this Annex shall specify that, where moneys are owing by the Government of Iraq to the Government, they shall be accounted for monthly and paid to the Government within seven (7) days of the end of each calendar month.

Section 3: Any agreement pursuant to Articles A1 and A2 of this Annex shall be without prejudice to the entitlement of Kurdistan, pursuant to Section 3 of Article 121 of the Constitution of Iraq, to an equitable share of non-petroleum federal revenues, including revenues to be distributed by a commission described in Article 106 of the Constitution of Iraq.

Article A4: Agreements with other Regions and Governorates

The Government may enter into an agreement described in Articles A1 and A2 of this Annex with other Regions and Governorates.

**ANNEX B UNDER ARTICLES 20 AND 22 OF THIS ACT:
RESTRUCTURING OF THE INDUSTRY IN IRAQ**

Notwithstanding the rights of Kurdistan as set out in this Act, and in Articles 111, 112 and 115 of the Constitution of Iraq, the Government shall permit the Government of Iraq to participate in the administration of Petroleum Operations in Kurdistan in the terms set out in Annex C of this Act, provided that the Government of Iraq:

- (a) concludes agreements with the Government on Petroleum revenue sharing in the terms specified in Annex A of this Act; and
- (b) concludes an agreement with the Government on a federal policy on downstream activities, particularly with respect to exports; and
- (c) guarantees the free use and availability of foreign exchange for all Authorised Persons; and
- (d) establishes by law a Federal Petroleum Committee, which shall have
 - (i) Regional and Governorate representation, and unanimous decision-making procedures; and
 - (ii) competency to develop strategic policies for Iraq's petroleum sector to achieve the highest returns to the Iraqi people, examine all Iraq petroleum policy, to investigate allegations of corruption, and other appropriate competencies; and
 - (iii) competency to establish quotas, within the overall quota for Iraq agreed with the Organisation of the Petroleum Exporting Countries (OPEC), for the federal institutions set out in paragraph (f) below, and quotas for the producing Regions and Governorates; and
 - (iv) competency, under the supervision of the Council of Representatives, to oversee SOTO, which shall receive all revenues from petroleum activities in Iraq to which the Government of Iraq is entitled; and
- (e) concludes an agreement with the Government on the regulatory role of the Iraq Ministry of Oil, including the administrative role of the Ministry of Oil in relation to SOMO, OPEC membership, and any other competencies that should appropriately be assigned to it; and
- (f) establishes by law two federal institutions for upstream activities, one for Current Fields, and another for the exploration and development of Future Fields, and
- (g) establishes by law a third federal institution for all petroleum activities other than exploration and production, with a view to restructuring and modernising those activities with the involvement of the private sector; and
- (h) establishes by law that the Boards of Directors of each of the federal institutions referred to in paragraphs (f) and (g) above consist of the Chief Executive Officers of any Regional and Governorate petroleum companies, including in the case of Kurdistan, KEPCO and KNOC, as well as independent professionals, and with the Chief Executive Officers of the three federal institutions to be appointed by the Council of Representatives of Iraq.

**ANNEX C UNDER ARTICLES 21 AND 22 OF THIS ACT:
REGIONAL ROLE OF FEDERAL INSTITUTIONS**

Provided that the Government of Iraq concludes agreements for revenue sharing pursuant to Annex A of this Act, and satisfies the conditions set out in Annex B of this Act, the Government shall agree that the two upstream federal institutions referred to in paragraph (f) of Annex B of this Act shall have competency to:

- (a) prepare and allocate in a fair manner budgets and production targets within the overall OPEC quotas to each Region and Governorate; and
- (b) assist with the preparation of field development plans in each Region and Governorate; and
- (c) appoint a member to the governing body of Regional and Governorate public petroleum companies, including in the case of Kurdistan, KEPCO and KNOC; and
- (d) jointly with the Regions and Governorates, prepare sample model Authorisations, including contracts for services and risked Petroleum Contracts to be entered into by Regional and Governorate petroleum companies, including in the case of KEPCO and KNOC, Production Sharing Contracts, provided that any such model Authorisation be acceptable to the Government; and
- (e) in the case of the federal institution for Current Fields, and under licence from the Government, together with the Regional or Governorate petroleum company, jointly approve Production Sharing Contracts or any short term or long term Petroleum Contracts of a similar nature for Current Fields; and where such licence shall have an initial term of five (5) years, and shall be automatically renewed for further terms of five (5) years, unless terminated by the Government for breach of the terms of the licence; and
- (f) in the case of the federal institution for Future Fields, provide advice on Petroleum Contract terms and conditions, but only where requested to do so by the Regional or Governorate petroleum company, and with the Regional or Governorate petroleum company retaining exclusive power to negotiate and approve any such Petroleum Contract.