

**Final Tender Protocol
(Edital)**

**Dili, Timor-Leste
January 27, 2006**

TABLE OF CONTENTS

	Page No.
1. INTRODUCTION.....	3
2. CALENDAR.....	4
3. OBJECTIVE OF THE OFFERING	5
4. GENERAL CONDITIONS.....	6
5. THE CONTRACT AREAS	7
6. TECHNICAL DATA.....	9
7. MINIMUM REQUIREMENTS FOR PARTICIPATION	10
8. PRE-QUALIFICATION.....	11
9. BIDDING.....	15
10. BID ACCEPTANCE.....	17
11. EXECUTION OF THE PRODUCTION SHARING CONTRACT	18
12. EXPLANATION OF INFORMATION.....	20
13. OGED's RIGHTS	21
ANNEX I Description of Areas	
ANNEX II Power of Attorney	
ANNEX III Bid Bond	
ANNEX IV Bid Summary Form	
ANNEX V Bid Evaluation Matrix and Guarantee Requirements	
ANNEX VI Performance Guarantee	
ANNEX VII Production Sharing Contract	

1. INTRODUCTION

- 1.1 Timor-Leste (East Timor) became the world's newest nation in May 2002, and less than two (2) years later made its debut as a significant petroleum producer with first production from the Bayu-Undan field.
- 1.2 This project in the Joint Production and Development Area ("JPDA") in the Timor Sea which is managed jointly with neighbouring Australia was the result of upstream investment by a ConocoPhillips-led joint venture of around US\$2 billion. It is already generating a revenue stream that is vitally important for the nation's reconstruction and development.
- 1.3 To build on this success, the Government of Timor-Leste has opened a significant portion of the nation's offshore area to petroleum exploration and development by qualified companies. This Final Tender Protocol ("*Edital*") follows the guidelines contained in *Decreto do Governo 7/2005 (Concursos Públicos para a Celebração de Contratos Petrolíferos)* of October 19th, 2005, as well as other relevant legislation and regulations and defines the rules which must be followed by all companies interested in participating in this offering. Those guidelines require that this Final Tender Protocol be published at least forty-five (45) days prior to the deadline for the submission of Bids for the Contract Areas offered in this Bidding Round.

2. CALENDAR

Formal Announcement of Round	August 17, 2005
Presentations to Interested Companies	
Singapore.....	September 2, 2005
London.....	September 6, 2005
Calgary.....	September 9, 2005
Houston.....	September 13, 2005
Initial Tender Protocol.....	September 30, 2005
Operator Pre-Qualification	from October 3, 2005
Legal/Financial/Contractual/Technical Workshop.....	November 17-18, 2005
Publication of Final Tender Protocol (Edital) and Definitive Production Sharing Contract.....	January 27, 2006
Deadline for submission of Pre-Qualification Documents.....	February 17, 2006
Submission of Bids	deadline 17:00 hrs Dili time (GMT + 9:00) March 17, 2006
Commencement of Evaluation Commission's work.....	March 31, 2006
Presentation of Commission's Evaluation Report to the Minister.....	April 18, 2006
Contract Signature.....	On or before May 20, 2006

3. OBJECTIVE OF THE OFFERING

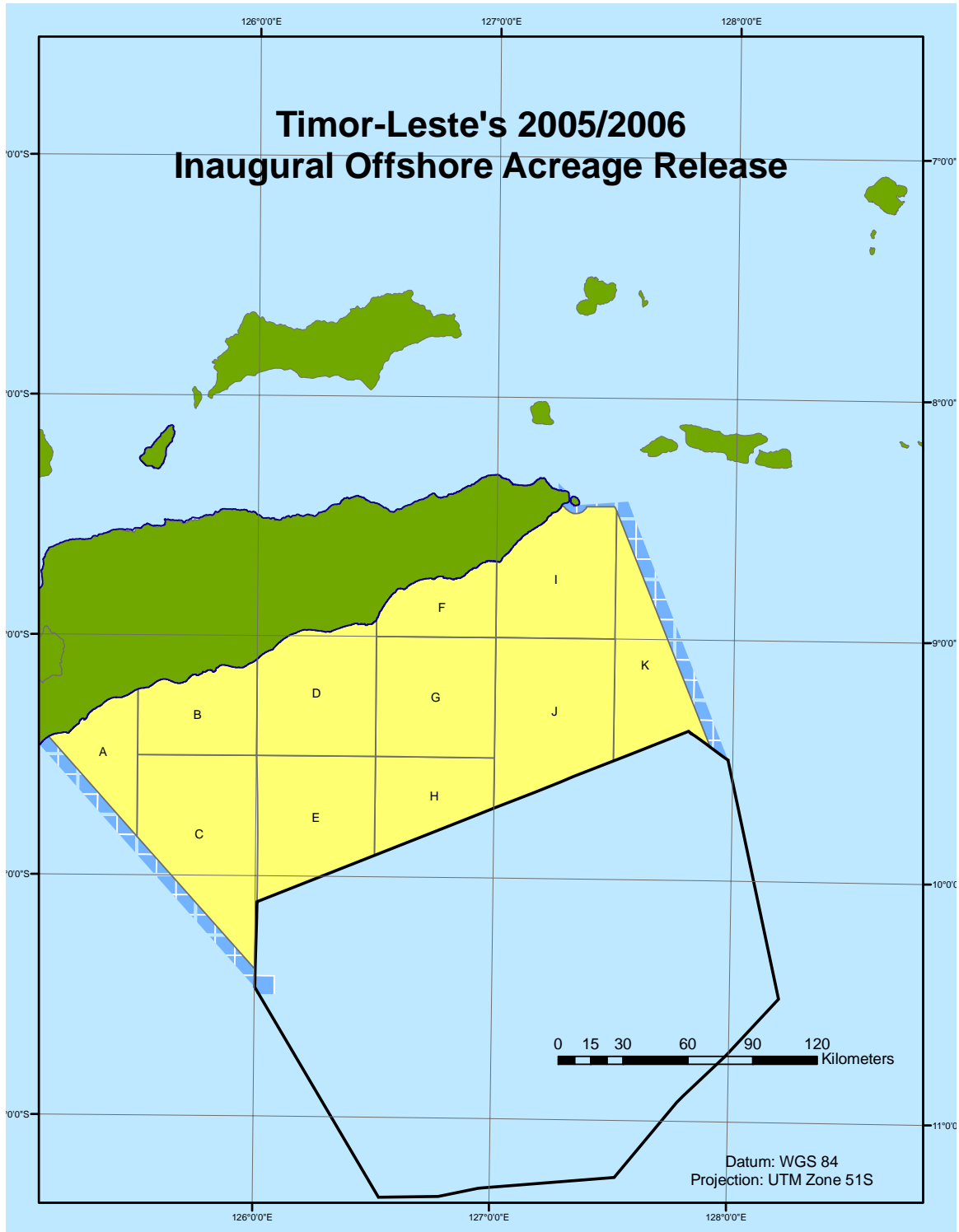
- 3.1 The objective of the current offering is the award of Production Sharing Contracts (“PSCs”), on the basis of an open and competitive tender, to companies or consortia of companies to carry out exploration, development, and production activities for oil and natural gas on the Contract Areas described in Section 5.
- 3.2 Winning companies or consortia must enter into a PSC in order to carry out such activities. The PSC is contained in Annex VII to this Final Tender Protocol.

4. GENERAL CONDITIONS

- 4.1 **Applicable legislation:** This Bidding Round will be governed by the *Petroleum Act (Lei das Actividades Petrolíferas)*, the *Concursos Publico para a Celebração De Contratos Petrolíferos* and this Final Tender Protocol.
- 4.2 **Future regulations:** Additional regulations applicable to petroleum operations will be enacted under Article 31 of the *Petroleum Act*. Companies successful in a Bidding Round are expected to comply with such regulations when performing their obligations and carrying out operations pursuant to a PSC.
- 4.3 **Language:** All pre-qualification documents shall be submitted in either Portuguese or English.
- 4.4 **Contract Areas:** The acreage available for the Bidding Round has been divided into eleven (11) Contract Areas A through K (see Section 5) each defined by geographical coordinates of latitude and longitude.
- 4.5 **Bids per Contract Area:** Bids shall be Contract Area-specific. Companies or consortia wishing to bid on more than one Contract Area must submit a separate Bid for each Contract Area.
- 4.6 **Bid Summary Form:** The Oil, Gas & Energy Directorate (“OGED”) will issue an official Bid Summary Form for each Contract Area to each company qualified as an Operator. All Bids must be submitted using the official Bid Summary Form. This Bid Summary Form will be substantially in the form indicated in Annex IV.
- 4.7 **Submission of Bids:** Each Bid shall be submitted in the format, time and manner specified in this Final Tender Protocol.

5. THE CONTRACT AREAS

5.1 The offshore area south of the Timor-Leste, less a three (3) nautical mile “buffer” zone from its borders to the east and west, has been divided into eleven (11) Contract Areas comprising some 30, 000 square kilometres, as illustrated in the map below.



- 5.2 The precise coordinates defining each Contract Area as well as precise areal extent is detailed in Annex I to this Final Tender Protocol.
- 5.3 Annual Surface Rentals will apply for any Contract Area that is retained during the term of the PSC. Annual surface rentals for the initial three (3) year exploration period will be US\$ 10 per square kilometre, any area retained after the initial exploration period will attract a rate of three (3) times the initial rate and any area retained after the seven (7) year exploration period will attract a rate of ten (10) times the initial rate.

Contract Area	A	B	C	D	E	F	G	H	I	J	K
Surface Area (Sq. Kms.)	1400	2030	3784	3100	3080	1435	3038	1889	2936	3700	2384

6. TECHNICAL DATA

- 6.1 Although it lies in an established petroliferous environment and is adjacent to the JPDA that contains two world class discoveries in Bayu-Undan and Greater Sunrise/Troubadour, there has been no substantive exploration activity in Timor-Leste's offshore area for more than thirty (30) years. Prior to the Indonesian invasion and occupation there was only a very modest level of activity. One well, Mola -1, was drilled in 1975 to 3,077m. The well tested gas in non-commercial quantities. There was also a 1,500 km 2D survey undertaken in 1974 covering Timor-Leste's near-shore/onshore areas . Furthermore, in 1992 and 1996 regional surveys acquired in the Timor Sea also contained several lines into what are now Timor-Leste waters.
- 6.2 There is strong evidence of an active petroleum system across the offshore area. A large number of light oil seeps, 35-40 degrees API, as well as active gas seeps are present in Timor-Leste, representing hydrocarbons from a deep source and/or displaced oil from the offshore area between Timor Island and the Timor Trench.
- 6.3 In order to provide a minimum body of technical data upon which a Bidding Round could be launched, in 2004 a contract to conduct a "spec" seismic survey was awarded to BGP-GGS, a Norwegian-Chinese joint venture. In late 2004 and early 2005 BGP-GGS acquired 6,600 kilometres of high quality 2D seismic data over approximately 30,000 square kilometres in the offshore area south of Timor-Leste. Preliminary geotechnical analysis and interpretation of the survey indicates more than twenty (20) structural and stratigraphic potential plays/prospects in the area south of the Timor Trench.
- 6.4 This information has been made available for purchase from BGP-GGS and its purchase is a requirement of each bidding company in this Bidding Round. Contact details for BGP-GGS can be accessed on OGED's website: (<http://www.gov.east-timor.org/emrd>.)
- 6.5 In addition, other information on Timor-Leste's sub-surface can be accessed from IHS Energy, Fugro, and a United Nation's publication on the petroleum and mineral resource wealth of Timor-Leste. OGED's website <http://www.gov.east-timor.org/emrd> is continuously being updated with links to new sources of data.

7. MINIMUM REQUIREMENTS FOR PARTICIPATION

- 7.1 Participating companies must submit a Power of Attorney signed by a legal representative of the company, or companies in the case of a consortium, nominating and empowering one or more individuals to act as Accredited Representative(s) for the purposes of the Bidding Round, in accordance with the example document in Annex II.
- 7.2 Participating companies must purchase any required data sets, which in the case of a consortium means that all companies in the consortium must have purchased the data set being offered by BGP-GGS, and submit a copy of the receipt notice from BGP-GGS with any Bid submitted.
- 7.3 In addition, coincident with submitting a Bid for any Contract Area, the company, or companies in the case of a consortium, must:
 - (i) submit a formal declaration, signed by the Accredited Representative, of acceptance of the terms and conditions of the PSC contained in Annex VII to this Final Tender Protocol;
 - (ii) pay in aggregate a non-refundable Bid processing fee in the amount of US\$ 25,000 (twenty-five thousand United States Dollars) per Contract Area. This fee is payable in the form of a Cashier's check issued by a financial institution acceptable to OGED of the Ministry of Natural Resources, Minerals & Energy Policy or as a wire transfer to be received prior to the Bid submission deadline noted in Section 2.
 - (iii) provide a Bid Bond in the amount of US\$ 500,000, (five hundred thousand United State Dollars) in accordance with the provisions of Annex III, as guarantee of the winning applicant's obligation to sign a PSC for the relevant Contract Area in accordance with the terms of the Applicant's Bid; and
 - (iv) be pre-qualified as an Operator or, in the case of a consortium, have a pre-qualified Operator as the designed Operator for the consortium.
- 7.4 No documentation submitted to the Ministry will be returned, with the exception of any documents necessary for the cancellation of Bid Bonds.

8. PRE-QUALIFICATION

General Requirements

- 8.1 Pre-qualification of individual companies wishing to participate in the Bidding Round is not required. However, each bidding consortia must include, as its designated operator, a company that has been pre-qualified by the Ministry as Operator. Any companies wishing to bid alone must similarly be pre-qualified as Operator by the Ministry.
- 8.2 Companies wishing to be pre-qualified as Operators must submit evidence of their experience and capability to operate in an environmentally sensitive, remote offshore environment, as well as evidence of their financial capacity to prosecute a thorough exploration and development programme within the Contract Areas offered, in addition to any general evidence of their corporate bona fides and good standing, as further detailed below.
- 8.3 All documentation submitted with the application shall relate to the ultimate parent company which, in accordance with this Final Tender Protocol, may designate an affiliate to sign the PSC, in the event of success. The Ministry reserves the right to seek such additional information or clarification as it may require.
- 8.4 Companies are free to form bidding consortia for each Contract Area subject to the following restrictions:
- (i) Each consortium shall nominate a company that has been pre-qualified as Operator by the Ministry;
 - (ii) The Operator shall have a minimum thirty (30) percent interest in the consortium;
 - (iii) Companies may not present more than one Bid for each Contract Area. Companies in consortia may not participate in more than one consortium bidding for the same Contract Area; and
 - (iv) The minimum interest that may be held by any participating company in a consortium is five (5) percent.
- 8.5 In the event a company wishes to withdraw from a consortium following submission of a successful Bid but before signing the PSC, the remaining consortium member(s) shall assume the obligations of the withdrawing company, and in no circumstances shall new companies be permitted into the consortium during this period.

Technical Qualification

- 8.6 Technical qualification of a company shall be based on its demonstrated experience in oil and gas exploration and production activities. Applications shall include information on the relevant experience and expertise of the companies relating to work in difficult operating conditions, including deepwater, high temperature or high pressure and operations in environmentally sensitive areas. Information supplied shall include:
- (i) For companies that seek to pre-qualify as an Operator, full information supporting their operating capability, including information on areas in the world where current exploration and production activities are conducted, along with current and recent (last five (5) years) production and investment (exploration and production separately) levels, providing detailed and separate information on

operated and non-operated production, as well as specific reference to the extent and location of the company's (operated and non-operated) activities.

- (ii) Companies shall submit a summary of one to two pages of the technical submission, warranting clearly that it is a fair and true summary of the technical information submitted. This summary shall be signed by the Accredited Representative of the company and properly notarised.

Financial Qualification

8.7 Evaluation of the financial qualifications for companies interested in pre-qualifying as Operator in the Bidding Round shall be established based on the following parameters:

- (i) Consolidated financial statements for the applicant company (the one that is to provide the guarantees required under the PSC);
- (ii) All statements shall be audited (by an independent auditor), and complete with accompanying notes for the last three (3) years;
- (iii) The auditor's opinion letter referencing the financial statements of the company, signed by an independent public accountant, certifying that the documents reflect the real condition of the company and have been prepared in accordance with the relevant accounting and reporting standards;
- (iv) In the case of state-owned companies from countries where legislation prohibits audit of the company by an independent auditor, a notarised opinion letter referencing the financial statements of the company, signed by a certified public accountant, certifying that the documents reflect the real condition of the company and have been prepared in accordance with the relevant accounting and reporting standards;
- (v) If prepared in a language other than Portuguese or English, the documents referred to in sub-paragraphs (iii) and (iv) above shall be notarised, and translated into Portuguese or English by appropriately qualified translators;
- (vi) The applicant company's present and historical credit rating from Standard & Poor's Rating Services and/or Moody's Investor Services Inc. ratings, if available, or lines of credit, credit agreements, and any other bank reference;
- (vii) Description of long-term debt, including major lease obligations, and identification of major assets which are the subject of financial security arrangements;
- (viii) Description of any material contingent liabilities or obligations not reflected on the company's Balance Sheet and accompanying notes which may impact the future activities of the company;
- (ix) Details of medium-term plans, if these are expected to materially alter the financial status of the company; and
- (x) Any additional information supporting the financial capacity of the applicant.

8.8 The Operator shall be responsible for providing the Financial and Performance Guarantees required in the PSC.

- 8.9 Companies with less than the equivalent of US\$ 20,000,000 (twenty million United States Dollars) of shareholder equity will not be qualified as Operators. The Ministry shall be the sole arbiter of what constitutes shareholder equity.

Legal Qualification

- 8.10 In order to secure legal qualification for this Bidding Round, the following documents (or equivalent) shall be submitted:
- (i) A complete notarised copy of the Articles of Incorporation and By-Laws of the applicant company registered with the Business Registry (or equivalent competent body) in the place of incorporation;
 - (ii) The names of any partner or shareholder who, directly or indirectly, holds twenty (20) percent or more of the voting shares of the applicant company or otherwise has an interest that could constitute control;
 - (iii) Designation of the Accredited Representative(s) before the Ministry, authorised to act for and assume obligations related to this Bidding Round and proposed for this role by the Power of Attorney;
 - (iv) The Power of Attorney mentioned in sub-paragraph (iii) above shall be signed by a legal representative of the company (it being understood that the legal representative will be the president, managing director or other officer named in the constituent documents of the company duly authorised to sign documents and to nominate Representatives on its behalf), and be notarised; and
 - (v) Certificates from the relevant notaries¹ in the company's domicile regarding the company's good standing before Federal and State Criminal and Civil Justice authorities, as well as any Claims Court or other body. These certificates may be substituted by a declaration by the company's Accredited Representative that there is no pending litigation, legal proceedings or other circumstances which may lead to the failure or bankruptcy of the company.
- 8.11 Participants from countries other than Timor-Leste should present, along with the documents listed above, the following:
- (i) Proof that the company is legally constituted, organised and functions according to the laws of its home country; and
 - (ii) An undertaking that, in the event the company is successful in the bidding, it will establish a company under the laws of Timor-Leste, with an office for administration and conduct of operations in Timor-Leste.
- 8.12 Companies that have been pre-qualified as Operators may have such pre-qualification revoked in the following circumstances:
- (i) Declaration of bankruptcy, dissolution or sale of the company;
 - (ii) At the request of the company;

¹ An office, entity or individual empowered by the relevant government authorities to witness and certify the validity of documents.

- (iii) Proven misrepresentation by the company;
 - (iv) Failure to comply with the conditions of this Bidding Round and its Final Tender Protocol; or
 - (v) Any illegal act proved in a court of law.
- 8.13 Companies are to provide two (2) copies (one in hardcopy and the other in electronic, CD, format) of their technical, financial and legal qualification documents. The qualification documents will be accepted by courier or personal delivery up to 17:00, Dili time (GMT + 09:00), 15 working days after the publication of the Final Tender Protocol, at the following address:

Oil, Gas & Energy Directorate
Ministry of Natural Resources, Minerals & Energy Policy
Government of the RDTL
1st Floor Fomento Building, Mandarin Dili
Dili, Timor-Leste

- 8.14 Companies who submit pre-qualification information will have their qualification status advised as soon as possible. The OGED of the Ministry of Natural Resources, Minerals & Energy Policy expects to advise the results to submitting Companies within twenty-one (21) working days of submission.
- 8.15 As it may be necessary in some cases to seek clarification on various points, notification will not necessarily be based on the order in which pre-qualification information is received by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy.
- 8.16 The decision as to whether and how to qualify an applicant will be made by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy.
- 8.17 The OGED of the Ministry of Natural Resources, Minerals & Energy Policy undertakes to hold in strictest confidence all non-public (and identified as such) information submitted in the pre-qualification submissions.

9. BIDDING

General

- 9.1 Bids will be made separately for each Contract Area that is offered, in the specified format and submitted in sealed bidding envelopes to be provided by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy. The bidding envelopes will be sent to companies pre-qualified as Operators.
- 9.2 If bidding alone, each envelope should clearly identify the company participating in the bid for the Contract Area in question. If bidding in consortia, the envelope should clearly identify each participating company, with their respective percentages of participation, and identify the designated Operator.
- 9.3 Envelopes that do not identify a pre-qualified Operator, or that do not identify the company that will provide the Bid Bond, or that violates any other condition of this Final Tender Protocol, will not be accepted.
- 9.4 The Bid documents will contain an explicit undertaking on the part of a successful company or consortium to: (i) unconditionally accept the terms and conditions of the definitive PSC contained in Annex VII of this Final Tender Protocol; (ii) enter into a PSC for the relevant Contract Area; (iii) register a company under the laws of Timor-Leste; and (iv) provide a general guarantee of performance under the PSC. In addition, each bid must also comprise a financial guarantee of performance of the proposed minimum work programme in the form of a irrevocable stand-by letter of credit and a Bid processing fee, each as described in Section 7.3 of this Final Tender Protocol.
- 9.5 Bids will consist of a firm guaranteed work programme to be carried out in the first three (3) years of the Exploration Period. The proposed work programme shall be in the format contained in Annex IV to this Final Tender Protocol and should be accompanied by Bid support materials which comprise the geo-technical analysis and modelling which support a sound and rational technical and economic basis for the proposed activities as well as a description of the activities proposed relative to the use of local goods and services, training of Timor-Leste nationals, technology transfer and petroleum sector infrastructure development, collectively “Local Content”, contemplated in the article 9,3 of *Decreto do Governo 7/2005 (Concursos Públicos para a Celebração de Contratos Petrolíferos)* of October 19th, 2005.
- 9.6 By law, Bids must be submitted in one of Timor-Leste’s official languages (Portuguese or Tetum). Any erasures or amendments on the Bid form should be counter-signed by the Accredited Representative that is submitting the envelope. While the Bid summary document must be submitted in one of the official languages, the Bid support materials referenced in the preceding paragraph may be submitted in either English or Portuguese language.
- 9.7 The winner of the Contract Area will be the company or consortium whose Bid is assessed by the Evaluation Commission to be the best proposal for the exploration of the Contract Area in terms of the scope, scale and nature of the proposed work programme according to the Bid evaluation criteria defined in this Final Tender Protocol.
- 9.8 After the opening of the envelopes, the participants will not be able to withdraw their Bid(s), under penalty of the submitted Bid Bond being executed in favour of Timor-Leste.

- 9.9 Bid evaluation will be based on the guaranteed work programme in the first Exploration period. In order to provide an objective evaluation of the Bids, the Evaluation Commission will utilise an evaluation matrix which awards points to each type of activity in order to rank the Bids. The composition of this matrix is found in Annex V to this Final Tender Protocol. While the proposed work programme will be the primary basis of evaluation, the Evaluation Commission will review the Bid support materials which provide the technical basis for the Bid and may reject any Bid which it considers to be unresponsive to, or inconsistent with, the overall objective of the offering which is the rational and cost-effective exploration of the Contract Area. In this circumstance, the Evaluation Commission will detail its reasoning and the technical basis for rejecting any otherwise conforming Bid.
- 9.10 All proposed activities in the first Exploration period must be secured by an irrevocable stand-by letter of credit which may be withered (reduced) on an annual basis based on the completion of the physical undertaking. The minimum work programme is a physical obligation, not a financial one.
- 9.11 It should be noted that appraisal and development wells do not count for the purposes of satisfying the minimum exploration programme.
- 9.12 Credit against minimum work programme obligations for non-exclusive activities (e.g., purchase or participation in a non-exclusive seismic survey) carried out in the subject Contract Area may be granted at the discretion of the OGED. Any credit will be applied on a physical as opposed to financial basis.
- 9.13 As outlined in the Calendar in Section 2 of this Final Tender Protocol, all Bids must be submitted by 17:00 hours (Dili time; GMT + 9:00 hrs) on Friday March 17, 2006, at the Oil, Gas & Energy Directorate, 1st Floor Fomento Building, Mandarin Dili, Dili, Timor-Leste. Bids received after this time will not be opened or considered. Bids received prior to the deadline via mail or courier will remain unopened until such time as all Bids are opened and evaluated together.
- 9.14 In the event that there are two Bids ranked in first place in the evaluation matrix, the Evaluation Commission will determine the winner based on the bidders' Bid support submissions.

10. BID ACCEPTANCE

- 10.1 Upon completion of the evaluation of the Bids, the Evaluation Commission shall prepare an Evaluation Report (“Report”) which shall be submitted to the Minister for acceptance (“homologation” in the *Government Decree 7/2005 of 19 of October, 2005*) within three (3) working days from the end of the evaluation process. The acceptance or refusal of the Report shall take place within five (5) working days from the date in which the Report is received by the Minister.
- 10.2 The Ministry shall notify the Bidders of the contents of the Report within three (3) working days of receipt.
- 10.3 A summary of the Report shall be published in the *Jornal da República*, and in national and international media at the discretion of the Ministry, within seven (7) working days from the date of acceptance.
- 10.4 Certain rights to appeal the Bid Acceptance are provided in *Government Decree 7 /2005 of 19 of October, 2005*.

11. EXECUTION OF THE PRODUCTION SHARING CONTRACT

- 11.1 The winner shall be awarded the right, and is obligated to enter in a PSC with the Ministry. The execution of the PSC by the winning company or consortium shall be completed in accordance with this Final Tender Protocol as well as all applicable regulations.
- 11.2 The PSC is expected to be executed within the timeframe set forth in the Calendar in Section 2 of this Final Tender Protocol. Failure to sign the PSC within the specified time may cause the Bid Bond to be executed in favour of Timor-Leste.
- 11.3 It is a condition precedent in the PSC that the winning bidder must be a limited liability corporation or entity with limited liability, registered in Timor-Leste in accordance with its law, before the contract enters into force. The Operator shall have its office, or branch office, and management in Timor-Leste.
- 11.4 In the event a joint venture company is formed to sign the PSC, the direct or indirect participation of each controlling company (or its affiliates) should be identical to the participation defined on the bidding envelope. The obligations of the signing company should be fully guaranteed by means of Performance Guarantee from the pre-qualified and designated Operator.
- 11.5 At least fifteen (15) working days before the signing of the PSC's, the winning bidders should provide the following documents:
- (i) In the event the qualified company opts to sign the PSC through one of its subsidiaries or other company created specifically for this purpose, it should provide Constituent Articles and Amendments of the company that will sign the PSC duly filed in the appropriate places;
 - (ii) A legal opinion accepted by the Ministry containing the information concerning the relationship between the qualified company and the company that will sign the PSC;
 - (iii) Duly authenticated documents proving the qualification of the legal representative who will sign the PSC on behalf of the company; and
 - (iv) A Letter of Credit in the form of Exhibit 1 of Annex III guaranteeing the obligations of the minimum work programme bid. This Letter of Credit must be issued by a bank or financial institution which holds a rating of "A" or above in the publications of Standard and Poor's Ratings Group or of Moody's Investors Services, Inc. In the case of consortia, the obligation to present a Letter of Credit can be satisfied by the presentation of more than one letter, as long as the total value is equal to the specified value for the subject Contract Area of the PSC, according to the specifications of the minimum work programme.
 - (v) The required amounts for the Letters of Credit have been set at deemed levels consistent with the evaluation of the Bids. These amounts are specified in Annex V to this Final Tender Protocol.
- 11.6 In case the winner is a consortium and one of its companies does not present the necessary documentation, the other companies within the consortium must assume the responsibilities of the non-conforming company. In this situation, under no circumstance will a new company be allowed to enter into the winning consortium before the signing of

the PSC.

- 11.7 In the event the PSC is not signed by the deadline established in this Final Tender Protocol, the Bid Bond may be executed in favour of Timor-Leste.
- 11.8 If a winning company or consortium, for whatever reason, does not execute the PSC by the date given for its signature, the bidder ranked in second place shall be summoned and given the opportunity to sign the PSC for the Contract Area provided such bidder matches the values offered by the winning bidder and also re-submits a Bid Bond. In this event, the Ministry shall establish a new deadline for the execution of the PSC.

12. EXPLANATION OF INFORMATION

- 12.1 The OGED is available to provide clarification or additional information regarding the process, the contract terms, or the Contract Areas to be bid.
- 12.2 Questions may be communicated to the OGED by mail, telephone, fax or e-mail at the numbers or address listed below. While minor queries will be dealt with by phone, more complex questions should be submitted in writing.
- 12.3 Questions or clarifications concerning the PSC or other legal matters should be submitted in writing, preferably via e-mail.
- 12.4 Questions of general interest and their respective responses will be published (without disclosing the identity of the questioning company) on the OGED web-site (<http://www.gov.east-timor.org/emrd>).

By Mail (via courier):

Oil, Gas & Energy Directorate
1st Floor Fomento Building, Mandarin Dili
Dili, Timor-Leste

By Telephone:+670 3317143
By Fax:+670 3317143
By E-mail:emrd@gov.east-timor.org

- 12.5 Further details and advisories will be posted on the OGED web-site (<http://www.gov.east-timor.org/emrd>).
- 12.6 All information requests will be handled on a first-come, first-served basis by the OGED.
- 12.7 No formal data room will exist for this Bidding Round.

13. OGED's RIGHTS

- 13.1 The OGED may revoke, in full or in part, at any time, the current Offering.
- 13.2 The OGED reserves the right to unilaterally revise the timetable and related procedures of the Bidding Round, as well as to disqualify any previously pre-qualified Company.

ANNEX I

**Official Coordinates
Proposed Contract Areas.**

The offshore area south of the Timor-Leste, less a approximate three (3) nautical mile “buffer” zone from its borders to the east and west, has been divided into eleven (11) Contract Areas comprising some 30,000 square kilometres, as illustrated in the map below. The Northern extent of the area is an east-west line south of Jaco Island. This line, however, is modified to never come closer to the Marine Baseline around Jaco Island than 2 Nautical miles.

The precise areas calculated along a WGS84- geodetic surface are:

Contract Area	A	B	C	D	E	F	G	H	I	J	K
Exact definition of Surface Area to be used for calculation of area fee (Sq. Kms.)	1400	2030	3784	3100	3080	1435	3038	1889	2936	3700	2384

The precise coordinates defining each Contract Area are provided below:

Each proposed contract area are delimited by the following coordinates (referring to WGS84 geodetic datum)

Area	Definition
A	<p>The area bounded by the line-</p> <ul style="list-style-type: none"> (a) commencing at the point of Latitude 9 deg. 25’37.32” South, Longitude 125 deg. 07’ 32.44” East; (b) running thence south-easterly along the geodesic to the point of Latitude 9 deg. 50’30.18” South, Longitude 125 deg. 30’ 00.00” East; (c) thence northly along the geodesic to the point of Latitude 9 deg. 13’39.24” South, Longitude 125 deg. 30’ 00.00” East; (d) thence south-westly along the Boyes Marine baseline* to the point of commencement.
B	<p>The area bounded by the line-</p> <ul style="list-style-type: none"> (a) commencing at the point of Latitude 9 deg. 13’39.24” South, Longitude 125 deg. 30’ 00.00” East; (b) running thence southly along the geodesic to the point of Latitude 9 deg. 30’00.00” South, Longitude 125 deg. 30’ 00.00” East; (c) thence eastly along the geodesic to the point of Latitude 9 deg.

	<p>30'00.00" South, Longitude 126 deg. 00' 00.00" East;</p> <p>(d) thence northly along the geodesic to the point of Latitude 9 deg. 05'55.68" South, Longitude 126 deg. 00' 00.00" East;</p> <p>(e) thence south-westly along the Boyes Marine baseline* to the point of commencement</p>
C	<p>The area bounded by the line-</p> <p>(a) commencing at the point of Latitude 9 deg. 30'00.00" South, Longitude 125 deg. 30' 00.00" East;</p> <p>(b) running thence southly along the geodesic to the point of Latitude 9 deg. 50'30.18" South, Longitude 125 deg. 30' 00.00" East;</p> <p>(c) thence south-eastly along the geodesic to the point of Latitude 10 deg. 23'31.05" South, Longitude 126 deg. 00' 09.62" East;</p> <p>(d) thence northly along the geodesic of the outline of JPDA **to the point of Latitude 10 deg. 06'35.03" South, Longitude 126 deg. 00' 29.46" East</p> <p>(e) thence northly along the geodesic to the point of Latitude 9 deg. 30'00.00" South, Longitude 126 deg. 00' 00.00" East;</p> <p>(f) thence westly to the point of commencement</p>
D	<p>The area bounded by the line-</p> <p>(a) commencing at the point of Latitude 9 deg. 05'55.68" South, Longitude 126 deg. 00' 00.00" East;</p> <p>(b) running thence southly along the geodesic to the point of Latitude 9 deg. 30'00.00" South, Longitude 126 deg. 00' 00.00" East;</p> <p>(c) thence eastly along the geodesic to the point of Latitude 9 deg. 30'00.00" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(d) thence northly along the geodesic to the point of Latitude 8 deg. 55'48.48" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(e) thence south-westly along the Boyes Marine baseline* to the point of commencement</p>
E	<p>The area bounded by the line-</p> <p>(a) commencing at the point of Latitude 9 deg. 30'00.00" South, Longitude 126 deg. 00' 00.00" East;</p> <p>(b) running thence southly along the geodesic to the point of Latitude 10 deg. 06'35.03" South, Longitude 126 deg. 00' 29.46" East;</p> <p>(c) thence northly and north-eastly along the geodesic of the outline of JPDA **to the point of Latitude 9 deg. 54'43.69" South, Longitude 126 deg. 30' 00.00" East;</p>

	<p>(d) thence northly along the geodesic to the point of Latitude 9 deg. 30'00.00" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(e) thence westly along the geodesic to the point of commencement</p>
F	<p>The area bounded by the line-</p> <p>(a) commencing at the point of Latitude 8 deg. 55'48.48" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(b) running thence southly along the geodesic to the point of Latitude 9 deg. 00'00.00" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(c) thence eastly along the geodesic to the point of Latitude 9 deg. 00'00.00" South, Longitude 127 deg. 00' 00.00" East;</p> <p>(d) thence northly along the geodesic to the point of Latitude 8 deg. 41'01.85" South, Longitude 127 deg. 00' 00.00" East;</p> <p>(e) thence south-westly along the Boyes Marine baseline* to the point of commencement</p>
	<p>The area bounded by the line-</p> <p>(a) commencing at the point of Latitude 9 deg. 00'00.00" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(b) running thence southly along the geodesic to the point of Latitude 9 deg. 30'00.00" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(c) thence eastly along the geodesic to the point of Latitude 9 deg. 30'00.00" South, Longitude 127 deg. 00' 00.00" East;</p> <p>(d) thence northly along the geodesic to the point of Latitude 9 deg. 00'00.00" South, Longitude 127 deg. 00' 00.00" East;</p> <p>(e) thence westly along the geodesic to the point of commencement</p>
H	<p>The area bounded by the line-</p> <p>(a) commencing at the point of Latitude 9 deg. 30'00.00" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(b) running thence southly along the geodesic to the point of Latitude 9 deg. 54'43.69" South, Longitude 126 deg. 30' 00.00" East;</p> <p>(c) thence north-eastly along the geodesic of the outline of JPDA** to the point of Latitude 9 deg. 42'36.97" South, Longitude 127 deg. 00' 00.00" East;</p> <p>(d) thence northly along the geodesic to the point of Latitude 9 deg. 30'00.00" South, Longitude 127 deg. 00' 00.00" East;</p> <p>(e) thence westly along the geodesic to the point of commencement</p>

I	<p>The area bounded by the line-</p> <ul style="list-style-type: none"> (a) commencing at the point of Latitude 8 deg. 41'01.85" South, Longitude 127 deg. 00' 00.00" East; (b) running thence southly along the geodesic to the point of Latitude 9 deg. 00'00.00" South, Longitude 127 deg. 00' 00.00" East; (c) thence eastly along the geodesic to the point of Latitude 9 deg. 00'00.00" South, Longitude 127 deg. 30' 00.00" East; (d) thence northly along the geodesic to the point of Latitude 8 deg. 28'02.00" South, Longitude 127 deg. 30' 00.00" East; (e) thence north-westly along the geodesic to the point of Latitude 8 deg. 27'05.20" South, Longitude 127 deg. 29' 33.27" East (f) thence westly along the geodesic to the point of Latitude 8 deg. 27'05.20" South, Longitude 127 deg. 16' 07.38" East, but never closer than 2 Nautical Miles from the Marine Baseline of Jaco Island. (g) thence south-westly along the Boyes Marine baseline* to the point of commencement
J	<p>The area bounded by the line-</p> <ul style="list-style-type: none"> (a) commencing at the point of Latitude 9 deg. 00'00.00" South, Longitude 127 deg. 00' 00.00" East; (b) running thence southly along the geodesic to the point of Latitude 9 deg. 42'36.97" South, Longitude 127 deg. 00' 00.00" East; (c) thence north-eastly along the geodesic of the outline of JPDA** to the point of Latitude 9 deg. 30'26.74" South, Longitude 127 deg. 30' 00.00" East; (d) thence northly along the geodesic to the point of Latitude 9 deg. 00'00.00" South, Longitude 127 deg. 30' 00.00" East; (e) thence westly along the geodesic to the point of commencement
K	<p>The area bounded by the line-</p> <ul style="list-style-type: none"> (a) commencing at the point of Latitude 8 deg. 28'02.00" South, Longitude 127 deg. 30' 00.00" East; (b) running thence southly along the geodesic to the point of Latitude 9 deg. 30'26.74" South, Longitude 127 deg. 30' 00.00" East; (c) thence north-eastly and south-easterly along the geodesic of the outline of JPDA** to the point of Latitude 9 deg. 26'38.77" South, Longitude 127 deg. 54' 15.60" East; <p>Thence north-westly along the geodesic to the point of commencement</p>

*

Refer to Timor Leste Law No 7/2002 Section 1a) and based on data from the report “Timor-Leste offshore limits, territorial sea baseline project. A technical assistance project funded by the Asia development bank” by Grant W Boyes, Australia , 2003.

**

The written description of area of the JPDA in Annex A of the Timor Sea Treaty 20 May 2002. (see enclosure 2)

Enclosure 2

Designation and Description of the JPDA

NOTE

Where for the purposes of the Treaty it is necessary to determine the position on the surface of the Earth of a point, line or area, that position shall be determined by reference to the Australian Geodetic Datum, that is to say, by reference to a spheroid having its centre at the centre of the Earth and a major (equatorial) radius of 6378160 metres and a flattening of 1/298.25 and by reference to the position of the Johnston Geodetic Station in the Northern Territory of Australia. That station shall be taken to be situated at Latitude 22° 56' 54.5515" South and at Longitude 133° 12' 3.0771" East and to have a ground level of 571.2 meters above the spheroid referred to above.

THE AREA

The area bounded by the line-

- a. Commencing at the point of Latitude 9° 22' 53" South, Longitude 127° 48' 42" East
- b. Running thence south-westerly along the geodesic to the point of Latitude 10° 06' 40" South, Longitude 126° 00' 25" East
- c. Thence south-westerly along the geodesic to the point of Latitude 10° 28' 00" South, Longitude 126° 00' 00" East
- d. Thence south-easterly along the geodesic to the point of Latitude 11° 20' 08" South, Longitude 126° 31' 54" East
- e. Thence north-easterly along the geodesic to the point of Latitude 11° 19' 46" South, Longitude 126° 47' 04" East
- f. Thence north-easterly along the geodesic to the point of Latitude 11° 17' 36" South, Longitude 126° 57' 07" East
- g. Thence north-easterly along the geodesic to the point of Latitude 11° 17' 30" South, Longitude 126° 58' 13" East
- h. Thence north-easterly along the geodesic to the point of Latitude 11° 14' 24" South, Longitude 127° 31' 33" East
- i. Thence north-easterly along the geodesic to the point of Latitude 10° 55' 26" South, Longitude 127° 47' 04" East
- j. Thence north-easterly along the geodesic to the point of Latitude 10° 53' 42" South, Longitude 127° 48' 45" East
- k. Thence north-easterly along the geodesic to the point of Latitude 10° 43' 43" South, Longitude 127° 59' 16" East

- l. Thence north-easterly along the geodesic to the point of Latitude $10^{\circ} 29' 17''$ South, Longitude $128^{\circ} 12' 24''$ East
- m. Thence north-westerly along the geodesic to the point of Latitude $9^{\circ} 29' 57''$ South, Longitude $127^{\circ} 58' 47''$ East
- n. Thence north-westerly along the geodesic to the point of Latitude $9^{\circ} 28' 00''$ South, Longitude $127^{\circ} 56' 00''$ East

Thence north-westerly along the geodesic to the point of Commencement.

ANNEX II

POWER OF ATTORNEY FOR NOMINATION OF THE ACCREDITED REPRESENTATIVE

Each company participating in the Bidding Round shall nominate one or more individuals as Accredited Representatives for the company before the Ministry with respect to any and all correspondence related to the Bidding Round. The Accredited Representative(s) will be nominated by the Power of Attorney in the form below duly signed by an authorised signatory of the company. It is recommended that the Accredited Representative(s) nominated be an executive who will be available throughout the process to ensure that the information requests and other communications are properly and efficiently handled within the company. It is emphasised that the PSC does not necessarily have to be executed by the Accredited Representative(s).

By the present mandate instrument, [*insert name of company*]_____, constituted and existing in accordance with the laws of __[*insert company's country of origin*]__, with headquarters in __[*insert address of company headquarters*] _____, through its legal representative, __[*insert name(s) of legal representative(s) of company*]_____, in this act nominates __[*insert name of and full title of Accredited Representative*]_____, as its adequate Attorney empowered to represent us before the OGED of the Ministry of Natural Resources, Minerals & Energy Policy, especially for the Bidding Round, and with specific power for the practice of the acts and assume responsibility relative to negotiate and to propose that which is being presented, able to, in this regard, receive, submit and sign documents, pay fees/taxes, propose, resort to/obtain, agree, and also able to practice other acts necessary for the faithful compliance of this mandate.

IN WITNESS WHEREOF, this certificate has been executed on and as of, 200...

Name:

Title:

The undersigned, of the company, hereby certifies that the person whose signature appears immediately above is the duly elected..... of the company and that the signature set forth above is that of such person.

Name:

Title:

ANNEX III

BID BOND

1. In order to guarantee the winning bidder's obligation to sign the PSC for the relevant Contract Area(s), each company or consortium should present to the OGED of the Ministry of Natural Resources, Minerals & Energy Policy a Bid Bond for each Contract Area on which the company or consortium presents a bid. The Bid Bond will be in the amount of US\$500,000 (five hundred thousand United States Dollars). This Bid Bond, in the form of a Letter of Credit consistent with the model in Exhibit I of this Annex III, must be delivered to the OGED of the Ministry of Natural Resources, Minerals & Energy Policy prior to or coincident with any Bid that is submitted.
2. Companies or consortia that have the intention of presenting bids for more than one Contract Area should ensure that they have a sufficient number of Bid Bonds, so that they will not be limited in their capacity to present bids.
3. Bid Bonds will take the form of Letters of Credit issued by banks or financial institution which are rated "A" or better in the publications of Standard & Poor's Rating Group or of Moody's Investors Service Inc.
4. The Bid Bonds of the participants that were not indicative winners in the relevant Contract Area will be returned in the week following the bidding, along with all other documentation necessary for their cancellation. All other documentation sent to the OGED of the Ministry of Natural Resources, Minerals & Energy Policy will not be returned.
5. The Government of the RDTL may draw on the Bid Bond in the following circumstances:
 - (a) The winning company, or any participating company in the winning consortium, or an affiliated company of the company or winning consortium does not sign the PSC within the timeframe and in accordance with the procedures described in this Final Tender Protocol.
 - (b) The Letter of Credit for the Minimum Exploration Programme, is not provided to the OGED Ministry of the Natural Resources, Minerals & Energy Policy, precluding the execution of the PSC;
 - (c) In the case of an affiliate signing the PSC, if a company does not present a Performance Guarantee for that affiliate in accordance with the model and conditions in *Annex VI* of this Final Tender Protocol.
6. If none of the foregoing events occur, the OGED will return the Bid Bond to the company that presented it, along with the documentation necessary for its cancellation.

ANNEX III

BID BOND

IRREVOCABLE STAND-BY LETTER OF CREDIT

Issued by [Name of Bank]

Date: _____

No.: _____

Face Amount: US\$500,000

To: The Government of the Democratic Republic of Timor-Leste

Dear Sirs:

1. [Name of Bank], a _____ organised under the laws of _____ (the “Issuer”), hereby establishes in favour of the OGED of the Ministry of Natural Resources, Minerals & Energy Policy, its irrevocable stand-by Letter of Credit No. _____ (this “Letter of Credit”), whereby the Issuer authorises the OGED of the Ministry of Natural Resources, Minerals & Energy Policy to draw hereunder, in a single drawing, the sum of US\$500,000 (the “Face Amount”) by presentation of a Draft and a Drawing Certificate (each as defined below) at the Issuer’s office specified in Clause 3 of this Letter of Credit.
2. The Face Amount of this Letter of Credit may be drawn by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy in the manner specified in Clause 3 of this Letter of Credit between 9:00 a.m. and 5:00 p.m., New York City time, on any Banking Day, on or after [date] and prior to the expiration of this Letter of Credit. A “Banking Day” is any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are authorised or required by law, regulation or executive order to close.
3. A drawing may be made hereunder only by the presentation by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy to the Issuer of a sight draft of the OGED drawn on the Issuer in the form attached hereto as Exhibit 1 (a “Draft”) and a certificate executed by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy in the form attached hereto as Exhibit 2 (a “Drawing Certificate”). Presentation of a Draft and Drawing Certificate must be made at the Issuer’s office in New York City located at _____, or at such other address in New York City as the Issuer may designate to the OGED of the Ministry of Natural Resources, Minerals & Energy Policy by notice given in accordance with Clause 8 of this Letter of Credit.
4. Upon the presentation by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy to the Issuer of the Draft and Drawing Certificate at the office of the Issuer designated pursuant to Clause 3 of this Letter of Credit, the Issuer shall pay the Face Amount by wire transfer of immediately available funds to the Government account with a financial institution in New York City designated in the Drawing Certificate. If presentation is duly made at or prior to 11:00 a.m., New York City time, on any Banking Day, payment shall be made by the Issuer at or prior to 5:00 p.m., New York City time, on the same Banking Day. If presentation is duly made after 11:00 a.m., New York City time, on any Banking Day, payment shall be made by the Issuer at or prior to 1:00 p.m., New York City time, on the immediately following Banking Day.
5. This Letter of Credit shall expire upon the earliest of (i) the date on which a certificate executed by the OGED of the Ministry of Natural Resources, Minerals & Energy Policy, in the form

attached hereto as Exhibit 3 (an “Expiration Certificate”), is presented to the Issuer, (ii) the indefeasible payment by the Issuer to the OGED of the Ministry of Natural Resources, Minerals & Energy Policy in the manner set forth in Clause 4 of this Letter of Credit of the Face Amount upon a drawing properly made hereunder, and (iii) 5:00 p.m., New York City time, on December 31, 2006. Notwithstanding the foregoing, any drawing properly made hereunder prior to the expiration of this Letter of Credit shall be honoured by the Issuer. Notwithstanding anything contained in Article 17 of the Uniform Customs (defined below) or herein, in the event that the Issuer’s office designated in Clause 3 of this Letter of Credit is closed on the date set forth in (iii) of this Clause 5, the expiration date of this Letter of Credit shall be extended to the next Banking Day on which such office is open.

6. This Letter of Credit may only be drawn by, and other rights hereunder may only be exercised by, the Government of the Democratic Republic of Timor-Leste.
7. This Letter of Credit is subject to the *Uniform Customs and Practice for Documentary Credits (1993 Revision)*, *International Chamber of Commerce Publication No. 500 (the “Uniform Customs”)*. As to matters not covered by the Uniform Customs, this Letter of Credit shall be governed by, and construed in accordance with, the laws of the State of New York, including without limitation Article 5 of the Uniform Commercial Code as in effect in the State of New York.
8. All notices, demands, instructions, waivers or other communications to be provided pursuant to this Letter of Credit shall be in writing in English, shall be effective upon receipt, and shall be sent by personal delivery, courier, first class mail or fax, to the following addresses:

If to the Issuer, to:

If to the OGED of the Ministry of Natural Resources, Minerals & Energy Policy, to:

1st Floor Fomento Building, Mandarin Dili
Dili, Timor-Leste

The addresses and fax numbers for notices given pursuant to this Letter of Credit may be changed by the Issuer or the OGED of the Ministry of Natural Resources, Minerals & Energy Policy by means of a written notice given to the other at least fifteen (15) Banking Days prior to the effective date of such change.

9. This Letter of Credit sets forth in full the Issuer’s undertaking, and such undertaking shall not in any way be modified or amended by reference to any document, instrument or agreement referred to herein, except the Draft, the Drawing Certificate and any Expiration Certificate.

Very truly yours,

[NAME OF BANK]

By:.....

Name:.....

Title:.....

EXHIBIT 1

[FORM OF DRAFT]

Letter of Credit No. _____
[New York, New York]
[Date of Draft]

At sight

PAY TO THE ORDER OF THE GOVERNMENT OF THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE the sum of US\$500,000 (Five Hundred Thousand U.S. Dollars), FOR VALUE RECEIVED. DRAWN UNDER [NAME OF ISSUER] LETTER OF CREDIT NO. _____.

The Oil, Gas & Energy Directorate of the
Ministry of Natural Resources, Minerals &
Energy Policy

By:.....

Name:.....

Title:.....

To: [Name of Issuer]

[Address of Issuer]

EXHIBIT 2

[FORM OF DRAWING CERTIFICATE]

Reference is made to the Letter of Credit (the “Letter of Credit”), No. _____, dated _____, issued by _____ in favour of the **Government of the Democratic Republic of Timor-Leste**. Capitalised terms used herein and not defined have the respective meanings set forth in the Letter of Credit or the Tender Protocol dated [date].

The undersigned, being duly authorised to execute this certificate on behalf of the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy, hereby certifies that pursuant to the Bidding Round held in 2006 _____ [insert name of single bidder or members of bidding consortium, as applicable] (each a “Selected Contractor” and collectively, the “Selected Contractors”) were selected to enter into a Production Sharing Contract with the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy, and that either:

1. Any Selected Contractor (or any duly designated Jointly Held company or Affiliate of such Selected Contractor) did not sign the Production Sharing Contract (and provide the related guarantees) by [_____,] 2006; or
2. Any required Letter of Credit for the Minimum Work Obligation was not delivered to the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy simultaneously with or prior to execution of the Production Sharing Contract.

Payment of the Face Amount of the Letter of Credit is to be made by the Issuer to the following account: (to be communicated by the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy in due course).

This certificate has been duly executed by the undersigned as of the _____ day of _____, 2006.

Oil, Gas & Energy Directorate of the Ministry
of Natural Resources, Minerals & Energy Policy

By:.....

Name:.....

Title:.....

EXHIBIT 3

[FORM OF EXPIRATION CERTIFICATE]

Reference is made to the Letter of Credit (the "Letter of Credit") No. _____, dated _____, issued by _____ in favour of the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy. Capitalised terms used herein and not defined have the respective meanings set forth in the Letter of Credit.

The undersigned, being duly authorised to execute this certificate on behalf of the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy, hereby certifies that conditions permitting the expiration of the Letter of Credit have occurred, and that accordingly the Letter of Credit shall expire as of the date of this Certificate.

This certificate has been duly executed by the undersigned as of the _____ day of _____, 2006.

Oil, Gas & Energy Directorate of the Ministry
of Natural Resources, Minerals & Energy Policy

By:.....

Name:.....

Title:.....

ANNEX IV

BID SUMMARY FORM

ENVELOPE

CONTRACT AREA: _____

By submitting the enclosed bid, each undersigned company hereby undertakes that it accepts without reservation the terms and conditions of the Production Sharing Contract attached as Annex VII to this Final Tender Protocol and agrees that, if awarded the above Contract Area, either it or its duly qualified affiliate will enter into such PSC.

	Name of Company	Participation Percentage	Signature of Accredited Representative
1	[OPERATOR]		
2			
3			
4			
5			
6			
7			
8			
9			

Note: This envelope should contain ONLY one bid form

BID FORM

Minimum Work Programme for Initial Three (3) Year Exploration Period

Undertaking	Bid Units	Numeric Quantity	Quantity (in writing)
2D Seismic	Kilometers	X,XXX	
3D Seismic	Square Kilometers	Y,YYY	
Exploration Well	Meters, TVD ²	Z,ZZZ	
Exploration Well	Meters, TVD	Z,ZZZ	
Exploration Well	Meters, TVD	Z,ZZZ	
Exploration Well	Meters, TVD	Z,ZZZ	
Other Activities³			
Other 1	US\$ minimum commitment	\$\$\$\$,\$\$\$	
Other 2	US\$ minimum commitment	\$\$\$\$,\$\$\$	
Other 3	US\$ minimum commitment	\$\$\$\$,\$\$\$	
Other 4	US\$ minimum commitment	\$\$\$\$,\$\$\$	
Local Content⁴			
Local 1	US\$ minimum commitment	\$\$\$\$,\$\$\$	
Local 2	US\$ minimum commitment	\$\$\$\$,\$\$\$	
Local 3	US\$ minimum commitment	\$\$\$\$,\$\$\$	
Local 4	US\$ minimum commitment	\$\$\$\$,\$\$\$	

Bid Instructions:

1. Insert quantity of amount of bid for each activity in numbers (column 3) and in words (column 4). If there is any conflict between words and figures, the words will prevail.
2. In the case of proposed seismic acquisition and processing, enter the minimum volume of seismic to be acquired.
3. In the case of proposed exploration well(s) enter the minimum target depth for each proposed well.
4. For all other proposed work, describe the activity and the minimum related expenditure commitment.

² Total Vertical Depth subsea.

³ "Other Activities" refer to geo-technical studies, analyses and surveys. The sub-categories, ("Other1" e.g.) should be replaced by a summary of the proposed undertaking (which should be described more fully in the Bid Support Materials).

⁴ "Local Content" has the meaning described in Section 9.5 of this Final Tender Protocol. The sub-categories, ("Local1" e.g.) should be replaced by a summary of the proposed undertaking (which should be described more fully in the Bid Support Materials).

ANNEX V

BID EVALUATION MATRIX AND GUARANTEE REQUIREMENTS

	Undertaking	Unit	Quantity Bid	Points/Unit	Total Points
A	2D Seismic	Kilometers		1,000	
B	3D Seismic	Square Kilometers		12,000	
C	Exploration Wells	First [2],000 meters/well		5,000,000	
D	Exploration Wells	Each additional meter		1,500	
E	Other	000,US\$		500	
F	Sub Total A through E				
G	Local Content	000,US\$		1000	
H					
I	Bid Score	(90% times F) + (10% times G)			
J	LOC requirement	Sum of F plus G			

Notes:

- 1. Exploration wells do not become qualifying (for the purposes of Bid Evaluation or for satisfaction of minimum work programme undertakings) unless a minimum total vertical depth of 2,00 meters subsea is achieved.*
- 2. Letter of Credit requirements are US\$1 for each point of bid guaranteed minimum work program subject to a minimum of US\$1,000,000.*

ANNEX VI.

MODEL PERFORMANCE GUARANTEE

Reference is made to the Production Sharing Contract No. _____ (the “Agreement”) of even date herewith among the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy (the “Oil, Gas & Energy Directorate”), an agency of the Government of the Democratic Republic of Timor-Leste, _____ (the “Guaranteed Entity”), a _____ organised under the laws of Timor-Leste, and _____, a _____ organised under the laws of Timor-Leste.

With regard to the obligations assumed by the Guaranteed Entity under the Agreement or that may be imposed upon the Guaranteed Entity under or in connection with the Agreement, _____ (the “Guarantor”), a _____ organised under the laws of _____, an Affiliate of the Guaranteed Entity, agrees as follows:

1. Capitalised terms used herein and not otherwise defined shall have the meanings set forth in the Agreement.
2. The Guarantor hereby expressly represents and warrants to the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy that: (i) it is duly organised, validly existing and in good standing under the laws of its jurisdiction of organisation, (ii) it has all requisite corporate power and authority to execute, deliver and perform this Guarantee, (iii) the execution, delivery and performance of this Guarantee have been duly authorised by all necessary corporate action, (iv) this Guarantee constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, (v) no governmental approvals are required in connection with the execution, delivery and performance of this Guarantee, except as have been obtained and are in force, and (vi) the execution, delivery and performance of this Guarantee by the Guarantor will not violate any provision of any existing law or regulation to which the Guarantor is subject or any provision of the Guarantor’s constitutive documents or of any material agreements to which it may be a party.
3. The Guarantor hereby unconditionally and irrevocably guarantees to the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy, as a primary obligor, the due and punctual performance of all of the obligations of the Guaranteed Entity under or in connection with the Agreement. If the Guaranteed Entity fails to perform any such obligation in the manner and at the time required, the Guarantor shall perform or procure the performance of such obligation upon demand by the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy.
4. This Guarantee is irrevocable and unconditional and shall remain in full force and effect until all obligations of the Guaranteed Entity under or in connection with the Agreement are fully and irrevocably satisfied and discharged, notwithstanding (a) any amendment or termination of the Agreement, (b) any extension of time or other indulgence or concession granted by the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy, or (c) any delay or failure by the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy in pursuing any remedies available against the Guaranteed Entity. Notwithstanding the foregoing, this Guarantee shall terminate with respect to liabilities arising from improper abandonment of wells or facilities in any area subject to the referenced Agreement in accordance with applicable legislation.
5. The Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy

Policy shall have no obligation to pursue any remedy or take any action against or in respect of the Guaranteed Entity prior to enforcing its rights under this Guarantee directly against the Guarantor. In addition, the Guarantor may not claim that the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy could have avoided or mitigated, in any manner or through any action, the damages resulting from a default of the Guaranteed Entity under the Agreement or resort to any other guarantee held at any time in its favour, before proceeding against the Guarantor in connection with its obligations under this Guarantee. The Guarantor's obligations under this Guarantee shall be independent and absolute, and the Guarantor shall have no right of set-off or counterclaim with respect to any other claims it may have against the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy or any other Person.

6. All of the obligations of the Guarantor set forth herein shall bind the Guarantor and its successors. The Guarantor may not assign or delegate its duties or obligations hereunder without the prior written consent of the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy, and any purported assignment or delegation without such consent shall be null and void. The Guarantor confirms that this Guarantee shall remain in effect with respect to any assignee of the Guaranteed Entity under the Agreement that is an Affiliate of the Guaranteed Entity. Upon any such assignment the assignee shall be considered the Guaranteed Entity for all purposes hereunder to the extent of the assigned obligations. The Guarantor additionally confirms that any assignee of the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy under the Agreement permitted in accordance with the Agreement may exercise all rights and remedies of the Oil, Gas & Energy Directorate under this Guarantee. No other person or entity shall be a beneficiary of this Guarantee or have or acquire any rights by reason of this Guarantee.
7. This Guarantee shall be governed by and construed in accordance with the laws of the Republic of Timor-Leste.
8. Any failure or delay by the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy to exercise any right, in whole or in part, hereunder shall not be construed as a waiver of the right to exercise the same or any other right.
9. No amendment or modification of this Guarantee shall be effective unless in writing and signed by the Guarantor and the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy.
10. Any dispute concerning the legal interpretation or construction of this Guarantee shall be settled exclusively and finally by arbitration conducted in accordance with the ICC Rules.
11. The Guarantor shall pay upon demand and presentation of invoices all reasonable and actual costs and expenses incurred by the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy in connection with the successful enforcement of this Guarantee, including, without limitation, reasonable fees and expenses of counsel.
12. All notices, demands, instructions, waivers or other communications to be provided pursuant to this Guarantee, and any consents contemplated in this Guarantee, shall be in writing in Portuguese or English, shall be effective upon receipt, and shall be sent by personal delivery, courier, first class mail or fax to the following addresses:

(i) If to the Guarantor, to:

[Insert address of Guarantor]

(ii) If to the Oil, Gas & Energy Directorate, to:

Oil, Gas & Energy Directorate
1st Floor Fomento Building, Mandarin Dili
Dili, Timor-Leste

By Fax:.....+670 3317143

The addresses and fax numbers of either party for notices given pursuant to this Guarantee may be changed by means of a written notice given to the other party at least fifteen (15) Business Days prior to the effective date of such change.

This Guarantee may be executed in any number of counterparts, each of which shall be deemed to be an original.

13. This Guarantee has been duly executed by the Guarantor and the Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy by their respective officer's thereunto duly authorised as of the ____ day of _____, 2006.

[NAME OF GUARANTOR]

By:.....

Name:.....

Title:.....

ACKNOWLEDGED AND ACCEPTED:

Oil, Gas & Energy Directorate of the Ministry of Natural Resources, Minerals & Energy Policy

By:.....

Name:.....

Title:.....

**ANNEX VII.
MODEL PRODUCTION SHARING CONTRACT**

Model
Production Sharing Contract
under the *Petroleum Act*

PRODUCTION SHARING CONTRACT

[Dated]

This Agreement is a Production Sharing Contract made under the *Petroleum Act*

BETWEEN

the •, acting on behalf of the Democratic Republic of Timor-Leste (the “Ministry”)

AND

• and • (each a “Contractor” and collectively, the “Contractors”)

(each referred to individually as a “Party” or collectively as the “Parties”).

Whereas:

- A. Petroleum existing within the Territory of Timor-Leste is a resource to be exploited jointly by Timor-Leste and the Contractor;
- B. the Ministry has the power to enter into Petroleum Contracts for the benefit of the people of Timor-Leste;
- C. the Ministry wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the Ministry in exploring for, developing and exploiting Petroleum in the Contract Area; and
- D. a Contractor has the financial capability, and the technical knowledge and technical ability, to carry on the Petroleum Operations in a manner wholly consistent with the Act and this Agreement, and does not have a record of non-compliance with principles of good corporate citizenship,

NOW, THEREFORE, it is agreed:

Article 1 Interpretation

1.1 Definitions

In this Agreement:

“Access Authorisation” has the meaning given in the Act;

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

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

“Affiliate” means, in respect of a person, a person that controls, is controlled by, or is under common control with, that person;

“Agreement” means this Production Sharing Contract;

“Appraisal” means any appraisal activities, including appraisal wells, the purpose of which at the time such activity is commenced is to appraise and evaluate the extent or the volume of Petroleum reserves contained in a Discovery (including the commerciality of them), and all related activities;

“Appraisal Costs” has the meaning given in Clause 2.2 of Annex C;

“Approved Contract” means a contract made by a Contractor and approved by the Ministry as a part of a Development Plan;

“Associated Gas” means Natural Gas, commonly known as gas-cap gas, which overlies and is in contact with significant quantities of Crude Oil in a Reservoir, and solution gas dissolved in Crude Oil in a Reservoir;

“Authorisation” has the meaning given in the Act;

“Authorised Person” has the meaning given in the Act;

“Calendar Year” means a period of twelve (12) months commencing with January 1 and ending on the following December 31 according to the Gregorian calendar;

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

“Commercial Discovery” means a discovery of Petroleum that a Contractor declares commercial as contemplated in Section 4.10;

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

“Committee” has the meaning given in Section 16.1;

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

“Contract Year” means a period commencing on the Effective Date, or on any anniversary of it, and ending immediately before the next anniversary of it;

“Control” means, in relation to a person, the power of another person to secure:

- (a) by means of the holding of shares or the possession of voting power in or in relation to the first person or any other person; or
- (b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first person or any other person,

that the affairs of the first person are conducted in accordance with the wishes or directions of that other person;

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

“Crude Oil” means crude mineral oil and all liquid hydrocarbons in their natural state or obtained from Natural Gas by condensation or extraction;

“Crude Oil Field” means:

- (a) a single Reservoir; or
- (b) multiple Reservoirs all grouped on, or related to, the same geographical structure, or stratigraphic conditions;

from which Crude Oil and Associated Gas may be produced;

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

“Decommissioning Cost” has the meaning given in sub-paragraph 4.14(d)(i).

“Decommissioning Costs Reserve” has the meaning given in sub-paragraph 4.14(e)(v);

“Decommissioning Plan” means a plan of works, and an estimate of expenditures therefor, for Decommissioning, including environmental, engineering and feasibility studies in support of the plan;

“Decommissioning Security Agreement” means an agreement between the Ministry and the Contractor as mentioned in Section 4.15;

“Development” means any development, including design, construction, installation, drilling, operations and all related activities;

“Development Work Programme and Budget” has the meaning in Section 4.12;

“Development Area” has the meaning given in Section 4.10;

“Development Plan” means a development plan for a Development Area, as referred to in Section 4.11;

“Discovery” means a discovery of Petroleum in a Reservoir in which Petroleum has not previously been found that is recoverable at the surface in a flow measurable by conventional petroleum industry testing methods;

“Effective Date” has the meaning given in Section 2.3;

“Exploration” means any exploration activities, including geological, geophysical, geochemical and other surveys, investigations and tests, and the drilling of shot holes, core holes, stratigraphic tests, exploration wells and other drilling and testing operations for the purpose of making a Discovery, and all related activities;

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

“Exploration Work Programme and Budget” has the meaning in Sections 4.1, 4.2 and 4.3;

“Field” means a Gas Field or a Crude Oil Field from which Petroleum may be produced;

“Field Export Point” means the point at which Petroleum produced pursuant to this Agreement, having gone through field level separation, is made ready for sale, further processing or transportation or such other point as designated in an approved Development Plan;

“Force Majeure” has the meaning given in Article 20;

“Gas Field” means:

- (a) a single Reservoir; or
- (b) multiple Reservoirs grouped on, or related to, the same geographical structure, or stratigraphic conditions;

from which Non-Associated Gas may be produced;

“Gas Retention Area” has the meaning given in Section 3.5;

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

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

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

“Joint Operating Agreement” means any agreement or contract among all of the Contractors with respect to their respective rights or obligations under the Agreement, 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 agreement, or conditional sale agreement, or other transaction having the commercial effect of a borrowing);

“Ministry” means the ministry or other agency, from time to time, responsible for the administration of the Act;

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

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

“Non-Associated Gas” means Natural Gas which is not Associated Gas;

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

“Operator” means the person appointed from time to time to organize and supervise Petroleum Operations;

“Petroleum” means:

- (a) any naturally occurring hydrocarbon, whether in a gaseous, liquid, or solid state;
- (b) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state; or
- (c) any mixture of one or more naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state, as well as other substances produced in association with such hydrocarbons;

and includes any petroleum as defined by paragraphs (a), (b) or (c) that has been returned to a natural Reservoir;

“Petroleum Operations” means any activity authorised by the Ministry hereunder, and includes:

- (a) the exploration for, development and exploitation of Petroleum in the Contract Area, and the export of that Petroleum from the Contract Area;
- (b) the construction, installation and operation of structures, facilities, installations, equipment and other property, and the carrying out of other works, necessary for the purposes mentioned in paragraph (a) above;
- (c) Decommissioning;
- (d) the marketing of that Petroleum; and
- (e) planning and preparation for the activities mentioned in paragraphs (a), (b), (c) and (d) above;

“Production” means any exploitation or export activities, but not Development;

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

“Quarter” means a period of three months beginning on January 1, April 1, July 1 or October 1 of each Calendar Year;

“Recoverable Costs” has the meaning given in Article 6;

“Reservoir” means a porous and permeable underground formation containing an individual and separate natural accumulation of producible hydrocarbons (oil and/or gas) that is confined by

impermeable rock and/or water barriers and is characterized by a single natural pressure system;

“Security” means:

- (a) a standby letter of credit issued by a bank;
- (b) an on-demand bond issued by a surety corporation;
- (c) a corporate guarantee; or
- (d) any other financial security acceptable to the Ministry;

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

“State-Owned Contractor” means a Contractor incorporated under the laws of Timor-Leste that is wholly owned, whether directly or indirectly, by Timor-Leste;

“Territory of Timor-Leste” consists of the territory of Timor-Leste, including its territorial sea, together with its exclusive economic zone and continental shelf where, by international law, Timor-Leste has sovereign rights for the purposes of exploring for and exploiting its natural resources;

“Timor-Leste” means the Democratic Republic of Timor-Leste;

“United States Dollars” means the lawful currency of the United States of America;

“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 of Annex C; and

“Work Programme and Budget” means a work programme for Petroleum Operations and budget therefor approved in accordance with this Agreement.

1.2 Headings

As used herein, headings are for convenience and do not form a part of, and shall not affect the interpretation of, this Agreement.

1.3 Further Interpretation

In this Agreement, 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, Section, paragraph, sub-paragraph or to an Annex, is to an Article, Section, paragraph, sub-paragraph of or to an Annex to, this Agreement;
- (c) a reference to an agreement (including this Agreement) or instrument, is to the same as amended, varied, novated, modified or replaced from time to time;
- (d) “person” includes a corporation or other legal entity, even if without juridical personality;

- (e) the singular includes the plural, and vice versa;
- (f) any gender includes the other;
- (g) an agreement includes an arrangement, whether or not having the force of law;
- (h) a reference to the consent or approval of the Ministry means the consent or approval, in writing, of the Ministry and in accordance with the conditions of that consent or approval;
- (i) “law” includes the Act and any other applicable legislation;
- (j) “contiguous area” means a block, or a number of blocks each having a point in common with another such block; and
- (k) where a word or expression is defined, cognate words and expressions shall be construed accordingly;

and this Agreement shall inure to the benefit and burden of the Parties, their respective successors and permitted assigns.

1.4 Annexes

If there is a conflict, the main body of this Agreement prevails over an Annex.

1.5 Joint and Several Liability

The obligations and liabilities of each Contractor under this Agreement except the State-Owned Contractor are the obligations and liabilities of them all except the State-Owned Contractor, jointly and severally.

1.6 Operator

- (a) The appointment of an Operator by the Contractors shall be subject to prior approval by the Ministry where:
 - (i) there is more than one Authorised Person in respect of a particular Authorisation and the person appointed as Operator is one of those Authorised Persons, and
 - (ii) the person appointed as Operator is not an Authorised Person.
- (b) Except with the prior approval of the Ministry as required under paragraph 1.6(a), the Contractors shall not permit any person to exercise any function of an Operator.
- (c) For all purposes of this Agreement, the Operator shall represent the Contractors, and the Ministry may deal with, and rely on, the Operator. The obligations, liabilities, acts and omissions of the Operator are, additionally, the obligations, liabilities, acts and omissions of the Contractors.
- (d) The Operator shall operate under this Agreement from an office located in Timor-Leste.
- (e) Any change in Operator shall be subject to the prior approval of the Ministry.
- (f) Where the Ministry determines that an Operator is no longer competent to be an Operator,

the Ministry may, by written notice to the Operator and to the Contractors, revoke its approval.

Article 2 Scope and Term

2.1 Scope

- (a) This Agreement, and the rights, interests and benefits of the Contractors, and the obligations and liabilities of the Ministry, under it, are subject to the Act. A Contractor shall, at all times and in regard to all things, comply with its obligations under the Act. No provision of this Agreement shall excuse a Contractor from so complying, nor derogate from any right or privilege of the Ministry thereunder.
- (b) Subject to this Agreement, and thereunder, the Contractors:
 - (i) shall, and have the exclusive right to, carry on Petroleum Operations at their sole cost, risk and expense;
 - (ii) shall provide all human, financial and technical resources therefor; and
 - (iii) shall share in Petroleum from the Contract Area.
- (c) The Contractors are not authorised to carry on Petroleum Operations in any part of Timor-Leste outside the Contract Area, other than in accordance with an Access Authorisation granted to a Contractor by the Ministry under Article 8 of the Act.
- (d) This Agreement does not authorise the Contractors to process Petroleum beyond the Field Export Point and no expenditure in respect of further processing shall be a Recoverable Cost.

2.2 Conditions Precedent

- (a) This Agreement is conditional on:
 - (i) the appointment of an Operator in accordance with Section 1.6;
 - (ii) if there is more than one Contractor, the conclusion of a Joint Operating Agreement, and such agreement coming into full force and effect (subject only to satisfaction of this condition);
 - (iii) each Contractor providing the Ministry with a Security (in form and content satisfactory to the Ministry) for the performance of the Contractor's minimum work and expenditure obligations in accordance with Sections 4.1, 4.2 and 4.3; and
 - (iv) each Contractor demonstrating, to the satisfaction of the Ministry, that it has complied with its obligations under Section 19.2 in regard to insurance.
- (b) If the conditions mentioned in paragraph 2.2(a) are not fulfilled before the sixtieth (60th) day after the date of this Agreement, this Agreement shall terminate and be of no further force or effect.

2.3 Effective Date and Term

- (a) The effective date of this Agreement is the date on which all of the conditions precedent set out at Section 2.2 have been satisfied (“Effective Date”).
- (b) This Agreement shall terminate on the first to occur of:
 - (i) all of the Contract Area being relinquished pursuant to Article 3;
 - (ii) the Parties so agreeing; or
 - (iii) termination pursuant to Section 2.4 .

2.4 Grounds for Termination

The Ministry may terminate this Agreement:

- (a) forthwith, if:
 - (i) a Contractor is 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 a Contractor;
 - (iii) a receiver is appointed or an encumbrancer takes possession of a majority of the assets or undertaking of a Contractor; or
 - (iv) a Contractor ceases or threatens to cease to carry on its business or execution is forced against all or a majority of a Contractor’s property and is not discharged within fourteen (14) days.
- (b) on thirty (30) days notice to the Contractor if the Contractor is in material default under this Agreement and does not, within that thirty (30) days, remedy the default to the satisfaction of the Ministry; and
- (c) as provided in Article 21.

2.5 Surviving Obligations

- (a) Termination of this Agreement for any reason, in whole or in part, shall be without prejudice to rights and obligations expressed in the Act or this Agreement to survive termination, or to rights and obligations accrued thereunder prior to termination, including Decommissioning, and all provisions of this Agreement reasonably necessary for the full enjoyment and enforcement of those rights and obligations shall survive termination for the period so necessary.
- (b) If there is more than one Contractor and circumstances arise in which the Ministry may terminate an Authorisation, the Ministry may, on such conditions as it may decide, terminate this Agreement only in respect of those persons 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 Contractors did not connive in such acts, omissions or events, and could not reasonably have been expected to prevent them occurring; and
- (ii) it is satisfied that it is fair and reasonable to do so in all the circumstances;

and the other Contractors agree (including as to such conditions).

Article 3 Relinquishment of Areas

3.1 Periodic Relinquishment of Exploration Area

- (a) The Contractors shall relinquish:
 - (i) at the end of the third (3rd) Contract Year, not less than twenty five percent (25%) of the original Contract Area;
 - (ii) at the end of the fifth (5th) Contract Year, not less than a further twenty five percent (25%) of the original Contract Area.
- (b) At the end of any Contract Year, and subject to paragraph 3.1(e), the Contractors may relinquish some, or all, of the Contract Area. Any area so relinquished will be credited against the next relinquishment obligation of the Contractors under paragraph 3.1(a).
- (c) The Contractors shall consult with and give not less than thirty (30) days notice to the Ministry of the areas which, at any time, it wishes to relinquish. Except with the consent of the Ministry,
 - (i) those relinquished areas must form one discrete area; and
 - (ii) the areas not relinquished must form one or more discrete areas;all of sufficient size and convenient shape to enable Petroleum Operations to be conducted thereon.
- (d) If the Contractors do not relinquish a portion of the Contract Area at the time and in the manner required by this Section 3.1, all of the Contract Area shall be deemed relinquished at the end of the Contract Year concerned.
- (e) Without the consent of the Ministry, and notwithstanding paragraph 3.1(b), the Contractors may not relinquish all of the Contract Area if it has not then fulfilled their obligations under Sections 4.1, 4.2 and 4.3, or are then in breach of any provision of this Agreement.

3.2 Final Relinquishment of Exploration Area

At the end of the seventh (7th) Contract Year, the Contractors shall relinquish all of the Contract Area other than such part thereof as is a Development Area.

- (a) If, at the end of the seventh (7th) Contract Year, a Discovery has been made but there has been insufficient time for the Contractors (acting, and having acted, in accordance with this Agreement) to Appraise it, the obligation of the Contractors under Section 3.2 shall be postponed:

- (i) for such area as the Contractors may propose and the Ministry may determine to be reasonably necessary for Appraisal of the Discovery;
- (ii) for such period as is reasonably necessary to permit the Contractors to Appraise (or to complete the Appraisal of) the Discovery; and
- (iii) as a consequence of that Appraisal, for the Contractors to decide whether to declare a Commercial Discovery and, if it does so, for the Ministry to declare a Development Area in respect of it.

3.3 Relinquishment of Development Area

- (a) Except with the consent of the Ministry, a Development Area shall be deemed to be relinquished on the first to occur of:
 - (i) production from the Development Area ceasing permanently or for a continuous period of twelve (12) months (or, if because of Force Majeure, twenty four (24) months or such greater period as determined by the Ministry, in consultation with the Contractors under Section 20.2); and
 - (ii) the twenty fifth (25th) anniversary of the date on which the first (1st) Development Plan in respect of the Development Area was approved by the Ministry.
- (b) Without the consent of the Ministry, the Contractors may not otherwise relinquish all or any part of a Development Area.

3.4 Termination of Agreement and Continuing Obligations in respect of Relinquished Area

- (a) This Agreement shall terminate in respect of a part of the Contract Area which is relinquished.
- (b) Relinquishment of all or a part of the Contract Area is without prejudice to the obligations of the Contractors to Decommission.

3.5 Gas Retention Area

- (a) If the Appraisal of a Discovery of Non-Associated Gas demonstrates that the Discovery, although substantial, is not then, either alone or in combination with other Discoveries, commercially viable, but is likely to become so within five (5) years, the Ministry may, at the request of the Contractors, declare a Gas Retention Area in respect of it for that period.
- (b) This Article 3 (but not Section 3.3) applies to and in respect of a Gas Retention Area as it does to and in respect of a Development Area for as long as, during that period, the Contractors diligently seek to make it commercially viable, and demonstrate to the Ministry that they are doing so.
- (c) The Gas Retention Area consists of a single contiguous area that encompasses the Gas Field, plus a reserve margin sufficient to cover the probable and possible extent of it, but the Ministry may exclude deeper formations in which no Discovery has been made. The Ministry, at any time and from time to time, and whether of its own volition or at the request of the Contractors, may:

- (i) increase;
- (ii) decrease; or
- (iii) vary the depth within the Contract Area of;

a Gas Retention Area as may be required to ensure that it encompasses the Gas Field. The Contractors shall relinquish any part of the Contract Area removed from a Gas Retention Area as a consequence of such decrease or other variation if it occurs after the time for the relinquishment provided for in paragraph 3.2(a).

- (d) The Gas Retention Area shall be deemed to have been relinquished on the earlier of:
 - (i) expiry of the period mentioned in paragraph 3.5(a);
 - (ii) the Contractors ceasing to meet their obligations under paragraph 3.5 (b); and
 - (iii) the Contractors declaring a Commercial Discovery in respect of it and the Ministry declaring a Development Area as a consequence thereof.

Article 4 Work Programmes and Budget

4.1 Commitment in Initial Period

In each Contract Year mentioned below, the Contractors shall carry out an Exploration Work Programme and Budget of not less than the amount of work specified for that Contract Year:

Contract	Data		
<u>Year</u>	<u>Evaluation</u>	<u>Surveys</u>	<u>Wells</u>
1	[•]	[•]	[•]
2	[•]	[•]	[•]
3	[•]	[•]	[•]

4.2 Commitment in Second Period

In each Contract Year mentioned below, and unless the Contractors have relinquished all of the Contract Area (not being a Development Area or a Gas Retention Area) before the start of the fourth (4th) Contract Year, the Contractors shall carry out an Exploration Work Programme and Budget of not less than the amount of work specified for that Contract Year.

Contract	Data		
<u>Year</u>	<u>Evaluation</u>	<u>Surveys</u>	<u>Wells</u>
4	[•]	[•]	[•]
5	[•]	[•]	[•]

4.3 Commitment in Third Period

In each of the sixth (6th) and seventh (7th) Contract Years, and unless the Contractors have relinquished all of the Contract Area (not being a Development Area or a Gas Retention Area) before the start of the Contract Year concerned, the Contractors shall carry out such Exploration Work Programme and Budget of not less than the amount of work specified for that Contract Year.

Contract	Data		
<u>Year</u>	<u>Evaluation</u>	<u>Surveys</u>	<u>Wells</u>
6	[•]	[•]	[•]
7	[•]	[•]	[•]

4.4 Performance of Exploration Work Programme and Budget

- (a) If any well forming part of the Exploration Work Programme and Budget provided for in this Article 4 is abandoned for any reason other than a reason specified in paragraph 4.4(b) before reaching the defined objectives of such well, the Contractors shall drill a substitute well. In this event, the first, second or third Exploration period, as the case may be, shall be extended by a period of time equal in length to the time spent in preparing for and drilling the substitute well, including mobilisation and demobilisation of the drilling rig, if applicable.
- (b) Unless otherwise agreed by the Ministry, any well which forms part of the Exploration Work Programme and Budget provided for in this Article 4 shall be drilled to such depth as is necessary for the evaluation of the geological formation established by the available data as the target formation and which Good Oil Field Practices would require the Contractors to attain, unless before reaching such depth:
- (i) a formation stratigraphically older than the deepest target formation is encountered;
 - (ii) basement is encountered;
 - (iii) further drilling would present an obvious danger, such as but not limited to the presence of abnormal pressure or excessive losses of drilling mud;
 - (iv) impenetrable formations are encountered;
 - (v) Petroleum-bearing formations are encountered which require protecting, thereby preventing planned depths from being reached; or
 - (vi) the Contractors and the Ministry agree to terminate the drilling operation; and
 - (vii) the Ministry confirms that the drilling obligation has been fulfilled.

In such circumstances the drilling of any such well may be terminated at a lesser depth and shall be deemed to have satisfied the Contractors' obligations in respect of that well.

- (c) Where a well which forms part of the Exploration Work Programme and Budget provided for in this Article 4 results in a Discovery and the Contractors inform the Ministry pursuant to Section 4.9 that the Discovery merits Appraisal, that well will be deemed to have met its objective and to have satisfied the Contractors' obligations in respect of that well.

4.5 Consequences of Non-Performance

- (a) If, in a Contract Year, the Contractors carry out less Exploration than is required of them under the Exploration Work Programme, the Ministry may:
 - (i) terminate this Agreement and require payment by way of liquidated damages of the estimated cost of the Exploration Work Programme and Budget not carried out;
 - (ii) require payment by way of liquidated damages of the estimated cost of the Exploration not carried out; or
 - (iii) require that the shortfall be added to the Exploration Work Programme and Budget to be carried out in the next Contract Year.

The Parties agree that the amount payable under this paragraph 4.5(a) is a reasonable estimate of the loss which would be suffered by the Ministry.

- (b) If, in a Contract Year, the Contractors carry out more Exploration than is required of them, the excess shall be credited against Exploration to be carried out in the following Contract Year and, to the extent in excess of that Exploration, shall be further carried forward.
- (c) For the purposes of the foregoing provisions of this Article 4, Article 6 and Annex C, and except with the consent of the Ministry, no work in a Development Area will be regarded as Exploration except in respect of a formation deeper than the Field concerned and in which no Discovery has been made.

4.6 Work Programmes and Budgets

Subject to Section 4.7, the Contractors shall carry out Petroleum Operations substantially in accordance with Work Programmes and Budgets approved by the Ministry. Such an approval by the Ministry is without prejudice to any other obligations or liabilities of the Contractors under this Agreement.

4.7 Emergency and Other Expenditures Outside Work Programmes and Budgets

- (a) Without further approval by the Ministry, the Contractors may over-expend, by the lesser of fifty thousand United States Dollars (USD \$50,000) or ten percent (10%) on any line item in an approved Work Programme and Budget for a Contract Year.
- (b) Without further approval by the Ministry, the total of all over-expenditures under paragraph 4.7(a) under that Work Programme and Budget for that Contract Year shall not exceed the lesser of one million (USD \$1,000,000) United States Dollars or five percent (5%) of the total expenditures in that Work Programme and Budget.
- (c) The Contractors shall promptly inform the Ministry if they anticipate (or should reasonably anticipate) that any such limit in paragraph 4.7(b) will be exceeded and seek, in the manner provided in this Article 4, an amendment to the appropriate Work Programme and Budget.
- (d) In determining whether to approve the over-expenditures contemplated at paragraphs 4.7(a) and 4.7(b), the Ministry shall consider whether such increases are necessary to complete the programme of works, provided that such increase is not the result of any failure of the Contractors to fulfil their obligations under this Agreement.
- (e) Nothing in Section 4.6 or paragraph 4.7(a) precludes or excuses the Contractors from taking all necessary and proper measures for the protection of life, health, the environment and property if there is an emergency (including a significant fire, explosion, Petroleum release,

or sabotage; incident involving loss of life, serious injury to an employee, contractor or third party, or serious property damage; strikes and riots; or evacuation of the Operator's personnel). As soon as reasonably practicable, the Operator will inform the Ministry of the details of the emergency and of the actions it has taken and intends to take.

4.8 Exploration

- (a) The Contractors shall submit annually, for the approval of the Ministry, the Exploration Work Programmes and Budgets required by Sections 4.1, 4.2 and 4.3 for each Contract Year.
- (b) From time to time, the Contractors may submit, for the approval of the Ministry, amendments to the Exploration Work Programme and Budget.
- (c) The Contractors are not obliged to carry out more Exploration in a Contract Year than is required by Sections 4.1, 4.2 and 4.3.

4.9 Discovery and Appraisal

- (a) The Contractors shall notify the Ministry of a Discovery and shall provide the Ministry with such information in respect of it as the Act requires.
- (b) As soon as reasonably practicable after a Discovery is made, the Contractors shall advise the Ministry whether or not, having regard to paragraph 4.9(e), the Discovery merits Appraisal.
- (c) At such time and in such manner as the Ministry requires, the Contractors shall submit, for the approval of the Ministry, an Appraisal Work Programme and Budget for each Calendar Year.
- (d) From time to time the Contractors may submit, for the approval of the Ministry, amendments to the Appraisal Work Programme and Budget.
- (e) An Appraisal Work Programme and Budget for a Calendar Year will be such as would be undertaken by a person seeking diligently to Appraise (in accordance with this Agreement) a Discovery with a view to determining if it is, either alone or in combination with other Discoveries, a Commercial Discovery.

4.10 Commercial Discovery

- (a) The Contractors may, at any time and having regard to paragraph 4.10(b), declare that a Commercial Discovery has been made.
- (b) The declaration is to be made in such manner, and be accompanied by such supporting data and information, as the Ministry requires, and as the State-Owned Contractor requires to make its election under Section 8.1, including the Contractors' proposal as to that part of the Contract Area to be declared a Development Area.
- (c) The Ministry shall declare a single contiguous area encompassing the Field in which the Commercial Discovery has been made, to be a Development Area, but may exclude deeper formations in which no Discovery has been made.
- (d) The Ministry, at any time and from time to time, may:

- (i) increase;
- (ii) decrease; or
- (iii) vary the depth within the Contract Area of;

a Development Area as may be required to ensure that it encompasses the Field concerned, but not, unless the Ministry and the Contractors otherwise agree, after the first Development Plan in respect of the Development Area has been approved. The Contractors shall relinquish any part of the Contract Area removed from a Development Area as a consequence of such decrease or other variation, if it occurs after the time for the relinquishment provided for in paragraph 3.2(a).

4.11 Development Plan

- (a) Not more than twelve (12) months after the declaration of a Development Area, and in the manner required by the Ministry, the Contractors shall submit, for the approval of the Ministry, a Development Plan for the Development Area.
- (b) From time to time, and in like manner, the Contractors may submit, for the approval of the Ministry, amendments to the Development Plan.
- (c) A Development Plan will be such as would be undertaken by a person seeking diligently to develop and exploit (in accordance with this Agreement) the Petroleum in the Development Area in the long term, best interests of the Parties.
- (d) Except with the consent of the Ministry, and without prejudice to the generality of paragraph 4.11(a), a Development Plan shall include:
 - (i) a description of the proposed reservoir development and management programme;
 - (ii) details of:
 - (aa) the geological and the reservoir work done, together with the production profiles simulated, in order to reach the best depletion alternative;
 - (bb) the production, treatment and transportation facilities to be located in Timor-Leste;
 - (cc) facilities for transporting the Petroleum from the Contract Area and Timor-Leste; and
 - (dd) facilities, wherever located, which are connected to any such facilities as aforesaid and which (or the operation of which) might affect the integrity, management or operation thereof;
 - (iii) the production profiles for all hydrocarbon products, including possible injections for the life of the Development, the commencement of Production and the specific rates of Petroleum production, and the level of production and of deliveries which the Contractors submit, should constitute the start of Commercial Production;
 - (iv) the Decommissioning Plan, in such detail as the Ministry requires, including a calculation of the Decommissioning Costs, the annual Decommissioning Cost Reserve, and the Contractors' proposal for the Decommissioning Security

Agreement;

- (v) an environmental impact statement, and proposals for environmental management covering the life of the Development;
 - (vi) the Contractors' proposals for ensuring the safety, health and welfare of persons in or about the proposed Petroleum Operations;
 - (vii) the Contractors' proposals for:
 - (aa) the use of Timor-Leste goods and services;
 - (bb) training and employment of Timor-Leste nationals; and
 - (cc) processing Petroleum in Timor-Leste;
 - (viii) the estimated capital expenditure covering the feasibility, fabrication, installation, commissioning and pre-production stages of the Development;
 - (ix) an evaluation of the commerciality of the Development, including a full economic evaluation;
 - (x) each Contractor's proposals for financing;
 - (xi) summary details and copies of:
 - (aa) all contracts and arrangements made or to be made by each Contractor for the sale of Natural Gas;
 - (bb) all contracts and arrangements made or to be made by persons in respect of that Natural Gas downstream of the point at which it is to be sold by the Contractors and which are relevant to the price at which (and other terms on which) it is to be sold by the Contractors or are otherwise relevant to the determination of the value of it for the purposes of this Agreement, but not beyond the point at which it is first disposed of in an arm's length transaction; and
 - (cc) all contracts and arrangements made or to be made by the Contractors in respect of facilities downstream of the Field Export Point for transporting, processing, liquefying, storing, handling and delivering that Natural Gas; and
 - (xii) such other data and information (including in respect of insurance to be obtained by the Contractors, and buyers and shippers of Petroleum) as the Act requires and as the Ministry otherwise requires.
- (e) In determining whether to approve a Development Plan or an amendment to it properly submitted by the Contractors, the Ministry shall give consideration to a Decommissioning Security Agreement concluded in respect of the Development Area.
- (f) The Ministry shall specify its reasons for not approving a Development Plan or an amendment to it.

4.12 Development Work Programmes and Budgets

- (a) At such time and in such manner as the Act requires, and as the Ministry otherwise requires, the Contractors 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.

4.13 Approved Contracts

- (a) The Contractors 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 Agreement.
- (b) The Contractors 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 Contractors may not amend, waive or fail to enforce, any provision of an Approved Contract without the approval of the Ministry.

4.14 Decommissioning

- (a) The Contractors shall submit to the Ministry, for its approval, pursuant to sub-paragraph 4.11(b)(iv), a Decommissioning Plan for the Development Area and a schedule of provisions for the Decommissioning Costs Reserve.
- (b) The Decommissioning Plan shall be revised and resubmitted to the Ministry for its approval at such times as are reasonable having regard to the likelihood that the Decommissioning Plan (including cost estimates thereunder) may need to be revised.
- (c) The Ministry may give opportunity to persons likely to be affected to make representations to it in respect of the Decommissioning Plan.
- (d) The Contractors shall carry out the Decommissioning Plan substantially in accordance with its terms.
- (e) Estimates of the monies required for the funding of the Decommissioning Plan shall be charged as Recoverable Costs beginning in the Calendar Year following the Calendar Year in which Commercial Production first occurs. The amount charged 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) There shall be deducted from such total Decommissioning Costs the provisions for Decommissioning Costs made, 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 sub-paragraphs 4.14(d)(i) and 4.14(d)(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 of residual Decommissioning Costs shall then be divided by the total number of Calendar Years remaining prior to the Calendar Year of Decommissioning itself, including the Calendar Year in question.
- (v) The resultant amount shall be the addition to the Decommissioning Costs Reserve for the Calendar Year in question.
- (vi) It is the intention of this provision that the total accumulated provision allowed, including interest calculated to the Calendar Year of Decommissioning at the rate of Uplift, will equal the total Decommissioning Costs.
- (vii) If the amount in sub-paragraph 4.14(d)(v) is a negative amount, then such amount shall be treated as a reduction of Recoverable Costs for the Calendar Year in question.

4.15 Decommissioning Security

- (a) Security pursuant to the Decommissioning Security Agreement shall be provided in an amount equal to the sum of provisions for Decommissioning Costs made, and taken as Recoverable Costs, in all previous years together with interest on such Recoverable Costs calculated to the end of the previous Calendar Year at the actual rate of Uplift.
- (b) Failure of each Contractor to provide Security and otherwise to fulfil its obligations under the Decommissioning Security Agreement, shall be a breach of this Agreement.

Article 5 Conduct of Work

5.1 Proper and Workmanlike Manner

- (a) The Contractors shall carry on Petroleum Operations, and shall procure that they are carried on, in a proper, efficient and workmanlike manner, and in accordance with the Act, this Agreement and Good Oil Field Practice.
- (b) In particular, the Contractors shall carry on Petroleum Operations, and procure that they are carried on, in such a manner as is required by paragraph 5.1(a) to:
 - (i) protect the environment and ensure that Petroleum Operations result in minimum ecological damage or destruction;
 - (ii) ensure the safety, health and welfare of persons in or affected by Petroleum Operations;
 - (iii) manage the resources in a way which has long-term benefits to Timor-Leste and the Contractors;
 - (iv) maintain in safe and good condition and repair, the Contract Area and all structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations;
 - (v) on the earlier of:

- (aa) termination of this Agreement; and
- (bb) when no longer required for Petroleum Operations;

and, in either case:

- (cc) except with the consent of the Ministry; or
- (dd) unless this Agreement otherwise provides;

abandon, decommission, remove or dispose of the property and other works mentioned in sub-paragraph 5.1(b)(iv), clean up the Contract Area and make it good and safe, and protect and restore the environment;

- (vi) control the flow and prevent the waste or escape of Petroleum, water or any product used in or derived by processing Petroleum;
- (vii) prevent the escape of any mixture of water or drilling fluid with Petroleum;
- (viii) prevent damage to Petroleum-bearing strata in or outside the Contract Area;
- (ix) except with the 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;
- (x) 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;
- (xi) minimise interference with pre-existing rights and activities; and
- (xii) to remedy in a timely fashion any damage caused to the environment.

5.2 Access to Contract Area

- (a) Subject to law and to this Agreement, the Contractors may enter and leave the Contract Area at any time for the purposes of Petroleum Operations.
- (b) Except with the consent of the Ministry, the Contractors shall ensure that persons, equipment and goods do not enter the Contract Area without meeting the lawful entry requirements of Timor-Leste, and shall notify the Ministry of all persons, vessels, aircraft, vehicles and structures entering or leaving the Contract Area for the purposes of Petroleum Operations.

5.3 Health, Safety and the Environment

- (a) The Contractors shall employ in regard to:
 - (i) health, safety and welfare of persons in or affected by Petroleum Operations; and

- (ii) the protection of the environment (including the marine environment and the atmosphere and the prevention of pollution);

such standards, practices, methods and procedures, and shall do (and refrain from doing) all such other things, as are the most stringent of such standards, practices, methods, procedures and things as:

- (iii) are employed by others exploring for, developing or exploiting Petroleum in Timor-Leste, with due and proper consideration for special circumstances;
- (iv) are employed by each Contractor or any of its Affiliates in a comparable place in comparable circumstances, with due and proper consideration for special circumstances;
- (v) accompanied its application, under Article 13 of the Act, for this Agreement; and
- (vi) are otherwise required by the Act or this Agreement;

in order to reduce the risks to personnel and the environment so they are as low as reasonably practicable.

- (b) Within three (3) months of the Effective Date, the Contractors shall submit to the Ministry, for its approval, plans in all respects in compliance with paragraph 5.3(a). The plans shall be reviewed annually and amended from time to time as may be necessary to ensure its continuing compliance with paragraph 5.3(a), but not so that any standard, practice, method, procedure or thing shall thereby become less stringent without the consent of the Ministry.
- (c) Notwithstanding anything elsewhere contained in this Agreement, the Contractors shall clean up pollution resulting from Petroleum Operations to the satisfaction of the Ministry, and meet the costs of so doing to the extent done by anyone else (including the Ministry).

5.4 Goods, Services, Training and Employment

Each Contractor shall comply with the proposals which accompanied its application under Article 13 of the Act for this Agreement in respect of training, employment and the acquisition of goods and services, and otherwise shall:

- (a) give preference to the acquisition of goods and services from persons based in Timor-Leste, provided they are offered on competitive terms and conditions;
- (b) with due regard to occupational health and safety requirements, give preference in employment in Petroleum Operations to nationals of Timor-Leste; and
- (c) within thirty (30) days of the end of each calendar year, submit to the Ministry a report demonstrating compliance with the above obligations.

5.5 Flaring

Except with the consent of the Ministry, or in an emergency, the Contractors shall not flare Natural Gas.

5.6 Operator and its Sub-Contractors

- (a) The Operator, and only the Operator, may carry out Petroleum Operations, and may do so

by itself, its agents and sub-contractors.

- (b) This Section 5.6 does not relieve the Contractors of any obligation or liability under this Agreement, and the carrying out of Petroleum Operations by its agents or sub-contractors does not relieve the Operator (or the Contractors) of any obligation or liability under this Agreement.

Article 6 Recoverable Costs

6.1 Generally

- (a) Each 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, and (unless there is only one Contractor and the Contractor is the Operator) properly charged to the Contractors under an agreement made between them and consented to by the Ministry, are Recoverable Costs, but without prejudice to any other provision of this Agreement which would result in any such cost or expense not being a Recoverable Cost.

6.2 Recoverable Costs

In any Calendar Year, Recoverable Costs are, subject as further provided in Annex C, the sum of those of the following that are not Ineligible Costs:

- (a) the sum of:
 - (i) recoverable Exploration Costs;
 - (ii) recoverable Appraisal Costs;
 - (iii) recoverable Capital Costs; and
 - (iv) recoverable Operating Costs;
- (b) Decommissioning Costs Reserve allowable in that year;
- (c) Recoverable Costs in the previous Calendar Year, to the extent in excess of the value of the Contractor's share of Petroleum under sub-paragraph 7.1(b)(i) in that previous Calendar Year; and
- (d) a Quarterly amount equal to the product of the rate of Uplift and the Quarterly balance of outstanding Recoverable Costs,

less Miscellaneous Receipts and less any deductions pursuant to paragraph 7.4(a).

Article 7 Sharing Of Petroleum

7.1 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:
 - (i) five (5) percent; plus
 - (ii) its share of any balance as mentioned in paragraph 7.1(c);
- (b) the Contractor:
 - (i) ninety five (95) percent but not more than is equal in value to Recoverable Costs for the Calendar Year concerned; plus
 - (ii) its share of any balance as mentioned in paragraph 7.1(c);
- (c) any Petroleum not taken by the Contractor under sub-paragraph 7.1(b)(i) shall be shared as to forty (40) percent by the Ministry and as to sixty (60) percent by the Contractor.

7.2 Option of Ministry

- (a) Unless the Ministry elects otherwise pursuant to paragraph 7.2(b), the Contractors shall take and receive, and dispose of, in common stream with their own share and on terms no less favourable to the Ministry than the Contractors receives for their own share, all of Timor-Leste's share of Petroleum.
- (b) The Ministry may make an election to take and separately dispose of Timor-Leste's share of Petroleum. Unless the Contractors otherwise agree, 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, of 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 Contractors 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.

7.3 Lifting

- (a) Subject to this Agreement, each Contractor may lift, dispose of and export from Timor-Leste its share of Petroleum and retain the proceeds from the sale or other disposition of that share.
- (b) The Contractors and the Ministry shall, from time to time, make such agreements between them as are reasonably necessary, in accordance with Good Oil Field Practice and the commercial practices of the international petroleum industry, for the separate lifting of their shares of Petroleum.

7.4 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 Contractors as a consequence of a failure of the Contractors to comply with their obligations under this Agreement (including Section 5.1), 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 Section 6.2.

- (b) Title in the Contractor's share of Petroleum shall pass to it when (and risk therein shall remain with the Contractor after) it is delivered at the Field Export Point.
- (c) Title in the Ministry's share of Petroleum taken by a Contractor pursuant to Section 7.2 shall pass to the Contractor when (and risk therein shall remain with the Contractor after) it is delivered at the Field Export Point.
- (d) Each Contractor shall defend, indemnify and hold harmless the Ministry from all claims and demands asserted in respect of Petroleum wherein the risk is with the Contractor.

7.5 Payments

- (a) Unless the Ministry has made an election under paragraph 7.2(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 within thirty six (36) hours of receipt.
- (b) In the event that the Contractor has not received payment for Petroleum within sixty (60) days of production, it nonetheless will make a provisional payment to the Ministry of the estimated value of the Ministry's share of such Petroleum.

Article 8 State Participation

8.1 Election

- (a) Timor-Leste may, within sixty (60) days of a declaration under Section 4.10, decide to participate in the Development of Petroleum through a State-Owned Contractor.
- (b) The decision under paragraph 8.1(a) shall specify the percentage of the participation, up to a maximum of twenty (20) percent.

8.2 Participation

- (a) From the date of the decision under Section 8.1(a), the State-Owned Contractor shall contribute, in the percentage specified under paragraph 8.1(b), to expenditures under an approved Development Work Programme and Budget.
- (b) The Contractors agree to revise the Joint Operating Agreement to take into account the decision under Section 8.1(a).

8.3 Exemptions

Paragraphs 5.3(b) and 5.4 do not apply to the State-Owned Contractor.

Article 9 Supply of Crude Oil to Timor-Leste Domestic Market

9.1 Domestic Market Obligation

- (a) Notwithstanding paragraph 7.3(a), if, in the event of national need declared by the Prime Minister of Timor-Leste, it is necessary to limit exports of Crude Oil, the Ministry may,

with thirty (30) days advance written notice, require the Contractors to meet the needs of the local market with Crude Oil that it has produced and received pursuant to this Agreement.

- (b) Each Contractor's participation referred to in Section 9.1(a) will be made, each month, in proportion to its participation in the national production of Crude Oil in the preceding month.

9.2 Calculation of Domestic Supply Obligation

- (a) The Contractors' obligation to supply Crude Oil for domestic purposes shall be calculated in any Calendar Year as follows:
 - (i) the total quantity of Crude Oil produced from the Contract Area is multiplied by a fraction the numerator of which is the total quantity of Crude Oil to be supplied pursuant to 9.1(a) and the denominator is the entire Timor-Leste production of Crude Oil from all Contract Areas;
 - (ii) twenty-five (25) percent of the total quantity of Crude Oil produced from the Contract Area is calculated;
 - (iii) the lower quantity computed under either sub-paragraph 9.2(a)(i) or sub-paragraph 9.2a(ii) is multiplied by the percentage of production from the Contract Area to which the Contractors are entitled as provided under Article 7 of this Agreement.
- (b) The quantity of Crude Oil computed under sub-paragraph 9.2(a)(iii) shall be the maximum quantity to be supplied by the Contractors in any Calendar Year pursuant to this Article. Deficiencies, if any, shall not be carried forward to any subsequent Calendar Year. If for any Calendar Year, Recoverable Costs exceed the difference of total sales proceeds from Crude Oil produced and saved hereunder minus the royalty as provided under Article 7.1(a)(i) hereof, the Contractors shall be relieved from this supply obligation for such Calendar Year.
- (c) The price at which such Crude Oil shall be delivered and sold under this Article shall be the price as determined under Section 10.2.
- (d) The Contractors shall not be obliged to transport such Crude Oil beyond the Field Export Point, but upon request by the Ministry, the Contractors shall assist in arranging transportation and such assistance shall be without cost or risk to the Contractors.

Article 10 Valuation of Petroleum

10.1 Point of Valuation

Petroleum is valued f.o.b (free on board), or equivalent, at the Field Export Point.

10.2 Value of Crude Oil

The value of Crude Oil,

- (a) sold f.o.b. (or equivalent) at the Field Export Point in an arm's length transaction is the price payable for it;
- (b) sold other than f.o.b., or equivalent, at the Field Export Point in an arm's length transaction is the price payable for it, less such fair and reasonable proportion of such price that relates

- to the transportation and delivery of the Petroleum downstream of the Field Export Point; or
- (c) sold other than as mentioned in paragraphs 10.2(a) and 10.2(b) is the fair and reasonable market price thereof having regard to all relevant circumstances.

10.3 Value of Natural Gas

The value of Natural Gas is the price payable under Approved Contracts or as otherwise may be provided in the Development Plan or in this Agreement, with such fair and reasonable adjustments as required to reflect the point of valuation in Section 10.1.

10.4 Price Payable

In this Article 10, the price payable is the price that is (or would be) payable by the buyer if the Petroleum were delivered by the Contractors and taken by the buyer, without set off, counterclaim or other withholding of any nature.

Article 11 Payments

11.1 Fees

The Contractors shall pay to the Ministry fees and other payments as provided for in the Act, in accordance with the laws of Timor-Leste.

11.2 Payment Mechanism

All payments under this Agreement shall be made in United States Dollars, unless otherwise agreed, and 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 in London by the Financial Times or, if not so published, then as published in New York by The Wall Street Journal, current from day to day, plus five (5) 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 Agreement is terminated for any reason before the end of the third (3rd) Contract Year, the Contractor shall, on such termination, pay, to the Ministry, those fees and payments which it would have so paid under Section 11.1 if termination had not occurred until the end of the third (3rd) Contract Year.

Article 12 Provision of Goods and Services

12.1 Notice

- (a) Except with the consent of the Ministry, the Contractors shall draw to the attention of suppliers based in Timor-Leste, in such manner as the Ministry agrees, all opportunities for

the provision of goods and services for Petroleum Operations.

- (b) Subject to Section 12.2, the Contractors shall, before awarding any contract for goods or services, obtain the written approval of the Ministry. Ministerial approval shall be deemed thirty (30) days after written notice of an award is given by the Contractors, unless otherwise notified in writing to the Contractors.
- (c) The Contractors shall provide the Ministry, for information, with the full financial details of all contracts for goods and services, irrespective of the amount of the expenditure involved.

12.2 Contracts Not Requiring the Ministry's Approval

The Contractors may make contracts for goods and services for Petroleum Operations without the Ministry's consent (but not if for property to be leased to the Contractors) where:

- (a) the contract (or related series of contracts) is expected to involve expenditure of less than two million United States Dollars (USD \$2,000,000) or such other amount that may be specified by regulation; or
- (b) the contract (or related series of contracts) is expected to involve expenditure of less than five million United States Dollars (USD \$5,000,000) or such other amount that may be specified by regulation, and the goods or services are required in respect of a Development Plan, the cost of which is expected to exceed one hundred million United States Dollars (USD \$100,000,000) or such other amount that may be specified by regulation.

12.3 Tender Invitations

- (a) All invitations to tender made for the purpose of procuring goods and services shall be published in two (2) of the newspapers with broadest circulation in Timor-Leste or as agreed with the Ministry.
- (b) Notwithstanding Section 12.2, and except with the consent of the Ministry, all goods and services shall be procured on an arm's length basis by competitive tendering, and the Contractors, before inviting any tender for goods or services, shall consult with the Ministry in respect of:
 - (i) the list of bidders which the Contractors propose to invite to tender; and
 - (ii) the bid package to accompany the invitation, which shall include:
 - (aa) a draft contract;
 - (bb) the scope of work;
 - (cc) a technical proposal form;
 - (dd) a commercial proposal form; and
 - (ee) the basis upon which bids will be evaluated.

In addition, the Contractors shall submit a statement to the Ministry regarding the need for the goods or services concerned, and their relationship to the approved Work Programme and Budget, the estimated value of the contract and the contracting schedule.

- (c) If the Ministry grants an exception to the obligation at paragraph 12.2(a), it shall publish its

reasons for so doing.

- (d) Costs for goods and services procured on other than an arm's length basis the price payable for which is in excess of one hundred thousand United States Dollars (USD \$100,000) shall be established in accordance with the provisions of Annex C.

12.4 Emergencies

The foregoing provisions of this Article 12 do not apply in the circumstances mentioned in paragraph 4.7(b) to the extent they would hinder the Contractor from taking all necessary and proper measures as therein mentioned.

12.5 Other Information to be Provided

- (a) The Contractors shall submit to the Ministry copies of all contracts for the supply of goods and services promptly after their execution.
- (b) The Contractors shall, promptly after awarding a contract following a tender as mentioned in Section 12.3, provide the Ministry with a detailed report on the reasons for the award.
- (c) From time to time, if requested by the Ministry, the Contractors shall, upon completion of a contract, the price payable under which is in excess of one hundred thousand United States Dollars (USD \$100,000), submit to the Ministry an appraisal and completion report covering details of the actual expenditures made, and of the manpower, goods and services utilised, in the performance of the contract.
- (d) From time to time, if requested by the Ministry, the Contractors shall, within sixty (60) days after such request, submit to the Ministry, details of goods and services actually procured both from suppliers based inside and outside Timor-Leste.

Article 13 Title to Equipment

13.1 Property

- (a) Except with the consent of the Ministry, and subject to Section 13.2, all structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations, shall be and remain the property of the Contractors while so used or held for use.
- (b) Paragraph 13.1(a) does not apply to property leased to the Contractors, or leased by or belonging to third parties providing services, but without prejudice to Article 12.

13.2 Retention

- (a) The Ministry may, upon termination of this Agreement in respect of all or a part of the Contract Area, elect to acquire any property or other works as mentioned in paragraph 13.1(a) installed on, or used exclusively in respect of that area, by giving the Contractors a notice to that effect.
- (b) The Contractors shall have no further obligation or liability in respect of any property or other works acquired by the Ministry pursuant to paragraph 13.2(a) (but without prejudice to obligations and liabilities accrued prior thereto), and will repay, to the Ministry, all

amounts included in the Decommissioning Costs Reserve and claimed by the Contractors under Article 6 in respect of it before the acquisition, and shall claim no further such amounts in respect of it. Subject thereto, the Ministry shall pay to the Contractors an amount equal to the unrecovered actual costs of the property.

Article 14 Consultation and Arbitration

14.1 Arbitration

- (a) If a dispute arises between the Ministry and a Contractor relating to the interpretation or implementation of the terms of this Agreement, the parties shall attempt to resolve that dispute by means of negotiation.
- (b) If such a dispute cannot be resolved by negotiation, it shall be submitted to arbitration.

14.2 Procedure

Any arbitration between the Ministry and a Contractor shall be conducted in accordance with:

- (a) the 1965 Washington Convention, or the regulations and rules, of the International Centre for the Settlement of Investment Disputes (ICSID) between States and Nationals of other States;
- (b) the rules set out in the ICSID Additional Facility adopted on 27 September 1978 by the Administrative Council at the ICSID between States and Nationals of other States, whenever the foreign entity does not meet the requirements provided for in Article 25 of the Convention; or
- (c) the rules of such other international instances of recognised standing, (as agreed by the Parties, in respect of the conditions for implementation, including the method for the designation of the arbitrators and the time limit within which the decision must be made).

14.3 Obligations Continue During Arbitration

The obligations of the Parties under the Agreement shall continue pending the resolution of any matter submitted to arbitration.

Article 15 Financial and Technical Data, Records and Reports

15.1 Ownership

- (a) The Ministry shall have title to all technical data and information acquired in the carrying on, or as a result, of Petroleum Operations.
- (b) Paragraph 15.1(a) includes all data and information, whether raw, derived, processed, interpreted or analysed (including cores, cuttings, samples, and all geological, geophysical, geochemical, drilling, well, production and engineering data and information) that the Contractors collect and compile.

15.2 Records, Storage, Retrieval and Submission

- (a) Each Contractor shall keep full, complete and accurate books, accounts and other records of

Petroleum Operations and of the sale or other disposition of Petroleum, of the data and information mentioned in Section 15.1 and of all other financial, commercial, legal, operational, technical and other data and information acquired or generated for, or resulting, directly or indirectly, from, Petroleum Operations (including that relating to marketing and otherwise to the sale of Petroleum).

- (b) Each Contractor shall make the originals or copies of all such data, information and records available to the Ministry (or as it shall direct) at reasonable times at the Operator's offices in Timor-Leste, and shall promptly deliver the same to the Ministry (or as it directs) as and when, and in such manner as, the Ministry directs.
- (c) Without prejudice to paragraph 15.2(b), each Contractor shall store all such data and information as the Ministry, after consultation with the Contractor, reasonably directs, and otherwise in accordance with Good Oil Field Practice.
- (d) Each Contractor may retain copies of all such data and information and records delivered to the Ministry (or as it shall direct) for use in or in relation to Petroleum Operations in compliance with obligations under law, but not otherwise without the consent of the Ministry.
- (e) Except with the consent of the Ministry, or as required by law or the rules of a recognised stock exchange, a Contractor may not sell or disclose any such data, information and records.

15.3 Reports

The Contractors shall provide the Ministry with such reports as are mentioned in Annex C and as the Ministry otherwise directs.

15.4 Export of Data and Information

No such data, information and records shall be taken out of, or transmitted from or stored outside, Timor-Leste without the consent of the Ministry. Such consent shall not be withheld if resources for the processing, interpretation or analysis thereof are not available in Timor-Leste, if the data, information and records are promptly returned to Timor-Leste and accurate copies (or useable and representative samples) are retained in Timor-Leste.

15.5 Use of Data and Information

- (a) The Ministry may make such use as it wishes of the data and information mentioned in this Article 15, and nothing in Sections 15.6 or 15.7 prevents the Ministry using data and information for the purposes of general statistical and other general reporting (publicly or otherwise) on its activities.
- (b) Except with the consent of the Ministry, the Contractors may only use the data and information mentioned in Section 15.1 for its Petroleum Operations or for an application for an Authorisation.

15.6 Confidentiality of Data and Information

- (a) The Ministry shall not publicly disclose or make available, other than as required by the Act or for the purpose of the resolution of disputes under this Agreement, any data or information mentioned in Section 15.1 until the earlier of:
 - (i) five (5) years after it was acquired by the Contractors; and

- (ii) this Agreement ceasing to apply in respect of the point at or in respect of which it was acquired.
- (b) Except with the consent of the Ministry, a Contractor shall not disclose the data or information mentioned in Section 15.1 other than:
 - (i) to its employees, agents, contractors and affiliates to the extent necessary for the proper and efficient carrying on of Petroleum Operations;
 - (ii) as required by law;
 - (iii) for the purpose of the resolution of disputes under this Agreement; or
 - (iv) as required by a recognised stock exchange.

The Contractors shall procure that a person mentioned in sub-paragraph 15.6(b)(i) maintains the data and information disclosed to it confidential in the terms of this Article 15.

15.7 Trade Secrets

- (a) Notwithstanding Section 15.6, the Ministry shall not publicly disclose or make available, other than as required by the Act or for the purpose of the resolution of disputes under this Agreement, any data or information submitted to it by a Contractor, which:
 - (i) is a trade secret of, or data and information the disclosure of which would, or could reasonably be expected to, adversely affect, the Contractor in respect of its lawful business, commercial or financial affairs; and
 - (ii) was clearly marked as such when it was submitted to the Ministry.
- (b) Without prejudice to sub-paragraph 15.7 (a)(i):
 - (i) the Ministry may, at any time and from time to time, serve notice on a Contractor requiring it to show cause, within the time specified for the purpose in the notice, why the data and information which it has marked pursuant to sub-paragraph 15.7 (a)(ii) should still be considered a trade secret or other information as mentioned in that paragraph; and
 - (ii) if the Contractor does not show cause within that time, the data and information shall no longer be a trade secret or other such information for the purposes of this Section 15.7.

15.8 Public Announcement

Except with the consent of the Ministry, or as required by law or the rules of a recognised stock exchange, an Operator or Contractor shall not make any public statement about this Agreement or the Petroleum Operations. In no event shall such a public statement state or imply that the Ministry approves or agrees with its contents.

Article 16 Management of Operations

16.1 Constitution of Committee

For the purpose of this Agreement there will be a committee consisting of [●] representatives from the Ministry, one of whom shall be the chairman, and the same number of representatives from the Contractors, and if more than one Contractor, at least one representative from each Contractor, as nominated by the Ministry and the Contractors, respectively. For each of its representatives, the Ministry and the Contractors may nominate an alternate to act in the absence of the representative.

16.2 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. There shall be at least one meeting of the Committee for each of the following purposes:
 - (i) examining the Work Programmes and Budgets for the following year which the Contractors are required to submit under Article 4; and
 - (ii) reviewing any proposed or agreed amendments to a Work Programme and Budget; reviewing the progress of Petroleum Operations under the current Work Programmes and Budgets; and discussing any other matter relating to Petroleum Operations.
- (b) The Contractors 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

17.1 Third Party Access

- (a) The Contractors shall provide for third party access to the structures, facilities, installations, equipment and other property within the Contract Area on reasonable terms and conditions.
- (b) The Contractors shall use all reasonable efforts to negotiate a satisfactory agreement for third party access, and where mutual agreement can not be reached, the Ministry shall set the terms for such third party access in accordance with internationally accepted principles.

Article 18 Audit

18.1 Independent Audit

The Ministry may require, at the Contractor's cost, an independent audit (starting, except in the case of manifest error or fraud, within twenty four (24) months after the end of the Calendar Year, and concluding within twelve (12) months of this start) of the Contractor's books and accounts relating to this Agreement for any Calendar Year. The Contractor shall forward a copy of the independent auditor's report to the Ministry within sixty (60) days following the completion of the audit.

18.2 Ministry Audit

The Ministry may inspect and audit (by itself or as it directs), and at its own cost, the Contractor's

books and accounts relating to this Agreement for any Calendar Year (starting within twenty four (24) months after the end of the Year, and concluding within twelve (12) months of this start).

18.3 Exceptions

- (a) All audit exceptions shall be raised by the Ministry within six (6) months after receipt of the independent auditor's report by the Ministry or completion of the audit by the Ministry (or as it directed), as the case may be, failing which the Contractor's books and accounts shall be conclusively deemed correct except in the case of manifest error or fraud.
- (b) The Contractor shall fully respond to an audit exception within sixty (60) days of its being raised, failing which the exception shall be deemed accepted.
- (c) Adjustments required among the Parties as a consequence of an audit shall be made promptly.

18.4 Contractor to Assist

The Contractors shall fully and expeditiously assist and cooperate with audits.

18.5 Affiliates

The foregoing provisions of this Article 18 apply in respect of Affiliates of the Contractors. The Contractors shall use its best endeavours to procure that its Affiliates comply with them (at the Contractor's expense in regard to an audit as mentioned in Section 18.1).

Article 19 Indemnity and Insurance

19.1 Indemnity

The Contractors shall defend, indemnify and hold harmless the Ministry from all claims of whatsoever nature which are brought against the Ministry by any third party directly or indirectly in respect of Petroleum Operations, and all costs, expenses and liabilities incurred by the Ministry as a consequence thereof. The Ministry shall give the Contractors prompt notice of any such claim and shall not settle it without the prior consent of the Contractors.

19.2 Insurance

- (a) The Contractors shall take out and maintain insurance on a strict liability basis in respect of its obligations under Section 19.1 and in respect of such other matters as the Ministry requires (including in respect of pollution), for such amounts as the Ministry requires from time to time and otherwise as required by Good Oil Field Practice.
- (b) All such insurances shall name Timor-Leste as co-insured, and shall contain waivers of subrogation in its favor.

Article 20 Force Majeure

20.1 Force Majeure Relief

- (a) Subject to the further provisions of this Article 20, a Party shall not be liable for any failure to perform an obligation under this Agreement to the extent such performance is prevented,

hindered or delayed by events or circumstances which are beyond its reasonable control and the effects of which could not (including by reasonable anticipation) and cannot reasonably be avoided or overcome by it (“Force Majeure”).

- (b) Notwithstanding paragraph 20.1(a), the following shall not be Force Majeure:
- (i) failure to pay money;
 - (ii) in the case of the Contractors, the 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 law, or any action or inaction of the government, of Timor-Leste;
 - (iv) in the case of the Contractors, any failure to deliver and maintain a Security or to obtain and maintain insurance as required by this Agreement; and
 - (v) in the case of the Contractors, strikes, lockouts and other industrial disturbances of the Operator's (or of its agents' and sub-contractors') employees and not part of a wider industrial dispute materially affecting other employers.

20.2 Procedure

A Party claiming Force Majeure shall:

- (a) notify the other Party as soon as reasonably practicable of the event or circumstance concerned, and of the extent to which performance of its obligations is prevented, hindered or delayed thereby;
- (b) keep the other Party fully informed as to the actions taken, or to be taken, by it to overcome the effects thereof, and, from time to time, provide it with such information and permit it such access, as it may reasonably require for the purpose of assessing such effects and the actions taken or to be taken; and
- (c) resume performance of its obligations as soon as reasonably practicable after the event or circumstance no longer exists.

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 Third Parties

Where a Party enters into an agreement in relation to this Agreement with a third party, a failure by the third party to perform an obligation under that agreement shall be Force Majeure affecting that Party only if performance of that obligation was prevented, hindered or delayed by events or circumstances which (if the third party were party to this Agreement in the capacity of the Party concerned) would (in accordance with the provisions of this Article 20) be Force Majeure affecting it.

20.5 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 Agreement.

Article 21 Restrictions on Assignment and Change in Control

21.1 Assignment

- (a) Except with the consent of the Ministry, no assignment or other dealing by a Contractor in respect of this Agreement shall be of any force or effect.
- (b) Paragraph 21.1(a) includes any assignment, transfer, conveyance, novation, merger, encumbering or other dealing in any manner whatsoever or howsoever (whether legally, beneficially or otherwise, and whether conditionally or not) by a Contractor with:
 - (i) this Agreement, or all or any part of its rights, interests, benefits, obligations and liabilities under it;
 - (ii) Petroleum which has not then been, but might be, recovered in the Contract Area, or any proceeds of sale of such Petroleum; and
 - (iii) anything whereby this Agreement, that Petroleum or any of those rights, interests and benefits would, but for this Section 21.1, be held for the benefit of, or be exercisable by or for the benefit of, any other person.
- (c) Paragraph 21.1(a) does not apply to an agreement for the sale of Crude Oil under which the price therefor is payable (or such Crude Oil is exchanged for other Petroleum) after title thereto has passed to the Contractor.
- (d) If, notwithstanding paragraphs 21.1(a) and (b), any assignment or other dealing is effective by the laws of Timor-Leste, or any other place without that consent, the Ministry may terminate this Agreement.
- (e) The Ministry may not consent to a dealing which would result in a person other than a limited liability corporation, or an entity with limited liability, specifically established for the sole purposes of this Agreement, becoming a Contractor, and any consent otherwise is of no force or effect.
- (f) For the purposes of the foregoing, encumbrance includes any mortgage, charge, pledge, hypothecation, lien, assignment by way of security, title retention, option, right to acquire, right of pre-emption, right of set off, counterclaim, trust arrangement, overriding royalty, net profits interest, or any other security, preferential right, equity or restriction, any agreement to give or to create any of the foregoing and any transaction which, in legal terms, is not a secured borrowing but which has an economic or financial effect similar to that of a secured borrowing.

21.2 Change in Control

- (a) Except with the consent of the Ministry, if:
 - (i) there is a change in control of a Contractor;
 - (ii) within thirty (30) days after a Contractor has advised the Ministry in reasonable detail of the change in control, the Ministry serves notice on the Contractor that it will terminate this Agreement unless such a further change in control of the

Contractor as is specified in the notice takes place within the period specified in the notice; and

(iii) that further change in control does not take place within that period;

the Ministry may terminate this Agreement.

- (b) Paragraph 21.2(a) does not apply if the change in control is the direct result of an acquisition of shares or other securities listed on a recognised stock exchange.
- (c) For the purposes of paragraph 21.2(a), “change in control” includes a person ceasing to be in Control (whether or not another person becomes in Control), and a person obtaining Control (whether or not another person was in Control).

Article 22 Other Provisions

22.1 Notices

- (a) Any notices required to be given by any Party to another Party shall be served in accordance with the Act.
- (b) All notices to be served on a Contractor shall be addressed to its office.

22.2 Language

This Agreement 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 Contractors. Both the Portuguese and English text are binding. However, the Portuguese text will prevail in the case of conflict.

22.3 Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of Timor-Leste.

22.4 Third Party Rights

Unless specifically provided in this Agreement (including in Article 17), the Parties do not intend that any term of this Agreement be enforceable by any person who is not a Party to this Agreement.

22.5 Amendments/Modification

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

22.6 Entire Agreement

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

IN WITNESS WHEREOF, the Parties have executed this Agreement.

For Timor-Leste

BY: _____

•

BY: _____

•

BY: _____

[CONTRACTOR]

Annex A – Contract Area Description

Annex B – Map of the Contract Area

Annex C – Accounting Procedure

Clause 1 – General Provisions

1.1 Purpose and Definitions

- (a) The purpose of this Annex C is to further define the manner in which the costs and expenses of Petroleum Operations will be recorded, Recoverable Costs will be determined, and each 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 Agreement 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 generally accepted accounting procedures and standards of the international petroleum industry and in accordance with the charts of accounts mentioned in paragraph 1.2(b).
- (b) Within sixty (60) days after the Effective Date, each Contractor shall submit to the Ministry, for its approval, an outline of charts of accounts, books, records and reports to be used for the purposes of paragraph 1.2(a) and for reporting to the Ministry thereon.

1.3 Language and Units of Account

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

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 Exploration Work Programme and Budget, but without prejudice to Section 4.7 of the Agreement, including costs of:

- (a) drilling wells (and related abandonment and site remediation thereof);
- (b) surveys, including labour, materials and services (including desk studies and analysis of survey data) used in aerial, geological, geochemical, geophysical and seismic surveys, and core hole drilling;
- (c) auxiliary or temporary facilities;
- (d) workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- (e) floating craft, automotive equipment, furniture and office equipment; and
- (f) if approved by the Ministry, employee and welfare housing, recreational, educational, health and meals facilities, and other similar costs necessary for Exploration.

2.2 Appraisal Costs

Appraisal Costs are those Exploration 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 substantially in accordance with an approved Development Work Programme and Budget, but without prejudice to Section 4.7 of the Agreement, 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, all other equipment, facilities and modules on platforms, treating plants and equipment, secondary recovery systems;
- (e) pipelines and other facilities for transporting Petroleum produced in the Contract Area to the Field Export Point;
- (f) movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment;
- (g) floating craft, automotive equipment, furniture and office equipment; and
- (h) if approved by the Ministry, employee and welfare housing, recreational, educational,

health and meal facilities, and other similar costs necessary for the Development.

2.4 Operating Costs

Operating Costs are, in respect of a Development Area and after the start of Commercial Production from it, those costs of an operating nature which directly relate to the Development thereof, or to the production of Petroleum therefrom, and are incurred in respect of activities carried out substantially in accordance with an approved Development Work Programme and Budget, but without prejudice to Section 4.7 of the Agreement.

2.5 Decommissioning Costs Reserve

Decommissioning Costs Reserve is the amount determined in accordance with Article 4.12(d).

2.6 Uplift

Uplift is the amount which, when compounded quarterly, is equal to the average for the business days of the Quarter of the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds) plus an annual margin of eleven (11) percentage points.

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 and Appraisal wells;
 - (ii) amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;
 - (iii) amounts received by the each Contractor under an insurance policy, the premiums of which are Recoverable Costs, in respect of damage to or loss of property;
 - (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;
 - (vii) amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs; and
 - (viii) 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
- (b) the value of property, the cost of which is a Recoverable Cost, when that property ceases to be used in Petroleum Operations;

2.8 Ineligible Costs

Ineligible Costs are:

- (a) interest (or any payment in the nature of, in lieu of, or having the commercial effect of, interest) or other cost under, or in respect of, a Loan Facility;
- (b) foreign exchange and currency hedging costs;
- (c) 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 Act;
- (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 Agreement and payments associated with the acquisition of an interest under this Agreement;
- (h) payments of taxes under the taxation law of Timor-Leste, and all other taxes on income, profit or gain wherever arising;
- (i) payments of administrative accounting costs, and other costs indirectly associated with Petroleum Operations;
- (j) except with the consent of the Ministry, costs incurred in respect of Petroleum after it has passed the Field Export Point;
- (k) costs incurred as a result of non-compliance by a Contractor with the law or this Agreement, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of a Contractor, its agents or sub-contractors, 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;
- (l) payment of compensation or damages under this Agreement;
- (m) costs relating to the settlement of disputes, which are not approved in advance by the Ministry, including all costs and expenses of arbitration or litigation proceedings under this Agreement;
- (n) Decommissioning Costs actually incurred which have been taken into account for the purposes of determining the Decommissioning Costs Reserve;
- (o) payments under Article 11 of this Agreement;
- (p) audit fees and accounting fees (excluding fees and expenses incurred for the conduct of audit and accounting services required by this Agreement) 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);
- (q) 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 structures, facilities,

installations; equipment or other property, or of other works;

- (r) except with the consent of the Ministry, costs, including donations, relating to public relations or enhancement of the Party's corporate image and interests;
- (s) costs associated with local offices and local administration, including staff benefits, which are excessive;
- (t) costs which are not adequately supported and documented;
- (u) except with the consent of the Ministry, but subject to Section 4.7 of the Agreement, costs not included in a budget for the relevant year;
- (v) costs not falling within any of the above items which are stated elsewhere in this Agreement not to be recoverable (including in Article 2.1(d)), or costs incurred without the consent or approval of the Ministry (where such is required).

2.9 Other Matters

- (a) The methods mentioned in this Clause 2.9 will be used to calculate Recoverable Costs.
- (b) Depreciation is not a Recoverable Cost.
- (c) 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.
- (d) Inventory levels shall be in accordance with Good Oil Field Practice. The value of inventory items not used in Petroleum Operations, or sold, the cost of which has been recovered as an Operating Cost, shall be treated as Miscellaneous Receipts. The cost of an item purchased for inventory shall be a Recoverable Cost at such time as the item is incorporated in the works.
- (e) Where the cost of anything, or a receipt (or value) in respect of anything, relates only partially to the carrying out of Petroleum Operations, only that portion of the cost or the receipt (or value) which relates to the carrying out of Petroleum Operations will be a Recoverable Cost or assessed as a Miscellaneous Receipt. Where any cost or related receipt (or value) relates to more than one of Exploration, Appraisal, Capital and Operating Costs, or to more than one Development Area, the cost or related receipt (or value) will be apportioned in an equitable manner.

Clause 3 – Costs, Expenses and Credits

Subject as otherwise provided in this Agreement, 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 Agreement.

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 law or customary practice therein. 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 Agreement, 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.
- (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 under paragraph 3.2(b).
- (d) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of Timor-Leste which are applicable to the Contractor's cost of salaries and wages chargeable under paragraph 3.2(b).
- (e) The Contractor's cost of established plans for employees' group life insurance, hospitalisation, pension, stock purchases, savings, bonus and other benefit plans of a like nature customarily granted to the Contractor's employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under paragraph 3.2(b).
- (f) Reasonable transportation and travel expenses of employees of the Contractor, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to Timor-Leste whose salaries and wages are chargeable to Petroleum Operations under paragraph 3.2(b).

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 section 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 activities which have benefited from the personnel concerned.

- (g) 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

- (i) Professional and Administrative Services Expenses: cost of professional and administrative services provided by any Affiliates of the Contractor for the direct benefit of Petroleum Operations, including services provided by the production, exploration, legal, financial, insurance, accounting and computer services, divisions other than those covered by paragraph 3.4(b)(ii) or Clause 3.6 or 3.8(b) which the Contractor may use in lieu of having its own employees. Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favourable than similar charges for other operations carried on by the Contractor and its Affiliates. 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 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 agreement with the Ministry.

3.5 Communications

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

3.6 Office, Storage and Miscellaneous Facilities

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

3.7 Ecological and Environment

- (a) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources.
- (b) Costs incurred in environmental or ecological surveys required by this Agreement or regulatory authorities.
- (c) Costs to provide or have available pollution containment and removal equipment.
- (d) Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations.
- (e) 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) Components of costs, arm's length transactions – except as otherwise provided in paragraph 3.8(c), material purchased by the Contractor in arm's length transactions in the open market for use in the Petroleum Operations shall be valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the Contractor has arranged the purchase, coordinated the forwarding and expediting effort, a fee equal to four (4) percent of the value of the materials may be added to the cost of the materials purchased.
- (b) Accounting – such material costs shall be charged to the Accounting Records and books in accordance with the “First in, First out” (FIFO) method.
- (c) Material purchased from or sold to Affiliates of the Contractor or transferred from other activities of the Contractor to or from Petroleum Operations shall be valued and charged or credited at the prices specified in paragraphs 3.8(c)(i), 3.8(c)(ii) and 3.8(c)(iii).
 - (i) New material, including used new material moved from inventory (Condition “A”), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
 - (ii) Used material (Conditions “B”, “C” and “D”):
 - a. Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition “B” and priced at seventy-five per cent (75%) of the current price of new material defined in paragraph 3.8(c)(i);
 - b. Material which cannot be classified as Condition “B”, but which after

reconditioning will be further serviceable for its original function, shall be classified as Condition “C” and priced at not more than fifty per cent (50%) of the current price of new material as defined in paragraph 3.8(c)(i); the cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition “C” material plus the cost of reconditioning does not exceed the value of Condition “B” material;

- c. Material which cannot be classified as Condition “B” or Condition “C” shall be classified as Condition “D” and priced at a value commensurate with its use by the Contractor. If material is not fit for use by the Contractor it shall be disposed of as junk.
- (iii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in paragraph 3.8(c)(i).
- (iv) When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price as provided for in paragraph 3.8(c)(ii)(b), such material shall be priced on a basis that will result in a net charge to the accounts under this Agreement 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 Agreement).

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 failure to insure where insurance coverage is required pursuant to this Agreement, actual costs and losses incurred shall be allowable to the extent not made good by insurance. Such costs may include repair and replacement of property resulting from damages or losses incurred by fire, flood, storm, theft, accident or other cause.

3.11 Legal Expenses

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving

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

3.12 Claims

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

3.13 Training Costs

All costs and expenses incurred by the Contractor in the training of its employees engaged in Petroleum Operations, and such other training as is required by this Agreement.

3.14 General and Administrative Costs

The costs described in Clause 2.9(c).

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.

3.16 Duplication

There shall be no duplication of charges and credits.

Clause 4 – Inventories

Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three years with respect to immovable assets. The Contractor shall give the Ministry at least thirty (30) days written notice of its intention to take such inventory and the Ministry shall have the right to be represented when such inventory is taken. The Contractor shall clearly state the principles upon which valuation of the inventory has been based. The Contractor shall make every effort to provide to the Ministry a full report on such inventory within thirty (30) days of the taking of the inventory. When an assignment of rights under this Agreement 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.

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 statement shall be expressed in both volumetric terms (barrels of Crude Oil and cubic meters of Natural Gas) and in weight (metric tonnes).

5.2 Submission of Production Statement

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

Clause 6 – Value of Production and Pricing Statement

6.1 Value of Production and Pricing Statement Information

The Contractor shall, for the purposes of Article 7 of the Agreement, prepare a Value of Production and Pricing Statement providing calculations of the value of Crude Oil and Natural Gas produced and saved during each Quarter. This Value of Production and Pricing Statement shall contain the following information:

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

6.2 Submission of Value of Production and Pricing Statement

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

Clause 7 – Cost Recovery Statement

7.1 Quarterly Statement

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

- (a) Recoverable Costs carried forward from the previous Quarter;
- (b) Recoverable Costs for the Quarter in question;
- (c) Credits under the Agreement for the Quarter in question;
- (d) Total Recoverable Costs for the Quarter in question (paragraphs 7.1(a) plus 7.1(b) less 7.1(c));
- (e) quantity and value of the Contractor's share of Petroleum under Article 7 of the Agreement in the Quarter in question; and
- (f) amount of Recoverable Costs to be carried forward into the next Quarter (paragraph 7.1(d) less paragraph 7.1(e)).

7.2 Preparation and Submission of Cost Recovery Statements

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

7.3 Annual Statement

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

Clause 8 – Statements of Expenditure and Receipt

8.1 Quarterly Statement

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

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

The Statement of Expenditure and Receipts of each Quarter shall be submitted to the Ministry no later than 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 Agreement. 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.