

PRODUCTION SHARING CONTRACT
FOR OFFSHORE PETROLEUM OPERATIONS IN TIMOR-LESTE

CONTRACT AREA TL-SO-19-16

October 2019

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PRODUCTION SHARING CONTRACT

Dated 8 November 2019

This Contract is a production sharing contract made under the Petroleum Activities Law, Law 1/2019 of 18 January, first amendment to the Law No.13/2005, of 2 September 2005.

BETWEEN

Autoridade Nacional do Petróleo e Minerais Timor-Leste (ANPM) established under the Decree-Law No 20/2008 and the Decree-Law No.27/2019, Second amendment to the Decree-Law No.20/2008, acting on behalf of the Ministry of Petroleum and Mineral Resources (hereinafter the “Ministry”) pursuant to article 26 of ANPM Decree Law, in respect of the powers vested in the Ministry under the Petroleum Activities Law.

AND

SundaGas Banda Unipessoal, Lda. (“SundaGas”)], a corporation organized and existing under the laws of the Democratic Republic of Timor-Leste, with registration number 2003222, having its headquarters in Level 3, Timor Plaza, 34, Comoro, Dom Aleixo, Dili, Timor-Leste.

AND

TIMOR GAP Chuditch Unipessoal, Lda. (“TIMOR GAP”), a state-owned company incorporated and registered under the laws of the Democratic Republic of Timor-Leste, with registration number 2003016 having its headquarters in Level 3, Timor Plaza, Suite 301 – 314, Rua Presidente Nicolao Lobato, Comoro, P.O. Box No. 003, Dili, Timor-Leste.

(SundaGas and TIMOR GAP referred to collectively as the “Contractor”).

(each referred to individually as a “party” or collectively as the “parties”).

Whereas:

- A. title to, and control over, petroleum existing within the Territory of Timor-Leste is vested in Timor-Leste;
- B. the Ministry has the power to conclude petroleum contracts for the benefit of the people and amongst other, for the sustainable development of Timor-Leste;
- C. the Ministry wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the Ministry in doing so in the Contract Area;
- D. the Contractor, through SundaGas, has expressed to the Ministry - under the former regime of Joint Petroleum Development Area - its intention to enter into a production sharing contract with the State of Timor-Leste upon the entering into force of the Maritime Boundaries Treaty; having the Contractor honoured its undertaking after ratification of the Treaty Between the Democratic Republic of Timor-Leste and Australia Establishing their Maritime Boundaries in the Timor Sea approved by means of the Resolution of the National Parliament 5/2019, of 27 August 2019;
- E. the Contractor has the financial capability, the technical knowledge, and technical ability to carry on the Petroleum Operations in a manner wholly consistent with the Petroleum Activities Law and this Contract, and does not have a record of non-compliance with principles of good corporate citizenship; and

- F. the Contractor and the Ministry agree to enter into this Contract to enable Exploration and Development of Petroleum in the Contract Area;
- G. the Ministry considers it to be in the public interest that Exploration shall be conducted in the Contract Area by the direct award of this Agreement to the Contractor.

NOW, THEREFORE, it is agreed:

Article 1

Definitions and Interpretation

1.1 Definitions

In this Contract capitalised terms not defined in the Contract have the meaning given to those terms in the Petroleum Activities Law and the Decree-Law Law on Offshore Petroleum Operations in Timor-Leste, and, unless otherwise clearly stated herein, the following words and expressions shall have the following meanings:

"Accounting Records" has the meaning given in Clause 1.2 of Annex C;

"Appraisal Costs" are those costs that directly relate to Appraisal of exploration well for production;

"Approved Contract" means a contract made by the Contractor with the prior approval of the Ministry as a part of a Development Plan;

"Available Crude Oil" means all Crude Oil produced and saved from the Contract Area and not used in Petroleum Operations;

"Available Natural Gas" means all Natural Gas produced and saved from the Contract Area and not used in Petroleum Operations;

"Available Petroleum" means all Available Crude Oil and Available Natural Gas;

"Capital Costs" has the meaning given in Clause 2.3 of Annex C;

"Commercial Production" occurs on the first Day of the first period of thirty (30) consecutive Days during which production is not less than the level of regular production delivered for sale determined by the Ministry as part of the approval of, or amendment to, a Development Plan, averaged over not less than twenty-five (25) Days in the period;

"Committee" has the meaning given in Article 17.2;

"Contiguous Area" means a block, or a number of blocks each having a point in common with another such block;

"Contract" means this production sharing contract and all annexes and schedules hereto as amended from time to time;

"Contract Area" means the area specified in Annexes A and B, but not any part of it which has been relinquished under Article 3;

"Contractor Developments" means the developments of or improvements to equipment, technology, methods, processes or techniques owned or controlled by the Contractor prior to the commencement of this Contract, which are made by the Contractor during or arising out of the Petroleum Operations;

"Contractor Confidential Information" means any technical or business information owned or controlled by the Contractor as at the date of this Contract which is not in the public domain and which derives independent economic value from not being in the public domain and which, at the time of disclosure to the Ministry by the Contractor is clearly marked or designated as confidential;

"Contract Year" means a period of twelve (12) consecutive months within the term of this Contract, beginning on the Effective Date or any anniversary of it;

"Cost Recovery Statement" has the meaning given in Clause 7 of Annex C;

"Crude Oil" means all crude oils, condensates, natural gas liquids and other hydrocarbons in a liquid state at standard pressure that are covered by the Contract;

"Day" means a period of twenty-four hours as a unit of time, counted from one midnight to the next, into which a week, or month or year is divided and corresponding to a rotation of earth on its axis;

"Decommissioning" means the abandoning of all fixed structures, Facilities, wells, flowlines and platform;

"Decommissioning Cost Reserve" means the total accumulated decommissioning cost calculated on annual basis and added to form the decommissioning fund at the end of field life;

"Development" means operations designed to recover Petroleum from a Reservoir for commercial purposes and includes design, construction, installation, drilling (but excludes drilling for the purposes of Exploration or Appraisal), and all related activities;

"Effective Date" means the date on which all of the conditions precedent to this Contract, set out in Article 2.2, are satisfied;

"Encumbrancer" means the owner or holder of an interest or claim that is an encumbrance upon property;

"Exploration Costs" has the meaning given in Clause 2.1 of Annex C;

"Force Majeure" has the meaning given in Article 21.1;

"Gas Retention Area" means an area declared as such, in accordance with Article 28 of the Decree-Law on Offshore Petroleum Operations in Timor-Leste;

"Ineligible Costs" has the meaning given in Clause 2.8 of Annex C;

"Joint Operating Agreement" means any agreement or contract among all of the Contractor Parties hereunder with respect to their respective rights or obligations under this Contract, as such agreement or contract may be amended or supplemented from time to time;

"Loan Facility" means any overdraft, loan or other financial facility or accommodation (including any acceptance credit, bond, note, bill of exchange or commercial paper, finance lease, hire purchase agreement, trade bill, forward sale or purchase Contract, or conditional sale agreement, or other transaction having the commercial effect of a borrowing);

"Marketable Natural Gas" means the volumes of Natural Gas produced, less:

- (a) The Natural Gas used for Petroleum Operations;
- (b) The Natural Gas used for increasing recovery of Petroleum, and
- (c) Any shrinkage as a result of processing such Natural Gas;

"Minimum Exploration Work Requirements" means the compulsory minimum work requirements (including both work activities and expenditure) for each Period of Exploration, as set out in Articles 4.3, 4.4 and 4.5;

"Miscellaneous Receipts" has the meaning given in Clause 2.7 of Annex C;

"Natural Gas" means all hydrocarbons in a gaseous state at standard temperature and pressure (including wet gas, dry gas, and residue gas) that are covered by the Contract, but excluding Crude Oil;

"Operating Costs" has the meaning given in Clause 2.4 of Annex C;

"Parent Company" means a body corporate that, in respect of another body corporate:

- (a) Controls the composition of that body's board; or
- (b) Is in a position to cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of that body; or
- (c) Holds more than one-half of the issued share capital of that body (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital); or
- (d) Is the Parent Company of the Parent Company of the other body;

"Participating Interest" means, in respect of each Contractor Party, the undivided share expressed as a percentage of such party's participation in the rights and obligations under this Contract;

"Period" means the initial Period, the second Period or the third Period, or any of them, as the case may be, as set out in Articles 4.3, 4.4 and 4.5;

"Petroleum" means both or either of Crude Oil and Natural Gas;

"Plan" means any concept or proposal to facilitate offshore Petroleum Operations in Timor-Leste;

"Production" means any exploitation or export activities in relation to Petroleum, but does not include Development;

"Production Statement" has the meaning given in Clause 5.1 of Annex C;

"Profit Crude Oil" has the meaning given in Article 9.1(c);

"Profit Natural Gas" has the meaning given in Article 9.1(c);

"Profit Petroleum" has the meaning given in Article 9.1(c);

"Quarter" has the same meaning as defined in the Decree-Law of Offshore Petroleum Operations in Timor-Leste and "Quarterly" shall have the corresponding meaning;

"Recoverable Costs" has the meaning given in Article 8;

"Review Period" has the meaning given in Article 19.7 (b);

"Revised Local Content Proposal" has the meaning given in Article 7.4 (b);

"Security" means:

- (a) A standby letter of credit issued by a bank;
- (b) An on-demand bond issued by a surety corporation;
- (c) A corporate guarantee, including a Parent Company guarantee; or
- (d) Any other financial security acceptable to the Ministry;

issued by a bank, surety or corporation acceptable to the Ministry and having a credit rating indicating that it has sufficient worth to pay its obligations in all reasonably foreseeable circumstances;

"Uplift" has the meaning given in Clause 2.6 of Annex C;

"Value of Production and Pricing Statement" has the meaning given in Clause 6.1 of Annex C;

"Washington Convention or ICSID Convention" means the 1965 Convention On The Settlement Of Investment Disputes Between States And Nationals Of Other States;

"1978 ICSID Additional Facility" means the Rules governing the additional facility for the administration of proceedings by the secretariat of the international centre for the settlement of investment disputes (additional facility rules).

1.2 Headings

Headings are for convenience only and do not form a part of and shall not affect the interpretation of this Contract.

1.3 Further Interpretation

In this Contract, unless the context otherwise requires:

- (a) The words "including" and "in particular" shall be construed as being by way of illustration or emphasis only, and shall not be construed as, nor shall they take effect as, limiting the generality of any preceding words;
- (b) A reference to an Article, sub-Article, to an Annex or Schedule is a reference to the same in this Contract;
- (c) A reference to a Contract (including this Contract), Annex, Schedule or instrument is a reference to the same as amended, varied, novated, modified or replaced from time to time;
- (d) A reference to a Law, Decree-Law, Ministerial Diploma or other legislative instrument is to the same as amended, varied, modified or replaced from time to time;
- (e) The singular includes the plural, and vice versa;
- (f) Any gender includes the other;
- (g) A reference to the consent or approval of the Ministry means the consent or approval, in writing, of the Ministry and the conditions of that consent or approval; and
- (h) Where a word or expression is defined, similar words and expressions shall be construed accordingly.

1.4 Annexes

The Annexes and Schedules are incorporated into and form part of this Contract, but if there is a conflict between the terms of any Annex or Schedule and the terms of this Contract, the terms of this Contract will prevail.

Article 2 Scope and Term

2.1 Scope

- (a) Under this Contract, and subject to its terms, the Contractor shall:
 - (i) Have the exclusive right to carry out Petroleum Operations in accordance with the Petroleum Activities Law, Decree-Law on Offshore Petroleum Operations in Timor-Leste and this Contract at its sole cost, risk and expense;
 - (ii) Provide all human, financial and technical resources; and
 - (iii) Share Petroleum produced from the Contract Area as set out in Article 9.
- (b) The Contractor is not authorised to carry out Petroleum Operations in any part of the Territory of Timor-Leste outside the Contract Area, other than in accordance with an access authorisation granted to a Contractor by the Ministry under Article 11 of the Petroleum Activities Law.
- (c) This Contract does not authorise the Contractor to process Petroleum beyond the Field Export Point and no expenditure with respect to further processing shall be a Recoverable Cost.

2.2 Conditions Precedent

- (a) This Contract is conditional on:
 - (i) The appointment of an Operator in accordance with Article 17.1;
 - (ii) If there is more than one Contractor Party, the conclusion of a Joint Operating Agreement between them, such Agreement coming into force and effect upon the approval by the Ministry;
 - (iii) The provision by the Contractor to the Ministry with a Security in the form of Bank Guarantee as in Schedule B and with such content as is satisfactory to the Ministry for the performance of the Contractor's Minimum Exploration Work Requirements;
 - (iv) The Contractor demonstrating, to the satisfaction of the Ministry, that it has complied with its obligations under Article 20.2 in regard to insurance.
- (b) If the conditions in Article 2.2 (a) are not fulfilled before the sixtieth (60th) Day after the date of signing this Contract, this Contract shall be terminated and be of no further force or effect.

2.3 Effective Date and Term

- (a) This Contract shall commence on the Effective Date and terminate on the first to occur of:

- (i) All of the Contract Area being relinquished pursuant to Article 3;
 - (ii) The parties mutually agreeing in writing to terminate this Contract;
 - (iii) Termination pursuant to Article 2.4; or
 - (iv) Expiry of the maximum term of Petroleum Contracts as set out in the Decree-Law on Offshore Petroleum Operations in Timor-Leste.
- (b) Providing that the Contractor notifies the Ministry at least one (1) year prior to the expiry of this Contract, the Contractor shall have the option to extend this Contract in respect of any Development Area for such periods as stipulated under the Decree-Law on Offshore Petroleum Operations in Timor-Leste.

2.4 Grounds for Termination

The Ministry may terminate this Contract by notice in writing:

- (a) immediately, if:
 - (i) A person comprising Contractor is, under the Applicable Law, insolvent, is adjudged bankrupt or makes any assignment for the benefit of its creditors, or is adjudged to be unable to pay its debts as the same fall due;
 - (ii) A petition is filed in a court having jurisdiction or an order is made, or an effective resolution is passed, for the dissolution, liquidation or winding up of the Parent Company of a person comprising Contractor;
 - (iii) A receiver is appointed or an Encumbrancer takes possession of a majority of the assets or undertaking of a person comprising Contractor; or
 - (iv) A Contractor ceases or threatens to cease to carry on its business or execution is forced against all or a majority of its property and is not discharged within fourteen (14) Days.
- (b) If the Contractor:
 - (i) Has committed a material breach of any agreed plan, programme, approval, condition or term to which this Contract is subject;
 - (ii) Has not complied with the Applicable Law in Timor-Leste;
 - (iii) Has provided information to the Ministry in connection with this Contract or in order to obtain this Contract which it knew, or ought reasonably to have known, or believed to be false; or
 - (iv) Has not paid any amount payable by it under the Applicable Law in Timor-Leste or under this Contract within a period of three (3) months after the Day on which the amount became due and payable.
- (c) The Ministry shall not terminate the Contract by notice in writing due to one or more of relevant grounds identified in Article 2.4 (b) unless:
 - (i) It has, by instrument in writing served on the Contractor, give not less than thirty (30) Days of notice of its intention to terminate the Contract;
 - (ii) It has, by instrument in writing, specified date on or before which the Contractor may submit in writing to the Ministry in any matter that wishes to be considered; and
 - (iii) It has taken into account any information provided under Article 2.4(c)(ii) and any action taken by the Contractor or other parties to remove that ground or to prevent recurrence of the similar grounds.

- (d) If there is more than one Contractor Party and circumstances arise on which the Ministry may terminate this Contract, the Ministry may, on such conditions as it decides, terminate this Contract only in respect of that or those parties comprising the Contractor whose acts or omissions (or in relation to whom acts, omissions or events have occurred which) have led to such circumstances arising, if:
- (i) It is satisfied that the other Contractor Parties did not connive in such acts, omissions or events, and could not reasonably have been expected to prevent them occurring;
 - (ii) It is satisfied that it is fair and reasonable to do so in all the circumstances; and
 - (iii) An agreement is made with the other Contractor Parties who did not connive to such acts, omissions or events to accept the Participating Interest of the Contractor(s) at fault;
- and the majority of the other Contractor Parties agree to this arrangement subject to such conditions as may be imposed by the Ministry.

2.5 Other Resources

- (a) This Contract applies exclusively to Petroleum and it shall not extend to any other natural resources which may exist in the Contract Area. Therefore, the Contractor is prohibited from using, making good use of or disposing, in any way and under any title, totally or partially, of such resources other than Petroleum.
- (b) Any discovery of any natural resources other than Petroleum such as other hydrocarbons, minerals and any other natural resources or items of archaeological value or interest within the Contract Area shall be notified exclusively and in writing by the Contractor to the Ministry within a maximum of twenty-four (24) hours of discovery. The notice shall be accompanied by all relevant available data and information in respect of that discovery.
- (c) In the case of discovery of any natural resources other than Petroleum the Contractor will be obliged to comply with the instructions issued by and allow the performance of the relevant measures as determined by the Ministry or other competent authorities. While waiting for such instructions, the Contractor shall refrain from taking any measures which could put at risk or in any way impair the measures to be taken by the Ministry or other competent authorities with the discovered natural resources. The Contractor shall not be obliged to interrupt its Petroleum Operations, except in cases in which those Petroleum Operations put at risk the discovered natural resources.
- (d) Any interruption of Petroleum Operations, due exclusively to the discovery of other natural resources, will have its term computed and recognised by the Ministry for purposes of an extension of the relevant Period or Contract term under Article 2.3(b) or the Applicable Law in Timor-Leste.

2.6 Surviving Obligations

- (a) Expiration or termination of this Contract for any reason, in whole or in part, shall be without prejudice to rights and obligations expressed in the Applicable Law in Timor-Leste or this Contract to survive termination, or to rights and obligations accrued thereunder prior to termination. All provisions of this Contract reasonably necessary for the full enjoyment and enforcement of those accrued rights and obligations shall survive termination for the period so necessary.
- (b) The obligations to Decommission and prevent the cause of pollution by the Facilities and to clean up such pollution are continuing obligations and survive the expiration or termination of this Contract. Any issues that arise out of or in connection with such Facilities after the cessation of Petroleum Operations shall be the responsibility of the Contractor. For the avoidance of doubt, this obligation may cease if agreed in accordance with the Applicable Law in Timor-Leste.

- (c) The obligation to give any surplus in the Decommissioning Fund to the Ministry is a continuing obligation and survives the expiration or prior termination of this Contract.
- (d) For the avoidance of doubt, in case of termination of this Contract only in respect of those persons identified in Article 2.4 (d) this Article 2.6 shall apply correspondingly.

Article 3 **Relinquishment of Areas**

3.1 Periodic relinquishment of Contract Area

The Contractor shall relinquish the Contract Area in accordance with the Decree-Law on Offshore Petroleum Operations in Timor-Leste.

3.2 Termination of Contract and continuing obligations in respect of relinquished area

- (a) This Contract shall terminate in respect of a part of the Contract Area which is relinquished.
- (b) For the avoidance of doubt, Article 2.6 applies correspondingly in cases of relinquishment of all or a part of the Contract Area.

3.3 Retention Areas

The Contractor may request the Ministry to declare a retention area in accordance with the procedures and on such conditions as stipulated in the Applicable Law in Timor-Leste.

Article 4 **Exploration Period**

4.1 Work Programmes and Budgets

The Contractor shall carry out Petroleum Operations in accordance with Work Programmes and Budgets submitted to and approved by the Ministry in accordance with the Decree-Law on Offshore Petroleum Operations in Timor-Leste. Such approval by the Ministry is without prejudice to any other obligation or liability of the Contractor under this Contract.

4.2 Commencement of Exploration

The Contractor shall commence Exploration within sixty (60) Days of the Effective Date.

4.3 Minimum Exploration Work Requirements in the Initial Period

In the initial Period (Contract Years 1 to 3), the Contractor shall carry out the Minimum Exploration Work Requirements as specified below:

Description of Work:

Contract Years	<u>Minimum Exploration Work Requirements</u>		
	Technical Studies and Data Evaluation <i>(List types of technical studies to be performed)</i>	Geological and Geophysical (G&G) Surveys	Wells <i>(List x numbers of Wells)</i>
1	Nil	Seismic reprocessing (Pre-Stack Depth	Nil

		Migration) of a minimum of 800 km ² of 3D seismic Seismic reprocessing of a minimum of 2,000-line kilometres of 2D seismic	
2	Interpretation of reprocessed seismic data Review of hydrocarbon potential of entire Contract Area (geological and geophysical studies)		Nil
3	Well design and engineering studies, including pore pressure analysis and well integrity study Geological and reservoir engineering studies and static field model build Environmental impact assessment and baseline studies		Drilling of One (1) Appraisal Well to the Plover Formation, subject to seismic reprocessing supporting the presence of a significant structure associated with the Chuditch discovery

4.4 Minimum Exploration Work Requirements in Second Period

Subject to Article 4.7, in the second Period (Contract Years 4 to 5), unless the Contractor has relinquished all of the Contract Area not being a Development Area or a Gas Retention Area before the start of the fourth (4th) Contract Year, the Contractor shall carry out the Minimum Exploration Work Requirements specified below:

Description of Work:

Contract Years	<u>Minimum Exploration Work Requirements</u>		
	Technical Studies and Data Evaluation <i>(List types of technical studies to be performed)</i>	Geological and Geophysical (G&G) Surveys	Wells <i>(List x numbers of Wells)</i>
4	Post-well evaluation studies	Nil	Drilling of One (1) Exploration Well
5	Development scenario planning for the Chuditch discovery	Nil	Nil

4.5 Minimum Exploration Work Requirements in Third Period

Subject to Article 4.7, in the third Period (Contract Years 6 and 7), unless the Contractor has relinquished all of the Contract Area not being a Development Area or a Gas Retention Area or

Petroleum Retention Area before the start of the sixth (6th) year, the Contractor shall carry out the Minimum Exploration Work Requirements specified below:

Description of Work:

Contract Years	<u>Minimum Exploration Work Requirements</u>		
	Technical Studies and Data Evaluation (List types of technical studies to be performed)	Geological and Geophysical Surveys (G&G)	Wells (List x numbers of Wells)
6	Geological and geophysical studies Development scenario planning	Nil	Drilling of One (1) Exploration or Appraisal Well
7	Development scenario planning	Nil	Drilling of One (1) Exploration or Appraisal Well

4.6 Performance of Exploration

- (a) If the Contractor completes the Minimum Exploration Work Requirements within the required timeframe for each Period of Exploration to the satisfaction of the Ministry and upon receipt of proof acceptable to the Ministry from the Contractor, the Contractor shall have a right to proceed to any subsequent Period.
- (b) The following work does not qualify as fulfilling the Minimum Exploration Work Requirements:
 - (i) Work carried out prior to the Effective Date;
 - (ii) Work carried out after the termination of the Period or any extension thereof agreed to in writing by the Ministry;
 - (iii) Work carried out not related to the Contract Area;
 - (iv) Work which is not carried out in accordance with an agreed Work Programme, including as amended in accordance with Article 4.6;
 - (v) Appraisal wells, seismic surveys or any other Petroleum Operations which are carried out as part of an Appraisal other than Appraisal wells referenced in Articles 4.4 and 4.5, or any work carried out as part of the Development of a Commercial Discovery in accordance with Article 4.9; or
 - (vi) Work which does not qualify as Petroleum Operations under this Contract.
- (c) Except with the consent of the Ministry, no work in a Development Area will be regarded as Exploration for the purpose of this Article 4, Article 8 and Annex C, except in respect of a formation deeper than the Field concerned and in which no Discovery has been made.
- (d) Any well required in a Period of Exploration shall be drilled to such depth as is necessary to ensure penetration and allow for the proper testing of the prospective zone, even if that requires drilling beyond the minimum depth requirement set out in the Minimum Exploration Work Requirements, unless before reaching such depth basement is encountered as agreed to and approved by the Ministry.
- (e) Additional line kilometres of seismic data and additional wells or further drilling beyond the minimum required in each Period under the Minimum Exploration Work Requirements may, with the prior approval of the Ministry, which will not be unreasonably withheld, be carried forward to fulfil the minimum obligations for seismic data or Exploration wells, as the case may be, under the Minimum Exploration Work Requirements for a subsequent

Period, provided that such a work obligation exists in the subsequent Period and the Minimum Exploration Work Requirement for each Period, including any preceding Period, is fulfilled.

- (f) Subject to Article 4.6 (g), the Contractor may discontinue a Drilling Operation if, in the course of drilling a Well, the Contractor determines, in its reasonable opinion and with the consent of the Ministry, which will not be unreasonably withheld, that further drilling is technically impossible or imprudent because:
 - (i) Further drilling would present an obvious danger, such as but not limited to the presence of abnormal pressure or excessive losses of drilling mud;
 - (ii) Impenetrable formations are encountered; or
 - (iii) Petroleum-bearing formations are encountered which require protecting, thereby preventing planned depths from being reached.
- (g) If a well is abandoned due to technical difficulties under Article 4.6 (f), the Contractor is not relieved of its obligation to carry out the required work obligations stipulated as Minimum Exploration Work Requirements and the Ministry shall have the option of either:
 - (i) Requiring the Contractor to drill a substitute exploration well at a location determined by the Contractor with the agreement of the Ministry, to the depth stipulated in the Minimum Exploration Work Requirements for the corresponding Period; or
 - (ii) Where the Ministry agrees with the Contractor that further drilling or a substitute well is technically impossible or imprudent and the Contractor is therefore unable to carry out the required work activities, waiving the minimum depth requirement and accepting a payment of money corresponding to the amount of outstanding drilling, to be determined by the Ministry, or an independent consultant retained on its behalf at the cost of the Contractor, in which case the Contractor will be deemed to have satisfied the obligation to drill such exploration well, such payment (including any costs of an independent consultant) not to be Recoverable Costs.

4.7 Consequences of Non-Performance of Minimum Exploration Work Requirements

Without affecting the operation of Article 4.6 (g), if the Contractor does not fulfil the Minimum Exploration Work Requirements for any Period, the Contractor shall submit a report to the Ministry detailing its reasons and the Ministry may, in its sole discretion:

- (a) Require payment of the amount attributed to the unfulfilled work obligations of the Minimum Exploration Work Requirements for that Period, such payment not to be a Recoverable Cost;
- (b) Provided that the Contractor has requested an extension at least thirty (30) Days prior to the expiration of the Period and the reasons stated in the request are accepted by the Ministry, that no extension has previously been granted for that Period and that the guarantees provided are continuously maintained throughout the entire Period(s) as the case might be, extend the period of time in which the Contractor may carry out the Minimum Exploration Work Requirements for that Period, by up to a maximum of six (6) months; or
- (c) Terminate this Contract and require payment corresponding to the amount of all unfulfilled work activities under the Minimum Exploration Work Requirements, such payment to be determined by the Ministry.

4.8 Emergency and Other Expenditures Outside Work Programmes and Budgets

- (a) Without further approval by the Ministry, the Contractor may over-expend, by the lesser of Two Hundred Thousand United States Dollars (USD \$200,000) or ten percent (10%) on any line item in an approved Work Program and Budget for a Contract Year.

- (b) Without further approval by the Ministry, the total of all over-expenditures under Article 4.8 (a) under the Work Program and Budget for that Contract Year shall not exceed the lesser of One Million United States Dollars (USD \$1,000,000) or ten percent (10%) of the total expenditures in that Work Program and Budget.
- (c) The Contractor shall promptly inform the Ministry if it anticipates, or should reasonably anticipate, that any such limit in Article 4.8 (b) will be exceeded and seek an amendment to the appropriate Work Program and Budget.
- (d) In determining whether to approve the over-expenditures contemplated at Articles 4.8 (a) and (b), the Ministry shall consider whether such increases are necessary to complete the Work Program, provided that such increase is not the result of any failure of the Contractor to fulfil its obligations under this Contract.
- (e) Nothing in this Article 4.8 precludes or excuses the Contractor from taking all necessary and proper measures for the protection of life, health, the environment and property if there is an emergency, (including but not limited to a significant fire, explosion, Petroleum discharge, sabotage, incident involving loss of life, serious injury to an employee, Sub-Contractor or third party, or serious property damage; strikes and riots, or evacuation of the Operator's personnel). The Operator shall inform the Ministry of the details of the emergency and of the action it has taken and intends to take in accordance with the Applicable Law in Timor-Leste or, if there are no notification or reporting obligations relating to the emergency at hand, as soon as possible.

4.9 Discovery and Appraisal

- (a) In case of a Discovery, the Contractor shall comply with the rules and procedures for Discovery, Appraisal and, if applicable, declaration of Commercial Discovery as stipulated in the Applicable Law in Timor-Leste.

Article 5 Development and Production Period

5.1 Development Plan

The Contractor shall have the right to commence Development upon approval of a Development Plan prepared and submitted in accordance with the Applicable Law in Timor-Leste.

5.2 Development Work Programmes and Budgets

- (a) At such time and in such manner as the Decree- Law requires, and as the Ministry otherwise requires, the Contractor shall submit, for the approval of the Ministry, a Development Work Programme and Budget for each Development Area for each Calendar Year. At any time and from time to time, the Contractor may submit, for approval, amendments to it.
- (b) A Development Work Programme and Budget for a Calendar Year shall be substantially in accordance with the Development Plan for the Development Area. If material differences occur, a description of and an explanation for these shall be included in the Development Work Programme and Budgets.

5.3 Emergency and Other Expenditures Outside Work Programmes and Budgets

- (a) Without further approval by the Ministry, the Contractor may over-expend, by the lesser of

five hundred thousand United States Dollars (USD 500,000) or two and a half percent (2.5%) on any line item in an approved Work Program and Budget for a Contract Year.

- (b) Without further approval by the Ministry, the total of all over-expenditures under paragraph 5.3 (a) under that Work Program and Budget for that Contract Year shall not exceed the lesser of one million (USD 1,000,000) United States Dollars or two and a half percent (2.5%) of the total expenditures in that Work Program and Budget.
- (c) The Contractor shall promptly inform the Ministry if it anticipates (or should reasonably anticipate) that any such limit in paragraph 5.3 (b) will be exceeded and seek, in the manner provided in this Article 5.3, an amendment to the applicable Work Program and Budget.
- (d) In determining whether to approve the over-expenditures contemplated in paragraphs 5.3 (a) and 5.3 (b), the Ministry shall consider whether such increases are necessary to complete the Contractor's obligations under the Work Program and Budget, provided that such increase is not the result of any failure of the Contractor to fulfil its obligations under this contract.
- (e) Nothing in article 5.3 (a) and (b) precludes or excuses the Contractor from taking all necessary and proper measures for the protection of life, health, the environment and property if there is an emergency, including but not limited to a significant fire, explosion, Petroleum discharge, or sabotage, incident involving loss of life, injury to an employee, Sub-Contractor or third party, or serious property damage; strikes and riots, or evacuation of the Operator's personnel. The Operator shall inform the Ministry of the details of the emergency and of the actions it has taken and intends to take in accordance with the Applicable Law in Timor-Leste or, if there are no notification or reporting obligations relating to the emergency at hand, as soon as possible.

5.4 Approved Contracts

- (a) The Contractor may not sell or otherwise dispose of Natural Gas from the Contract Area other than pursuant to an Approved Contract or as otherwise may be provided in the Development Plan or in this Contract.
- (a) The Contractor may not use any Facilities downstream of the Field Export Point for transporting, processing, treating, liquefying, storing, handling or delivering Petroleum other than under the terms of an Approved Contract.
- (b) The Contractor may not amend, waive or fail to enforce any provision of an Approved Contract without the prior approval of the Ministry.

Article 6 Decommissioning

- (a) The Contractor shall prepare and implement the approved Decommissioning Plan in accordance with the Applicable Law in Timor-Leste and Good Oil Field Practice.
- (b) Upon the commencement of Commercial Production, the Contractor shall establish a Decommissioning Fund in accordance with the Applicable Law in Timor-Leste which shall be in the form of an interest-bearing escrow account, which is a conservative account yielding a maximum of one (1) percentage point margin above the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds), in the name of the Ministry at a financial institution approved by the Ministry. The interests accumulated in the Decommissioning Fund are neither Recoverable Costs nor tax deductible and shall be considered a Miscellaneous Receipt.
- (c) Annual Decommissioning cost provision is calculated based on the total estimated abandonment costs and calculated annual Decommissioning cost provision shall be charged as Recoverable Costs beginning in the Calendar Year following the Calendar Year in which

Commercial Production first occurs. The amount of annual Decommissioning cost provision in each Calendar Year shall be calculated as follows:

- (i) The total Decommissioning costs at the expected date of Decommissioning shall first be calculated;
 - (ii) Calculated annual Decommissioning costs shall be deducted from such total Decommissioning costs of which the additions made into the Decommissioning Costs Reserve, and taken as Recoverable Costs, in all previous Calendar Years, together with interest on such Recoverable Costs (calculated to the approved date of Decommissioning at the actual or forecast rate of Uplift) (whichever is applicable);
 - (iii) The residual Decommissioning costs, resulting from the calculations under Article 6.1 (c) (i) and (ii), shall then be discounted to the Calendar Year in question at the forecast rate of Uplift for each Calendar Year remaining until the Calendar Year of Decommissioning;
 - (iv) The discounted total amount of residual Decommissioning costs shall then be divided by the total number of Calendar Years remaining prior to the Calendar Year of Decommissioning itself, including the Calendar Year in question;
 - (v) The resultant amount shall be the addition to the Decommissioning Costs Reserve for the Calendar Year in question;
 - (vi) It is the intention of this provision that the total accumulated provision allowed, including interest calculated to the Calendar Year of Decommissioning at the rate of Uplift, will be equal to the total Decommissioning costs;
 - (vii) If the amount in Article 6.1(c)(v) is a negative amount, then such amount shall be treated as a reduction of Recoverable Costs for the Calendar Year in question.
- (d) If there is under provision of Decommissioning Fund, Contractor shall ensure that sufficient funding exists to carry out Decommissioning in compliance with Good Oil Field Practice and other international standards deemed acceptable by the Ministry consistent with the Decree-Law on Offshore Petroleum Operations in Timor-Leste.
- (e) If the actual Decommissioning cost is less than the accumulated Decommissioning Fund when Decommissioning is completed, such surplus shall be treated as Profit Crude Oil and transferred to the Ministry in accordance with the Decree-Law on Offshore Petroleum Operations in Timor-Leste.

Article 7

Conduct of Petroleum Operations, Local Content and Natural Gas Use

7.1 Proper and Workmanlike Manner

- (a) The Contractor shall carry out Petroleum Operations, and shall procure that they are carried out, diligently and in accordance with Applicable Law in Timor-Leste, this Contract and Good Oil Field Practice.
- (b) In particular, the Contractor shall carry out Petroleum Operations, and procure that they are carried out, in such a manner as is required by Article 7.1 (a) to:
 - (i) Protect the environment and potentially affected local communities based on sustainable development principles and ensure that Petroleum Operations result in

- minimum of ecological damage or destruction or detrimental social impact;
- (ii) Ensure the safety, health and welfare of persons in or affected by Petroleum Operations;
- (iii) Maintain in safe and good condition and repair, the Contract Area and all Facilities and other property, and other works, used or to be used in Petroleum Operations;
- (iv) On the earlier of:
 - (aa) Termination of this Contract; and
 - (bb) When no longer required for Petroleum Operations;
 and, in either case:
 - (cc) Subject to the Decommissioning Plan;
 Decommissioning of the Facilities, property and other works mentioned in Article 7.1 (b)(iii) and clean up the Contract Area and make it good and safe, and protect and restore the environment;
- (v) Control the flow and prevent the waste or escape of Petroleum, water or any product used in or derived by processing Petroleum;
- (vi) Prevent the escape of any mixture of water or drilling fluid with Petroleum;
- (vii) Prevent damage to Petroleum-bearing strata in or outside the Contract Area;
- (viii) Except with the prior consent of the Ministry, keep separate:
 - (aa) Each Reservoir discovered in the Contract Area; and
 - (bb) Such of the sources of water discovered in the Contract Area as the Ministry directs;
- (ix) Prevent water or any other matter entering any Reservoir through wells in the Contract Area, except when required by, and in accordance with, the Development Plan and Good Oil Field Practice;
- (x) Minimise interference with pre-existing rights and activities, including the rights of potentially affected local communities, navigation, fishing and other lawful offshore activities; and
- (xi) To remedy in a timely fashion any damage caused to the environment.
- (c) Notwithstanding anything elsewhere contained in this Contract, the Contractor shall clean up pollution resulting from Petroleum Operations to the satisfaction of the Ministry and other relevant authorities, and meet the costs of so doing to the extent done by anyone else, including the Ministry.

7.2 Access to Contract Area

- (a) Subject to this Contract and the Applicable Law in Timor-Leste, the Contractor may enter and leave the Contract Area at any time for the purposes of Petroleum Operations.
- (b) The Contractor shall ensure that persons, equipment and goods do not enter the Contract Area without complying with the entry requirements to Timor-Leste of the Applicable Law in Timor-Leste, and approval from the Ministry of all persons, vessels, aircraft, vehicles and Facilities entering or leaving the Contract Area for the purposes of Petroleum Operations.

7.3 Health, Safety and the Environment

- (a) The Contractor shall safeguard a high level of health and safety in Petroleum Operations and shall implement such health and safety measures to ensure the hygiene, health and

safety of relevant personnel as is required by the Applicable Law in Timor-Leste as varied, amended, modified or replaced from time to time.

- (b) The Contractor shall ensure the protection of environment in Petroleum Operations and shall establish measures to prevent, reduce, and mitigate damage to the environment, as is required by the Applicable Law in Timor-Leste.

7.4 Local Content

- (a) The Contractor shall comply with the Local Content Proposal and Local Content requirements stipulated in the Decree-Law on Offshore Petroleum Operations in Timor-Leste.
- (b) If the Contractor considers on reasonable grounds that the Local Content Proposal needs to be varied, it shall submit its reasons to the Ministry together with a revised proposal dealing with the training and employment of and the acquisition of goods and services from Timor-Leste nationals (“Revised Local Content Proposal”), according to the Decree-Law on Offshore Petroleum Operations in Timor-Leste.
- (c) The Ministry will notify the Contractor whether it approves the Revised Local Content Proposal within thirty (30) Days of receipt of the Revised Local Content Proposal.
- (d) Where the Ministry does not approve a Revised Local Content Proposal, the Ministry shall notify the Contractor of:
 - (i) The reason for the decision; and
 - (ii) The measures that the Contractor is required to take for the Revised Local Content Proposal to be approved.
- (e) The Contractor who receives notification pursuant to Article 7.4 (d) shall amend the Revised Local Content Proposal in accordance with the measures specified by the Ministry and resubmit the amended Revised Local Content Proposal for approval.
- (f) The Ministry shall notify the Contractor whether it approves an amended Revised Local Content Proposal pursuant to Article 7.4 (e) within thirty (30) Days of receipt and the procedure set out in Article 7.4 (d), and (e) shall apply to the amended Revised Local Content Proposal.

7.5 Natural Gas Use

- (a) The Contractor shall use with priority any Natural Gas in the Contract Area for the purpose of increasing the recovery of Petroleum, where Good Oil Field Practice indicates that the use of Natural Gas for this purpose is required.
- (b) The Contractor may use free of charge any Natural Gas in the Contract Area for Petroleum Operations.
- (c) The Contractor shall have the right to export any Marketable Natural Gas, produced from the Contract Area and treated as LNG. Such volume shall consist of:
 - (i) The Contractor's Cost Recovery Natural Gas; and
 - (ii) The Contractor's Profit Natural Gas.
- (d) Where the Contractor intends to export the Marketable Natural Gas as LNG, any LNG Facilities which the Contractor constructs and operates for this purpose shall:
 - (i) Be constructed and operated on the basis of a separate LNG export agreement based on acceptable commercial terms to be negotiated in good faith between the Contractor and the Ministry; and
 - (ii) If subject to agreeable commercial terms and condition, be made available for use

by any third party.

- (e) Except with the consent of the Ministry, or in an emergency, immediately following which the Contractor will report to the Ministry the details of such emergency, the Contractor shall not flare Natural Gas.

Article 8

Recoverable Costs

8.1 Generally

- (a) The Contractor's accounts shall be prepared and maintained in accordance with Annex C.
- (b) Only costs and expenses incurred by the Operator in carrying on Petroleum Operations, including annual decommissioning cost provision which deposited into the Decommissioning Fund, and properly charged to the Contractor under the relevant Joint Operating Agreement as approved by the Ministry, are Recoverable Costs, but without prejudice to any other provision of this Contract which would result in any such cost or expense not being a Recoverable Cost.
- (c) Upon evidence showing any cost to be uncompetitive, the Ministry has the right to disallow it as a Recoverable Cost unless the Contractor can document to the satisfaction of the Ministry that the cost was incurred because the goods or services concerned was not readily obtainable at market prices due to national emergencies, strikes or other unusual causes over which the Contractor has no control.
- (d) Subject to Annex C and the auditing provisions of this Contract, Contractor shall recover costs and expenses duly verified in accordance with Article 8 of this Contract in respect of the Petroleum Operations hereunder to the extent of and out of hundred percent (100%) of all Available Crude Oil and/or all Available Natural Gas from the Contract Area taking into account Article 9.1(a)(i).

8.2 Cost Recovery in Respect to Title of Facilities Passed to TIMOR GAP - Timor Gás & Petróleo, E.P

- (a) Costs incurred in respect of Facilities purchased for use in the Petroleum Operations under this Contract shall be cost recoverable in accordance with Article 8.3 of this Contract regardless of whether the ownership of such Facilities are passed to TIMOR GAP – Timor Gás & Petróleo E.P in accordance with the Applicable Law in Timor-Leste.
- (b) TIMOR GAP – Timor Gás & Petróleo E.P. is not entitled to book nor depreciate any costs in respect to such Facilities of which title has passed in accordance with the Applicable Law in Timor-Leste, except where TIMOR GAP – Timor Gás & Petróleo E.P. elects to continue the operation of the Development Area beyond the term of this Contract.

8.3 Recoverable Costs

For the purpose of determining the sharing of petroleum, all past costs and Capital Costs shall be recovered first, any remaining revenue will then be used to recover operating cost for the Calendar Year.

Subject to Annex C, in any Calendar Year, Recoverable Costs are the sum of those of the following that are not Ineligible Costs:

- (a) The sum of:

- (i) Recoverable Exploration Costs;
 - (ii) Recoverable Appraisal Costs;
 - (iii) Recoverable Capital Costs; and
 - (iv) Recoverable Operating Costs.
- (b) Decommissioning costs provision as calculated under article 6.1(c) allowable in that Calendar Year without taking into account the interests accruing to the Decommissioning Fund;
 - (c) Recoverable Costs in the previous Calendar Year, to the extent in excess of the value of the Contractor's share of Petroleum under Article 9.1(b)(i) in that previous Calendar Year;
 - (d) A Quarterly amount equal to the product of the rate of Uplift and the Quarterly balance of outstanding Recoverable Costs; and
 - (e) less Miscellaneous Receipts.

Article 9

Sharing of Petroleum

9.1 Determination of Shares

In each Calendar Year, the parties shall take and receive the following shares of every grade and quality of Petroleum as and when it is delivered at the Field Export Point:

- (a) the Ministry first share of petroleum at the Field Export Point before cost recovery shall be
 - (i) For Liquid is 5%, and;
 - (ii) For Gas is 5%.
- (b) The Contractor:
 - (i) The remaining gross income after the first shares in Article 9.1 (a)(i), but no more than is equal in value to Recoverable Costs for the Calendar Year concerned; plus
 - (ii) Its share of any Profit Petroleum as set out in Article 9.1(c).
- (c) The remaining Available Petroleum including any portion of Cost Recovery Crude Oil or Cost Recovery Natural Gas not required to cover costs, hereinafter referred to as "Profit Crude Oil" and/or "Profit Natural Gas" and collectively as "Profit Petroleum" shall be allocated between the Ministry and Contractor as follows:
 - (i) Contractor's share of Profit Petroleum shall be the remaining portion after deducting the Ministry's share in accordance with the provisions of Article 9.1(c)(ii);
 - (ii) The Ministry's share of Profit Crude Oil or Profit Natural Gas for a Calendar Month from the Contract Area shall be determined separately for Crude Oil and Natural Gas by reference to Profit Crude Oil and Profit Natural Gas as detailed in Article 9.1 (c), (iii) and (iv);
 - (iii) The Ministry's share of Profit Crude Oil is 40%;
 - (iv) The Ministry's share of Profit Natural Gas is 40%.

9.2 Option of the Ministry

- (a) Unless the Ministry elects otherwise pursuant to Article 9.2 (b), the Contractor shall lift and receive, and dispose of, in common stream with its own share and on terms no less favourable to the Ministry than the Contractor receives for its own share, the Ministry's entire share of petroleum.
- (b) The Ministry may make an election to lift and separately dispose of the Ministry's share of Petroleum. Unless the Contractor otherwise agrees, which agreement will not be unreasonably withheld, the Ministry may not so elect other than:
 - (i) In respect of all, or the same percentage of all Timor-Leste's shares of Crude Oil for and throughout each Calendar Year, on not less than ninety (90) Days prior written notice to the Contractor before the start of the Calendar Year concerned; and
 - (ii) In respect of Timor-Leste's share of Natural Gas, in connection with its approval of the Development Plan.

9.3 Lifting

- (a) Subject to this Contract, the Contractor may lift, dispose of its share of Petroleum and retain the proceeds from the sale or other disposition of that share.
- (b) The Contractor shall make available relevant marketing information and Sales Purchase Contract upon the Ministry request regardless such sales arrangement is done through the Contractor's trading agent.
- (c) The Contractor and the Ministry shall, from time to time, make such agreements between them as are reasonably necessary, in accordance with Good Oil Field Practice for the separate lifting of their shares of Petroleum.

9.4 Title and Risk

- (a) Petroleum shall be at the risk of the Contractor until it is delivered at the Field Export Point. Without prejudice to any obligation or liability of the Contractor as a consequence of a failure of the Contractor to comply with its obligations under this Contract, including Article 7.1, Petroleum which is lost after it is recovered at the well-head, and before it is delivered at the Field Export Point, shall be deducted from each Contractor's Recoverable Costs under Article 8.1.
- (b) Title in the Contractor's share of Petroleum shall pass to it when, and risk therein shall remain with the Contractor after, it is delivered at the Field Export Point.
- (c) Title in the Ministry's share of Petroleum taken by a Contractor pursuant to Article 9.2 shall pass to the Contractor when, and risk therein shall remain with the Contractor after, it is delivered at the Field Export Point.
- (d) The Contractor shall defend, indemnify and hold harmless the Ministry in accordance with the Applicable Law in Timor-Leste from and against all claims and demands asserted in respect of Petroleum wherein the risk is with the Contractor.

9.5 Payments

- (a) Unless the Ministry has made an election under Article 9.2 (b), the Contractor shall pay to the Ministry an amount equal to the Ministry's share of all amounts received by the Contractor for the petroleum taken, received and disposed of in accordance with Article 9.2

- (a) within five (5) working days of receipt.
- (b) In the event that the Contractor has not received payment for Petroleum within forty-five (45) Days after bill of lading date, it nonetheless will make a provisional payment to the Ministry of the estimated value of the Ministry's share of petroleum taken, received and disposed of in accordance with Article 9.2 (a).

Article 10

State Participation

10.1 Elections

- (a) Timor-Leste participation in all phases of Petroleum Operations under the Contract will be through TIMOR GAP, E.P., or any of its subsidiaries, in accordance with article 22 of the Petroleum Activities Law and Decree-law on Offshore Petroleum Operations in Timor-Leste.
- (b) The State participation under Article 10.1(a) shall be free carried up to development stage prior to production commission (the "Carry Period").

10.2 Participation

- (a) TIMOR GAP shall be responsible for all of its own costs in respect of the Petroleum Operations, for the proportion of its Participating Interest, effectively after the Carry Period;
- (b) Notwithstanding Article 10.2(a), during the Carry period, the Contractor (other than TIMOR GAP) shall carry and pay for, TIMOR GAP Participating Interest as stipulated under Article 10.1, in proportion to each Participating Interest, all Exploration Costs, Appraisal Costs and Development Costs including other obligations;
- (c) The contractor (other than TIMOR GAP) shall have right for reimbursement of Exploration Costs, Appraisal Costs and Development Costs including other obligations, which carried and paid for during the Carry Period, through cost oil recovery in accordance with Article 8, until such time as such outstanding carried balance have been fully reimbursed; and
- (d) TIMOR GAP may within thirty (30) Days of the Contractors presentation of an amount to be reimbursed by TIMOR GAP request that an audit shall be performed by an independent third party in order to verify the amount. This audit cost will be TIMOR GAP's responsibility.

Article 11

Supply of Crude Oil and Natural Gas to Timor-Leste Domestic Market

11.1 Domestic Market Obligation

Notwithstanding Article 9.3 (a), the Ministry may require the Contractor to supply Crude Oil and Natural Gas to the Timor-Leste domestic market in accordance with Decree-Law on Offshore of Petroleum Operations in Timor-Leste.

11.2 Calculation of Domestic Supply Obligation

- (a) The Contractor's obligation to supply Crude Oil and Natural Gas for domestic purposes shall be calculated in any Calendar Year as follows:
 - (i) The total quantity of Crude Oil or Natural Gas produced from the Contract Area is multiplied by a fraction the numerator of which is the total quantity of Crude Oil or Natural Gas to be supplied pursuant to Article 11.1 and the denominator is the entire Timor-Leste production of Crude Oil or Natural Gas from all Contract Areas;
 - (ii) Twenty-five (25) percent of the total quantity of Crude Oil or Natural Gas produced from the Contract Area is calculated;
 - (iii) The lower quantity computed under either Article 11.2 (a)(i) or Article 11.2 (a)(ii) is multiplied by the percentage of production from the Contract Area to which the Contractor is entitled as provided under Article 9 of this Contract.
- (b) The quantity of Crude Oil or Natural Gas computed under Article 11.2 (a)(iii) shall be the maximum quantity to be supplied by the Contractor in any Calendar Year pursuant to this Article. Deficiencies, if any, shall not be carried forward to any subsequent Calendar Year. If for any Calendar Year, Recoverable Costs exceed the difference of total sales proceeds from Crude Oil or Natural Gas produced and saved hereunder minus the royalty as provided under Article 9.1(a)(i) hereof, the Contractor shall be relieved from this supply obligation for such Calendar Year.
- (c) The price at which such Crude Oil or Natural Gas shall be delivered and sold under this Article 11 shall be the price as determined in accordance with Decree-Law on Offshore Petroleum Operations in Timor-Leste.
- (d) The Contractor shall not be obliged to transport such Crude Oil or Natural Gas beyond the Field Export Point, but upon request by the Ministry, the Contractor shall assist in arranging transportation and such assistance shall be without cost or risk to the Contractor.

Article 12 Payments

12.1 Fees

The Contractor shall pay to the Ministry all fees and other payments as provided for in the Applicable Law in Timor-Leste or under this Contract.

12.2 Payment Mechanism

All payments under this Contract shall, unless otherwise prescribed, be made in United States Dollars. Unless otherwise prescribed or agreed, all payments shall be made within ten (10) Days after the end of the month in which the obligation to make the payment is incurred to a bank specified by the party to whom the payment is due.

12.3 Late Payment

Any amount not paid in full when due shall bear interest, compounded on a monthly basis, at a rate per annum equal to one (1) month term, LIBOR (London Interbank Offer Rate) for United States Dollar deposits, as published by Intercontinental Exchange for Benchmark Administration (IBA), plus two (2) percentage points, on and from the due date for payment until the amount, together with interest thereon, is paid in full.

12.4 Minimum Payment

If this Contract is terminated for any reason before the end of the third (3rd) Contract Year, the

Contractor shall, on such termination, pay, to the Ministry, those fees and payments which it would have so paid under Article 12.1 if termination had not occurred until the end of the third (3rd) Contract Year.

Article 13

Procurement of Goods and Services

- (a) Except as provided or specified in both Decree-Law on Offshore Petroleum Operations in Timor-Leste and the Contract, the Contractor shall not enter into any procurement contract for value greater than Five hundred thousand (USD 500,000) for Petroleum Operations without prior approval of the Ministry.
- (b) All the procurements for Petroleum Operations shall be done on an arm's length basis and follow general principal for sourcing, tender, evaluation, monitoring and close out.
- (c) Tender, Notification, approvals and reporting of procurement for Petroleum Operations are regulated in Decree-Law on Offshore Petroleum Operations in Timor-Leste.

Article 14

Title to Facilities

14.1 Ownership of Facilities

Ownership of any Facility, whether fixed or moveable, acquired and owned by the Contractor in connection with Petroleum Operations hereunder shall pass to TIMOR GAP E. P. in accordance with the Decree-Law on Offshore Petroleum in Timor-Leste.

14.2 Production beyond the Term of this Contract

- (a) Where Production from a Development Area is possible beyond the term of this Contract, the Contractor shall handover to TIMOR GAP E. P. such Development Area and all Facilities and other property required for carrying out existing operations, in a good state of repair and operation. In accordance with the Decree-Law on Offshore Petroleum Operations in Timor-Leste, upon the transfer of said Development Area and related Facilities, TIMOR GAP E. P. shall assume all responsibility for the Facilities and other property and their Decommissioning and hold the Contractor harmless against any liability with respect thereto accruing after the date of such transfer to TIMOR GAP E.P. but without prejudice to any obligations or liabilities accrued by Contractor prior thereto.
- (b) Where TIMOR GAP E. P. elects not to take on the responsibility to continue Production in the Development Area beyond the term of this Contract, the Ministry and the existing Contractor may agree on new terms and conditions based on the existing Contract allowing the Production to continue with the existing Contractor. The new terms and conditions of the Contract shall bring more value to the State's entitlement to the production.

14.3 Rented or Leased Materials, Facilities, or Other Property

- (a) The Contractor shall procure that TIMOR GAP E.P. has the right to purchase at fair market value or to lease on terms and conditions no less favourable than those which apply to the Contractor, any Facilities, and other property that are rented or leased to the Contractor or which belong to employees of the Contractor, provided that the ownership of any such item by other than the Contractor is clearly documented with the Ministry at the time of entry into Timor-Leste or of local acquisition ("Leased Properties").
- (b) The provisions of Articles 14.1 and 14.2 shall not apply to those Leased Properties.

14.4 Moving of Property

In the event that the Contractor wishes to move property located on the Contract Area, but no longer used in Petroleum Operations to another location within Timor-Leste for further use prior approval of the Ministry shall be required. Upon receipt of such approval the Contractor shall pay to TIMOR GAP E. P. either:

- (a) An amount equal to a transfer price mutually agreed upon by the Parties; or
- (b) If no price is agreed and the Contractor still wishes to move the property as provided herein, an amount equal to the percentage of the cost of such property that has been recovered by the Contractor as a Recoverable Cost under this Contract as of the date such property is moved multiplied by the depreciated value of the property determined in accordance with this Contract and international accounting standards.

14.5 Other Uses of Property

In the event that the Contractor wishes to use property located within the Contract Area for Petroleum Operations not related to the Contract Area the prior approval of the Ministry shall be required. The terms and conditions under which the property shall be used for such purpose shall be subject to the approval of TIMOR GAP E. P.

Article 15 Dispute resolution

15.1 Application of this Article

Any disputes between the parties under this Contract shall be dealt with in accordance with this Article 15.

15.2 Notice of Dispute

The party claiming that a dispute exists must give the other party written notice of such dispute, together with details of that dispute.

15.3 Elevation of Dispute

- (a) If the dispute is not settled by the parties within thirty (30) Days of written notice of the dispute, it will be referred to, on the part of the Contractor, the most senior executive of the Contractor resident in Timor-Leste and on the part of the Ministry, a senior executive of the Ministry. Those senior executives will use all reasonable endeavours, acting in good faith, to negotiate a resolution of the dispute.
- (b) If the senior executives of the parties have settled the dispute, that settlement will be documented and signed by the Parties within fifteen (15) Days of reaching that settlement.

15.4 Arbitration

- (a) If the dispute has not been resolved under paragraph 15.3 (a) within thirty (30) Days, or such longer period as agreed by the Parties, or if no document recording the settlement is signed under paragraph 15.3 (b) within fifteen (15) Days of a resolution, the parties shall refer the dispute to arbitration, in accordance with this Article 15.4.
- (b) Arbitration between the Ministry and a Contractor shall, as agreed by the Ministry and Contractor, be conducted in accordance with:
 - (i) The 1965 Washington Convention; and

- (ii) The 1978 ICSID Additional Facility;
- (iii) The venue of arbitration shall be Singapore;
- (iv) The language of the arbitration shall be English.

15.5 Commercial Arrangement and Waiver of Sovereign Immunity

- (a) This Contract is a commercial agreement.
- (b) Both the Ministry and the Contractor waive any claim to sovereign immunity which they may have, both as to process and execution.

15.6 Obligations Continue During Dispute Resolution

The obligations of the parties under this Contract shall continue pending the resolution of any dispute under this Article 15.

Article 16 Reports, Data and Information

16.1 This Contract

- (a) This Contract is not confidential, and data or information relating to the Contract shall not be treated as confidential other than as expressly provided in Applicable Law in Timor-Leste or Articles 16.3 (e) and 16.4(d).
- (b) A copy of this Contract shall be made available by the Ministry at its central office for inspection by the public during normal office hours. This is in addition to the copy which the Ministry is required to make available to the public in the public register according to the Applicable Law in Timor-Leste.

16.2 Reports

In addition to any obligation in this Contract or in Applicable Law in Timor-Leste to provide information to the Ministry, the Contractor shall provide the Ministry, on a monthly basis, with a report detailing the operational information, ("Operational Information Report").

16.3 Ownership and Use of Project Data and Operational Information

- (a) The Ministry shall have title to all data and information acquired in the carrying on, or as a result of Petroleum Operations in accordance with the Applicable Law in Timor-Leste.
- (b) Article 16.3 (a) includes all project data and information, whether raw, derived, processed, interpreted or analysed, including cores, cuttings, samples, and all geological and geophysical, geochemical, drilling, well, Production and engineering data and information, operational information, and Operational Information Report that the Contractor obtains, collects and compiles under the authorisation.
- (c) This Article 16 does not prevent the Ministry from using any data and information, including that contained in project data and operational information, for the purpose of general statistical and other general reporting, public or otherwise, on its activities.
- (d) The operational information is not confidential and may be made available to the public by the Ministry as it elects or as requested under the Applicable Law in Timor-Leste.
- (e) The Ministry can only publicly disclose or make available any of the project data in accordance with the Applicable Law in Timor-Leste or for the purpose of the resolution of disputes under this Contract

- (f) The Contractor may only use the project data for the Petroleum Operations or for an application for an authorisation.
- (g) The Contractor shall not disclose the project data other than:
 - (i) To its employees, agents, contractors and Affiliates to the extent necessary for the proper and efficient carrying on of Petroleum Operations and provided that, prior to disclosure, that person has agreed to maintain the confidentiality of the project data on the same terms as the Contractor;
 - (ii) As required by any law applicable to the Contractor;
 - (iii) For the purpose of the resolution of disputes under this Contract; or
 - (iv) As required by a recognised stock exchange.
- (h) Except with the prior written consent of the Ministry, or as required by Applicable Law in Timor-Leste, provided that the Contractor has provided advance prior notice to the Ministry sufficient to allow the Ministry to object, a Contractor may not sell or disclose any project data or Operational Information or any other data or information relating to the Petroleum Operations.
- (i) Any copies of, additional samples of or other material related to, the project data that has been reproduced for use in Petroleum Operations shall be returned to the Ministry upon termination of Petroleum Operations.
- (j) The non-disclosure obligations set out in Article 16.3 (e) do not apply to any piece of project data which a party can show is or becomes part of the public domain, other than by a breach of this Contract or in respect of which the Ministry or other Government agencies of Timor-Leste determine that the public interest in disclosure outweighs any interest in maintaining confidentiality.

16.4 Contractor Confidential Information and Contractor Developments

- (a) The Contractor shall own all Contractor Developments unless specifically mutually agreed between the Ministry and the Contractor.
- (b) The Contractor shall, subject to Article 16.4 (d), disclose to the Ministry all Contractor Developments as soon as practicable after they are made and hereby grants an irrevocable, royalty-free licence to the Ministry to use the Contractor Developments for the purpose of conducting the Petroleum Operations under this Contract.
- (c) At the request of the Ministry, the Contractor shall discuss in good faith the grant of a licence to the Ministry to use the Contractor Developments for any purpose whatsoever within Timor-Leste, such use to be negotiated on a competitive and fair market basis.
- (d) The Ministry agrees to maintain as confidential and not to disclose to any third party the Contractor Confidential Information or the Contractor Developments other than as required by the Applicable Law in Timor-Leste or for the purpose of the resolution of disputes under this Contract.
- (e) The confidentiality obligations set out in Article 16.4 (d) shall not apply to any information or part thereof which:
 - (i) Is or becomes part of, the public domain otherwise than by breach of this Contract;
 - (ii) Is lawfully obtained by the Ministry from another person without any restrictions as to use and disclosure; or
 - (iii) Was in the Ministry's possession prior to disclosure to it by the Contractor, or
 - (iv) The Ministry serves notice on the Contractor requiring it to show cause, within the time specified in the notice, as to why that Contractor Confidential Information should still be subject to the confidentiality obligations in paragraph 16.4 (d) and the Contractors or any of them do not show cause within that time.

16.5 Right to Attend Meetings

Pursuant to the Applicable Law in Timor-Leste, representatives of the Ministry shall be entitled to attend, as observers, in any meetings of committees or groups established in connection with the Petroleum Operations of the Contractor under this Contract.

16.6 Public Statements

An Operator or Contractor may only make public statement about this Contract or the Petroleum Operations in accordance with Applicable Law in Timor-Leste or the rules of a recognised stock exchange.

Article 17 Management of Operations

17.1 Operator

The appointment or change of an Operator by the Contractor is, pursuant to the Applicable Law in Timor-Leste, subject to prior approval by the Ministry.

17.2 Constitution of Committee

For the purpose of this Contract there will be a Committee consisting of two (2) representatives from the Ministry, one of whom shall be the chairman, and the same number of representatives from the Contractor, and if there is more than one person comprising Contractor, at least one representative from each such person, as nominated by the Ministry and the Contractor, respectively. For each of its representatives, the Ministry and the Contractor may nominate an alternate to act in the absence of the representative.

17.3 Meetings

- (a) The Committee will meet at least twice in each year in the Ministry's offices or such other place as the Ministry may advise upon the chairman giving thirty (30) Days notice thereof to discuss matters related to Petroleum Operations. There shall be at least one meeting of the Committee for each of the following purposes:
 - (i) Determining the process under which the Contractor will submit Work Programmes and Budget to the Ministry for approval, in accordance with Article 4;
 - (ii) Examining the Minimum Exploration Work Requirements and their progress, as well as the Work Programme and Budget for the following years which the Contractor is required to submit under the Applicable Law in Timor-Leste; and
 - (iii) Reviewing any proposed or agreed amendments to the Minimum Exploration Work Requirements or Work Programmes and Budget; reviewing the progress of Petroleum Operations under the current Work Programmes and Budget.
- (b) The Contractor or the Ministry may request a meeting of the Committee at any time by giving written notice to the chairman. Such notice shall include a full description of the purpose of the meeting. The chairman shall thereupon call such meeting by giving thirty (30) Days notice thereof.

Article 18 Third Party Access

The Contractor shall, in accordance with Decree-Law on Offshore Petroleum Operations in Timor-Leste, provide for third party access to the Facilities and other property within the Contract Area on reasonable terms and conditions.

Article 19

Books of Account, Financial Report, Audit, and Cost Verification

19.1 Arm's Length Transactions

Except as otherwise agreed in writing between the Ministry and the Contractor, all transactions giving rise to revenues, costs or expenses which will be credited or charged to the books, accounts, records and reports prepared, maintained or submitted hereunder shall be conducted at arm's length or on such a basis as will assure that all such revenues will not be lower and costs or expenses will not be higher than the international market price for goods and services of similar quality supplied on similar terms prevailing in South and South East Asia at the times such goods or services were contracted by Contractor for transactions conducted at arm's length on a competitive basis with third parties.

19.2 Maintenance of Books

The Contractor shall maintain in Timor-Leste, in accordance with Annex C, books of account and all such other books and records as are necessary regarding the work performed under this Agreement, the costs incurred and the quantity and value of all Petroleum produced and saved from the Contract Area and not used in Petroleum Operations. Records and books shall be maintained in one of the official languages of Timor-Leste and the English language.

19.3 Right of Ministry to Inspect and Audit

- (a) In accordance with the Applicable Law in Timor-Leste, the Ministry has the right to inspect and audit all of the Contractor's books, accounts and records relating to Petroleum Operations under this Contract and activities under its authorisation for the purpose of verifying the Contractor's compliance with the terms and conditions of this Contract.
- (b) In accordance with the Applicable Law in Timor-Leste, such books, accounts and records shall be made available by the Contractor in Timor-Leste for inspection and audit by representatives of the Government of Timor-Leste including, at the Contractor's cost, independent auditors that may be employed by them.
- (c) In accordance with the Applicable Law in Timor-Leste, the Ministry has the right with respect to such audit, to visit and inspect in reasonable times in all sites, plants, Facilities, warehouses and offices of the Contractor directly or indirectly serving the Petroleum Operations and to question personnel associated with those Petroleum Operations.
- (d) In accordance with the Applicable Law in Timor-Leste, the Ministry may request any Contractor to arrange for, and pay for, an independent audit of its activities under its authorisation.

19.4 Books of persons comprising Contractor, their Contractor's Affiliates and Sub Contractors

- (a) The Contractor shall ensure to make available of all books, records, documents of persons comprising the Contractor, their Contractor's affiliates or sub-contractors for auditor in relation to audit of Contractor's books, records and documents.
- (b) The Ministry may require the Contractor to engage with independent auditors of any persons comprising the Contractor to examine at the Contractor's cost and in accordance with international auditing standards, the books and records of such Person and their and Contractor's affiliates or sub-contractors to verify the accuracy and compliance with the terms of this Contract insofar as a charge from such persons, their Contractor's affiliates or sub-contractors is included directly or through the Contractor as a Recoverable Cost under this Contract. Whenever an independent audit of such persons, their Contractor's Affiliate's

or sub-contractor's books is required, the Ministry shall specify in writing the item or items for which it requires verification from such independent audit. A copy of the independent auditor's findings shall be delivered to the Ministry and the minister responsible for finance within thirty (30) Days after completion of such audit.

- (c) If the books, records or documents of a person comprising the Contractor, their Contractor's affiliates or sub-contractors which related to any costs which the Ministry wishes to verify, are not made available under paragraphs (a) and (b), the cost will not be allowed as a Recoverable Cost under this Contract.

19.5 Initial Verification Procedure

- (a) Subject to Annex C, the following procedure shall be implemented with respect to each Calendar Quarter to initially verify and establish promptly to the Contractor's costs which qualify as Recoverable Costs under this Article 19.
- (b) The Contractor shall submit the statements required under Annex C, in accordance with the procedure detailed in Annex C, to the Ministry who shall initially verify:
 - (i) That claimed costs qualify as Recoverable Costs under the terms of this Contract and Annex C; and
 - (ii) That the claimed amount of a qualifying cost is correct based on documentation made available at the Contractor's office in Timor-Leste.
- (c) The initial verification of expenditures shall be the basis for provisionally determining the sharing of Petroleum, but shall not constitute final approval by the Ministry of these amounts. Such final approval shall only be provided after final auditing has been completed pursuant to Article 19.6 below. The Ministry may submit a written exception notice to the Contractor during the initial verification, such written exception notice shall identify the particular cost or costs being contested and the reason for the exception.
- (d) The Contractor shall submit to the Ministry within thirty (30) Days after receipt of the Ministry's written exception notice such additional information in written form as the Ministry requires as well as such additional information as the Contractor considers appropriate to support the correctness and/or recoverability of the contested cost or costs. If the Contractor does not make a written submission within such time supporting the charge, the cost or costs shall be deemed disallowed for purposes of cost recovery.
- (e) If additional written information supporting the contested cost or costs is submitted by the Contractor within the prescribed period, the Ministry shall notify the Contractor of its decision as to whether to allow the contested cost or costs within thirty (30) Days after receipt of such information.
- (f) If the Ministry notifies the Contractor that the exception remains, the charge shall be deemed disallowed as a Recoverable Cost under this Contract subject to the right of the Contractor to request within thirty (30) Days after the receipt of such notice that the final determination as to recoverability of the disputed cost or costs be made by experts.
- (g) The Contractor shall promptly correct its books of account to reflect any changes resulting from the initial verification procedure outlined in this Article 19.5.

19.6 Audit Process

All audits shall be completed within twenty-four (24) months after the termination of the Contract Year to which such audits apply. Auditors may examine all books, accounts and records of the Contractor for a specific period of time or may examine only a specific aspect of such records.

19.7 Audit Exceptions, Claims and Queries

- (a) Within ninety (90) Days after the end of any audit conducted under this Article 19, the Ministry shall present to the Contractor a report setting out audit exceptions, claims and

queries.

- (b) The Contractor shall allow or deny in writing all exceptions, claims and queries set out in the report within ninety (90) Days of the presentation of the report (the "Review Period"). In relation to all denials, the Contractor shall provide a detailed statement of the Contractor's reasons for each denial together with supporting evidence.
- (c) All exceptions, claims or queries which are not denied by the Contractor within the Review Period will be deemed allowed.
- (d) The Ministry and the Contractor shall negotiate in good faith to reach final resolution on exceptions, claims and queries which have been denied within (90) Days from the end of the Review Period. If any exceptions, claims and queries are not resolved during this period, either party may initiate dispute resolution procedures in accordance with Article 15 of this Contract, such dispute to be considered a technical matter.

19.8 Right to Re-examine

Subject to any adjustments resulting from such audits or notification of a dispute by the Ministry, reports and statements shall be considered final and not subject to further audit after the end of the period provided for under Article 19.6. Notwithstanding any provision herein or in this Contract to the contrary, if in a subsequent period an issue or error is identified which relates to another period or to fraud or wilful misconduct alleged to have occurred at any time, the Ministry shall have the right to re-examine reports and statements otherwise considered as final reports and statements or not previously audited.

19.9 Audit of Operator or any other Contractor

If the Contractor conducts an audit of the books and records of the Operator or any other person comprising the Contractor pertaining to this Contract, it shall promptly provide to the Ministry a copy of the audit results, a report setting out the audit exceptions, claims and queries and the manner in which these exceptions, claims and queries were finally allowed or denied.

19.10 Time Periods for Maintenance of Books

The Contractor must retain all books, records and documents maintained under this Article 19, and make such books, records and documents available for inspection in accordance with the Applicable Law in Timor-Leste.

19.11 Technical Audit

- (a) In accordance with the Applicable Law in Timor-Leste, the Contractor shall provide relevant authorities of Timor-Leste which responsible for any of the Contractor's activities, with relevant information and allow them free access.
- (b) Under no circumstances shall the Ministry assume any responsibilities for the performance or not of any activities which it has audited or inspected pursuant to this Article 19.11 such responsibility shall remain with the Contractor, at its own account and risk.

Article 20 Warranty and Insurance

20.1 Warranty

The Contractor hereby warrants that it has the financial capability, and the technical knowledge and technical ability, to carry out the Petroleum Operations in a manner wholly consistent with the Applicable Law in Timor-Leste and this Contract, and that it does not have a record of non-compliance with principles of good corporate citizenship.

20.2 Insurance

- (a) The Contractor shall:
 - (i) take out and maintain insurance on a strict liability basis and in respect of such other matters as reasonably required by the Ministry, including in respect of pollution, for such amounts as the Ministry requires from time to time and otherwise as required by Good Oil Field Practice, and
 - (ii) obtain and maintain all insurances required by Applicable Law in Timor-Leste.
- (b) Notwithstanding anything to the contrary herein, the insurance policies referred in article 20.2 (a) above shall cover, including but not limited to:
 - i. any loss or damage to any asset used in the Petroleum Operations for no less than full replacement value of the assets;
 - ii. Pollution caused in the course of Petroleum Operations;
 - iii. Property loss or damage or bodily injury or death suffered by any person including third parties, in the course of Petroleum Operations;
 - iv. The cost of removing wrecks and clean-up operation following an accident or upon Decommissioning of Facilities; and
 - v. The authorised person's liability to its employees engaged in the Petroleum Operations
- (c) The Contractor shall ensure that all insurances obtained under this Article shall name the Ministry as co-insured and the Contractor shall obtain from its insurance companies the inclusion of, in all of its policies, a clause by which they expressly waive the exercise of any rights, implicit or explicit, to subrogation rights against the Ministry.
- (d) Self-insurance, insurance through affiliates or use of policies global insurance programs shall only be permitted upon prior written approval by the Ministry, such approval to be given at its sole discretion provided that risks cannot be insured by an insurance company as referred to in the Sub-Article (g) below.
- (e) The Contractor shall be responsible for the filing of all claims made under any insurance policy maintained by Contractor which relates to this Contract.
- (f) Any reasonable amount deductible under any insurance policy maintained by the Contractor which relates to this Contract shall, upon making an insurance claim, be a Recoverable Cost by the Contractor in accordance with the provisions of Annex C.
- (g) The Contractor shall require its sub-contractors to obtain and maintain the insurance required of the Contractor in this Article 20, relating mutatis mutandis to such sub-contractors, and shall upon demand of the Ministry provide proof of such insurance effected by the sub-contractors to the Ministry.

Article 21 Force Majeure

21.1 Force Majeure Relief

- (a) "Force Majeure" means any event that is unforeseeable, insurmountable and irresistible, not due to any error or omission by the party claiming Force Majeure but due to circumstances beyond its control, which prevents or impedes execution of all or part of its obligations under this Contract. Such events shall include but not be limited to following:
 - (i) War, whether declared or not, civil war, insurrection, riots, civil commotion, terrorism, any other hostile acts, whether internal or external;

- (ii) Quarantine restrictions or epidemics;
- (iii) Any act, event, happening or occurrence due to natural causes, in particular, but without limitation, floods, storms, cyclones, fires, lightning, or earthquakes; and

Force Majeure affecting a person comprising the Contractor or its affiliates shall be deemed Force Majeure affecting such person or its Affiliates only if the consequence of such Force Majeure prevents the performance of any of Contractor's obligations under this Contract.

- (b) Notwithstanding Article 21.1 (a), the following shall not be Force Majeure:
 - (i) Failure to pay money;
 - (ii) In the case of the Contractor, any law, or any action or inaction of the Government, of a place other than Timor-Leste, or of a political subdivision thereof;
 - (iii) In the case of the Ministry, the Applicable Law in Timor-Leste or any action or inaction of the Government of Timor-Leste;
 - (iv) In the case of the Contractor, any failure to deliver and maintain a Security or to obtain and maintain insurance as required by this Contract; and
 - (v) In the case of the Contractor, strikes, lockouts and other industrial disturbances of the Operator's, or of its agents' and sub-contractor's employees and not part of a wider industrial dispute materially affecting other employers.
- (c) Subject to the provisions of this Article 20.1, party shall not be liable for any failure to perform an obligation under this Contract to the extent such performance is prevented, hindered or delayed by a Force Majeure event.

21.2 Procedure

A party claiming Force Majeure shall:

- (a) Notify the other party as soon as reasonably practicable, not exceeding twenty-four (24) hours, of the event or circumstance concerned, and of the extent to which performance of its obligations is prevented, hindered or delayed thereby;
- (b) Keep the other party fully informed as to the actions taken, or to be taken, by it to overcome the effects thereof, and, from time to time, provide it with such information and permit it such access, as it may reasonably require for the purpose of assessing such effects and the actions taken or to be taken; and
- (c) Resume performance of its obligations as soon as reasonably practicable after the event or circumstance no longer exists.

21.3 Consultation

The parties shall consult with each other and take all reasonable steps to minimise the losses of either Party and to minimise any overall delay or prejudice to Petroleum Operations as a result of Force Majeure.

21.4 Extension of Time

If Force Majeure materially prevents, hinders or delays Petroleum Operations for more than three (3) consecutive months, the parties shall discuss, in good faith, amendments regarding the term of, and the periods of time in which Petroleum Operations are to be carried out under this Contract.

Article 22

Restrictions on Assignment

22.1 Assignment

- (a) In accordance with the Applicable Law in Timor-Leste, the Contractor may not assign this Contract without prior written approval of the Ministry and no Assignment shall be effective until such approval is given.
- (b) The assignor and assignee shall jointly and severally provide all Security for the fulfilment of any unfulfilled accrued obligations of assignor prior to the date of the Assignment and the instrument of assignment shall state precisely that the assignee is bound by all covenants contained in this Contract.
- (c) In accordance with the Applicable Law in Timor-Leste, approval may be given by the Ministry upon application in writing by the Contractor and on such terms and conditions as it may deem fit. An application for approval to assign shall be accompanied by all relevant information and documents relating to the prospective assignee and the terms of the proposed Assignment as set out in the Applicable Law in Timor-Leste and as the Ministry may reasonably require in order to enable proper consideration of and decision on the application.
- (d) The Ministry may terminate this Contract if the Contractor Assigns this Contract without prior written approval of the Ministry, or other than in accordance with any terms and conditions of such consent, even if such Assignment is effective by the Applicable Law in Timor-Leste.

22.2 Assumption of Obligations

Upon Assignment, and subject to payment of any transfer fee as may be stipulated in the Applicable Law in Timor-Leste, the assignor may be released and discharged from its obligations hereunder only to the extent that such obligations are assumed by the Assignee and only with the prior approval of the Ministry.

22.3 Right of First Refusal

If an Assignment is proposed during the period of Production, TIMOR GAP shall have a preferential right to such Assignment, under the same terms and conditions specified in the Assignment application. TIMOR GAP shall be exempted from paying any transfer fee. Such preferential right shall be exercised within sixty (60) Days after TIMOR GAP received written notification of the proposed Assignment.

22.4 Right of Ministry to Transfer

If the Government of Timor-Leste determines that a different entity will hold the rights and obligations held by the Ministry under this Contract, the Ministry shall notify the Contractor and advise that the rights and obligations of the Ministry under this Contract have been transferred to that entity. Promptly upon receiving such notice, the Contractor will deal with the new entity in the place of the Ministry under this Contract.

22.5 Assignment or Transfer of One or More Blocks of the Contract Area

- (a) With the consent of the Ministry, after conducting survey data acquisition and technical evaluations the Contractor may elect to perform an Assignment of a part of the Contract Area. Where such Assignment results in a modification in the composition of persons comprising the Contractor in such a way that the composition is not identical for all the Contiguous Areas within the Contract Area or when the Assignment results in the division of areas, the persons comprising Contractor must execute new production sharing contracts with the Ministry within thirty (30) Days from the date of approval of the Assignment. The Contractor and the persons comprising the Contractor shall maintain the same terms and obligations of this Contract,

except for the provisions of Annex A (Description of Contract Area) and formalizing, in this new Production Sharing Contract, the situation of the Contiguous Areas of the Contract, the composition of the Contractor, and the appointment of the Operator. Failure to execute this new Production Sharing Contract within this time frame will result in the lapse of the consent of the Ministry to Assign.

- (b) If Article 22.5 (a) apply, the Ministry shall define an additional Work Programme for the divided areas of the Contract Area and, if this occurs during Exploration, Minimum Exploration Work Requirements, for the areas to be divided.
- (c) The sum of the activities and expenditure in the resulting Work Programmes shall always be greater than the original Work Programme, and each of the divided Contract Areas must have a Work Programme associated with it and, in the case of Exploration in that Contract Area, Minimum Work Requirements.
- (d) In the event of the application of the provisions of this Article 22.5, the resulting areas shall become independent for all resulting effects, including the calculation of State participation.

22.6 Transfer of Decommissioning Fund

In the event of an Assignment or transfer, when a Decommissioning Fund has been created pursuant this Contract, the account or the total deposit of the Assignor or transferor in the account holding the Decommissioning Fund must be transferred to the Assignee or transferee by the Assignor or transferor.

Article 23 Other Provisions

23.1 Notices

- (a) Any notices required to be given by one party to another party shall be served in accordance with the Applicable Law in Timor-Leste.
- (b) All notices to be served on a Contractor shall be addressed to its registered office.

23.2 Language

This Contract has been drawn up in the Portuguese and English languages and three (3) originals of each text have been prepared for signature by the Ministry and the Contractor. Both the Portuguese and English texts are binding. However, the Portuguese text will prevail in the case of conflict.

23.3 Governing Law

This Contract shall be governed by and construed in accordance with the Applicable Law in Timor-Leste as applicable from time to time.

23.4 Third Party Rights

Unless specifically provided in this Contract, the parties do not intend that any term of this Contract be enforceable by any person who is not a party to this Contract.

23.5 Amendments/Modifications

This Contract shall not be amended or modified in any respect, unless the parties agree in writing.

23.6 Entire Contract

This Contract sets out the entire agreement and understanding of the parties in connection with the subject matter of this Contract and supersedes any other prior agreements, understanding or arrangements whether written or otherwise relating thereto.

23.7 Inurement

This Contract shall inure to the benefit and burden of the parties, their respective successors and permitted assigns.

23.8 Joint and Several Liability

- (a) The obligations and liabilities of the Contractor under this Contract except TIMOR GAP are the obligations and liabilities of each and every company that constitutes Contractor, jointly and severally.
- (b) The exception referred to in sub Article 23.8 (a) does not apply in the event that TIMOR GAP is the Contract Operator or holding majority of the Participating Interest in this Contract.

23.9 No Waiver

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

IN WITNESS WHEREOF, the parties have executed this Contract.

Signed by and on behalf of the Democratic Republic of Timor-Leste – National Petroleum and Mineral Authority

Gualdino da Silva

President of ANPM

In the Presence of:

Rosentino Amado Hei

Witness

Signed by and on behalf of SUNDAGAS BANDA UNIPessoal, LDA

Dr. Andy Butler

Director and CEO of SundaGas Group

In the Presence of:

Paul Ebdale

Witness

Signed by and on behalf of TIMOR GAP CHUDITCH UNIPessoal, LDA

Vicente Lacerda

Managing Director of Timor Gap Chuditch Unipessoal, Lda

In the Presence of

Jacinta Bernardo

Witness

Annex A – Contract Area Description

Points	Longitude	Latitude
S1	127° 40' 1.200"E	10° 15' 0.000"S
S2	128° 17' 20.400"E	10° 15' 0.000"S
S3	128° 12' 28.800"E	10° 29' 13.200"S
S4	127° 59' 20.400"E	10° 43' 37.200"S
S5	127° 48' 50.400"E	10° 53' 38.400"S
S6	127° 47' 9.600"E	10° 55' 19.200"S
S7	127° 40' 1.200"E	11° 4' 4.800"S
S1	127° 40' 1.200"E	10° 15' 0.000"S

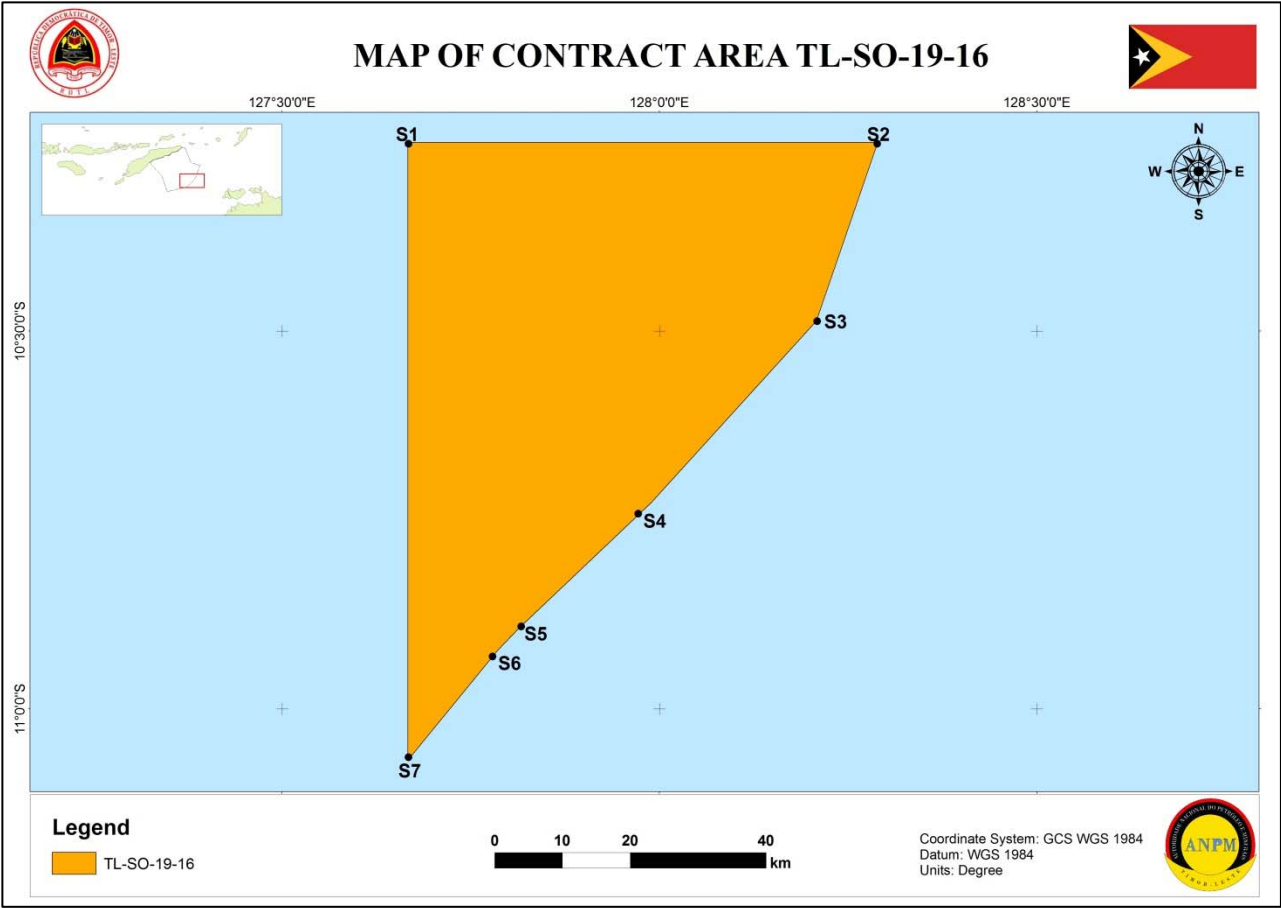
The total Contract Area is of 3571.49 square kilometres.

Coordinates System: GCS WGS 1984

Datum: WGS 1984

Units: Degree

Annex B – Map of the Contract Area



Annex C – Accounting Procedure

Clause 1 – General Provisions

1.1 Purpose and Definitions

- (a) The purpose of this Annex C is to further define the manner in which the costs and expenses of Petroleum Operations will be recorded, Recoverable Costs will be determined, and the Contractor and each person comprising Contractor's books and accounts will be prepared and maintained, and ancillary matters.
- (b) A reference to a Clause or paragraph is to a clause or paragraph of this Annex C unless the contrary is stated.
- (c) A reference to an Article is to an Article of the Contract to which this Annex C is attached.

1.2 Accounting Records

- (a) Each Contractor shall maintain complete accounts, books and records, on an accruals basis, of all costs, expenses and revenues of, or relating to, Petroleum Operations, and the sale or other disposition of Petroleum, on an accurate basis and in accordance with the International Financial Reporting Standards and in accordance with the charts of accounts mentioned in paragraph 1.2 (b). These accounts, books and records are hereinafter referred to as "Accounting Records".
- (b) Within sixty (60) Days after the Effective Date, each Contractor shall submit to the Ministry, for its approval, an outline of charts of accounts, books, records and reports to be used for the purposes of paragraph 1.2 (a) and for reporting to the Ministry thereon.

1.3 Language and Units of Account

- (a) The *International System of Units* (metric units), along with cubic feet and barrels shall be employed for measurements and quantities under this Contract.
- (b) The Accounting Records, and all reports to the Ministry, will be in one of the official languages of Timor-Leste. These records and reports may be in English, if an official translation in one of the official languages of Timor-Leste is provided.
- (c) The Accounting Records, and all reports to the Ministry, will be in United States Dollars. Costs and revenues in another currency will be translated at the exchange rate set on the Day the cost is incurred, or the revenue realised, at a time and by a financial institution designated by the Contractor and approved by the Ministry.
- (d) Exchange gains or losses charged to the Accounting Records shall be in accordance with Clause 2.8 (b).

Clause 2 – Classification and Allocation

2.1 Exploration Costs

Exploration Costs are those costs, whether of a capital or operating nature, which directly relate to Exploration and are incurred in respect of activities carried out substantially in accordance with an approved Work Programme and Budget for Exploration, but without prejudice to Article 5.3 of the Contract, including costs of:

- (a) Drilling wells, and related abandonment and site remediation thereof;
- (b) Surveys, including labour, materials and services, including desk studies and analysis of survey data, used in aerial, geological, geochemical, geophysical and seismic surveys, and core hole drilling;

- (c) Auxiliary or temporary Facilities used solely in support of the purposes described in paragraphs (a) and (b) above;
- (d) Workshops, power and water facilities, warehouses, site offices, access and communication facilities used solely in support of the purposes described in paragraphs (a) and (b) above;
- (e) Floating craft, automotive equipment, furniture and office equipment for the purposes described in (a) and (b); and
- (f) If approved by the Ministry, employee and welfare housing, recreational, educational, health and meals Facilities, and other similar costs necessary for Exploration.

2.2 Appraisal Costs

Appraisal Costs are those costs that directly relate to Appraisal.

2.3 Capital Costs

Capital Costs are:

- (a) In respect of a Development Area, and before the start of Commercial Production from it, those costs, whether of a capital or operating nature, which directly relate to the Development of it; and
- (b) In respect of a Development Area, and after the start of Commercial Production from it, those costs of a capital nature which directly relate to the Development of it, or to the Production of Petroleum from it;

and are incurred in respect of activities carried out in accordance with an approved development Work Programme and Budget, but without prejudice to Article 5.3 of the Contract, including costs of:

- (c) Workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- (d) Production Facilities including offshore platforms, including the costs of labour, fuel hauling and supplies for both the offsite fabrication and onsite installation of platforms, and other construction costs in erecting platforms, wellhead production tubing, sucker rods, surface pumps, flow lines, gathering equipment, storage Facilities, Facilities and modules on platforms, treating plants and equipment, secondary recovery systems;
- (e) Pipelines and other Facilities for transporting Petroleum produced in the Contract Area to the Field Export Point;
- (f) Movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment;
- (g) Floating craft, automotive equipment, furniture and office equipment; and
- (h) If approved by the Ministry, employee and welfare housing, recreational, educational, health and meal facilities, and other similar costs necessary for the Development.

2.4 Operating Costs

Operating Costs are, in respect of a Development Area and after the start of Commercial Production from it, those costs of an operating nature which directly relate to the Development thereof, or to the Production of Petroleum therefrom, and are incurred in respect of activities carried out substantially in accordance with an approved Development Work Programme and Budget, but without prejudice to Article 5.3 of the Contract.

Operating costs include, but are not limited to the following:

- (a) Costs of labor, materials and services used in day to day well activities, field Production

Facilities activities, secondary recovery activities, storage handling, transportation and delivery activities, gas processing auxiliaries and utilities, and other operating activities, including repairs and maintenance;

- (b) Costs of office, services and general administration directly related to the petroleum activities carried out in the Contract Area including technical and related service, office supplies, office rentals and other rentals of services and property, and personnel expenses;
- (c) Costs of production drilling in the contract area including, labor, materials and services used in drilling wells with object of penetrating a proven reservoir such as the drilling of delineation wells as well as re-drilling, deepening or recompleting wells;
- (d) Cost of feasibility studies and environmental impact assessment directly related to petroleum activities in the Contract Area;
- (e) Premium paid for insurance normally required to be carried for the petroleum activities carried out by the contract Operator under this contract;
- (f) Annual Decommissioning costs provision,
- (g) Costs of purchased geological and geophysical information.

2.5 Decommissioning Fund

The Decommissioning Fund is the amount determined in accordance with Article 6.1.

2.6 Uplift

Uplift is the amount which, when compounded quarterly, is equal to the average for the business days of the Quarter of the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds) plus an annual margin of eleven (11) percentage points. Uplift shall apply to Exploration, Appraisal and Capital Costs only and not to Operating Costs.

If the event the Contractor is the withholding agent on behalf of its subcontractors' liability in respect to Withholding tax (WHT) on goods and services and wages income tax of employee, the Contractor shall only recover the base tax as Contractor's costs with no uplift.

2.7 Miscellaneous Receipts

Miscellaneous Receipts are:

All monies received by each Contractor, other than for the sale or other disposal of Petroleum from a Development Area, which are directly related to the conduct of Petroleum Operations, including:

- (a) Amounts received from the sale or other disposal of Petroleum from Production Testing activities undertaken in exploration wells and appraisal wells;
- (b) Amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;
- (c) The proceeds of any insurance or claim or judicial awards in connection with Petroleum Operations under the Contract or any assets charged to the accounts under the Contract where such operations or assets have been insured and the premium charged to the accounts under the Contract;
- (d) Amounts received as insurance, the premiums of which are Recoverable Costs, compensation or indemnity in respect of Petroleum lost or destroyed prior to the Field Export Point;
- (e) Amounts received from the hiring or leasing of property, the cost of which is a Recoverable Cost;
- (f) Amounts received from supplying information obtained from Petroleum Operations

in accordance with the confidentiality and other applicable provisions of the Contract;

- (g) Amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs;
- (h) Amounts received in respect of expenditures which are Recoverable Costs, by way of indemnity or compensation for the incurring of the expenditure, refund of the expenditure, or rebate, discount or commission in respect of the expenditure; and
- (i) The value of property as determined by the Ministry, the cost of which is a Recoverable Cost, when that property ceases to be used in Petroleum Operations.

2.8 Ineligible Costs

Ineligible Costs are:

- (a) Interest or any payment in the nature of, in lieu of, or having the commercial effect of interest or other cost under, or in respect of, a Loan Facility;
- (b) Foreign exchange and currency hedging costs;
- (c) The positive difference between the costs relating to formation of corporations or of any partnerships or joint venture arrangements, other than in respect of a unitisation as required by the Applicable Law;
- (d) Payments of dividends or the cost of issuing shares;
- (e) Repayments of equity or loan capital;
- (f) Payments of private override royalties, net profits interests and the like;
- (g) All expenditure, including professional fees, publicity and out-of-pocket expenses, incurred in connection with the negotiation, signature or ratification of this Contract and payments associated with the acquisition of an interest under this Contract;
- (h) Costs incurred by the Contractor before and during the negotiation of this Contract;
- (i) Costs and charges incurred after the signing of the Contract but before the Effective Date;
- (j) Expenditure in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including but not limited to interest, commission, brokerage and fees related to such transaction as well as exchange losses on loan or other financing whether between affiliates or otherwise;
- (k) Expenditure incurred in obtaining, furnishing and maintaining the guarantees required under the Contract and any other amount spent on indemnities with regard to non-fulfilment of contractual obligations;
- (l) Payments of taxes under the taxation law of Timor-Leste, and all other taxes on income, profit or gain wherever arising with exception to WHT taxes as a result of the Contractor acting as withholding agent on behalf of the subcontractors (Non-Permanent Establishment);
- (m) Fines and penalties imposed by any authority;
- (n) Payments of administrative accounting costs, and other costs indirectly associated with Petroleum Operations;
- (o) Except with the consent of the Ministry, costs incurred in respect of Petroleum after it has passed the Field Export Point;
- (p) The positive difference between the costs of goods and services and the international market price for goods and services of similar quality supplied on similar terms prevailing in South and South East Asia at the times such goods or services were contracted by Contractor;
- (q) Charges for goods and services which are not in accordance with the relevant Contract with the sub-contractor or supplier;

- (r) Costs incurred as a result of non-compliance by a Contractor with any law or this Contract, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of a Contractor, its agents or sub-contractor, including any amount paid in settlement of any claim alleging negligence or wilful misconduct, whether or not negligence or misconduct is admitted or whether such sum is stated to be paid on an ex-gratia or similar basis;
- (s) Costs, expenses and charges incurred for goods and services received under contracts awarded in non-compliance with the tendering procedures of the Contract;
- (t) Costs incurred as a result of wilful misconduct or negligence of a Contractor;
- (u) Payment of compensation or damages under this Contract;
- (v) Costs relating to the settlement of disputes, which are not approved in advance by the Ministry, including all costs and expenses of arbitration or litigation proceedings under this Contract;
- (w) Costs of expert determination pursuant to Article 19 of the Contract;
- (x) Decommissioning costs actually incurred which have been taken into account for the purposes of determining the Decommissioning Fund;
- (y) Interests earned on the payments made to the Decommissioning Fund;
- (z) Payments under Article 12 of the Contract;
- (aa) Fees and accounting fees, excluding fees and expenses incurred for the conduct of audit and accounting services required by this Contract, incurred pursuant to the auditing and accounting requirements of any law and all costs and expenses incurred in connection with intra-group corporate reporting requirements, whether or not required by law;
- (bb) Except with the consent of the Ministry and in accordance with the conditions of the consent, any expenditure in respect of the hiring or leasing of Facilities, or other property, or of other works;
- (cc) Except with the consent of the Ministry, costs, including donations, relating to public relations or enhancement of the party's corporate image and interests;
- (dd) Costs associated with local offices and local administration, including staff benefits, which, by reference to International Financial Reporting Standards, are shown to be excessive;
- (ee) Costs for which original records do not or are not correct in any material respect;
- (ff) Except with the consent of the Ministry, but subject to Article 5.3 of the Contract, costs not included in a budget for the relevant year; and
- (gg) Costs not falling within any of the above items which are stated elsewhere in this Contract not to be recoverable (including in Article 2.1 (d)), or costs incurred without the consent or approval of the Ministry, where such is required.

2.9 Other Matters

- (a) The methods mentioned in this Clause 2.9 will be used to calculate Recoverable Costs.
- (b) Depreciation is not a Recoverable Cost except for the purpose of corporate income tax assessment.

- (c) No gains or losses would be recognized upon title of assets which are passed from Contractor to TIMOR GAP – Timor Gas & Petroleum, E.P.
- (d) Parent Company Overhead cost record that Contractor sought for cost recovery shall be made available and accessible by the Ministry. Parent company overhead charge shall only be applicable during petroleum operation and shall not be included in the decommissioning estimate.
- (e) General and administration costs, other than direct charges, allocable to Petroleum Operations shall be determined by a detailed study, and, subject to approval by the Ministry, the method determined by such a study shall be applied each Calendar Year consistently.
- (f) Inventory levels shall be in accordance with Good Oil Field Practice. The value of inventory items not used in Petroleum Operations, or sold, the cost of which has been recovered as an Operating Cost, shall be treated as Miscellaneous Receipts. The cost of an item purchased for inventory shall be a Recoverable Cost at such time as the item is incorporated in the works.
- (g) Where the cost of anything, or a receipt (or value) in respect of anything, relates only partially to the carrying out of Petroleum Operations, only that portion of the cost or the receipt (or value) which relates to the carrying out of Petroleum Operations will be a Recoverable Cost or assessed as a Miscellaneous Receipt. Where any cost or related receipt (or value) relates to more than one of Exploration, Appraisal, Capital and Operating Costs, or to more than one Development Area, the cost or related receipt (or value) will be apportioned in an equitable manner.

Clause 3 – Costs, Expenses and Credits

Subject as otherwise provided in this Contract, the following costs, charges and credits shall be included in the determination of Recoverable Costs.

3.1 Surface Rights

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of the Contract excluded cost under Clause 2.8 (aa).

3.2 Labour and Associated Labour Costs

Include:

- (a) Costs of the Contractor's locally recruited employees based in Timor-Leste. Such costs shall include the costs of employee benefits and state benefits for employees and levies imposed on the Contractor as an employer, transportation and relocation costs within Timor-Leste of the employee and such members of the employee's family, limited to spouse and dependent children, as required by Timor-Leste Law or customary practice. If such employees are also engaged in other activities, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.
- (b) Costs of salaries and wages including bonuses of the Contractor's employees directly and necessarily engaged in the conduct of the Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Contract, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in paragraphs 3.2(c), 3.2(d), 3.2(e), 3.2(f) and 3.2(g) shall be charged and the basis of such pro-rata allocation shall be specified. For the avoidance of doubt, this provision shall not allow personal income taxes or any other taxes pursuant to be Recoverable Costs in accordance with 2.8 (l) above.
- (c) The Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages

chargeable at actual cost, provided however that such total costs shall not exceed twenty-five percent (25%) of the total labour costs under paragraph 3.2(b).

- (d) Expenses or contributions made pursuant to assessments or obligations imposed under the Applicable Law in Timor-Leste of Timor-Leste which are applicable to the Contractor's cost of salaries and wages chargeable under paragraph 3.2(b).
- (e) The Contractor's cost of established plans for employees' group life insurance, hospitalisation, pension, stock purchases, savings, bonus and other benefit plans of a like nature customarily granted to the Contractor's employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under paragraph 3.2(b).
- (f) Reasonable transportation and travel expenses of employees of the Contractor, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to Timor-Leste whose salaries and wages are chargeable to Petroleum Operations under paragraph 3.2(b).
- (g) Actual transportation expenses of expatriate personnel transferred to Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expenses of personnel transferred from Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum Operations. Transportation cost as used in this Article shall mean the cost of freight and passenger service, meals, hotels, insurance and other expenditures related to vacation and transfer travel and authorised under the Contractor's standard personnel policies. The Contractor shall ensure that all expenditures related to transportation costs are equitably allocated to the Applicable Law in Timor-Leste which have benefited from the personnel concerned.
- (h) Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under paragraph 3.2(b) and for which expenses such personnel are reimbursed under the Contractor's standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

3.3 Transportation and Employee Relocation Costs

The cost of transportation of employees, equipment, materials and supplies other than as provided in Clause 3.2 necessary for the conduct of the Petroleum Operations along with other related costs, including import duties, customs fees, unloading charges, dock fees, and inland and ocean freight charges.

3.4 Charges for Services

For purposes of this Clause 3.4, affiliates which are not wholly owned by the Contractor or the Contractor's ultimate holding company shall be considered third parties.

(a) Third Parties

The actual costs of contract services, services of professional consultants, utilities, and other services necessary for the conduct of the Petroleum Operations performed by third parties other than an Affiliate of the Contractor.

(b) Affiliates of the Contractor

- (i) Professional and Administrative Services Expenses: cost of professional and administrative services provided by any affiliates of the Contractor for the direct benefit of Petroleum Operations, including services provided by the production, exploration, legal, financial, insurance, accounting and computer services, divisions other than those covered by paragraph 3.4 (b) (ii) or Clause 3.6 or 3.8 (b) which the Contractor may use in lieu of having its own employees. Charges shall reflect the cost of providing their services and shall not include any element of profit and shall

be no less favourable than similar charges for comparable services carried on in South and Southeast Asia, competitive and based on actual costs without profits. The charge-out rate shall include all costs incidental to the employment of such personnel. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return thereto, including Days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

- (ii) Scientific or Technical Personnel: cost of scientific or technical personnel services provided by any Affiliate of the Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. Unless the work to be done by such personnel is covered by an approved Exploration Work Programme or Exploration Work Programme and Budget, the Contractor shall not authorise work by such personnel.
- (iii) Equipment and Facilities: use of equipment and Facilities owned and furnished by the Contractor's affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and Facilities on comparable terms in the area where the Petroleum Operations are being conducted. The equipment and Facilities referred to herein shall exclude major investment items such as, but not limited to, Drilling Rigs, producing platforms, oil treating Facilities, oil and gas loading and transportation systems, storage and terminal Facilities and other major Facilities, rates for which shall be subject to separate Contract with the Ministry.

3.5 Communications

Costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Contract Area and the Contractor's base facility in Timor-Leste.

3.6 Office, Storage and Miscellaneous Facilities

Net cost to the Contractor of establishing, maintaining and operating any office, sub-office, warehouse, data storage, housing or other facility in Timor-Leste directly serving the Petroleum Operations.

3.7 Ecological and Environment

- (a) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources.
- (b) Costs incurred in environmental or ecological surveys required by this Contract or regulatory Authorities.
- (c) Costs of actual control and clean-up of oil spills, and of such further responsibilities resulting therefrom as may be required by Applicable Law in Timor-Leste, so long as the control and clean of oil spills are minor and in the ordinary course of Petroleum Operations and are not due to negligence or wilful misconduct of Contractor.
- (d) Costs of restoration of the operating environment.

3.8 Material Costs

Costs of materials and supplies, equipment, machines, tools and any other goods of a similar nature used or consumed in Petroleum Operations subject to the following:

- (a) Acquisition – the Contractor shall only supply or purchase materials for use in Petroleum Operations that may be used in the foreseeable future. The accumulation of surplus stocks

and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.

- (b) Components of costs, arm's length transactions – except as otherwise provided in paragraph 3.8 (c), material purchased by the Contractor in arm's length transactions in the open market for use in the Petroleum Operations shall be valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the Contractor has arranged the purchase, coordinated the forwarding and expediting effort, the cost of such transaction shall not exceed the cost of similar transactions conducted with third parties under similar conditions.
- (c) Accounting – such material costs shall be charged to the Accounting Records and books in accordance with the "First in, First out" (FIFO) method.
- (d) Material purchased from or sold to affiliates of the Contractor or transferred from other activities of the Contractor to or from Petroleum Operations shall be valued and charged or credited at the prices specified in paragraphs 3.8 (d) (i), (ii) and (iii).
 - (i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
 - (ii) Used material (Conditions "B", "C" and "D"):
 - a. Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at not more than seventy-five per cent (75%) of the current price of new material defined in paragraph 3.8(d)(i);
 - b. Material which cannot be classified as Condition "B", but which after reconditioning will be further serviceable for its original function, shall be classified as Condition "C" and priced at not more than fifty percent (50%) of the current price of new material as defined in paragraph 3.8 (d) (i); the cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning does not exceed the value of Condition "B" material;
 - c. Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by the Contractor. If material is not fit for use by the Contractor, it shall be disposed of as junk.
 - (iii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in paragraph 3.8 (d) (i).
 - (iv) When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price as provided for in paragraph 3.8 (d) (ii), such material shall be priced on a basis that will result in a net charge to the accounts under this Contract consistent with the value of the service rendered.
 - (v) Premium prices – whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge Petroleum Operations for the required material at the Contractor's actual cost incurred in providing such

material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Ministry of the proposed charge prior to charging Petroleum Operations for such material and the Ministry shall have the right to challenge the transaction on audit.

- (vi) Warranty of material furnished by the Contractor – the Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

3.9 Rentals, Duties and Other Assessments

All rentals, levies, charges, fees, contributions and other charges of every kind and nature levied by any Timor-Leste governmental Authority in connection with the petroleum operations and paid directly by the Contractor, save where the contrary is expressly provided in this Contract.

3.10 Insurance and Losses

Insurance premiums and costs incurred for insurance provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies which are not affiliates of the Contractor. Except in cases of costs incurred as a result of failure to insure where insurance is required pursuant to this Contract, or of failure to follow procedures laid down by and insurance policy or where the Contractor has elected to self-insure, or has under-insured, actual costs and losses incurred shall be allowable to the extent not made good by insurance. Such costs may include repair and replacement of property resulting from damages or losses incurred by fire, flood, storm, theft, accident or other cause.

3.11 Legal Expenses

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of the Petroleum Operations, or sums paid in respect of legal services necessary for the protection of the joint interest of the Ministry and the Contractor shall be allowable. Such expenditures shall include, attorney's fees, court costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Contractor or an Affiliate of the Contractor, such compensation shall be included instead under Clause 3.2 or 3.4 (b) as applicable.

3.12 Claims

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgement or other expense arising out of or relating to Petroleum Operations.

3.13 Training Costs

All costs and expenses incurred by the Contractor in the training of employees who are nationals of Timor-Leste engaged in Petroleum Operations, and such other training as is required by this Contract.

3.14 General and Administrative Costs

The costs described in Clause 2.9(e).

3.15 Other Expenditures

Other reasonable expenditures not covered or dealt with in the foregoing provisions of this Clause 3 which are necessarily incurred by the Contractor for the proper, economical and efficient conduct of Petroleum Operations. Such expenditures shall be submitted to the Ministry for prior approval as "Other Expenditures" with explanations of the transaction and why it should be a Recoverable Cost. Where prior approval is not feasible, Contractor shall submit to the Ministry for its consent the foregoing explanations and additionally, the reason for which prior approval was not feasible. Such consent shall not unreasonably be withheld.

3.16 Duplication

There shall be no duplication of charges and credits.

Clause 4 – Inventories

- 4.1** Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three years with respect to immovable assets. The Contractor shall give the Ministry at least thirty (30) Days written notice of its intention to take such inventory and the Ministry shall have the right to be represented when such inventory is taken. The Contractor shall clearly state the principles upon which valuation of the inventory has been based. The Contractor shall make every effort to provide to the Ministry a full report on such inventory within thirty (30) Days of the taking of the inventory. When an Assignment of rights under this Contract takes place, the Contractor may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.
- 4.2** Inventory or assets transferred from Affiliate/Joint Venture assets to be in use in the petroleum operation under this contract shall obtain prior consent from the Ministry. Decision to transfer of such assets for use shall be foreseeable and align with the work program planned in that given year

Clause 5 – Production Statement

5.1 Production Information

From the start of Production from the Contract Area, the Contractor shall submit a monthly Production Statement to the Ministry showing the following information separately for each producing Development Area and in aggregate for the Contract Area:

- (a) The quantity of Crude Oil produced and saved;
- (b) The quality characteristics of such Crude Oil produced and saved;
- (c) The quantity of Natural Gas produced and saved;
- (d) The quality characteristics of such Natural Gas produced and saved;
- (e) The quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and Production operations and pumping to Field storage;
- (f) The quantities of Crude Oil and Natural Gas unavoidably lost;
- (g) The quantities of Natural Gas flared and vented;
- (h) The size of Petroleum stocks held at the beginning of the month in question;
- (i) The size of Petroleum stocks held at the end of the month in question;
- (j) The quantities of Natural Gas reinjected into the Reservoirs; and

- (k) In respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Field Export Point.

All quantities shown in this Production Statement shall be expressed in both volumetric terms (barrels of Crude Oil and cubic meters of Natural Gas) and in weight (metric tonnes).

5.2 Submission of Production Statement

The Production Statement for each month shall be submitted to the Ministry no later than ten (10) Days after the end of such month.

Clause 6 – Value of Production and Pricing Statement

6.1 Value of Production and Pricing Statement Information

The Contractor shall, for the purposes of Article 9 of the Contract, prepare a Value of Production and Pricing Statement providing calculations of the value of Crude Oil and Natural Gas produced and saved during each Quarter. This Value of Production and Pricing Statement shall contain the following information:

- (a) The quantities and the price payable in respect of sales of Natural Gas and Crude Oil delivered to third parties during the Quarter in question; and
- (b) The quantities and price payable in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to third parties.

6.2 Submission of Value of Production and Pricing Statement

The Value of Production and Pricing Statement for each Quarter shall be submitted to the Ministry not later than twenty-one (21) Days after the end of such Quarter.

Clause 7 – Cost Recovery Statement

7.1 Quarterly Statement

Each Contractor shall prepare with respect to each Quarter a Cost Recovery Statement containing the following information:

- (a) Recoverable Costs carried forward from the previous Quarter;
- (b) Recoverable Costs for the Quarter in question;
- (c) Credits under the Contract for the Quarter in question;
- (d) Total Recoverable Costs for the Quarter in question (paragraphs 7.1(a) plus (b) less (c));
- (e) Quantity and value of the Contractor's share of Petroleum under Article 9 of the Contract in the Quarter in question; and
- (f) Amount of Recoverable Costs to be carried forward into the next Quarter (paragraph 7.1(d) less (e)).

7.2 Preparation and Submission of Cost Recovery Statements

- (a) Provisional Cost Recovery Statements, containing estimated information where necessary, shall be submitted by the Contractor on the last Day of each Quarter.
- (b) Final Quarterly Cost Recovery Statements shall be submitted within thirty (30) Days after the end of the Quarter in question.

7.3 Annual Statement

An Annual Cost Recovery Statement shall be submitted within ninety (90) Days after the end of each Calendar Year. The annual statement shall contain the categories of information listed in Clause 7.1 for the Calendar Year in question, separated into the Quarters of the Calendar Year in question, and showing the cumulative positions at the end of the Calendar Year in question.

Clause 8 – Statements of Expenditure and Receipt

8.1 Quarterly Statement

The Operator shall prepare with respect to each Quarter a Statement of Expenditure and Receipts. The statement will distinguish between Exploration, Appraisal, Capital and Operating Costs and will identify major items within these categories. The statement will show the following:

- (a) Actual expenditures and receipts for the Quarter in question;
- (b) Cumulative expenditure and receipts for the Calendar Year in question;
- (c) Latest forecast cumulative expenditures at the Calendar Year end;
- (d) Variations between budget forecast and latest forecast and explanations thereof.

The Statement of Expenditure and Receipts of each Quarter shall be submitted to the Ministry no later than thirty (30) Days after the end of such Quarter.

8.2 Annual Statement

Each Contractor shall prepare a final end-of-year statement. The statement will contain information as provided in the Production Statement, Value of Production and Pricing Statement, Cost Recovery Statement and Statement of Expenditure and Receipts, but will be based on actual quantities of Petroleum produced and costs incurred. This statement will be used to make any adjustments that are necessary to the payments made by the Contractor under this Contract. The final end-of-year statement of each Calendar Year shall be submitted to the Ministry within ninety (90) Days of the end of such Calendar Year.

8.3 Work Programmes and Budget and Expenditure and Receipt Reporting

Submission of Work Programmes and Budget in each Calendar Year shall be accompanied by an agreed for Expenditure which outlines the details of the proposed budget item under the Work Programmes and Budget.

Pursuant to statement of expenditure and receipts, the Contractor statement of expenditure and receipts shall be in accordance with the report template sample as attached hereunder this Annex C.

Annex D – Proposals

Clause 1 Health, Safety and Welfare Proposal

Contractor to prepare and provide to ANPM a Health and Safety Management System (HSMS) which will cover all aspects of organisational and operational Health and Safety preparedness. This HSMS will ensure procedures for the identification and mitigation of Health and Safety risks.

Health, Safety and Environment (HSE) management will be a contractual requirement of the Contractor's senior management in Timor-Leste and globally.

An Annual Health and Safety Plan will be prepared by Contractor with respect to Timor-Leste activities and presented to the Committee along with the annual work programme and budget.

An HSE Officer will be employed by Contractor, for at least the period of operational activities in Timor-Leste.

Training in Health and Safety will be provided to all employees of the contractor in Timor-Leste.

Contractor will ensure that all contracts to third party include a requirement to the level appropriate for Health and Safety awareness, training and management systems.

Contractor will have in place a policy for Social Responsibility. Contractor will develop a programme of Social Responsibility specifically for Timor-Leste, to provide general development assistance and community support. This Social Responsibility Programme will be developed in consultation with ANPM or such other nominated designated government authority.

Clause 2 Environmental Proposal

Contractor to prepare and provide to ANPM an Environmental Management System (EMS) which will cover all aspects of the protection and preservation of the environment in the areas where Contractor operates. This EMS will ensure procedures for the identification and mitigation of Health and Safety risks.

Implementation of and adherence to the EMS will be a contractual requirement of the Contractor's senior management in Timor-Leste and globally.

An Annual HSE Plan will be prepared by Contractor with respect to Timor-Leste activities and presented to the Committee along with the annual work programme and budget.

An HSE Officer will be employed by Contractor, for at least the period of operational activities in Timor-Leste.

Training in Environmental awareness and risk mitigation will be provided to all employees of the contractor in Timor-Leste.

An Environmental Impact Assessment (EIA) will be prepared for all areas of potential seismic, drilling and other operational activities. The EIA will be prepared in accordance with Timor-Leste and industry global standards.

Contractor will ensure that all contracts to third party include a requirement to the level appropriate for Environmental awareness, training and management systems.

Clause 3 Local Content Proposal

With due regard for obligations under this Agreement and Timor-Leste legal framework, tenders for goods and services will be advertised in Timor-Leste and preference given to Timor-Leste companies provided they are offered on competitive terms and conditions.

For all Contractor's sub-contracts, the Contractor will ensure local content provisions are included in such sub-contracts and in particular for the drilling rig, rig services, supply, logistics, which as much as possible should be procured from Timor-Leste's suppliers.

While performing services or providing goods for Petroleum Operations the Contractor shall to the extent possible use the Suai Supply Base and petroleum infrastructure in Timor-Leste as their base of operations.

Clause 4 Training and Employment Proposal

Contractor shall have a staff office within Timor-Leste.

Contractor will give preference in employment to Timor-Leste nationals and permanent residents that are suitably qualified in its operations and organisation in Timor-Leste.

A minimum of five (5) suitably qualified Timorese graduates will be trained during the exploration period, both within Timor-Leste and overseas. Such training will include but not be limited to Health, Safety and Environment, Procurement and Contracts, Petroleum Geoscience and Engineering.

During the Initial Period, exploration activities are focused on leading edge seismic processing. The Contractor shall ensure involvement of two (2) to five (5) Timor-Leste nationals in the graduate program in this project, through provision of training by appropriate experts on location in Timor-Leste and overseas assignments as appropriate.

Timor-Leste staff will have a development plan to enable progression to occupy positions of technical and / or managerial responsibility for the Contractor's Timor-Leste projects.

Training of Timor-Leste nationals employed by or seconded to the Operator, summarised above will result in the transfer of skills and technological expertise to Timor-Leste.

SCHEDULE A

Documents in Support of Application for Assignment or Transfer

Under Article 22

In the case of an application for Assignment under Article 22 in the Contract and in order to enable a decision to be made on a proposed assignee, the Contractor shall apply for the prior and express authorisation of the Ministry for the Assignment, attaching to the application the following documents on the proposed assignee or transferee:

- (a) A report on company background and corporate structure including subsidiaries, wholly owned limited liability companies and affiliates.
- (b) All incorporation documents of the company.
- (c) (Financial Authority) Resolutions of Board of Directors on *inter alia*:
 - (i) Borrowing of money and execution of documents
 - (ii) Guarantee of contractual performance of company, affiliates, wholly-owned limited liability companies and subsidiaries
 - (iii) Guarantee of obligations of company, affiliates, wholly-owned limited liability companies and subsidiaries.
- (d) Company financial statements within the last three (3) years from the date of an application for an Assignment.
- (e) Independent credit rating documents.
- (f) Any other information or documents as required by the Ministry.

Additionally, with respect to satisfaction of guarantee obligations under this Contract, Contractor must procure from the proposed assignee and submit to the Ministry, at a minimum, the following documents with respect to the proposed guarantor:

(WHERE A FINANCIAL INSTITUTION IS INVOLVED)

- (a) Name and registered address of financial institution.
- (b) Company financial statements within the last three (3) years from the date of an application for an Assignment.
- (c) Independent credit rating documents, if available.

(WHERE A PARENT COMPANY IS INVOLVED)

- (a) Company background and corporate structure of ultimate Parent Company, including, subsidiaries, wholly owned limited liability companies and affiliates.
- (b) Certificate(s) of incorporation of ultimate Parent Company.
- (c) All incorporation documents of the ultimate Parent Company.
- (d) (Financial Authority) Resolution of Board of Directors of ultimate Parent Company on:

- (i) Borrowing of money and execution of documents.
- (ii) Guarantee of contractual performance of affiliates, wholly-owned limited liability companies and subsidiaries.
- (iii) Guarantee of obligations of Affiliates, wholly-owned limited liability companies and subsidiaries.
- (e) Ultimate Parent Company financial statements within the last three (3) years from the date of an application for an Assignment.
- (f) Independent credit rating of ultimate Parent Company.

The Contractor shall also submit at a minimum the following documents:

- (a) Valuation of the Assignment transaction, including all material terms of the Assignment and all supporting documents.
- (b) Exclusive statement, executed by the assignees to rigorously respect and comply with the terms and conditions of the Contract, as well as be responsible for all obligations and liabilities resulting from it, including those incurred before the date of the Assignment.
- (c) For Assignments that imply a division of areas, the Contractor shall submit all plans, programs and reports related to each separated area.
- (d) Within the required timeframe following consent from the Ministry to the Assignment, the Assignment agreement executed between the assignor and the assignee. The Contract shall mandatorily contain the appointment of the Operator and the joint liability of its signatories before the Ministry.

The documents referred to in this Schedule A shall not be necessary when the assignee is already a Contractor under the Contract, provided that such documentation is updated as necessary at the request of the Ministry.

NOTE: The Ministry shall require that:

- (1) This Guarantee be prepared using the official corporate letter head of the company/financial institution which is providing the Guarantee; and*
- (2) The official corporate seal of the company/financial institution which is providing the Guarantee be affixed to this Guarantee.*

(Official Letterhead)

(Date)

The Honourable.....

(NAME, DESIGNATION AND ADDRESS
OF PERSON WHO IS ENTITLED BY LAW TO
BE NAMED ON GUARANTEE – MOST LIKELY THE
Ministry)

SCHEDULE B

Bank Guarantee

in accordance with Paragraph 2.2 (a)(iii) of For Production Sharing Contract for Block

[DATE]

TO

Autoridade Nacional do Petróleo e Minerais (ANPM) on behalf of the Government of the Democratic Republic of Timor Leste
Ground Floor, East Wing of Palacio do Governo

DILI, TIMOR-LESTE

Performance Bond no [insert] for US\$XXX (xxxx)

To: The Government of the Democratic Republic of Timor-Leste represented by the Autoridade Nacional do Petróleo e Minerais

This Performance Bond, We Bank Name with a capital of [figure Bank to insert] having its registered office at –Bank Address (hereinafter referred to as the "Surety") is held and firmly bound unto the Government of the Democratic Republic of Timor-Leste, represented by the Autoridade Nacional do Petróleo e Minerais (hereinafter referred to as the "ANPM") in the sum of US\$XXX (XXX) for payment of which sum the Surety binds itself, its successors and assigns by these presents.

WHEREAS:

1. The ANPM of the one part and [insert Contractor Party]., a company established under the Laws of xxx with registered office at company address, a company existing under the Laws of Company incorporate in origin country, and JVs partners addresses, a company existing under the Laws of JV origin country address (hereinafter referred to as the "Contractor Parties") have executed a Production Sharing Contract PSC xxx ((hereinafter referred to as the "Contract") related to **BLOCK XXX** in offshore Timor-Leste on dated of PSC awarded.
2. Under the terms of the Contract, each Contractor Party must submit a Performance Bond to guarantee its share of the minimum work and expenditure commitments under Articles 4.3, 4.4 and 4.5 of the Contract. Consequently, Contractor provided Performance Bond number xxxx for US\$xxx (xxxx) (hereinafter referred to as the "Initial Performance Bond") to guarantee its share of the minimum work and expenditure commitments as required by Article 4.3 of the Contract.
3. The terms used in this Performance Bond shall have the same meaning as those in the Contract.

NOW THE CONDITION of this Performance Bond is that the Surety does hereby guarantee and undertake to pay immediately on the first demand in writing and any/all money(s) to the extent of US\$xxx (xxx) without any demur, reservation, contest or protest and/or without any reference to the Contractor name. Any such demand made by the ANPM on the Surety by serving a written notice shall be conclusive and binding, without any proof, on the Surety as regards the amount due and payable, notwithstanding any

dispute(s) pending before any court, tribunal, arbitrator, sole expert, conciliator or any other authority and/or any other matter or thing whatsoever, as liability under these presents being absolute and unequivocal.

Notwithstanding anything contained herein above, the Surety's liability under this Performance Bond is limited to US\$xxx (xxx) and such a Bond shall remain in force up to thirty (30) days after the earlier of date of Period 1 end and the date that the Contractor Parties deliver the well commitment for Contract Year 4.

This Performance Bond shall not be determined, discharged or affected by the liquidation, winding up, dissolution or insolvency of the Contractor name and shall remain valid, binding and operative against the Surety.

'The Surety hereby undertakes that the payment in settlement of claims lodged with the Surety in accordance with the terms and conditions of the Performance Bond, shall be effected seven (7) business days after receipt by the Surety of such claim, by Wire Transfer to the Petroleum Fund of The Democratic Republic of Timor-Leste in the Federal Reserve Bank of New York, Swift Code FRNYUS33, Account number IAB.4 021080973 for further credit to Petroleum Ledger 3-35 13.

This Performance Bond is subject to the *Uniform Rules for Demand Guarantees (2010 Revision)*, *International Chamber of Commerce Publication No. 758 (the "URDG")*. As to matters not covered by the URDG, this Performance Bond shall be governed by and construed in accordance with, the Laws of the State of New York.

In Witness whereof the SURETY has signed and sealed this Bond on this
[X] day of [MONTH] 201x.

SCHEDULE C

Information to be Submitted to Facilitate Consideration of an Application to be Appointed as Operator

Where an application is made for the transfer of operatorship, the Operator must satisfy the Ministry that the proposed Operator has the capability to be Operator.

An applicant for qualification as an Operator shall submit the following information to the Ministry:

- (a) Proof of the legal capacity of the applicant, including documentation in respect of incorporation as a limited liability company;
- (b) Details of the structure of the applicant as a business entity;
- (c) Particulars of all holdings of not less than 5 per cent in number or value of any class of capital issued by the applicant;
- (d) Evidence of the financial resources available to the applicant for Petroleum Operations and, where the resources are borrowed or attracted, evidence of the source of the resources;
- (e) Any plans or commitments of the applicant in respect of Petroleum Operations for the following 5 years;
- (f) The annual financial reports of the applicant for the previous 3 years;
- (g) Details of previous roles, responsibilities, activities and achievements of the applicant in respect of:
 - (i) Offshore Exploration or Production activities in Timor-Leste or elsewhere; and
 - (ii) Frontier Exploration;
- (h) Details of the environmental Management System of the applicant;
- (i) The environmental policy of the applicant;
- (j) Details of the environmental record of the applicant for the previous 5 years;
- (k) Details of the health and safety Management System of the applicant;
- (l) The health and safety policy of the applicant;
- (m) Details of the health and safety record of the applicant for the previous 5 years; and
- (n) Evidence of the past performance of the applicant in respect of:
 - (i) *The procurement of local goods and services for use in respect of Petroleum Operations;*
 - (i) *The employment of local persons; and*
 - (ii) *The transfer of technology and skills and the training of local persons.*