



PRODUCTION SHARING CONTRACT  
FOR OFFSHORE PETROLEUM OPERATIONS IN TIMOR-LESTE

CONTRACT AREA TL-SO-T 19-14

28 August 2019

  
  
P.H.

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## PRODUCTION SHARING CONTRACT

Dated 28 August 2019

This Contract is a production sharing contract made under the Petroleum Activities Law of Timor-Leste, Law No. 13/2005, of 2 September 2005, as amended by Law No. 1/2019, of 18 January 2019 ("**Petroleum Activities Law**") and Decree-Law No. 26/2019, of 27 de Agosto 2019, on transition of petroleum titles and regulation of petroleum activities in the Buffalo Field ("**Buffalo Decree-Law**").

BETWEEN

Autoridade Nacional do Petróleo e Minerais Timor-Leste (ANPM) established under Decree-Law No. 20/2008, of 19 June 2008, as amended Decree-Law No. 27/2019 of 27 August 2019, acting on behalf of the Ministry of Petroleum and Minerals (hereinafter called the "**Ministry**") pursuant to Article 10 in respect of the powers vested in the Ministry under the Petroleum Activities Law.

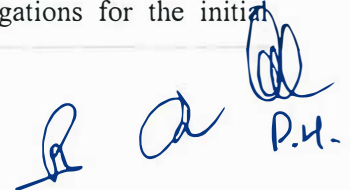
AND

Carnarvon Petroleum Timor, Unipessoal, Lda., a corporation organized and existing under the laws of Timor-Leste, with registration number 2003254, having its registered office at Timor Plaza, Level 4, Office 415, Comoro, Dom Aleixo, Dili, Timor-Leste (hereinafter called the "**Contractor**").

(each referred to individually as a "**party**" or collectively as the "**parties**").

Whereas:

- A. This Production Sharing Contract has been awarded pursuant to the Maritime Boundaries Treaty entered into between Timor-Leste and Australia in New York on 6 March 2018, which delimited the permanent maritime boundary between the two States, including its Annexes, ("**Treaty**") and the Buffalo Decree-Law;
- B. In accordance with the delimitation of the continental shelf under Articles 2 and 3 of the Treaty, and the provisions in Annex D of the Treaty, particularly Paragraph 1 of Article 4, the Buffalo Field will be situated on the continental shelf of Timor-Leste as of the effective date of the Treaty;
- C. Title to, and control over, petroleum existing within the continental shelf of Timor-Leste is vested in Timor-Leste;
- D. The Ministry has the power to conclude petroleum contracts for the benefit of the people and amongst others, for the sustainable development of Timor-Leste;
- E. Pursuant to paragraph 2 of Article 4 of Annex D of the Treaty, Timor-Leste has agreed that it will enter into a Production Sharing Contract with the Contractor, as existing title holder, to replace the Australian exploration permit WA-523-P in respect of that portion of the said permit that by virtue of the Treaty has been transferred to the exclusive jurisdiction of Timor-Leste;
- F. The Treaty requires that the security of title and any other rights held by the titleholder shall be preserved through conditions equivalent to those in place under Australian domestic law and as determined by agreement between the parties and the titleholder. This Production Sharing Contract has been negotiated and agreed consistently with this principle;
- G. The Contractor has informed the Ministry that it has satisfied its work requirements of the Former Permit relating to the Buffalo Field, which correspond to its work obligations for the initial



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Exploration Period, in accordance with Australian domestic law, and this has been confirmed by the Australian Government;

- H. 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;
- I. The Contractor has the financial capability, the technical knowledge, and the technical ability to carry on the Petroleum Operations in a manner wholly consistent with the Petroleum Activities Law, the OPO Decree-Law, and this Contract, and does not have a record of non-compliance with principles of good corporate citizenship; and
- J. The Contractor and the Ministry agree to enter into this Contract to enable Exploration for, and Development and Production of, Petroleum in the Contract Area.

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, the OPO Decree-Law or the Buffalo Decree-Law. For convenience, the more important terms defined in those instruments which are used in this Contract have been noted in the definitions below. 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;

"Affiliate" has the meaning given in the Petroleum Activities Law;

"Applicable Law in Timor-Leste" means any law, decree-law, regulations, by-laws, codes, enactments, including Authorisations, decisions and directions issued and in force in Timor-Leste from time to time relevant to the implementation of the provisions provided in this Contract;

"Appraisal Costs" are those costs that directly relate to Appraisal of an 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;

"Assignment" has the meaning given in the OPO Decree-Law, and "Assign" has a corresponding meaning;


"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;

"Buffalo Decree-Law" means Decree-Law No. 26/2019, of 27 August 2019, on transition of petroleum titles and regulation of petroleum activities in the Buffalo Field;

"Buffalo Facility" means the Facility to be used for the Buffalo Field Development;



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"Buffalo Field" has the meaning given to that term in the Buffalo Decree-Law;

"Buffalo Local Content Proposal" has the meaning given in Article 7.4;

"Buffalo Local Content Plan" means a Local Content plan prepared in accordance with Article 153 of the OPO Decree-Law;

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

"Commercial Discovery" has the meaning given in the OPO Decree-Law;

"Committee" has the meaning given in Article 16.2;

"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" is defined in the Petroleum Activities Law, and for the purposes of this Contract means the area described in Annex A, which is depicted geographically in Annex B;

"Contract Year" means a period of twelve (12) consecutive months, beginning on 27 May of each year. Contract Year 3 commenced prior to the Effective Date on 27 May 2018;

"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;

"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;

"Cost Recovery Petroleum" has the meaning given in Article 9.1(b)(i).

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

"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;

"Decommissioning Fund" has the meaning given in the OPO Decree-Law;

"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;

"Development Area" has the meaning given in the OPO Decree-Law;

"Development Plan" has the meaning given in the OPO Decree-Law;



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"Discovery" has the meaning given in the OPO Decree-Law;

"Effective Date" means the date on which this Contract comes into force as determined in accordance with Article 3 of the Buffalo Decree-Law;

"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;

"Exploration Period" has the meaning given in the OPO Decree-Law, and Article 5 of the Buffalo Decree-Law;

"Extension Period" has the meaning given in the Buffalo Decree-Law;

"Facility" or "Facilities" has the meaning given in the OPO Decree-Law;

"Field Export Point" has the meaning given in the OPO Decree-Law, and for the purposes of this Contract will be the point of transfer from the Buffalo Facility to a shuttle tanker;

"Force Majeure" has the meaning given in Article 20.1;

"Former Permit" means Australia exploration permit WA-523-P issued pursuant to the *Offshore Petroleum and Greenhouse Gas Storage Act 2006 (Cth)*;

"Gas Retention Area" means an area declared as such, in accordance with Article 28 of the OPO Decree-Law;

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

"Initial Period" has the meaning given in the Buffalo Decree-Law;

"Joint Operating Agreement" means any agreement or contract among all of the persons constituting the Contractor 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);

"Local Content Proposal" has the meaning given in the OPO Decree-Law;

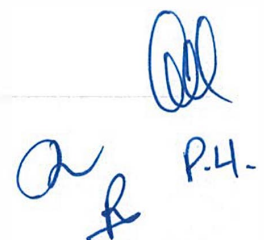
"Marketable Natural Gas" means the volumes of Natural Gas produced, less:

- (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;

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

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"Operator" has the meaning given in the Petroleum Activities Law, and as at the Effective Date means Carnarvon Petroleum Timor, Unipessoal, Lda.;

"OPO Decree-Law" means the Decree-Law on Offshore Petroleum Operations in Timor-Leste, Decree-Law no. 32/2016;

"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 party constituting the Contractor, the undivided share expressed as a percentage of such party's participation in the rights and obligations under this Contract;

"Period" means a period of the Exploration Period being 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" has the meaning given in the Treaty;

"Petroleum Activities Law" means the Petroleum Activities Law of Timor-Leste, Law No. 13/2005, of 2 September 2005, as amended by Law No. 1/2019, of 18 January 2019;

"Petroleum Operations" has the meaning given in the Petroleum Activities Law;

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

"Quarter" has the same meaning as defined in the OPO Decree-Law and "Quarterly" shall have the corresponding meaning;

"Recoverable Costs" has the meaning given in Article 8.3;

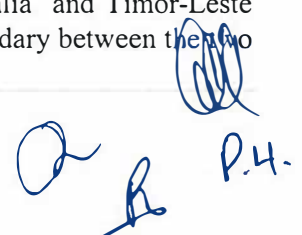
"Review Period" has the meaning given in Article 18.7 (b);

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

"Second Period" has the meaning given in the Buffalo Decree-Law;

"Third Period" has the meaning given in the Buffalo Decree-Law;

"Treaty" means the Maritime Boundaries Treaty entered into between Australia and Timor-Leste in New York on 6 March 2018, which delimited the permanent maritime boundary between the two States, including its Annexes;



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"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;

"Work Programme and Budget" means:

- (a) In respect of a Calendar Year relating to Exploration Operations, a work programme and budget submitted in accordance with Article 15 of the OPO Decree-Law and approved in accordance with the Buffalo Decree-Law; and
- (b) In respect of a Calendar Year relating to Development and Production, a work programme and budget included in a Development Plan pursuant to Article 46 of the OPO Decree-Law, and approved in accordance with Article 47 of the OPO Decree-Law and the Buffalo Decree-Law.

"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.

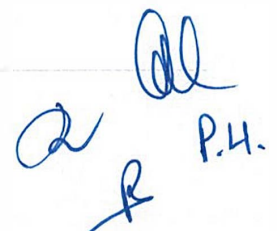
## 1.3 Further Interpretation

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.



## 1.5 Precedence

If there is a conflict between the terms of the instruments set out below, the order of precedence is as follows:

- (a) The Buffalo Decree-Law;
- (b) The Petroleum Activities Law and the OPO Decree-Law; and
- (c) Any other Applicable Law in Timor-Leste.

## 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 the Contract Area accordance with the Petroleum Activities Law, the OPO Decree-Law, the Buffalo Decree-Law 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 the 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 (without the consent of the Ministry not to be unreasonably withheld) and no expenditure with respect to further processing shall be a Recoverable Cost.

### 2.2 Conditions Precedent and Effective Date actions

- (a) This Contract is conditional on the coming into force of:
  - (i) the Buffalo Decree-Law; and
  - (ii) the Timor-Leste legal instruments required to implement the fiscal regime applicable to the Contractor, as agreed in writing between the Contractor and the Ministry pursuant to a letter dated 7 June 2019.
- (b) As soon as practicable following the Effective Date, and in any event within 60 Days after signing this Contract:
  - (i) The Contractor must provide the Ministry with security in the form of a Parent Company guarantee in the form as set out in Schedule B; and
  - (ii) The Contractor must demonstrate, to the reasonable satisfaction of the Ministry, that it has complied with its obligations under Article 19.2 in regard to insurance.

### 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;
  - (iv) Expiry of the Exploration Period as determined in Article 5 (a) of the Buffalo Decree-Law;
  - (v) Expiry of the Development and Production period as determined in Article 5 (b) of the Buffalo Decree-Law; or
  - (vi) As otherwise foreseen in the OPO Decree-Law.
- (b) Provided 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 OPO Decree-Law.

## 2.4 Grounds for Termination

- (a) The Ministry may terminate this Contract by notice in writing if:
  - (i) A person comprising the 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 the Contractor;
  - (iii) A receiver is appointed or an Encumbrancer takes possession of a majority of the assets or undertaking of a person comprising the Contractor; or
  - (iv) A person comprising the 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) The Ministry may terminate this Contract by notice in writing 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(a), Article 2.4 (b) or Article 4.7(b) unless:
  - (i) It has, by instrument in writing served on the Contractor, given not less than thirty (30) Days of notice of its intention to terminate the Contract;
  - (ii) It has, by instrument in writing, specified a date on or before which the Contractor may submit in writing to the Ministry in any matter that wishes to be considered;

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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 person comprising the Contractor 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 person 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 persons comprising the Contractor 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 persons comprising the Contractor who did not connive to such acts, omissions or events to accept the Participating Interest of the Contractor(s) at fault,

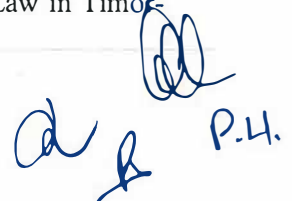
and the majority of the other persons comprising the Contractor agree to this arrangement subject to such conditions as may be imposed by the Ministry.

## 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 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-

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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, subject to the following, 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:
  - (i) This obligation may cease if agreed in accordance with the Applicable Law in Timor-Leste; and
  - (ii) Will cease upon handover to TIMOR GAP - Timor Gás & Petróleo, E.P. of the Development Area and Facilities and other property in accordance with Article 13.2.
- (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 OPO Decree-Law and the Buffalo Decree-Law. On the Effective Date, the Contractor is taken to have applied for, and the Ministry is taken to have approved the entry by the Contractor into the second optional Exploration Period (of 2 years duration) in respect of the Contract Area.

#### **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 OPO Decree-Law.

### **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 OPO Decree-Law and the Buffalo Decree-Law. Such approval by the Ministry is without prejudice to any other obligation or liability of the Contractor under this Contract.

The first proposal for a Work Programme and Budget to be carried out under this Contract will pertain to the period from the Effective Date until 31 December 2019.

The Minimum Exploration Work Requirements for a Contract Year may be included in a Work

Programme and Budget for a Calendar Year which first ends after the start of the Contract Year, or the end of the following Calendar Year, provided that the Minimum Exploration Work Requirements for a period are satisfied by the end of the relevant Period.

#### 4.2 Continuation of Exploration

The Contractor shall continue the Exploration work programme that was approved in connection with the Former Permit for years 1 to 3 of that Former Permit.

#### 4.3 Minimum Exploration Work Requirements in the Initial Period

The Contractor shall complete the guaranteed work programme for years 1 to 3 approved in connection with the Former Permit, and must complete that work on or before 26 May 2019, being the end of the Initial Period.

The guaranteed work programme for years 1 to 3 is as set out below.

<b>Contract Years</b>	<b>Minimum Exploration Work Requirements</b>
1 to 3 (27/05/2016 to 26/05/2019)	1,615 km <sup>2</sup> Reprocessing of HB96 Buffalo, HB97 Buller and Tiger 3D (including 3D Surface Related Multiple Elimination (SRME), Interbed Multiple Elimination, Full Waveform Inversion (FWI) and 3D PreSDM)  License 3,000 km of reprocessed 2D data (SRME, 2D PSTM)  Remapping of reprocessed 3D & reprocessed 2D seismic data  Well petrophysics & correlation, biostratigraphy and reservoir quality study  Fault seal study  Rock physics and quantitative interpretation scoping study Screening Study of fluid inclusions

#### 4.4 Minimum Exploration Work Requirements in Second Period

Subject to Article 4.7, in the Second Period (Contract Years 4 and 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 (4<sup>th</sup>) Contract Year, the Contractor shall carry out the Minimum Exploration Work Requirements specified below on a year by year basis, it being acknowledged that the work programme for each year only becomes guaranteed if this Contract is not terminated before the commencement of that year:

<b>Contract Year</b>	<b>Minimum Exploration Work Requirements</b>
4 (ending 26 May 2020)	Geological and geophysical studies
5 (ending 26 May 2021)	Well Planning & Long Lead Studies / EP

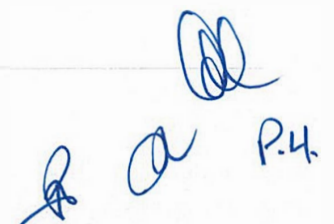
#### 4.5 Minimum Exploration Work Requirements in Third Period

Subject to Article 4.7, in the Third Period (Contract Year 6), 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 sixth (6<sup>th</sup>) year, the Contractor shall carry out the Minimum Exploration Work Requirements specified below:

Contract Year	Minimum Exploration Work Requirements
6 (ending 26 May 2022)	1 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 after the termination of the Period or any extension thereof agreed to in writing by the Ministry;
  - (ii) Work carried out not related to the Contract Area;
  - (iii) Work which is not carried out in accordance with an agreed Work Programme, including as amended in accordance with Article 4.6;
  - (iv) Appraisal wells, seismic surveys or any other Petroleum Operations which are carried out as part of an Appraisal or any work carried out as part of the Development of a Commercial Discovery in accordance with Article 4.9; or
  - (v) 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.





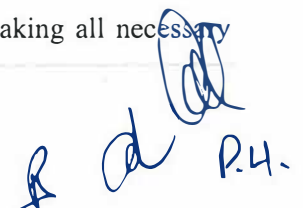
- (f) The Contractor may discontinue a Drilling Operation if, in the course of drilling a Well, the Contractor determines, in its reasonable opinion and with the consent of the Ministry, which will not be unreasonably withheld, that further drilling is technically impossible or imprudent because:
- (i) 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.

#### **4.7 Consequences of Non-Performance of Minimum Exploration Work Requirements**

- (a) If the Contractor does not fulfil the Minimum Exploration Work Requirements for any Period:
- (i) 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, the Ministry may 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
  - (ii) Provided that the Contractor has requested a variation 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 variation 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, the Ministry may vary the Minimum Exploration Work Requirements for that Period, to replace with an equivalent work activity that ensures that the objective of the original Minimum Exploration Work Requirements may be met.
- (b) If the Contractor continues not to fulfil the Minimum Exploration Work Requirements as set out in Article 4.7(a) above, the Ministry may, in its sole discretion, and, subject to Article 2.4(c), terminate this Contract, unless the Contractor elects to pay compensation corresponding to the amount of all unfulfilled work activities under the Minimum Exploration Work Requirements, as determined by the Ministry, and commits to enter into the next Period.

#### **4.8 Emergency and Other Expenditures outside Work Programmes and Budgets**

- (a) Without further approval by the Ministry, the Contractor may over-expend, by ten percent (10%) or less on any line item in an approved Work Programme and Budget for a Contract Year in the Exploration Period.
- (b) Without further approval by the Ministry, the total of all over-expenditures under Article 4.8 (a) under the Work Programme and Budget for that Contract Year shall not exceed ten percent (10%) of the total expenditures in that Work Programme 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 Programme 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 Programme, provided that such increase is not the result of any failure of the Contractor to fulfill its obligations under this Contract.
- (e) Nothing in this Article 4.8 precludes or excuses the Contractor from taking all necessary

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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**

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.

#### **4.10 Minimum Exploration Work Requirements in the Extension Periods**

If the Exploration Period is subject to an Extension under Article 5 (b) of the Buffalo Decree-Law, the Minimum Exploration Work Requirements which will apply will be as agreed between the Ministry and Contractor acting reasonably but shall not be materially more onerous than those that applied (in aggregate) in respect of the Initial Period, Second Period and the Third Period.

### **Article 5 Development and Production Period**

#### **5.1 Development Plan**

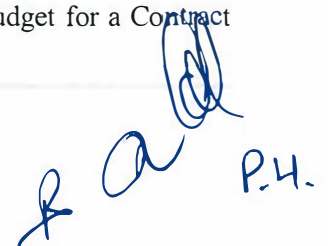
- (a) The Contractor shall have the right to commence Development upon approval of a Development Plan prepared and submitted in accordance with the Applicable Law in Timor-Leste.
- (b) The Ministry shall approve a Development Plan prepared and submitted in accordance with the Applicable Law in Timor-Leste.
- (c) Recognising that the Contractor may need to arrange bank finance to implement a Development Plan, the Ministry agrees to negotiate in good faith with relevant banks the terms of such documentation so as to include customary terms, and otherwise as may be reasonably required by them to fund the Development Plan.

#### **5.2 Development Work Programmes and Budgets**

- (a) At such time and in such manner as the Buffalo 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 ten percent (10%) or less on any line item in an approved Work Programme and Budget for a Contract Year in the Development and Production Period.



- (b) Without further approval by the Ministry, the total of all over-expenditures under Article 5.3(a) under that Work Programme and Budget for that Contract Year shall not exceed ten percent (10%) of the total expenditures in that Work Programme and Budget.
- (c) The Contractor shall promptly inform the Ministry if it anticipates (or should reasonably anticipate) that any such limit in Article 5.3 (b) will be exceeded and seek, in the manner provided in this Article 5.3, an amendment to the applicable Work Programme and Budget.
- (d) In determining whether to approve the over-expenditures contemplated in Articles 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 Programme 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 Article 5.3 (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, 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.

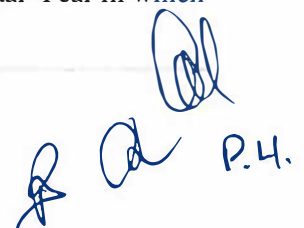
#### **5.4 Approved Contracts**

- (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 (including Article 7.5(d) and 7.5(e)).
- (b) 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.
- (c) 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**

#### **6.1 Decommissioning**

- (a) The Contractor shall prepare and implement the approved Decommissioning Plan in accordance with the OPO Decree-Law 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 interest accumulated in the Decommissioning Fund is neither a Recoverable Cost 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



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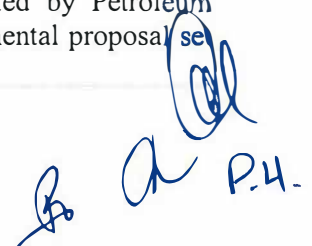
Commercial Production first occurs. The amount of annual Decommissioning cost provision in each Calendar Year shall be calculated as follows:

- (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 Cost 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 Cost 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 the Decommissioning Fund, the 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 OPO Decree-Law.
  - (e) If the actual Decommissioning cost is less than the accumulated Decommissioning Fund when Decommissioning is completed, such surplus shall be treated as Profit Petroleum and transferred to the Ministry in accordance with the OPO Decree-Law.

## **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 and will comply with the health, safety and environmental proposal

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out in Annex D;

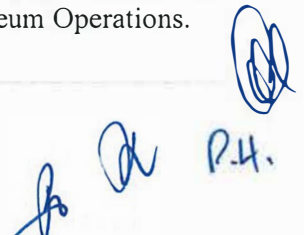
- (iii) Maintain in safe and good condition and repair, the Contract Area and all Facilities and other property, and other works, used or to be used in Petroleum Operations;
- (iv) On the earlier of:
  - (aa) Termination of this Contract; and
  - (bb) When no longer required for Petroleum Operations;and, in either case:
  - (cc) Subject to the Decommissioning Plan;

Undertake 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.

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### 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 and which are consistent with the health, safety and environmental proposal set out in Annex D1.

### 7.4 Local Content

- (a) The Local Content Proposal that applies in respect of this Contract (the “**Buffalo Local Content Proposal**”), is that proposal set out in Annex D2, as may be amended in accordance with this Article 7.4.
- (b) The Contractor shall comply with requirements of the OPO Decree-Law when developing the Buffalo Local Content Plan in respect of any Contract Year.
- (c) If the Contractor considers on reasonable grounds that the Buffalo 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 Buffalo Local Content Proposal**”), according to the OPO Decree-Law.
- (d) The Ministry will notify the Contractor whether it approves the Revised Buffalo Local Content Proposal within thirty (30) Days of receipt of the Revised Buffalo Local Content Proposal.
- (e) Where the Ministry does not approve a Revised Buffalo 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 Buffalo Local Content Proposal to be approved.
- (f) The Contractor who receives notification pursuant to Article 7.4 (d) shall amend the Revised Buffalo Local Content Proposal in accordance with the measures specified by the Ministry and resubmit the amended Revised Buffalo Local Content Proposal for approval.
- (g) The Ministry shall notify the Contractor whether it approves an amended Revised Buffalo 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 Article 7.4 (e) shall apply to the amended Revised Buffalo 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 and is technically and commercially feasible.
- (b) The Contractor may use free of charge any Natural Gas in the Contract Area for Petroleum Operations.

  
  
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- (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 Petroleum; and
  - (ii) The Contractor's Profit Petroleum.
- (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 capacity availability and agreeable commercial terms and condition, such LNG facilities shall 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.
- (f) If no such alternative solutions are feasible, the Ministry may approve flaring or venting of Natural Gas upon application submitted by the Contractor in accordance with Article 45.5 of the OPO Decree-Law.

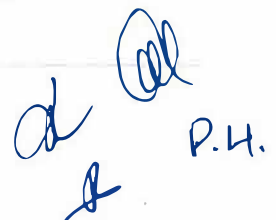
## **Article 8 Recoverable Costs**

### **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 is deposited into the Decommissioning Fund, and properly charged to the Contractor under the relevant Joint Operating Agreement, 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 "Ineligible Costs" in accordance with Annex C, the Ministry has the right to disallow it as a Recoverable Cost.
- (d) Subject to Annex C and the auditing provisions of this Contract, the 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 one 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).

### **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 by the Contractor 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


  
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Timor-Leste, except where TIMOR GAP – Timor Gás & Petr6leo 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, Exploration Costs, Appraisal Costs and Capital Costs incurred after the Effective Date, shall be recovered first, any remaining revenue will then be used to recover Operating Costs 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:

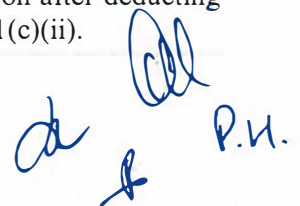
- (a) The sum of:
  - (i) Exploration Costs;
  - (ii) Appraisal Costs;
  - (iii) Capital Costs; and
  - (iv) Operating Costs.
- (b) Decommissioning costs provision as calculated under Article 6.1(c) allowable in that Calendar Year without taking into account the interests accruing to the Decommissioning 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's first share of petroleum at the Field Export Point before cost recovery shall be 5% of Petroleum.
- (b) The Contractor shall be entitled to:
  - (i) The remaining gross income after the first shares in Article 9.1 (a), but no more than is equal in value to Recoverable Costs for the Calendar Year concerned ("Cost Recovery Petroleum"); 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 Petroleum not required to cover costs, hereinafter referred to 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 Petroleum for a Calendar Month from the Contract Area shall be 35% of Profit Petroleum.

## 9.2 Option of the Ministry

- (a) Unless the Ministry elects otherwise pursuant to Article 9.2 (b), the Contractor shall take 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 take 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, subject to the Ministry undertaking to keep such matters confidential, make available relevant marketing information and Sales Purchase Contract upon the Ministry request regardless of whether 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 the Contractor pursuant to Article 9.2(a) 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 ten (10) working days of receipt.
- (b) In the event that the Contractor has not received payment for Petroleum within ninety (90) Days after bill of lading date, it nonetheless will make a provisional payment to the Ministry of fifty percent (50%) of the estimated value of the Ministry's share of Petroleum taken, received and disposed of in accordance with Article 9.2(a).

## 9.6 Economic Equilibrium

- (a) Whereas the economic position of the Contractor has been based, under this Contract, on the laws and regulations in force at the execution date of this Contract, it is agreed that, if any future changes in laws (or their interpretation) materially affect the Contractor's economic position, or if the rate of taxes, duties, excises, withholding taxes or similar imposts materially change during the term of the Contract, both parties shall agree amendments to the fiscal regime applicable to the Contractor, in order to reach an amicable solution that maintains the economic equilibrium of this Contract and restores as nearly as practicable the economic benefits that the Contractor would have enjoyed if such changes had not occurred.
- (b) If the parties fail to reach agreement within one hundred and twenty (120) Days, either Party may elect to submit the matter to the procedure in Article 14 of this Contract.

## Article 10 Supply of Crude Oil and Natural Gas to Timor-Leste Domestic Market

### 10.1 Domestic Market Obligation

Notwithstanding Article 9.3 (a), the Ministry may require the Contractor to supply Petroleum to the Timor-Leste domestic market in accordance with Article 96.1 of the OPO Decree-Law.

### 10.2 Calculation of Domestic Supply Obligation

- (a) If the Ministry requires the Contractor to supply Petroleum pursuant to Article 10.1, the Contractor's obligation to supply Petroleum for domestic purposes shall be calculated for the purposes of Article 96.2 of the OPO Decree in any Calendar Month as follows:
  - (i) The total quantity of Petroleum produced from:
    - aa) The Contract Area in the preceding Calendar Month; and
    - bb) The entire Timor-Leste production of Petroleum for that same Calendar Month;Is determined and a fraction calculated with the numerator being the quantity in Article 10.2(a)(i)(aa) and the denominator being the quantity in Article 10.2(a)(i)(bb);
  - (ii) Twenty-five (25) percent of the total quantity of Petroleum produced from the Contract Area is calculated;
  - (iii) The lower quantity computed under either Article 10.2 (a)(i) or Article 10.2 (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 Petroleum computed under Article 10.2 (a)(iii) shall be the maximum quantity to be supplied by the Contractor in any Calendar Month pursuant to this Article 10. Deficiencies, if any, shall not be carried forward to any subsequent Calendar Month. If for any Calendar Month, Recoverable Costs exceed the difference of total sales proceeds from Petroleum 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 Month.
- (c) The price at which such Petroleum shall be delivered and sold under this Article 10 shall be the price as determined in accordance with Chapter XIV of the OPO Decree-Law.
- (d) The Contractor shall not be obliged to transport such Petroleum 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 11 Payments**

### **11.1 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.

### **11.2 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.

### **11.3 Late Payment**

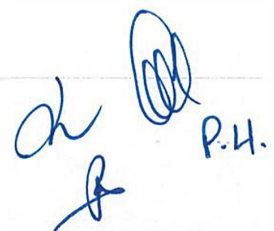
Any amount not paid in full when due shall bear interest, compounded on a monthly basis, at a rate per annum equal to one (1) month term, LIBOR (London Interbank Offer Rate) for United States Dollar deposits, as published by Intercontinental Exchange for Benchmark Administration (IBA), plus two (2) percentage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

### **11.4 Minimum Payment**

If this Contract is terminated for any reason before the end of the third (3<sup>rd</sup>) Contract Year, the Contractor shall, on such termination, pay, to the Ministry, those fees and payments which it would have so paid under Article 11.1 if termination had not occurred until the end of the third (3<sup>rd</sup>) Contract Year.

## **Article 12 Procurement of Goods and Services**

- (a) All the procurements for Petroleum Operations shall be done on an arm's length basis and follow the rules foreseen in the Applicable Law in Timor-Leste, as well as the general principles for sourcing, tender, evaluation, monitoring and close out.
- (b) Launching of tenders, notifications, approvals and reporting of procurement for Petroleum Operations are regulated in the OPO Decree-Law and the Buffalo Decree-Law.



## Article 13 Title to Facilities

### 13.1 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 - Timor Gás & Petróleo, E.P. in accordance with Article 98.1 of the OPO Decree-Law. Notwithstanding the passing of ownership, the Contractor will enjoy the rights set out in Article 98.3 of the OPO Decree-Law.

### 13.2 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 - Timor Gás & Petróleo, 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 OPO Decree-Law, upon the transfer of said Development Area and related Facilities, the TIMOR GAP - Timor Gás & Petróleo, 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 whether accruing before or after the date of such transfer to the TIMOR GAP - Timor Gás & Petróleo, E.P. but without prejudice to any obligations or liabilities due for completion or satisfaction, but not completed or satisfied by the Contractor prior thereto.
- (b) Where the TIMOR GAP - Timor Gás & Petróleo, 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 no less value to the State's entitlement to the production.


### 13.3 Rented or Leased Materials, Facilities, or Other Property

- (a) The Contractor shall procure that the TIMOR GAP - Timor Gás & Petróleo, E.P. has the right to:
  - i. Purchase at fair market value; or
  - ii. 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 and used in Petroleum Operations, 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 13.1 and 13.2 shall not apply to those Leased Properties.

### 13.4 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 - Timor Gás & Petróleo, 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

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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.

### **13.5 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 the TIMOR GAP - Timor Gás & Petróleo, E.P.

## **Article 14 Dispute resolution**

### **14.1 Application of this Article**

Any disputes between the parties under this Contract shall be dealt with in accordance with this Article 14.

### **14.2 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.

### **14.3 Elevation of Dispute**

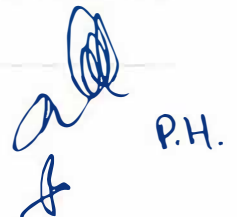
- (a) If the dispute is not settled by the parties within thirty (30) Days of written notice of the dispute, it will be referred to, on the part of the Contractor, the most senior executive of the Contractor resident in Timor-Leste and on the part of the Ministry, a senior executive of the Ministry. 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.

### **14.4 Arbitration**

- (a) If the dispute has not been resolved under Article 14.3 (a) within thirty (30) Days, or such longer period as agreed by the Parties, or if no document recording the settlement is signed under Article 14.3 (b) within fifteen (15) Days of a resolution, either party may refer the dispute to arbitration, in accordance with this Article 14.4.
- (b) Arbitration between the Ministry and the Contractor shall 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; and
  - (iv) The language of the arbitration shall be English.

### **14.5 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.



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## 14.6 Obligations Continue During Dispute Resolution

The obligations of the parties under this Contract shall continue pending the resolution of any dispute under this Article 14.

## Article 15 Reports, Data and Information

### 15.1 This Contract

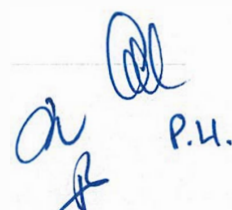
- (a) This Contract is not confidential, and data or information relating to this Contract shall not be treated as confidential other than as expressly provided in Applicable Law in Timor-Leste or Articles 15.3 (e) and 15.4 (d); and
- (b) A copy of this Contract shall be made available by the Ministry 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.

### 15.2 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").

### 15.3 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 15.3 (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 15 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;




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- (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, the 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 15.3 (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.

#### **15.4 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 15.4 (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 15.4 (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;
  - (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 Article 15.4 (d) and the Contractors or any of them do not show cause within that time.



  
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## **15.5 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.

## **15.6 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 16 Management of Operations**

### **16.1 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.

### **16.2 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 the 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.

### **16.3 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;
  - (iii) Reviewing any proposed or agreed amendments to the Minimum Exploration Work Requirements or Work Programmes and Budget; and
  - (iv) 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 17 Third Party Access**

The Contractor shall, in accordance with Article 87 of the OPO Decree-Law, provide for third party access to the Facilities and other property within the Contract Area on reasonable terms and

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conditions.

## **Article 18 Books of Account, Financial Report, Audit, and Cost Verification**

### **18.1 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 the Contractor for transactions conducted at arm's length on a competitive basis with third parties.

### **18.2 Maintenance of Books**

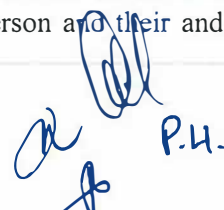
The Contractor shall maintain in Timor-Leste, in accordance with Annex C, books of account and all such other books and records as are necessary regarding the work performed under this Contract, the costs incurred and the quantity and value of all Petroleum produced and saved from the Contract Area and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

### **18.3 Right of Ministry to Inspect and Audit**

- (a) In accordance with the Applicable Law in Timor-Leste (including, but not limited to, requirements of any tax law), the Ministry has the right to inspect and audit at its sole cost 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 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 an independent audit of its activities under its authorisation at the Contractor's cost through the cost recovery mechanism.
- (e) The Contractor agrees to provide to the Ministry a copy of any audit of the books, accounts and records of the Contractor promptly after such audit is conducted.

### **18.4 Books of persons comprising Contractor, their and 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 and the Contractor's affiliates or sub-contractors for auditor in relation to audit of the 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



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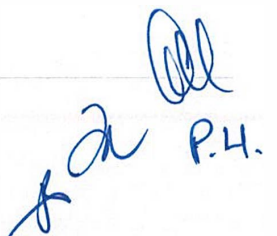


Contractor's affiliates or sub-contractors to verify the accuracy and compliance with the terms of this Contract insofar as a charge from such persons, their and Contractor's affiliates or sub-contractors is included directly or through the Contractor as a Recoverable Cost under this Contract. Whenever an independent audit of such persons, their and 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 and Contractor's affiliates or sub-contractors which related to any costs which the Ministry wishes to verify, are not made available under Articles 18.4 (a) and (b), the cost will not be allowed as a Recoverable Cost under this Contract.

## **18.5 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 18.
- (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 18.6. 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 18.5.

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## 18.6 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.

## 18.7 Audit Exceptions, Claims and Queries

- (a) Within ninety (90) Days after the end of any audit conducted under this Article 18, 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 14 of this Contract, such dispute to be considered a technical matter.

## 18.8 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 18.6. 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.

## 18.9 Audit of Operator or any other Contractor

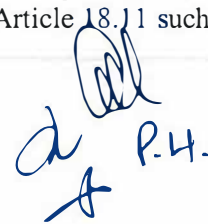
If the Contractor conducts an audit of the books and records of the operator or any other person comprising the Contractor pertaining to this Contract, it shall promptly provide to the Ministry a copy of the audit results, a report setting out the audit exceptions, claims and queries and the manner in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

## 18.10 Time Periods for Maintenance of Books

The Contractor must retain all books, records and documents maintained under this Article 18, and make such books, records and documents available for inspection in accordance with the Applicable Law in Timor-Leste.

## 18.11 Technical Audit

- (a) In accordance with the Applicable Law in Timor-Leste, the Contractor shall provide relevant authorities of Timor-Leste which are 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 18.11 such

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responsibility shall remain with the Contractor, at its own account and risk.

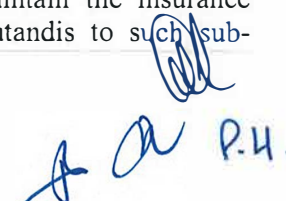
## **Article 19 Warranty and Insurance**

### **19.1 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.

### **19.2 Insurance**

- (a) The Contractor shall:
- (i) take out and maintain insurance on a strict liability basis and in respect of such matters as reasonably required by the Ministry, including in respect of pollution, for such amounts as the Ministry requires from time to time (acting reasonably) 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 19.2 (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 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 Article 19.2 (g) below.
- (e) The Contractor shall be responsible for the filing of all claims made under any insurance policy maintained by the 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 19, 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 20 Force Majeure

### 20.1 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 the Contractor's obligations under this Contract.

- (b) Notwithstanding Article 20.1 (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, a 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.

### 20.2 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

  
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- (c) Resume performance of its obligations as soon as reasonably practicable after the event or circumstance no longer exists.

### **20.3 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.

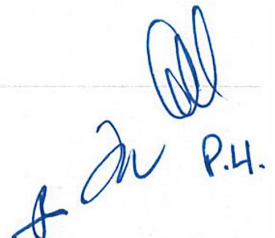
### **20.4 Extension of Time**

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 21 Restrictions on Assignment**

### **21.1 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) Subject to Article 21.1 (a), the Contractor may Assign, in accordance with the Applicable Law in Timor-Leste, all or part of its rights, interests, benefits, obligations and liabilities under this Contract.
- (c) In the event of a partial Assignment of rights, interests, benefits, obligations and liabilities under this Contract:
  - (i) The assignor and assignee will enter into a joint operating agreement which requires the approval of the Ministry pursuant to Article 18 of the Petroleum Activities Law, such approval not to be withheld if the assignee meets the requirements of Article 10.2 of the Petroleum Activities Law;
  - (ii) This Contract will be amended in writing so that:
    - (aa) References to the Contractor are a reference to each of the assignor and assignee; and
    - (bb) The liability of the assignor and assignee to the Ministry is joint and several irrespective of their participating interest in the joint operating agreement relating to the Contract Area;
  - (iii) The assignor remains liable for the fulfilment of any unfulfilled accrued obligations of the assignor prior to the date of the Assignment;
  - (iv) Prior to the date of the Assignment, the assignee must procure from its Parent Company, security in the form of a Parent Company guarantee for the fulfilment of the obligations assumed by the assignee; and
  - (v) The instrument of Assignment shall state precisely that the assignee is bound by all covenants contained in this Contract on and from the date of the Assignment.
- (d) In the event of a full Assignment of rights, interests, benefits, obligations and liabilities under this Contract:

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- (i) The assignee must procure from its Parent Company, security in the form of a Parent Company guarantee to the extent that such obligations are assumed by the assignee;
  - (ii) The instrument of Assignment shall state precisely that the assignee is bound by all covenants contained in this Contract; and
  - (iii) The Assignment must comply with all requirements set forth under Article 99 of the OPO Decree-Law.
- (e) In accordance with the Applicable Law in Timor-Leste, approval may be given by the Ministry upon application in writing by the Contractor. 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.
- (f) 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.

## **21.2 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.

## **21.3 Notification of TIMOR GAP**

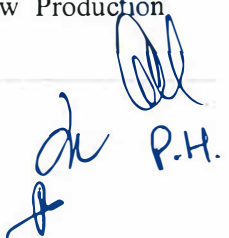
If an Assignment is proposed during the term of this Contract, the Contractor shall notify TIMOR GAP - Timor Gás & Petróleo, E.P. of the proposal and allow it to bid on the same terms as other interested parties.

## **21.4 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.

## **21.5 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 (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

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Sharing Contract within this time frame will result in the lapse of the consent of the Ministry to Assign.

- (b) If Article 21.5 (a) applies, 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 Exploration Work Requirements.
- (d) In the event of the application of the provisions of this Article 21.5, the resulting areas shall become independent for all resulting effects, including the calculation of State participation.

## **21.6 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 22 Other Provisions**

### **22.1 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 the Contractor shall be addressed to its registered office.

### **22.2 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, in the case of conflict the parties will meet to agree on the intent of the Contract.

### **22.3 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.

### **22.4 Third Party Rights**

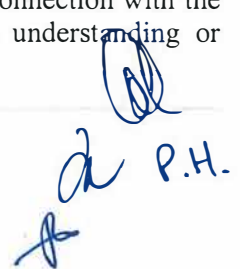
Unless specifically provided in this Contract, the parties do not intend that any term of this Contract be enforceable by any person who is not a party to this Contract.

### **22.5 Amendments/Modifications**

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

### **22.6 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.

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## 22.7 Inurement

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

## 22.8 Joint and Several Liability

The obligations and liabilities of the Contractor under this Contract are the obligations and liabilities of each and every company that constitutes the Contractor, jointly and severally.

## 22.9 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.

## 22.10 No assumption of liability by Timor-Leste

- (a) The Contractor acknowledges and agrees that, pursuant to the terms of the Treaty, Timor-Leste does not assume any liability arising out of, or in relation to, Australia's exercise of jurisdiction over the Contract Area or the Buffalo Field prior to the Effective Date.
- (b) With the exception of cost recovery of any long lead items and costs related to environmental approvals for drilling approved in writing by the Government of Timor-Leste, and which have been incurred prior to the Effective Date, the Contractor acknowledges and agrees that Timor-Leste does not assume any responsibility or liability to the Contractor or its Affiliates arising out of or in connection with any tax credit, deduction, allowance, relief, loss, set-off, refund, reduction, rebate, exemption, exclusion or other benefit (including, for the avoidance of doubt, un-deducted exploration expenditure and carried forward tax losses), available to the Contractor or any Affiliate or to which the Contractor or any Affiliate may have claimed or has become entitled, under an Australian taxation regime prior to the Effective Date.
- (c) The Contractor releases, discharges and indemnifies Timor-Leste from and against all claims, actions, proceedings, accounts, rights, demands, liabilities, costs, losses and expenses, whether known or unknown, whether at law, in equity or under statute, or otherwise, existing as at the Effective Date and arising out of or relating in any way to the development of the Buffalo Field.

  
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IN WITNESS WHEREOF, the parties have executed this Contract.

For Timor-Leste

BY: Gualdino Carmo da Silva,  
ANPM President

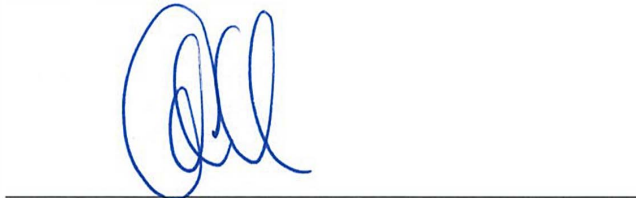


WITNESSED: H.E. Hermenegildo Cabral Pereira, Interim Minister of Petroleum and Minerals



For the Contractor:

BY: Adrian Cook, Director



BY: Philip Huizenga, Director





BY: Emanuel Angelo Lay, Director



## Annex A- Part 1 – PSC-TL-SO-T 19-14 CONTRACT AREA DESCRIPTION

### Coordinates in AGD66

The PSC-TL-SO-T 19-14 Contract Area is the area bounded by the line described below:

- a) commencing at the point of Latitude 10° 40' 00.00" South and Longitude 126° 03' 54.30" East ("Point a");
- b) thence southeast along the geodesic to the point of Latitude 11° 24' 05.71" South and Longitude 126° 18' 18.07" East ("Point b");
- c) thence northeast along the geodesic to the point of Latitude 11° 21' 05.10" South and Longitude 126° 27' 55.60" East ("Point c");
- d) thence northeast along the geodesic to the point of Latitude 11° 20' 05.10" South and Longitude 126° 30' 55.60" East ("Point d");
- e) thence southeast along the geodesic to the point of Latitude 11° 20' 08.00" South and Longitude 126° 31' 54.00" East ("Point e");
- f) thence northwest along the geodesic to the point of Latitude 10° 36' 11.70" South and Longitude 126° 05' 00.00" East ("Point f");
- g) thence south along the meridian of Longitude 126° 05' 00.00" East to its intersection with the parallel of Latitude 10° 40' 00.00" South ("Point g"); and
- h) thence west along the parallel to the point of commencement.

The approximate area of PSC-TL-SO-T 19-14 is 1342 square kilometres

Note: the origin of geographical coordinates used in the area description is the Australian Geodetic Datum 1966 (AGD66).

## Annex A - Part 2 - PSC-TL-SO-T 19-14 CONTRACT AREA DESCRIPTION

### Coordinates in WGS84

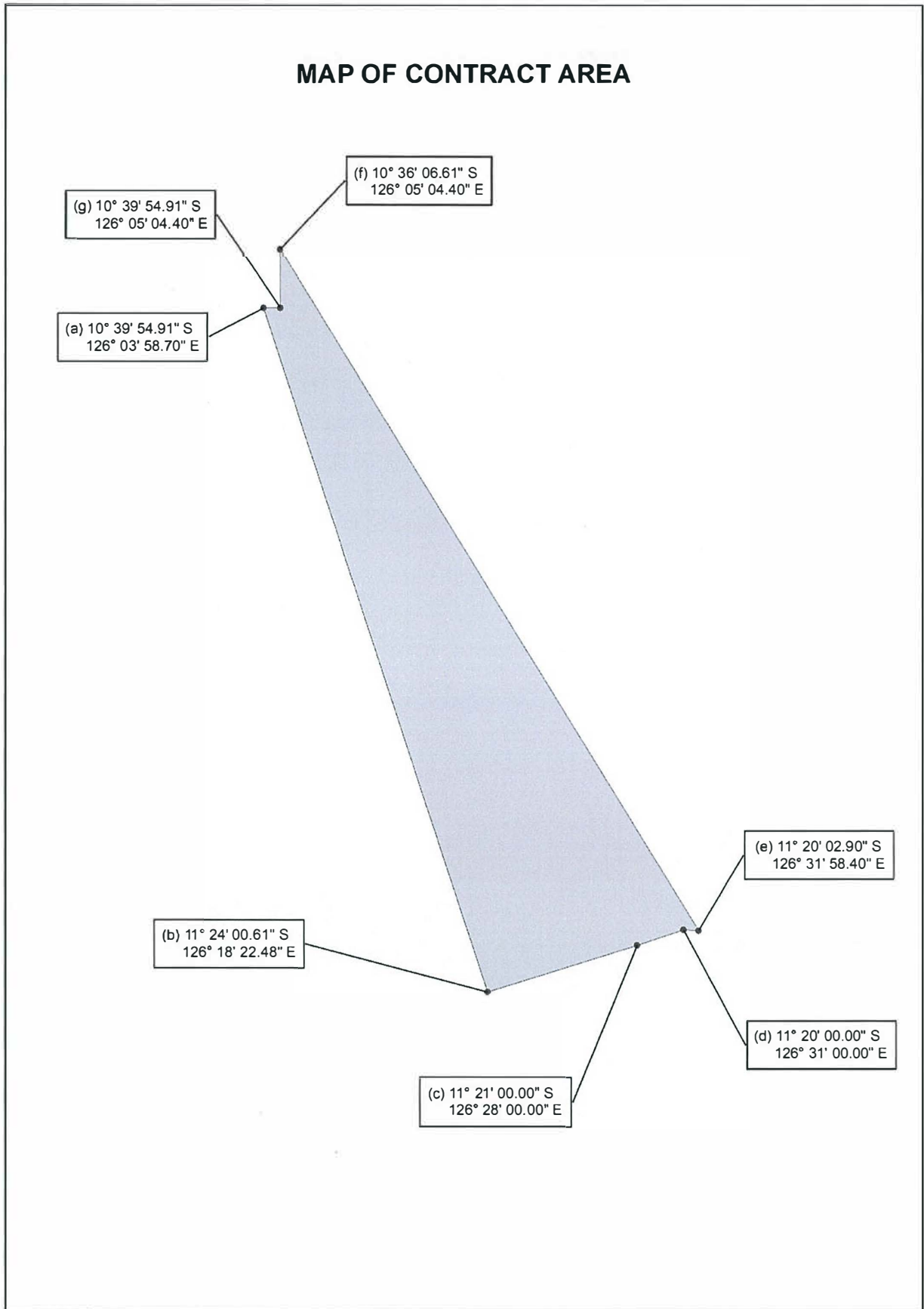
In accordance with Article 31 of the OPO Decree-Law, positions in the Territory of Timor-Leste may be expressed by reference to the spheroid World Geodetic System 84 (WGS84), which has its centre at the centre of the Earth and a major (equatorial) radius of 6378137 metres and a flattening of 100/29825.7223563.

The point numbers in the following table of WGS84 coordinates correspond to the written description of the Contract Area as described in Annex A - Part 1. In the event of a discrepancy between the Annex A - Part 1 description and the WGS84 coordinates tabulated below, the Annex A- Part 1 description takes precedence.

The PSC-TL-SO-T 19-14 Contract Area is the area bounded by the line described below:

Item	Latitude	Longitude
A	10° 39' 54.91" South	126° 03' 58.70" East
B	11° 24' 00.61" South	126° 18' 22.48" East
C	11° 21' 00.00" South	126° 28' 00.00" East
D	11° 20' 00.00" South	126° 31' 00.00" East
E	11° 20' 02.90" South	126° 31' 58.40" East
F	10° 36' 06.61" South	126° 05' 04.40" East
G	10° 39' 54.91" South	126° 05' 04.40" East

Annex B – Map of Contract Area



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## 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 ninety (90) 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) and barrels shall be employed for measurements and quantities under this Contract.
- (b) The Accounting Records and all reports to the Ministry will be kept in English, and, if requested by the Ministry, an official translation in one of the official languages of Timor-Leste shall be 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 4.8 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

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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. Approval will not be withheld if such costs:
  - (i) Are consistent with the Contractor's policies in relation to the employee remuneration and benefits; and
  - (ii) Relate to activities of relevant staff carried out substantially in accordance with an approved Work Programme and Budget for Exploration; and
  - (iii) Are otherwise reasonable or customary in the petroleum industry.

Approval will be deemed to be given by the Ministry if no response has been received from the Ministry within 30 days of request for approval.

## 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. Approval will not be withheld if such costs:
  - (i) Are consistent with the Contractor's policies in relation to the employee remuneration and benefits; and
  - (ii) Relate to activities of relevant staff carried out substantially in accordance with an approved Development Plan; and
  - (iii) Are otherwise reasonable or customary in the petroleum industry.

Approval will be deemed to be given by the Ministry if no response has been received from the Ministry within 30 days of request for approval.

#### 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.

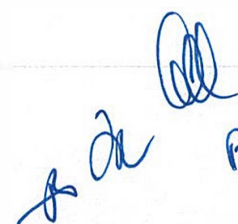
Operating costs include, but are not limited to the following:

- (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 redrilling, 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 Operator under this contract;
- (f) Annual Decommissioning costs provision; and
- (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

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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.

In 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

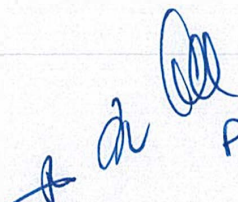
Miscellaneous Receipts are:

- (a) 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:
  - (i) Amounts received from the sale or other disposal of Petroleum from Production Testing activities undertaken in exploration wells and appraisal wells;
  - (ii) Amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;
  - (iii) 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;
  - (iv) 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;
  - (v) Amounts received from the hiring or leasing of property, the cost of which is a Recoverable Cost;
  - (vi) Amounts received from supplying information obtained from Petroleum Operations in accordance with the confidentiality and other applicable provisions of the Contract;
  - (vii) Amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs;
  - (viii) Interests earned on the payments made to the Decommissioning Fund;
  - (ix) 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
  - (x) 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;

  
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- (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 in Timor-Leste;
- (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 the Contractor's head office corporate 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) If the Contractor pays more for goods and services 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 the Contractor, the amount of any difference;
- (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 the Contractor with any law or this Contract, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of the 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



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- awarded in non-compliance with the tendering procedures of the Contract;
- (t) Costs incurred as a result of wilful misconduct or gross negligence of the Contractor;
  - (u) Payment of compensation or damages under this Contract;
  - (v) Costs relating to the settlement of disputes (including all costs and expenses of arbitration or litigation proceedings):
    - (i) Between the Contractor and third parties, which are not approved in advance by the Ministry;
    - (ii) Between the Contractor and third parties, to the extent that such costs are recovered from the relevant third parties; or
    - (iii) Between the Contractor and the Ministry in relation to proceedings under this Contract;
  - (w) Costs of expert determination pursuant to Article 18 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 11 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 (excluding equipment with a hire or lease cost of less than \$US50,000 per annum);
  - (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 exist or are not correct in any material respect;
  - (ff) Except with the consent of the Ministry, but subject to Article 4.8 and 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 (c)), 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.

  
  
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- (c) No gains or losses would be recognized upon title of assets passing from Contractor and TIMOR GAP – Timor Gas & Petroleum, E.P.
- (d) Parent Company overhead costs that Contractor sought for cost recovery shall be made available and accessible by the Ministry. Parent Company overhead costs shall only be recoverable during Petroleum Operations 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 Industry Best 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



Except 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, excluding costs under Clause 2.8 (aa).

#### 3.2 Labour and Associated Labour Costs

- (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.

  
  
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- (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 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 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

  
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- (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 Clause 3.4 (b) (ii) or Clause 3.6 or Clause 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, and the parties will negotiate such contract in good faith, acting reasonably.

### 3.5 Communications

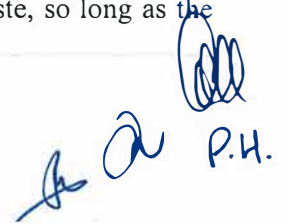
Costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Contract Area and the Contractor's base facility in Timor-Leste.

### 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

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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 the 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 Clause 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 Clauses 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"):
    - aa) 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 percent (75%) of the current price of new material defined in Clause 3.8(d)(i);
    - bb) 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 Clause 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;
    - cc) 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 Clause 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 Clause 3.8 (d) (ii) (bb), 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.

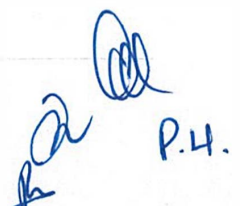
### 3.10 Insurance and Losses

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



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Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgment 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, the 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 Stocktake

If inventories maintained by the Contractor have a book value in excess of US\$100,000, inventories of property in use in Petroleum Operations shall be taken, as matter of principle, once a year, with respect to movable assets and once every three years with respect to immovable assets (with such stocktakes timed to coincide with the preparation of accounts for the Contractor's financial year). 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 stocktake 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 Transfer of inventory

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. The decision to transfer such assets for use shall be foreseeable and align with the Work Programme 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 fifteen (15) 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.

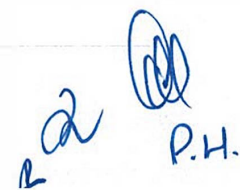
#### 6.2 Submission of Value of Production and Pricing Statement

The Value of Production and Pricing Statement for each Quarter shall be submitted to the Ministry not later than thirty (30) 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:


  
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- (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

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; and
- (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 fifteen (15) 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 with an

agreed for Expenditure which outlined the details of 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.

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## **Annex D – Proposals**

### **Annex D1 - Health, Safety and Environmental Proposal**

This Annex is referred to in Article 7.1(b)(ii) and Article 7.3.

The Contractor is committed to protecting the health, safety and well-being of all its employees, contractors and the greater community that it operates in.

Through the Contractor's Operational Management System (OMS), controls and procedures have been developed for all operational activities.

These controls and procedures have been developed to follow best industry practice. Each control is continually monitored and measured to ensure it is achieving its aim. Through its monitoring process, the Contractor is continually looking for improvement to go above the best practice.

The Contractor recognises its social responsibility to the community affected by its operations, and therefore keeps an open line of communication available for any stakeholder to raise their concerns.

The Contractor is committed to:

- preventing all significant environmental incidents;
- minimising environmental impacts from its activities; and
- complying with all relevant legal and regulatory requirements.

The Contractor will have an Environmental Management System (EMS) in place to ensure it manages all environmental impacts to as low as reasonably practicable (ALARP). Every activity is reviewed, risk assessed and then controls are developed. These controls will be monitored for effectiveness and improved when practicable.

## **Annex D2 - Buffalo Local Content Proposal**

This Annex is referred to in the definition of “Buffalo Local Content Proposal” and Article 7.4.

### **Local Content Proposal during the Exploration Period**

The Contractor proposes the following during the Exploration Period:

#### **1. Presence in Timor-Leste**

Full compliance with Article 152 of the OPO Decree-Law (“Presence in Timor-Leste”). The presence of the Contractor will create opportunity for employment of Timorese nationals throughout the field life.

#### **2. Training**

Identify and train two Timorese nationals in order that they may take responsibility for procuring compliance with the OPO Decree-Law and Buffalo Decree-Law.

Training is to be commenced within six months after the Effective Date.

The Contractor will contribute USD 100,000 to the vocational training centre in 2020.

#### **3. Goods and Services**

Provision of goods and services will be sourced in accordance with the OPO Decree-Law and Buffalo Decree-Law.

Any costs and expenditure incurred in implementing the proposals set out in this Annex D3 are costs being incurred in carrying on Petroleum Operations and are deemed to be Recoverable Costs for the purposes of Article 6 of this Contract with the exception of Corporate Social Responsibility costs which are not Recoverable Costs unless the Ministry has given prior approval for them to be Recoverable Costs.

### **Local Content Proposal during the Development and Production Period**

The Contractor proposes that during any Development and Production Period, in addition to the proposals for the Exploration Period, that the Development Plan will contain the following Local Content requirements:

#### **1. Goods and Services**

A commitment to procure local supply of goods and services in accordance with the OPO Decree-Law and Buffalo Decree-Law

#### **2. Training and Employment**

A commitment to train Timor-Leste nationals and employment for Timorese.

The Contractor, in consultation with the Ministry, will commit to the training and employment of Timorese which will be agreed in the Development Plan in order to procure compliance with the OPO Decree-Law.




### 3. **Compliance monitoring**

The employment of a dedicated Local Content officer to actively ensure that sub-contractors are in compliance with Local Content provisions.

### 4. **Corporate Social Responsibility**

As a responsible Corporate citizenship, the Contractor will also be committed to enhance community wellbeing through its corporate initiative on case to case basis upon consultation with ANPM throughout the field life.

  
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## SCHEDULE A -

### Documents In Support Of Application For Assignment Or Transfer Under Article 21

In the case of an application for Assignment under Article 21 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) Company financial statements within the last three (3) years from the date of an application for an Assignment.
- (d) Independent credit rating documents (if available).
- (e) Any other information or documents as reasonably required by the Ministry.

Additionally, with respect to satisfaction of guarantee obligations under this Contract, the 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)

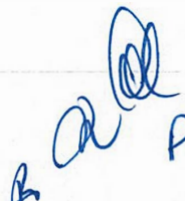
- (a) Name and registered address of financial institution.
- (b) Company financial statements within the last three (3) years from the date of an application for an Assignment.
- (c) Independent credit rating documents, if available.

#### (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) Ultimate Parent Company financial statements within the last three (3) years from the date of an application for an Assignment.
- (e) Independent credit rating of ultimate Parent Company (if available).



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.

  
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- (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.

   
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## SCHEDULE B - Parent Company Guarantee

Letter of Guarantee in accordance with Article 2.2 (b)(i) of the Production Sharing Contract

Dear Sir

A Production Sharing Contract *dated and effective the day of* or *dated the day of* and *effective the day of* ] (hereinafter referred to as "the "PSC"), was entered into the , acting on behalf of the Ministry hereinafter referred to as "the Beneficiary") of the Second Part and [Name of any other Parties to the PSC] [Incorporation details and local registered address], with respect to Contract Area situated [Name of Area], commonly referred to as [Name/No. of Block] and more particularly described in the PSC.

[If applicable]

RECITE PARTICULARS – COMPANY NAME CHANGE, ASSIGNMENT (S) and CURRENT PARTIES ON BLOCK

For all intents and purposes [Name of any other Parties to the PSC] are collectively referred to as "the Contractor" under the PSC.

[FOR A FINANCIAL INSTITUTION ISSUING A GUARANTEE]

In accordance with Paragraph 2.2(b)(i) of the PSC, at the request of and on behalf of [Name of Company requiring Guarantee], [Name, Address and Incorporation details of Guaranteeing Entity] (hereinafter referred to as "Guarantor")

OR

[FOR A PARENT COMPANY ISSUING A GUARANTEE]

In accordance with Article 2.2 (b)(i) of the PSC, at the request of and on behalf of [Name of Company requiring Guarantee], [Name, Address and Incorporation details of Guaranteeing Entity] being the ultimate Parent Company thereof, (hereinafter referred to as "Guarantor"), HEREBY COVENANTS AND AGREES with the Minister acting on behalf of the Ministry, as follows:

### PARENT COMPANY GUARANTEE

THIS GUARANTEE made as of the ...day of ...2019


BETWEEN:

AUTORIDADE NACIONAL DO PETROLEO E MINERAIS – ANPM established under the Decree-Law No. 20/2008, of 19 June 2008, as amended by Decree-Law No. 27/2019 of 27 August 2019, acting on behalf of the Ministry of Petroleum and Minerals (hereinafter called the "Ministry") pursuant to Article 10, in respect of the powers vested in the Ministry under the Law No. 13/2005, of 2 September 2005, as amended by Law No. 1/2019, of 18 January 2019 on Petroleum Activities.

("the ANPM")

-and-

(Designated contractor registered in Timor-Leste including its official address).

  
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(“GUARANTOR”)

WHEREAS:

- A. GUARANTOR is the parent company of contractor (Register Number...)  
 (“SUBSIDIARY”);
- B. SUBSIDIARY, ( Register number...) entered into a Production Sharing Contract dated ...in respect of Petroleum Activities Law No.13/2005, for the purpose of Exploration, exploiting and developing oil and natural gas resources located within the Contract Area ( the “PSC”);
- C. This Guarantee is entered pursuant to Article 2.2 (b) (i) of the PSC for the purpose of providing ANPM with Security for the performance of SUBSIDIARY’s obligations as hereinafter defined; and
- D. GUARANTOR has the capacity to enter this Guarantee and has taken all steps necessary to ensure that this Guarantee is valid and binding upon it in accordance with the terms hereof.



NOW THEREFOR; in consideration of the sum of US dollar (\$US1.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, GUARANTOR agrees as follows:

1.0 Definitions

- 1.1 Unless expressly indicated otherwise herein, all capitalized words and phrases used herein and in the recitals hereto shall have the same meaning as attributed to them in the PSC.
- (a) “Guarantee” means this Parent Company Guarantee.
- (b) “Obligation” means performance of the SUBSIDIARY’s proportionate share of Decommissioning obligations and Minimum Work Requirements pursuant to the PSC.
- 1.2 The headings in this Guarantee are inserted for convenience of reference only and shall not affect the construction or interpretation of any provision hereof.

2.0 Guarantee

- 2.1 GUARANTOR hereby absolutely, irrevocably and unconditionally guarantees, at all times, full and prompt performance when due, of the obligations.
- 2.2 ANPM shall not be required to commence any action or obtain any judgement against SUBSIDIARY, or pursue any other remedy it may have against SUBSIDIARY under the PSC before enforcing this Guarantee against GUARANTOR.
- 2.3 Notwithstanding any other provision of this Guarantee the total amount recoverable under this Guarantee is limited to any amount equal to .....%, being the SUBSIDIARY’s proportionate share in the Contract Area.
- 2.4 GUARANTOR shall be entitled to rely on any of the same defences that SUBSIDIARY may raise under the PSC and to raise any such defence on its own behalf in any appropriate forum as if it were SUBSIDIARY.

  
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2.5 GUARANTOR shall indemnify ANPM for all reasonably incurred legal costs incurred in enforcing this Guarantee.

### 3.0 Continuing Guarantee

3.1 This Guarantee shall be a continuing guarantee and shall not be discharged by the performance of any particular Obligation and shall remain in full force and effect until the performance of all Obligations are satisfied in full.

3.2 GUARANTOR agrees that its obligations hereunder shall not be impaired, adversely affected or discharged by reasons of the insolvency, liquidation, amalgamation, reconstruction, reorganization or dissolution of SUBSIDIARY.

### 4.0 Notices

4.1 GUARANTOR'S address for the service is :

[Insert]

4.2 Any demand or notice given pursuant to this Guarantee shall be in writing and shall be deemed to be duly given if delivered personally or by courier or facsimile transmission. Any such notice or demand shall be deemed to have been received:

- (a) in the case of personal delivery or delivery by courier, when actually received by the party to whom the notice is directed; or
- (b) in the case of delivery by facsimile, upon receipts as confirmed by the sender's facsimile machine, except if received after business hours, on the next Day in which the recipient is open for business.

### 5.0 Governing Law and Jurisdiction

This Guarantee shall be governed by and construed in accordance with the Laws of England and Wales without regards to conflict of Law provisions that would otherwise direct the Laws of another jurisdiction to be applied.

### 6.0 Assignment

GUARANTOR shall not assign or sub-contract or otherwise transfer, or purport to transfer, any of its rights or obligations under this Guarantee without the consent of ANPM.



### 7.0 Term

Notwithstanding anything to the contrary contained herein, GUARANTOR shall be wholly discharged and forever released from this Guarantee and this Guarantee shall automatically terminate on the earlier occurrence of the following:

- (a) complete satisfaction of the performance of all Obligations;
- (b) an Assignment made by SUBSIDIARY of its entire interest in the PSC or a change of Control of the Subsidiary in accordance with Article 21 of the PSC; or
- (c) termination of the PSC in accordance with its terms.

### 8.0 Miscellaneous

8.1 No waiver of any right under this Guarantee shall be valid unless in writing and expressly identified as a waiver hereunder and signed by ANPM.

  
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8.2 This Guarantee represents the entire agreement in respect of the subject matter hereof and shall not be amended or modified unless in writing, expressly identified as an amendment, and signed by both parties.

IN WITNESS WHEREOF this Guarantee has been executed for and on behalf of GUARANTOR on the day and year first above written.

Executed as an Agreement by:

Signed for and on behalf of  
by its duly authorized representative  
in the present of:


\_\_\_\_\_  
Signature of Attorney  
  
\_\_\_\_\_  
Full Name  
  
\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Witness  
  
\_\_\_\_\_  
Full Name  
  
\_\_\_\_\_  
Date

Executed for and on behalf of the  
AUTORIDADE NACIONAL DO PETROLEO E MINERAIS  
by its duly authorized officer in the presence of:

\_\_\_\_\_  
Signature of Attorney  
  
\_\_\_\_\_  
Full Name  
  
\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Witness  
  
\_\_\_\_\_  
Full Name  
  
\_\_\_\_\_  
Date

  
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## 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;
  - (ii) The employment of local persons; and
  - (iii) The transfer of technology and skills and the training of local persons.