

Legal conditions of the business model

A. The company's business model

I. Objective of the Company

MEDOIL is engaged in the procurement of oilfield equipment and other supplies and renders services to the Libyan oil and petrochemical industry. In case of procurement of equipment, spare parts and other materials and services the Company is acting as a "commercial agent" in the sense of § 84 of the German Commercial Code, purchasing the materials in the name and for the account of the clients.

The services rendered by Medoil to the clients comprise the following fields:

- Procurement of equipment, spare parts and other materials;
- Organization and support of recruitment of personnel for clients;
- Provide travel and hotel `reservations for clients' personnel in accordance with the instructions and requirements of the clients;
- Organization and supervision of training programs , insurance and medical treatments for clients' personnel in accordance with the instructions and requirements of the clients;
- Such other services the clients may require from time to time.

Due to changes of the several legal regulations in Germany and in the European Union (especially regarding money-laundering regulations), the following handling should become applicable, resulting in respective effects on the balance sheet of the Company:

- Bank accounts are directly opened in the name of the clients and Medoil is granted power of attorney, only. As an alternative, ABC bank offers to open at least sub-accounts of Medoil's bank account for each client, so that the owner of the money (the client) can be identified clearly.
- A separate bookkeeping system - called internal finance - should be implemented for all clients; the accounting is handled on a cash-in, cash-out basis.
- All vendor invoices must be issued in the name and of behalf of the clients and are recorded in the internal finance system on separate client accounts purely for statistical purposes. The invoices are settled against the clients' bank accounts. Consequently, the vendors' invoices needs not to be registered in Medoil's accounting and no invoices to clients are necessary.
- All foreign exchange gains and losses are to be recorded directly in the clients' accounting respectively are avoided.
- All export regulations and regulations with respect to UN-sanctions or any other limitations are to be observed by the vendors and not by Medoil.
- Since all of the deliveries are performed directly to the clients, no value added tax for the procurement business comes due for MedOil in Germany.

II. Service agreements

The Company renders its services only to NOC and its affiliated companies, with which Bilateral Agreement needs to be concluded or which are subsidiaries or projects of affiliated companies.

The clients are obliged to refund all operating expenses of the Company (except for the taxes of the Company).

The cost allocation follows two steps:

- by the time of delivery/service, Medoil charges upfront a commission fee of 5% on the amount of the invoices of the respective supplier and on the direct costs Incurred through the specific client such as interest, bank charges, exchange differences
- at the end of year, a calculation needs to be prepared, allocating all internal costs according to allocation keys to prove, that Medoil makes a 5% profit on all internal costs. In case that the upfront commission is not enough to cover all costs plus 5%, a further commission will be charged from Medoil to the clients.

The cost allocation system - internal finance - needs to consist of keys and rates for allocation of general costs in order to incorporate the development in the business behavior of the Company.

The cost allocation system may allocate the costs not directly allocable to the clients as follows¹:

- Allocation of the cost of the procurement department:
 - 50 % of the direct department cost are allocated to the clients in accordance with their actual share of the number of supplier quotations sent to the clients.
 - 50 % of the direct department cost are allocated to the clients in accordance with their actual share of the number of purchase orders placed.
 - The indirect departments costs are allocated to the clients in accordance with their actual share of the value of purchase orders invoiced.
- Allocation of the cost of the recruitment department:
 - 60 % of the direct department cost are allocated to the clients in accordance with their actual share of the number of persons hired.
 - The remaining 40 % of the direct department cost are allocated to the clients in accordance with their actual share of the number of curriculum vitae submitted to clients.
 - The indirect departments costs are allocated to the clients in accordance with their actual share of the value of recruitment orders invoiced.
- Allocation of the cost of the training department:
 - 60 % of the direct department cost are allocated to the clients in accordance with their actual share of the number of trainees supervised.
 - The remaining 40 % of the direct department cost are allocated to the clients in accordance with their actual share of the number of training requests.
 - The indirect departments costs are allocated to the clients in accordance with their actual share of the value of training orders invoiced.
- Allocation of the cost of the finance department:
 - 87.5 % of the department cost are allocated to the clients in line with the allocation of the procurement, recruitment and training department.
 - 5 % of the department cost are allocated to the clients in accordance with their actual share of number of letter of credits handled by Medoil's finance department.
 - 5 % of the department cost are allocated to the clients in accordance with their actual share of the value of letter of credits handled by Medoil's finance department.

- 2.5 % of the department cost are allocated to the clients in accordance with their actual share in the number of direct payments handled by Medoil's finance department.
- Allocation of the cost of the general service department:
 - 75 % of the department cost are allocated to the clients in line with the allocation of the procurement, recruitment and training department.
 - 25 % of the department cost are allocated to the clients in accordance with their actual share in the number of bookings (accommodation, travel, etc.).

B. Executive summary

As Medoil acts as "commercial agent" , all business contracts will be concluded directly between the Libyan client or on behalf of it and the provider of services / supplier, there will be no risk left with Medoil. The client will provide the required funds upfront.

All cost from Medoil (direct or indirect) will be charged to the Libyan clients based on the services received. No cost (overhead) will stay with Medoil. In addition to the cost Medoil, will charge the 5 % markup which will reflect the profit before tax in Medoil books.

In principle, the level of pretax income is depending on Medoil total expenses.

The method was also confirmed and accepted by the tax authorities in past tax audits, but it should be also taken into account that the tax office may ask to charge the cost of the restart of the activities to the client companies and to exclude certain income (rental income generated by renting most of the own building).