

MODEL

PRODUCTION SHARING CONTRACT
FOR THE ONSHORE OF TIMOR-LESTE

CONTRACT AREA – ONSHORE [●]

[-----] 2020

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PRODUCTION SHARING CONTRACT

This Contract is a production sharing contract to be entered into pursuant to the provisions of the Petroleum Activities Law (Law No. 13/2005, of 2 September 2005, as amended by Law No. 1/2019, of 18 January 2019, and Law No. 6/2019, of 4 December 2019);

BY AND BETWEEN

Autoridade Nacional do Petróleo e Minerais Timor-Leste, a public institute established by Decree-Law No. 20/2008, of 19 June 2008, as amended by Decree-Law No. 1/2016, of 9 February 2016, and Decree-Law No. 27/2019, of 27 August 2019, in its capacity as regulatory authority for the oil and gas industry and in representation of the State of the Democratic Republic of Timor-Leste, pursuant to Articles 3.1 and 26.1 of the Decree-Law No. 20/2008, of 19 June 2008 (hereinafter referred to as “ANPM”);

AND

[insert company name] a company organized and existing under the laws of [insert place of incorporation] with registration number [insert company registration number], having its headquarters in [insert address] (hereinafter referred to as the “Contractor”).

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

Whereas:

- (A) Title to, and control over, petroleum resources existing within the Territory of Timor-Leste is vested in Timor-Leste;
- (B) The Government wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the Government in doing so;
- (C) ANPM has powers to conclude petroleum contracts for the benefit of the people and amongst other, for the sustainable development of Timor-Leste;
- (D) The Contractor has the financial capability, the technical knowledge, and technical ability to carry out Petroleum Operations in a manner wholly consistent with the Petroleum Activities Law and this Contract, and does not have a record of non-compliance with principles of good corporate citizenship; and
- (E) ANPM and the Contractor agree to enter into this Contract to enable the Exploration, Development and Production of Petroleum in the Contract Area;

NOW, THEREFORE, it is agreed:

1.1 Definitions

In this Contract capitalised terms not defined in the Contract have the meaning given to those terms in the Petroleum Activities Law. Unless otherwise clearly stated herein, the following words and expressions shall have the following meaning:

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

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

"Appraisal" means all works carried out by the Contractor under this Contract following a Discovery, for the purpose of determining the quantity and quality of recoverable Petroleum in, and the size, extent and commerciality of, one or more Reservoirs;

"Appraisal Costs" has the meaning given to it in Clause 2.2 of Annex C;

"Appraisal Period" means the period of time granted to the Contractor to carry-out and complete a Work Program of Appraisal;

"Approved Contract" means a contract entered into by Contractor with the prior approval of ANPM as a part of a Development Plan;

"Assignment" means any assignment, transfer, conveyance, bifurcation of title, novation, change in Control, merger, encumbrance or other dealing in any manner whatsoever or howsoever whether legally, beneficially or otherwise, and whether conditionally or not by a Contractor of:

- (a) the Contract, or all or any part of its rights, interests, benefits, obligations and liabilities under it;
- (b) Petroleum which has not then been, but might be, recovered in the Contract Area, or any proceeds of sale of such Petroleum; and
- (c) anything whereby the Contract, any of the rights, interests and benefits thereunder or such Petroleum as mentioned in (ii) above may, except under Article 16, be held for the benefit of, or be exercisable by or for the benefit of any other Person; excluding agreements for the sale or exchange of Crude Oil where the sale or exchange occurs after title thereto has passed to the Contractor. The terms "Assign", "Assignor" and "Assignee" shall be construed accordingly;

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

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

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

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

"Commercial Discovery" means a Discovery which, as determined in accordance with the Applicable Law in Timor-Leste and the provisions of this Contract, can be commercially exploited in accordance with Good Oil Field Practice;

"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 ANPM 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 to it in Article 19.2;

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

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

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

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

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

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

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

"Decommissioning Cost Reserve" means the total accumulated decommissioning cost calculated on an annual basis and added to form the decommissioning fund;

"Decommissioning Fund" has the meaning ascribed to it in Article 6.5(a);

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

"Development and Production Period" means the period of time granted to the Contractor for the Development and Production of a Commercial Discovery;

"Development Area" means the extent of the whole area, within the Contract Area, capable of Production from the Reservoir or Reservoirs identified in a Commercial Discovery as agreed upon between ANPM and Contractor following such Commercial Discovery;

"Development Plan" means a plan for a given Development Area as better described in Article 5.1;

"Development Well" means a Well that is drilled in a Field or Reservoir for the purpose of the: (i) production of fluids from the Well; (ii) observation of the performance of a Reservoir; (iii) injection of fluids into the Well; and/or (iv) disposal of fluids into the Well;

"Discovery" means any occurrence of Petroleum in the Contract Area, independent from quantity, quality or commercial viability, verified by at least two detection and/or evaluation methods;

"Drilling Operations" means the drilling of a Well, or test hole, and which may include other activities such as on-site preparation, spudding, data acquisition, monitoring, Well control, modification,

plugging and completion of a Well, but excludes any workovers in a Well;

"Effective Date" means the date in which all conditions precedent of this Contract, set forth in Article 2.2, are satisfied or met;

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

"Exploration" or "Exploration Operations" means any exploration activities, including geological, geophysical, geochemical and other surveys, investigations and tests, or drilling of Exploration Wells or Appraisal Wells and all related activities;

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

"Facility" or "Facilities" means any structure or equipment that:

- (a) is used or constructed for Petroleum Operations; and
- (b) carries or contains Petroleum products or includes equipment for drilling, or for carrying out other operations in connection with a Well, from the structure. Such Facility shall include without limitation, Production facilities and any pipeline system, processing facilities, storage facilities and terminal facilities connected to Wells;

"Field Export Point" means the point at which the Petroleum produced under the Contract, 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 to it in Article 23.1;

"Gas Retention Area" means an area declared as such, in accordance with Article 3.5;

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

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

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

"Local Content" means the added value brought to Timor-Leste in all phases of Petroleum Operations through workforce development, employment of Timorese citizens, investments in Timor-Leste Suppliers capability development, transfer of knowledge and technology, research capability development and procuring of Timor-Leste Goods and Timor-Leste Services;

"Local Content Proposal" means a proposal for Local Content submitted together with Contractor's application for to award of this Contract, an Authorisation, a Development Plan and/or a Decommissioning Plan;

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

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

"Measurement Point" means the location in any Contract Area or elsewhere in the territory of Timor-Leste as specified in the Development Plan, where the Petroleum is metered and delivered for transportation;

"Minimum Exploration Work Requirements" means the compulsory minimum work requirements (including both work activities and expenditure) for each Period of Exploration, as set out in Articles 4.4, 4.5 and 4.6;

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

"MMscf" means Million Standard Cubic Feet;

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

"Operational Information" means the details and reports of environmental impact assessment, environmental management plans, and any other environmental management programs, assessments, annual environmental management reports or similar reports, as may be required under the Contract or the Applicable Law in Timor-Leste;

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

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

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

"Period" means the initial Period, the second Period or the third Period (or any of them, as the case may be) as set out, respectively, in Articles 4.4, 4.5 and 4.6;

"Petroleum Activities Law" means the Law No.13/2005, of 2 September 2005, as amended by Law No. 1/2019, of 18 January 2019, and Law No. 6/2019, of 4 December 2019;

"Plan" means any concept or proposal to facilitate Petroleum Operations;

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

"Production Facilities" means all Facilities involved in the recovery, Development, Production, handling, Field level processing, treatment, transportation or disposal of Petroleum or any associated substances or wastes, along with all Facilities for water, power, accommodation or access that may be necessary for the undertaking the Production Operations, excluding pipelines;

"Production Operations" means any operations related to the Development of a Field or Reservoir, the Production, recovery, transport, treatment, processing and separation of Petroleum or the construction, installation, operation or maintenance of Production Facilities, but shall exclude Exploration Operations, Drilling Operations, and other operations such as the construction and operation of

pipelines.

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

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

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

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

"Quarter" means a period of three (3) consecutive months commencing on the first Day of January, April, July or October of any Calendar Year, and "Quarterly" shall have the corresponding meaning;

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

"Review Period" has the meaning given to it in Article 21.7 (b);

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

"Security" means:

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

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

"TIMOR GAP" means TIMOR GAP - Timor Gás & Petróleo, E.P.;

"Timor-Leste Goods" means materials, equipment, machinery and consumer goods mined, grown or produced in Timor-Leste satisfying one of the following conditions:

- (a) hundred (100) percent designed, engineered and manufactured in Timor-Leste;
- (b) partly designed, engineered and manufactured in Timor-Leste, provided the total cost of the local materials, labour and services used to produce the item is of no less than fifty (50) percent of the final cost of the finished product; and
- (c) assembled in Timor-Leste using parts originated from imports goods already subject to customs duties and involving local labour.

"Timor-Leste Services" means services supplied by a Timor-Leste Supplier;

"Timor-Leste Supplier" means a legal or physical Person (i) whose business entity is incorporated or otherwise organised under the laws of Timor-Leste; or (ii) whose principal place of business is located in Timor-Leste; or (iii) is more than 50% (fifty per cent) owned and controlled by Timor-Leste's citizens, which supplies services and/or goods for the Petroleum Operations;

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

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

"Washington Convention or ICSID Convention" means the 1965 Convention on the Settlement of

Investment Disputes between States and Nationals of Other States;

"Work Program" and "Work Program and Budget" means a work program for Petroleum Operations and a budget for carrying out such work program, duly approved by ANPM in accordance with this Contract and the Applicable Law in Timor-Leste;

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

1.2 Headings

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

1.3 Further Interpretation

In this Contract, unless the context otherwise requires:

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

1.4 Annexes

The annexes and schedules are incorporated into and form part of this Contract, but if there is a conflict between the terms of any annex or schedule and the terms of this Contract, the terms of this Contract shall prevail.

Article 2 Scope and Term

2.1 Scope

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

2.2 Conditions Precedent

- (a) This Contract is conditional on:
 - (i) the appointment of an Operator in accordance with Article 19.1;
 - (ii) in case Contractor is composed by more than one Person, the conclusion and signing of a Joint Operating Agreement between them, such Joint Operating Agreement coming into force and effect upon its approval by ANPM;
 - (iii) the provision by the Contractor to ANPM of a Security in the form of bank guarantee as in schedule C and with such content as is satisfactory to ANPM for the performance of the Contractor's Minimum Exploration Work Requirements;
 - (iv) the Contractor providing ANPM with a Security in the form of Parent Company guarantee with a content to ANPM's satisfaction, for the performance of Decommissioning obligations, substantial in the form set forth in schedule B;
 - (v) the Contractor evidencing, to ANPM's satisfaction, that it has complied with its obligations under Article 22.3 on insurance.
- (b) If the conditions set forth in Article 2.2(a) above are not fulfilled before the sixtieth (60th) Day after the date of execution of this Contract, this Contract shall be deemed as immediately terminated, ceasing to be in force and effect.

2.3 Effective Date and Term

- (a) This Contract shall commence on the Effective Date and shall terminate on the date of one of the following events, whichever occurs first:

- (i) the whole Contract Area is relinquished pursuant to Article 3;
 - (ii) the Parties mutually agree in writing to terminate it;
 - (iii) it is terminated pursuant to Article 2.4 below; or
 - (iv) at expiry of its maximum term, as set forth thereunder and/or in the Applicable Law in Timor-Leste.
- (b) Subject to ANPM's prior approval and provided the Contractor notifies ANPM for such purpose, in writing, at least one (1) year prior to the expiry of this Contract, Contractor shall have the option to extend its term in relation to any Development Area for the periods set forth in the Applicable Law in Timor-Leste.

2.4 Grounds for Termination

ANPM may terminate this Contract by written notice to Contractor:

- (a) immediately, if:
 - (i) a Person comprising the 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 the Parent Company of any Person comprising the Contractor;
 - (iii) a receiver is appointed or an Encumbrancer takes possession of a majority of the assets or undertaking of any Person comprising the Contractor; or
 - (iv) a Contractor or any Person comprising the Contractor ceases or threatens to cease to carry out its business or an enforcement action is made against all or a majority of its property and is not lifted, discharged or otherwise cancelled within fourteen (14) Days.
- (b) If the Contractor:
 - (i) has committed a material breach of any agreed Plan, program, Authorization, approval, condition or term to which this Contract is subject to;
 - (ii) has not complied with the Applicable Law in Timor-Leste;
 - (iii) has provided information to ANPM or the Ministry in connection with this Contract or in order to obtain this Contract which it knew, or ought reasonably to have known, or believed to be false; or
 - (iv) has not paid any amount due under the Applicable Law in Timor-Leste or under this Contract within a period of three (3) months after the Day in which such amount became due and payable.
- (c) For the purposes of Article 2.4(b) above, ANPM must notify Contractor with a minimum thirty (30) Days prior notice, during which Contractor shall be entitled to either remedy the fault or breach to ANPM's satisfaction or provide the latter with any documentation or information it may deem relevant for ANPM to reverse the termination decision.

- (d) After reviewing the remedies implemented and/or the documentation and information provided by the Contractor, ANPM shall notify Contractor of its final decision in relation to the termination of the Contract, which shall produce immediate effects. In the absence of any remedies and/or provision of documentation or information by the Contractor within the thirty (30)-Day period set forth in Article 2.4(c) above, the termination shall become effective and produce full effects in the date initially indicated in ANPM's termination notification.
- (e) If Contractor is composed by more than one Person, ANPM may, at its sole discretion, terminate this Contract solely in relation to the Person or Persons whose acts or omissions (or in relation to whom acts, omissions or events occurred which) caused the fault or breach, provided:
 - (i) it is satisfied that the other Persons comprising the Contractor did not connive in such acts, omissions or events, and could not have reasonably prevented them occurring;
 - (ii) it is satisfied that it is fair and reasonable to do so in all the circumstances; and
 - (iii) an agreement is reached with the other Persons comprising the Contractor who did not connive to such actions or omissions to accept the Participating Interest of the defaulting Person;

and the majority of the other Persons comprising the Contractor agrees with this arrangement subject to such conditions as may be imposed by ANPM.

2.5 Other Resources

- (a) This Contract applies exclusively to Petroleum and it shall not extend to any other natural resources which may occur within the Contract Area. Contractor is prohibited from using, making use of or disposing, in any way and under any title, totally or partially, of any resources other than Petroleum.
- (b) Any discovery of any natural resources other than Petroleum such as, without limitation, other hydrocarbons, minerals and any other natural resources or items of archaeological value or interest within the Contract Area, shall be notified exclusively and in writing by the Contractor to the ANPM within a maximum of twenty-four (24) hours as of the time of its discovery. The notice shall be accompanied by all relevant available data and information in respect of that discovery.
- (c) In the case of discovery of any natural resources other than Petroleum, Contractor shall be required to comply with the instructions issued by and allow the performance of the relevant measures as determined by ANPM or any other competent authorities. While waiting for such instructions, the Contractor shall refrain from taking any measures which could put at risk or in any way impair the measures to be taken by ANPM or any other competent authorities in relation to the discovered natural resources. The Contractor shall not be required to interrupt its Petroleum Operations, except in cases in which those Petroleum Operations put at risk the natural resources or items so discovered.
- (d) Any interruption of Petroleum Operations, due exclusively to the discovery of other natural resources or items, shall have its term computed and recognised by ANPM for purposes of extension of the relevant Period or the Contract term pursuant to Article 2.3 above and the Applicable Law in Timor-Leste.

2.6 Surviving Obligations

- (a) Expiration or termination of this Contract for any reason, in whole or in part, shall be without prejudice to rights and obligations expressed in the Applicable Law in Timor-Leste or this Contract to survive termination, or to rights and obligations accrued thereunder prior to termination. All provisions of this Contract reasonably necessary for the full enjoyment and enforcement of those accrued rights and obligations shall survive termination for the period so necessary.
- (b) The Decommission obligations and any other obligations to prevent the occurrence of pollution at the Facilities and to clean up such pollution are continuing obligations and survive the expiration or termination of this Contract. Any issues that arise out of or in connection with such Facilities after the cessation of the Petroleum Operations shall be the sole responsibility of the Contractor. For the avoidance of doubt, this obligation may cease if expressly agreed with ANPM in writing in accordance with the Applicable Law in Timor-Leste.
- (c) The obligation to deliver any remaining amounts of the Decommissioning Fund to ANPM is a continuing obligation and survives the expiration or termination of this Contract.
- (d) For the avoidance of doubts, this Article 2.6 applies in case of termination of this Contract only in respect of some of the Persons comprising the Contractor pursuant to Article 2.4(e) above.

Article 3 Relinquishment of Areas

3.1 Relinquishment of Contract Area after the Initial Exploration Period

- (a) At least ninety (90) Days prior to the expiry date of the initial Exploration Period set forth in Article 4.4 below, the Contractor shall notify ANPM in writing of whether or not it wishes to relinquish the Contract Area, in whole or in part, and if it wishes to move into a second Exploration Period.
- (b) In case Contractor wishes to move into a second Exploration Period pursuant to Article 4.5 below, it must submit an application to ANPM for such purpose requesting its approval, which should contain the following documents and information:
 - (i) detailed description of the Minimum Exploration Work Requirements for the second Exploration Period;
 - (ii) schedule of implementation of the Minimum Exploration Work Requirements for the second Exploration Period; and
 - (iii) proposal of areas to be relinquished and to be retained for further Exploration.
- (c) The whole Contract Area shall be deemed as relinquished at the term of the initial Exploration Period whenever:
 - (i) Contractor fails to submit to ANPM the information required pursuant to Articles 3.1(b)(i) and 3.2(b)(ii); or
 - (ii) ANPM does not approve Contractor's request.

- (d) Any relinquished area shall, unless otherwise allowed by ANPM, be a Contiguous Area of a compact nature whereby all sections should be connected and have in common, at least on one of their sides, one (1) minute longitude or latitude, according with the configuration of the original Contract Area, and the longest east/west and north/south dimensions of a relinquished area should allow the establishment of a viable possible future petroleum contract and the effective performance of petroleum operations in the relinquished area and in any portion of the Contract Area retained.
- (e) ANPM shall evaluate and decide on the delimitation of the Contract Area after a relinquishment and may establish specific terms for such purpose.

3.2 Relinquishment of Contract Area after the Second Exploration Period

- (a) At least ninety (90) Days prior to the expiry date of the second Exploration Period as set forth in Article 4.5 below, the Contractor shall notify ANPM in writing of whether or not it wishes to relinquish the Contract Area, in whole or in part, and whether it wishes to move into a third Exploration Period.
- (b) In case Contractor wishes to move into a third Exploration Period pursuant to Article 4.6 below, it must submit an application to ANPM for such purpose requesting its approval, which should contain the following documents and information:
 - (i) detailed description of the Minimum Exploration Work Requirements for the third Exploration Period;
 - (ii) schedule of implementation of the Minimum Exploration Work Requirements for the third Exploration Period; and
 - (iii) proposal of areas to be relinquished and to be retained for further Exploration.
- (c) The whole Contract Area shall be deemed as relinquished at the term of the second Exploration Period whenever:
 - (i) Contractor fails to submit to ANPM the information required pursuant to Articles 3.2(c)(i) and 3.2(c)(ii); or
 - (ii) ANPM does not approve Contractor's request.

3.3 Final Relinquishment

- (a) At the term of the final Contract Year of the third Exploration Period, Contractor shall relinquish the whole Contract Area, except for those portions of the Contract Area that have been declared as Development Areas.
- (b) If at the term of the final Contract Year of the third Exploration Period the Contractor, having undertaken all reasonable and necessary efforts in accordance with the Applicable Law in Timor-Leste and this Contract, has not had sufficient time to carry out the Appraisal of a Discovery, the deadline for Contractor to comply with the obligation set forth in Article 3.3(a) above may be extended by ANPM, in writing, subject to the following conditions:
 - (i) the extension shall only apply to the portion of the Contract Area ANPM may consider to be reasonably necessary for the Appraisal of the Discovery in accordance with Contractor's proposal; and

- (ii) the extension shall have the duration ANPM may deem as reasonably necessary to allow the Appraisal of the Discovery and for Contractor to decide whether or not it should declare a Commercial Discovery or ANPM should approve a Development Area, as the case may be.
- (c) In case Contractor fails to submit to ANPM any information the latter may require in order to make a decision pursuant to this Article 3.3, the whole Contract Area shall be deemed as relinquished at the term of the last Contract Year of the third Exploration Period.

3.4 Termination of Contract and Continuing Obligations in Respect of Relinquished Area

- (a) This Contract shall terminate in respect of the portion of the Contract Area relinquished under Articles 3.1 to 3.3 above.
- (b) For the avoidance of doubts, Article 2.6 applies in case of relinquishment of the whole or a part of the Contract Area.

3.5 Retention Areas

- (a) If the Appraisal of a Discovery of non-associated Natural Gas evidences that at that stage such Discovery is not, either on its own or in combination with other Discoveries, commercially viable, but that it is likely to become so within a reasonable period of time which may not exceed five (5) years from the date of term of the Exploration Period, ANPM may, at Contractor's request, declare a "Gas Retention Area", subject to the compliance of the requirements set forth in this Article.
- (b) At Contractor's request and upon the production of convincing evidence that an extension of the period of a given Gas Retention Area is likely to result in a declaration of a Commercial Discovery, ANPM may extend the period of such Gas Retention Area as it may deem necessary, in the terms and conditions ANPM may consider appropriate.
- (c) A Gas Retention Area shall consist of a single contiguous area comprising the Discovery and including sufficient surrounding area to cover the likely and possible extension of such Discovery.
- (d) ANPM may exclude from the Gas Retention Area deeper formations in which no Discovery has been made.
- (e) The Gas Retention Area shall be deemed to have been relinquished upon expiry of the Period set forth in this Article 3.5(a).
- (f) The Gas Retention Area shall be deemed to have been relinquished in case Contractor ceases to meet its obligations under this Article.
- (g) Gas Retention Area shall be deemed to have ceased to exist upon the declaration of a Commercial Discovery and/or a Development Area, as the case may be.
- (h) Gas Retention Areas which are not part of a Development Area shall be deemed as relinquished.
- (i) All obligations applicable to the Contractor in relation to the relinquishment of areas apply upon expiry of a Gas Retention Area.

4.1 Work Programs and Budgets

- (a) Contractor shall carry out Petroleum Operations substantially in accordance with Work Programs and Budgets submitted to and approved by ANPM, in accordance with the Applicable Law in Timor-Leste, without prejudice to any other obligations or liabilities of the Contractor under this Contract.
- (b) Contractor shall prepare and submit to ANPM for approval a proposal for an annual Work Program and Budget for each Calendar Year.
- (c) The first proposal for an annual Work Program and Budget shall be submitted to ANPM for review and approval sixty (60) Days after the Effective Date and thereafter at least ninety (90) Days prior to the beginning of each Calendar Year.
- (d) The Work Program and Budget shall include a proposal for the Exploration works to be undertaken.
- (e) The Work Program and Budget shall be based on the Minimum Exploration Work Requirements to be met pursuant to this Contract.
- (f) The Work Program and Budget shall also contain the following compulsory information:
 - (i) details of the Exploration to be undertaken, including a schedule and an indication of the method, technique and equipment to be employed in the proposed Exploration;
 - (ii) maps of the areas where Exploration is proposed to be undertaken, along with any relevant information about the land, as well as information on required access and expected impact on the environment and local communities; and
 - (iii) a budget showing the distribution of expected costs of the Minimum Exploration Work Requirements and other proposed Exploration works, if any, in accordance with the planned schedule.
- (g) Together with the proposed Work Program and Budget, Contractor shall also be required to submit the following information:
 - (i) details of any temporary or permanent Facility which may be constructed or used in connection with the proposed Exploration;
 - (ii) a description on how the Contractor plans to fulfil the obligations set out in the Local Content Proposal and to comply with the Local Content requirements established in this Contract and the Applicable Law in Timor-Leste throughout the Exploration Period; and
 - (iii) all other information that may be relevant to carry out the Exploration works.
- (h) The Contractor shall, within a reasonable time period, notify ANPM of any change, variation or amendment to the Work Program and Budget prior to the commencement of or during Exploration Period, being also required to prepare and submit a revised Work Program and Budget at ANPM's request.

4.2 Approval of Work Program and Budget

- (a) ANPM may establish conditions for the approval of a Work Program and Budget, so as to meet the requirements of this Contract and the Applicable Law in Timor-Leste, as well as to reflect Good Oil Field Practice.
- (b) Within thirty (30) Days as of the receipt of all required information and any other materials, ANPM shall provide the Contractor with a written decision on the approval of the proposed Work Program and Budget.
- (c) The rejection of a proposed Work Program and Budget by ANPM must be properly justified.
- (d) Contractor may modify and re-submit the proposed Work Program and Budget within a deadline to be stipulated by ANPM in the notice of rejection.
- (e) ANPM may suspend or revoke the approval of a Work Program and Budget in case Contractor fails to comply with the Minimum Exploration Work Requirements in accordance with the approved Work Program and Budget.

4.3 Commencement of Exploration

The Contractor shall commence the Exploration works within sixty (60) Days of the date of approval of the Work Program and Budget.

4.4 Minimum Exploration Work Requirements in the Initial Exploration Period

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

Description of Work:

Contract Years	<u>Minimum Exploration Work Requirements</u>		
	Technical Studies and Data Evaluation <i>(List types of technical studies to be performed)</i>	List of the Geological and Geophysical Surveys	Wells <i>(List x numbers of Wells)</i>
1	*****	***	
2	***	*****	
3		****	*****

4.5 Minimum Exploration Work Requirements in the Second Exploration Period

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

Description of Work:

Contract Years	<u>Minimum Exploration Work Requirements</u>		
	Technical Studies and Data Evaluation <i>(List types of technical studies to be performed)</i>	List of the Geological and Geophysical Surveys	Wells <i>(List x numbers of Wells)</i>
4	*****	*****	,
5		*****	*****

4.6 Minimum Exploration Work Requirements in the Third Exploration Period

Subject to Article 4.7 below and unless the Contractor has relinquished the whole portion of the Contract Area not being a Development Area or a Gas Retention Area before the commencement of the sixth (6th) Contract Year, the Contractor shall carry out the Minimum Exploration Work Requirements specified below in the third Exploration Period (Contract Years 6 and 7):

Description of Work:

Contract Years	<u>Minimum Exploration Work Requirements</u>		
	Technical Studies and Data Evaluation <i>(List types of technical studies to be performed)</i>	List of the Geological and Geophysical Surveys	Wells <i>(List x numbers of Wells)</i>
6	*****	*****	*****
7	*****		*****

4.7 Performance of Exploration

- (a) Upon completion of the Minimum Exploration Work Requirements within the applicable timeframe in relation to each Exploration Period at ANPM's full satisfaction, the latter shall issue a completion notice, acknowledging that it has no claims under the Security in relation to such Minimum Exploration Work Requirements.
- (b) In the case of Article 4.7(a) above, Contractor shall be entitled to proceed for the subsequent Exploration Period, subject only to approval by ANPM of the Minimum Exploration Work Requirements for such Exploration Period and the corresponding Work Program and Budget for the first Contract Year thereof.
- (c) The following work does not qualify for the purposes of fulfilling the Minimum Exploration Work Requirements:
 - (i) work carried out prior to the Effective Date;

- (ii) work carried out after the termination of the relevant Exploration Period agreed to in writing between the Contractor and ANPM;
 - (iii) work carried out un-related to the Contract Area;
 - (iv) work not carried out in accordance with the approved Work Program and Budget (including as amended in accordance with Article 4.7);
 - (v) appraisal Wells, seismic surveys or any other Petroleum Operations which are carried out as part of an Appraisal or any work carried out as part of the Development of a Commercial Discovery in accordance with Articles 4.10 and 4.11; or
 - (vi) work which does not qualify as Petroleum Operations under this Contract.
- (d) Unless previously approved by ANPM as such, no work in a Development Area shall qualify as Exploration work for the purpose of Articles 4 and 8 and Annex C, except for the work in respect of a formation deeper than the relevant Field, in which no Discovery has been made yet.
- (e) Any and all Exploration Wells shall be drilled to such depths as it may be necessary to ensure penetration and allow for proper testing of the prospective zone, even if that requires drilling beyond the minimum depth requirements set forth in the Minimum Exploration Work Requirements, unless basement is encountered before reaching such depths, as may be agreed and approved by ANPM.
- (f) Subject to ANPM's prior approval, which will not be unreasonably withheld, additional line kilometres of seismic data and additional Wells or further drilling beyond the minimum required in each Exploration Period under the Minimum Exploration Work Requirements may be carried out in order to meet the minimum obligations for seismic data or Exploration Wells, as the case may be, in accordance with the Minimum Exploration Work Requirements for a subsequent Exploration Period, provided that such work obligations exist in such subsequent Exploration Period and the Minimum Exploration Work Requirements for each Exploration Period (including any preceding Exploration Periods) are fulfilled.
- (g) Contractor may discontinue a Drilling Operation if, in the course of the drilling of a Well, it determines that, in its reasonable opinion and with ANPM's consent, which will not be unreasonably withheld, further drilling is technically impossible or imprudent due to one of the following reasons:
- (i) further drilling would present an obvious danger, such as, but not limited to, the presence of abnormal pressure or excessive losses of drilling mud;
 - (ii) impenetrable formations are encountered; or
 - (iii) Petroleum-bearing formations are encountered which require proper protection and, consequently, prevent planned depths from being reached.
- (h) If a Well is abandoned due to technical difficulties under Article 4.7(g) above, Contractor is not relieved from its obligations to carry out the required work established in the Minimum Exploration Work Requirements and ANPM may elect to either:
- (i) requiring Contractor to drill a substitute Exploration Well at a location to be determined by the Contractor with ANPM's agreement, to the depth stipulated in the Minimum Exploration Work Requirements for the corresponding Exploration Period; or

- (ii) in case ANPM agrees that further drilling or a substitute Well is technically impossible or imprudent and Contractor is therefore unable to carry out the required work activities, waive the minimum depth requirement and accepting a payment in cash corresponding to the amount of outstanding drilling works, to be determined by ANPM, or an independent consultant retained on its behalf at Contractor's expenses, in which case the Contractor shall be deemed to have satisfied the obligation to drill such Exploration Well. Any payments made to ANPM under this Article 4.7(h)(ii) (including the costs incurred with independent consultants) shall not qualify as Recoverable Costs.

4.8 Consequences of Non-Performance of Minimum Exploration Work Requirements

- (a) Notwithstanding Article 4.7(g) above, if Contractor fails to fulfil the Minimum Exploration Work Requirements in relation to any Exploration Period, Contractor shall submit a report to ANPM detailing the reasons of such failure and ANPM may, at its sole discretion, to:
 - (i) require payment of the amounts corresponding to the unfulfilled work obligations of the Minimum Exploration Work Requirements for the relevant Exploration Period;
 - (ii) provided that, cumulatively : (i) Contractor has requested an extension of the relevant Exploration Period at least thirty (30) Days prior to its expiry, (ii) ANPM accepts the justification for such extension, (iii) no extension of such Exploration Period has been previously granted and (iv) the Security provided is continuously maintained throughout the entire Exploration Period or Periods, as the case might be, extend the deadline for Contractor to carry out the Minimum Exploration Work Requirements for the relevant Exploration Period, up to a maximum of six (6) months; or
 - (iii) terminate this Contract and require payment of an amount corresponding to the unfulfilled work obligations of the Minimum Exploration Work Requirements, to be determined by ANPM.
- (b) Any payments made to ANPM under this Article 4.8 shall not qualify as Recoverable Costs.

4.9 Emergency and Other Expenditures Outside Work Programs and Budgets

- (a) Without need of further approval by ANPM, the Contractor is entitled to over-expend, by the lesser of Two Hundred Thousand United States Dollars (USD 200,000) or five percent (5%) on any line item of the approved Work Program and Budget for any given Contract Year.
- (b) Without need of further approval by ANPM, the total amount of over-expenditure set forth in Article 4.9(a) above in relation to the Work Program and Budget for any given Contract Year cannot exceed the lesser of One Million United States Dollars (USD 1,000,000) or ten percent (10%) of the total expenditure set forth in the relevant Work Program and Budget.
- (c) The Contractor shall promptly inform ANPM if it anticipates (or should reasonably anticipate) to exceed any of the limits set forth in Article 4.9(b) above, and immediately request ANPM for a revision of relevant Work Program and Budget accordingly.
- (d) Notwithstanding Articles 4.9(a) and 4.9(b) above, in order for the over-expenditure mentioned therein to qualify as Recoverable Costs, they must be subsequently approved by ANPM, who shall assess whether or not such additional costs were effectively necessary to complete the Work Program and did not result from Contractor's failure to fulfil its obligations under this Contract.

- (e) Nothing in this Article 4.9 precludes or excuses the Contractor from taking all necessary and proper measures for the protection of life, health, environment and property if there is an emergency (including, but not limited to, a significant fire, explosion, Petroleum discharge, sabotage, incident involving loss of life, serious injury to an employee, sub-contractor or third party, or serious property damage; strikes and riots; or evacuation of the Operator's personnel). The Contractor shall inform ANPM as soon as possible of the occurrence and details of the emergency and the actions it has taken and/or intends to take in accordance with the Applicable Law in Timor-Leste to efficiently address the emergency situation.

4.10 Discovery and Appraisal

- (a) In case of a Discovery, Contractor shall comply with the rules and procedures applicable to such Discovery, Appraisal and, if applicable, declaration of a Commercial Discovery, as stipulated below.
- (b) Contractor shall, upon Discovery, give notice in writing to ANPM of such Discovery within twenty-four (24) hours.
- (c) As soon as reasonably practicable after a Discovery is made, and in any event no later than thirty (30) Days following the submission of the notification pursuant to Article 4.10(b), the Contractor shall:
 - (i) submit to ANPM all information in relation to the Exploration work which lead to the Discovery, as well as any other additional information ANPM may reasonably request; and
 - (ii) advise ANPM of whether or not the Discovery merits Appraisal.
- (d) If the Contractor is of the opinion that the Discovery merits Appraisal, it shall, within thirty (30) Days following the notification of Article 4.10(b), prepare and submit to ANPM for approval a proposal of Appraisal Work Program and Budget, Appraisal Period included.
- (e) The Appraisal Work Program and Budget should be updated on an annual basis, if deemed convenient, being such updates subject to ANPM's approval.
- (f) The objective of the Appraisal Work Program is to enable Contractor to assess whether or not the Discovery is, either on its own or in combination with other Discoveries, a Commercial Discovery.
- (g) ANPM may grant an extension of the Appraisal Period where Contractor has evidenced to ANPM's satisfaction that the Appraisal has been conducted in accordance with the Appraisal Work Program and Budget and that further Appraisal works are required to determine whether or not the Discovery is a Commercial Discovery. In any case, the Appraisal Period cannot, in any circumstances, exceed a maximum of two (2) Contract Years.
- (h) Unless otherwise agreed with ANPM, Contractor is required so submit a report to ANPM stating its opinion on whether or not the Discovery is a Commercial Discovery by no later than one hundred and eighty (180) Days as of the date of completion of the Appraisal Work Program.
- (i) The report mentioned in Article 4.10(h) above must include:
 - (i) the underlying reasoning of Contractor's opinion;
 - (ii) all data and information Contractor took into consideration in making its assessment on

- the existence or not of a Commercial Discovery;
- (iii) all the studies carried out or which are planned to be carried out in order to assess if the Discovery is or can become a Commercial Discovery;
- (iv) whenever applicable, Contractor's proposal on whether or not the relevant portion of the Contract Area should be declared a Development Area; and
- (v) any other information that may be required by ANPM.

4.11 Declaration of Development Area

- (a) If Contractor declares a Commercial Discovery in accordance to Article 4.10 above, ANPM may declare the relevant area as a Development Area.
- (b) Unless otherwise agreed between ANPM and Contractor, the Development Area cannot be subject to any variation after the approval of a Development Plan.
- (c) At Contractor's request, ANPM may authorize the expansion of a Development Area. The application for expansion of a Development Area must include:
 - (i) a map clearly identifying the relevant areas and their relation with the Development Area;
 - (ii) the underlying reasoning of the proposed expansion;
 - (iii) a description of any proposed additions or modifications to the approved Development Work Program and Budget; and
 - (iv) any other data and information that may be required by ANPM.
- (d) ANPM shall act reasonably in determining whether or not to approve an application to declare a Development Area or expand a Development Area. ANPM shall provide Contractor with its decision in writing upon receipt of all the required data and information, within thirty (30) Days. In case of rejection of an application for declaration or expansion of a Development Area, ANPM shall justify its decision and, if applicable, assign a deadline to Contractor to amend and resubmit the application for such purpose.

Article 5 Development and Production Period

5.1 Development Plan

- (a) Contractor shall prepare and submit a proposal of a Development Plan to ANPM for approval, within twelve (12) months as of the date of declaration of a Development Area.
- (b) The proposal of a Development Plan shall describe the strategy and concept of the proposed Production Operations and contain the following minimum information:
 - (i) a summary of the proposed Development Plan;
 - (ii) all the information prepared and submitted during the process leading up to the declaration of the Development Area, including, but not limited to, the following:
 - (a) a map of the Development Area with the boundaries fully defined in terms of latitude and longitude;

- (b) the Exploration and Appraisal background of the Development Area;
 - (c) the geological model of the Development Area, including depth and isopach maps for each Reservoir compartment showing the subsurface position of Development Wells and diagrams to illustrate the geological model;
 - (d) information on planned or possible coordination with Petroleum Operations in other areas; and
 - (e) information on Management Systems, including the planning, organizing and implementation of the Production Operations.
- (iii) a description of the organisation and expertise which the Contractor shall have available in Timor-Leste and elsewhere to carry out the proposed Production Operations;
 - (iv) information on the proposed Production Operations including:
 - (a) the proposed schedule for the Production Operations;
 - (b) the types of Petroleum to be produced;
 - (c) the Petroleum reserves attributable to the Development Area;
 - (d) any proposed commingled Production, including information on how the Contractor plans to assign the Petroleum recovered from each Reservoir interval;
 - (e) any planned geological, petrophysical and Reservoir studies and analyses; and
 - (f) information on fiscal metering.
 - (v) a geological structure and analysis and interpretation;
 - (vi) details of formation parameters;
 - (vii) details of Reservoir fluid parameters;
 - (viii) details of any pre-feasibility, feasibility or engineering assessments in respect of the Production Operations, including assessments prepared in respect of Production Facilities;
 - (ix) the drilling plan and information on placement of Wells together with a description of the operation and maintenance programs for the Wells to be used in the proposed Production Operations;
 - (x) the planned location of Production Facilities, together with a description of the operation and maintenance programs for the Production Facilities;
 - (xi) the proposed Work Program and Budget for the initial three (3) Calendar Years of Production Operations, including a description of:
 - (a) detailed description of the Production Operations planned to take place in the first Calendar Year covered by the Work Program, including monthly production forecasts of the Field;
 - (b) production Operations planned to take place in the following two (2) Calendar Years on an indicative basis, including quarterly and annual production forecasts of the Field; and

- (c) in respect of the first Calendar Year covered by the Work Program, a detailed budget, including, but not limited to, estimate of costs for each planned category of Production Operations planned, and, whenever applicable, identification of any costs eligible or ineligible as Recoverable Costs under the Contract.
- (xii) the Reservoir management plan for the Development Area or part thereof, including;
 - (a) the monitoring, surveillance and data management program that shall be established to monitor Reservoir performance and to determine operational changes required to optimise the Production Operations and/or improve the economics of the Production Operations; and
 - (b) the techniques and system to be used for data acquisition and analysis, the frequency of data acquisition plan and other matters relating thereof.
- (xiii) description of Petroleum disposal methods to ensure the requirement of zero flaring has been considered and assessed;
- (xiv) description on Natural Gas to be injected into Reservoir if applicable;
- (xv) information on utilisation of Facilities for processing, transportation and storage;
- (xvi) information on the application for authorisation to construct or install an onshore Facility, information on placement, the reason for the selection of that location, the expected date of commissioning and copies of reports and recommendations made by Persons responsible for ascertaining the criteria determining the design;
- (xvii) detail of the right of use of the land in the Contract Area and property of any legitimate right of use of land necessary to access the Contract Area, of any contracts executed or that will be executed with land owners or legitimate users of the land, detail of immovable property that has not been subject to an agreement or contract and any other information regarding the expropriation of land in accordance with the Applicable Law in Timor-Leste;
- (xviii) an estimate of the economic life of the Development Area covered by the Development Plan, together with the major assumptions used in making such estimate;
- (xix) information on economic aspects of the proposed Production Operations, including relevant data and analysis on expected capital and operating expenditures and commercialisation plans and options, in a form acceptable to ANPM;
- (xx) details on any financing obtained or proposed to be obtained in respect of the Production Operations;
- (xxi) information on lifting, marketing and sale of Petroleum;
- (xxii) information on how Facilities may be Decommissioned upon cessation of use of a Facility or cessation of Petroleum Operations and how Decommissioning shall be secured and funded;
- (xxiii) information on the health and safety Plan as referred in Article 7.3 of this Contract and any safety cases that may be required under the Applicable Law in Timor-Leste for the Development;

- (xxiv) summary of Environmental Impact Statement.
- (c) Together with the proposed Development Plan, Contractor shall submit the following information:
- (i) its full name and address;
 - (ii) the name of its representative before ANPM and other governmental authorities;
 - (iii) details of any temporary or permanent Facility which may be constructed or used in connection with the proposed Development Plan, and which is not included in the Development Plan;
 - (iv) information on expected entries of personnel, vehicles or aircrafts to be used during the Development and Production Period;
 - (v) details of security measures to be undertaken;
 - (vi) a Local Content Proposal, including description of the strategies to be implemented in compliance with the Local Content requirements established in the Applicable Law in Timor-Leste throughout the Development and Production Period;
 - (vii) information on and, if applicable copies of, all licenses, permits, approvals or authorisations that have been applied for or shall be applied for pursuant to the Applicable Law in Timor-Leste;
 - (viii) Decommissioning Plan, including plans of Decommissioning methods and cost estimates;
 - (ix) all other information that the Contractor may deem relevant for the Development Plan; and
 - (x) any other information required by ANPM.
- (d) If the Production Operations are planned in two or more phases, the Development Plan shall, to the extent possible, comprise the whole Production Operations.
- (e) ANPM may limit its approval of the Development Plan to individual Reservoirs or phases.
- (f) Where cost information is provided in the Development Plan, the Contractor shall describe and categorise costs in the same way as provided for in the Contract and include cross-references to such agreement and the accounting procedures or other applicable provisions to facilitate the review and understanding of the submission.
- (g) Unless otherwise allowed by ANPM, the Contractor shall not enter into any contracts relating to the proposed Development Plan or commence construction works until the proposed Development Plan has been duly approved by ANPM.
- (h) ANPM may establish the terms and conditions the Development Plan must meet in order to comply with the requirements of this Contract, the Applicable Law in Timor-Leste and reflect Good Oil Field Practice and to obtain its approval.
- (i) ANPM shall provide the Contractor with its decision in writing upon receipt of all the required data and information, within a reasonable period of time. In case of rejection of the proposed Development Plan, ANPM shall justify its decision and, if applicable, assign a deadline to Contractor to amend and resubmit the Development Plan.

- (j) Contractor shall promptly notify ANPM if the conditions encountered during the Petroleum Operations are different from those anticipated at the time of the preparation of the Development Plan.
- (k) ANPM may require the Contractor to revise the Development Plan from time to time.

5.2 Development Work Programs and Budgets

- (a) At such time and in such manner as set forth in this Contract or ANPM may otherwise require, Contractor shall submit the annual Work Program and Budget within ninety (90) Days as of the date of approval of the Development Plan and, thereafter, by no later than 1 November of each subsequent Calendar Year.
- (b) The annual Work Program and Budget shall include a forecast of major activities for the immediately following three (3) Calendar Years of Production Operations.
- (c) The annual Work Program and Budget shall be prepared substantially in accordance to the Development Plan for the Development Area and contain a description of activities to be carried out as follows:
 - (i) Details of the Production Operations, including Reservoir surveillance, maintenance and monitoring activities and any Drilling Operations and workover planned to take place in the first Calendar Year covered by such Work Program, with monthly production forecasts for Reservoir and Field;
 - (ii) Details of the Production Operations, including Reservoir surveillance, maintenance and monitoring activities and any Drilling Operations and workover planned to take place in the immediately following two Calendar Years on an indicative basis, with a quarterly and annual Production forecasts for Reservoir and Field;
 - (iii) In respect of the first Calendar Year covered by such Work Program, a detailed budget which includes an estimate of costs for Production Operations planned to be incurred, and where applicable:
 - (a) A description of any possible material differences in relation to the Work Program previously submitted as part of the approved Development Plan, with an explanation for any of such differences;
 - (b) A copy of each Authorisation for expenditure prepared and approved by the Contractor, which shall provide a full breakdown of capital and operating expenditures related to the Work Program.
 - (iv) All other information that the Contractor may deem relevant in relation to the Work Program and Budget; and
 - (v) Any other information that may be required by ANPM.
- (d) The annual Work Program and Budget shall include, if applicable, information on all licenses, permits, approvals or authorisations that have been applied for or granted by the relevant authorities or that shall be applied for pursuant to the Applicable Law in Timor-Leste.

5.3 Emergency and Other Expenditures Outside Work Programs and Budgets

- (a) Without need of further approval by ANPM, the Contractor is entitled to over-expend by the lesser of Fifty Thousand United States Dollars (USD 50,000) or two-point-five percent (2.5%) on any line item of an approved Work Program and Budget for any given Contract Year.
- (b) Without need of further approval by ANPM, the total amount of all over-expenditures set forth in Article 5.3(a) above in relation to the Work Program and Budget for any given Contract Year cannot exceed the lesser of One Million United States Dollars (USD 1,000,000) or two-point-five percent (2.5%) of the total expenditures set forth in the relevant Work Program and Budget.
- (c) The Contractor shall promptly inform ANPM if it anticipates (or should reasonably anticipate) to exceed any of the limits set forth in Article 5.3(b) above, and immediately request ANPM for a revision of relevant Work Program and Budget accordingly.
- (d) Notwithstanding Articles 5.3(a) and 5.3(b) above, in order for the over-expenditure mentioned therein to qualify as Recoverable Costs, they must be subsequently approved by ANPM, who shall assess whether or not such additional costs were effectively necessary to complete the Work Program and did not result from Contractor's failure to fulfil its obligations under this Contract.
- (e) Nothing in this Article 5.3 precludes or excuses the Contractor from taking all necessary and proper measures for the protection of life, health, environment and property if there is an emergency (including, but not limited to, a significant fire, explosion, Petroleum discharge, sabotage, incident involving loss of life, serious injury to an employee, sub-contractor or third party, or serious property damage; strikes and riots; or evacuation of the Operator's personnel). The Contractor shall inform ANPM as soon as possible of the occurrence and details of the emergency and the actions it has taken and/or intends to take in accordance with the Applicable Law in Timor-Leste to efficiently address the emergency situation.

5.4 Approved Contracts

- (a) Contractor may not sell or otherwise dispose of Natural Gas from the Contract Area other than pursuant to an Approved Contract or as otherwise may be provided in the Development Plan or in this Contract.
- (b) Contractor may not use any downstream Facilities 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) Contractor may not amend, waive or fail to enforce any provision of an Approved Contract without ANPM's prior approval.

5.5 Term

Without prejudice to Article 2.3(b), the Development and Production Period shall be of twenty-five (25) years as of the date of approval of the Development Plan.

6.1 Decommissioning Plan

- (a) Contractor shall prepare and submit a Decommissioning Plan to ANPM for approval either upon the ANPM's request, or two (2) Contract Years after the commencement of Production.
- (b) Except if subsequent changes in circumstances require otherwise, the Decommissioning Plan shall be prepared based on the information provided on Decommissioning in the Development Plan.
- (c) The Decommissioning Plan shall provide the basis for an evaluation of relevant Decommissioning options and include a description of:
 - (i) The Petroleum Operations related to the relevant Field(s) throughout the lifetime of the Field(s);
 - (ii) All relevant Facilities and Wells, including information on their location, depth and types of material;
 - (iii) The possibilities of continued Production;
 - (iv) Decommissioning options, including possible technical, safety related and environmental related aspects, and relationship to and expected impact on other land users or potentially affected Persons and local communities;
 - (v) Recommended option for Decommissioning, including cost estimates, timeframes, anticipated date for commencement of Decommissioning, and the reasons for the relevant option being recommended and for the rejection of other options;
 - (vi) Measures designed to secure the Contract Area against possible pollution and clean-up of such areas;
 - (vii) Details of all required environmental documents required under the Applicable Law in Timor-Leste;
 - (viii) Estimate of the expected total Decommissioning costs;
 - (ix) The arrangement and management of the Decommissioning Fund;
 - (x) The anticipated date for permanent cessation of the use of the relevant Facility or the relevant Petroleum Operations;
 - (xi) Any other authorisations, licenses, approvals or permits required in order to carry out the recommended Decommissioning option;
 - (xii) Description of the implementation, management and verification of the Decommissioning Plan in accordance with Applicable Law in Timor-Leste; and
 - (xiii) Such other information as ANPM may require.
- (d) In the event Contractor does not meet the requirements listed in Article 6.1(c) above, ANPM has the right to instruct Contractor to complete and resubmit or reject the Decommissioning Plan.
- (e) ANPM may waive to or modify the requirements of the Decommissioning Plan.

- (f) This Article shall apply in the event of earlier termination of this Contract.
- (g) The Contractor shall prepare and implement the approved Decommissioning Plan in accordance with this Contract, the Applicable Law in Timor-Leste and Good Oil Field Practice.

6.2 Approval and Proposed Amendment to the Decommissioning Plan

- (a) Contractor shall promptly notify ANPM of any changes in circumstances or actual or planned alterations to the information provided in the Decommissioning Plan and, where appropriate, submit a proposed amendment to the Decommissioning Plan for approval.
- (b) The proposed amendment to the Decommissioning Plan referred in Article 6.2(a) above shall include a calculation of the expected costs of Decommissioning for the remaining term of the Contract.
- (c) ANPM may require an amendment to be submitted or impose any new conditions in the Decommissioning Plan that, in its sole discretion, it may deem appropriate.
- (d) Notwithstanding Articles 6.2(a) and 6.2(b) above, if at any time ANPM considers that the Decommissioning Plan does not adequately address the potential needs or requirements for Decommissioning, it may require the Contractor to re-evaluate the Decommissioning Plan and to make appropriate revisions thereto.
- (e) Contractor shall promptly make and submit to ANPM any revisions made under Article 6.2(d) above.

6.3 Responsibility to Carry Out and Implement Decommissioning

- (a) Contractor shall carry out the Decommissioning in accordance with the Decommissioning Plan as approved by ANPM and Applicable Law in Timor-Leste.
- (b) Any and all withdrawals from the Decommissioning Fund are subject to ANPM's prior written approval to be granted in accordance with the terms of the Decommissioning Plan.
- (c) The obligation to carry out the Decommissioning is applicable even if ANPM approves the Decommissioning Plan, or the Decommissioning is to be implemented, after the expiry or termination of the Contract.
- (d) If the title to Facilities passes to the Timor-Leste in accordance with Article 16, the Decommissioning shall be carried out and implemented by TIMOR GAP in accordance with Applicable Law in Timor-Leste.

6.4 Verification

- (a) After implementation of the Decommissioning Plan, ANPM shall require Contractor to procure a verification of the Decommissioning by an independent verifying body at the Contractor's sole expense.
- (b) Where the independent verifying body finds that the Decommissioning was implemented in accordance with the approved Decommissioning Plan, the independent verifying body shall

issue a certificate of verification that shall be promptly submitted to ANPM.

- (c) Where the independent verifying body finds that the Decommissioning was not implemented in accordance with the approved Decommissioning Plan, the independent verifying body shall issue a report which shall:
 - (i) be submitted to the Contractor and ANPM; and
 - (ii) identify the measures necessary that Contractor must implement in order to be compliant with the Decommissioning Plan.
- (d) The Contractor is required to immediately implement the measures identified by the independent verifying body under Article 6.4(c)(ii) above.
- (e) ANPM may require Contractor to implement additional measures and request the independent verifying body additional information or amendments to the report issued in accordance with Article 6.4(c) above.

6.5 Decommissioning Fund

- (a) Unless otherwise instructed by ANPM, in the first Calendar Year upon commencement of Commercial Production Contractor shall establish a Decommissioning Fund in accordance with the Applicable Law in Timor-Leste and this Contract, which shall be in the form of an interest bearing escrow account, which is a bank account that, when possible, must yield a maximum of one (1) percentage point margin above the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds), in ANPM's name, at a first class financial institution previously approved by ANPM. The interest accumulated in the Decommissioning Fund is neither Recoverable Costs nor tax deductible.
- (b) Annual Decommissioning costs provisions shall be calculated based on the total estimated abandonment costs and charged as Recoverable Costs in beginning in the Calendar Year immediately following the Calendar Year in which Commercial Production first occurs. The amount of annual Decommissioning costs provision in each Calendar Year shall be calculated as follows:
 - (i) the total Decommissioning costs at the expected date of Decommissioning must be first be calculated;
 - (ii) the calculated annual Decommissioning costs shall be deducted from such total Decommissioning costs of which the additions made to the Decommissioning Costs Reserve, eligible 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 Articles 6.5(b)(i) and 6.5(b)(ii) above, shall then be discounted to the relevant Calendar Year at the forecast rate of Uplift applicable in each Calendar Year remaining until the Calendar Year of Decommissioning;
 - (iv) the discounted total amount of residual Decommissioning costs shall then be divided by the total number of Calendar Years remaining prior to the Calendar Year in which Decommissioning must occur, including the relevant Calendar Year;
 - (v) the resultant amount shall be the addition to the Decommissioning Costs Reserve for the

relevant Calendar Year;

- (vi) it is the intention of the provisions of this Article 6.5 that the total accumulated provision allowed, including interest calculated to the Calendar Year of Decommissioning at the rate of Uplift, shall equal the total Decommissioning costs; and
 - (vii) if the amount in Article 6.5(b)(v) is negative, then such amount shall be treated as a reduction of Recoverable Costs for the relevant Calendar Year.
- (c) If the Decommissioning Fund is underfunded, Contractor shall be required to transfer to such Decommissioning Fund any additional amounts that may be required to ensure that sufficient funding exists to carry out Decommissioning in compliance with Good Oil Field Practice and other international standards deemed acceptable by ANPM and consistent with the Applicable Law in Timor-Leste.
 - (d) If the actual Decommissioning costs are lower than the accumulated amounts in the Decommissioning Fund when Decommissioning is completed, such surplus shall be treated as Profit Crude Oil and transferred to ANPM in accordance with the Applicable Law in Timor-Leste.
 - (e) In the event ANPM elects to continue the Petroleum Operations and take over the relevant Facilities, the accumulated amount in the Decommissioning Fund and such additional amounts as may be estimated for Decommissioning at the time of the transfer, shall be deposited in a nominated bank account domiciled in Timor-Leste having ANPM as beneficiary.
 - (f) In the case mentioned in Article 6.5(e), ANPM assumes all responsibility for the relevant Facilities and Decommissioning, and Contractor shall be released from any liability arising out of the subsequent use of the funds.

Article 7 Conduct of Petroleum Operations, Local Content and Natural Gas Use

7.1 Proper and Workmanlike Manner

- (a) Contractor shall carry out Petroleum Operations and shall procure that they are carried out diligently and in accordance with the Applicable Law in Timor-Leste, this Contract and Good Oil Field Practice, in order to:
 - (i) protect the environment and potentially affected local communities based on sustainable development principles and ensure that Petroleum Operations result in minimum of environmental and ecological damage or destruction or detrimental social impact;
 - (ii) ensure the safety, health and welfare of any Persons engaged in or affected by Petroleum Operations;
 - (iii) maintain in safe and good conditions and repair all Facilities and other property, and other works, used or to be used in Petroleum Operations;
 - (iv) subject to the terms of the Decommissioning Plan and on the earlier of:
 - (a) termination of this Contract; or
 - (b) when no longer required for Petroleum Operations;

Decommissioning of the Facilities, property and other works mentioned in Article

- 7.1(a)(iii) and clean up the Contract Area and make it good and safe, and protect and restore the environment;
- (v) control the flow and prevent the waste or escape of Petroleum, water or any product used in or derived from the processing of Petroleum;
 - (vi) prevent the escape of any mixture of water or drilling fluid with Petroleum;
 - (vii) prevent damage to Petroleum-bearing strata within or outside the Contract Area;
 - (viii) except with ANPM's prior consent, keep separate each Reservoir from the sources of water discovered within the Contract Area;
 - (ix) prevent water or any other fluids entering any Reservoir through Wells, except when required by, and in accordance with, the Development Plan and Good Oil Field Practice;
 - (x) minimise interference with pre-existing rights and activities, including the rights of potentially affected local communities and other lawful onshore activities; and
 - (xi) to remedy in a timely fashion any damage caused to the environment.
- (b) Notwithstanding any other provision of this Contract, Contractor is required to clean up pollution resulting from Petroleum Operations to ANPM's and other relevant authorities' satisfaction, supporting in full all the associated costs.

7.2 Access to Contract Area

- (a) Subject to this Contract and the Applicable Law in Timor-Leste, Contractor may enter and leave the Contract Area at any time for the purposes of Petroleum Operations.
- (b) Access to restricted areas shall be subject to ANPM's prior approval and compliance with the requirements of the Applicable Law in Timor-Leste.
- (c) Contractor shall ensure that any Persons, aircraft, vessels, equipment and goods do not enter the Contract Area without meeting the Applicable Law in Timor-Leste's entry requirements and obtaining ANPM's prior approval.

7.3 Health, Safety and the Environment

- (a) Contractor shall ensure a high level of health and safety standards in Petroleum Operations and shall implement such health and safety measures as may be required or convenient to ensure the hygiene, health and safety of relevant personnel as is required by the Applicable Law in Timor-Leste.
- (b) Contractor shall ensure protection of environment in Petroleum Operations and establish measures to prevent, reduce, and mitigate damage to the environment, as required by the Applicable Law in Timor-Leste or instructed by ANPM.
- (c) The obligations referred to in Article 7.3(a) include, but are not limited to, taking all the necessary steps to mitigate the risk to a level as lower as reasonably practicable in the following areas:
 - (i) working environment;

- (ii) plant, equipment, materials and substances used in connection with the work of all personnel; and
 - (iii) access to, and egress from, the work location of personnel directly involved in Petroleum Operations.
- (d) In carrying out Petroleum Operations, the Contractor is specifically required to:
 - (i) ensure that routines are established for exchange of information between the various personnel groups in the workplace;
 - (ii) ensure that all personnel have an assigned safety delegate in the workplace, and that they are given the opportunity to bring issues to the attention of the Contractor and to make enquiries and/or complaints in relation to health and safety;
 - (iii) ensure that safety delegates and health and safety personnel are sufficiently familiar with the work operations in the workplace; and
 - (iv) ensure that infringements to Applicable Law in Timor-Leste are pointed out and corrected.
- (e) Contractor shall ensure that, while at work, its employees shall take proper care of the employee's own health and safety and the health and safety of any other personnel who may be affected by employee's acts or omissions.
- (f) Contractor shall carry out risk analyses providing a balanced and the most comprehensive possible picture of the risk associated with the Petroleum Operations. The analyses shall be appropriate as regards to providing support for decision related to the upcoming Petroleum Operations. Risk analyses shall be carried out to identify and assess contributions to major accident events and environmental risks, as well to assess the effects that operations and modifications may have on major accident events and environmental risks.
- (g) When entering into any contracts, Contractor shall ensure that its sub-contractors and suppliers are qualified to fulfil the regulatory requirements relating to health, safety and the environment. Furthermore, Contractor shall follow up to ensure that the sub-contractors and suppliers comply with the Applicable Law in Timor-Leste in accordance to Good Oil Field Practice.
- (h) Contractor shall conduct Petroleum Operations in a safe and proper manner in accordance with the Applicable Law in Timor-Leste, this Contract and Good Oil Field practice and shall not cause any damage to the general environment, including, inter alia, the surface, air, lakes, rivers, marine life, animal life, plant life, crops, other natural resources and property, and shall forthwith repair any damage caused, to the extent it is reparable, and shall pay reasonable compensation for all damages beyond possible or adequate repair.
- (i) Contractor shall bear all costs for clean-up, rehabilitation and reclamation of any and all environmental damage caused by the Petroleum Operations.
- (j) Prior to surrendering a portion of the Contract Area, Contractor shall take all reasonable measures to abandon the area to be surrendered in accordance with the Applicable Law in Timor-Leste and Good Oil Field Practice in similar physical and ecological environment. Such measures shall include removal and closure of Facilities, material and equipment together with reasonable measures necessary for the preservation of fauna and flora.

7.4 Local Content

- (a) Contractor shall comply with the Local Content Proposal and Local Content requirements set forth in the Applicable Law in Timor-Leste.
- (b) If Contractor considers on reasonable grounds that the Local Content Proposal needs to be varied, it shall submit its reasons to ANPM together with a Revised Local Content Proposal dealing with the training and employment of Timor-Leste nationals and the acquisition of Timor-Leste Goods and Timor-Leste Services.
- (c) ANPM shall notify Contractor of its approval or rejection of the Revised Local Content Proposal within thirty (30) Days as of its receipt.
- (d) In case ANPM rejects a Revised Local Content Proposal, the rejection notification shall contain:
 - (i) a justification of the decision; and
 - (ii) an indication of the measures Contractor is required to include in the Revised Local Content Proposal to obtain its approval.
- (e) Upon receipt of a notification pursuant to Article 7.4(d), Contractor shall amend the Revised Local Content Proposal in accordance with the measures specified by ANPM and resubmit it to the latter for approval.
- (f) ANPM shall notify Contractor of the approval or rejection of the amended Revised Local Content Proposal submitted pursuant to Article 7.4(e) within thirty (30) Days of its receipt and the procedure set forth in Articles 7.4(d) and 7.4(e) shall apply.
- (g) Contractor shall prepare and implement an annual Local Content Plan to comply with the approved Local Content Proposal and Local Content requirements as stipulated under this Contract and the Applicable Law in Timor-Leste.
- (h) The annual Local Content Plan shall be submitted to ANPM for approval on an annual basis, together with Work Programs and Budgets or thirty (30) Days prior to the end of each Calendar Year.
- (i) In addition to the annual Local Content Plan, Contractor is also required to submit a separate Plan for Corporate Social Responsibility (“CSR”) for consultation with ANPM.
- (j) Within sixty (60) Days as of the end of each Calendar Year, Contractor shall submit to ANPM an annual Local Content report, detailing the terms of implementation of the Local Content Plan applicable during the Calendar Year immediately previous.
- (k) In the event Timorese nationals do not meet the required level of expertise, experience and/or training for any given specialised position they may apply to, to be assessed in accordance with the Good Oil Field Practice, Contractor is temporarily allowed to employ Persons of other nationalities until such time as qualified Timorese citizens nationals are available in the employment market for that position.

7.5 Presence in Timor-Leste

Contractor shall be required to:

- (a) incorporate a company in Timor-Leste for the purpose of conducting the Petroleum Operations;

- (b) have a representative at Timor-Leste office with full authority to act and make binding commitments on behalf of the Contractor, execution of contracts included;
- (c) ensure that its sub-contractors shall have a permanent establishment in Timor-Leste in order to be allowed to perform the following activities:
 - (i) undertake major supplies of goods and services for the Petroleum Operations; and
 - (ii) manage the employment and training of Timorese nationals.

7.6 Natural Gas Use

- (a) Whenever Good Oil Field Practice so advises, Contractor shall prioritize the use of any Natural Gas recovered from the Contract Area for purposes of increasing the recovery of Petroleum.
- (b) Contractor may use any Natural Gas recovered from the Contract Area free of charge, strictly for the purposes of the Petroleum Operations.
- (c) Contractor shall have the right to export any Marketable Natural Gas produced from the Contract Area and treated as LNG, which comprises:
 - (i) Contractor's Cost Recovery Natural Gas; and
 - (ii) Contractor's Profit Natural Gas.
- (d) In case Contractor intends to export Marketable Natural Gas as LNG, any LNG Facilities built and operated by the Contractor for this purpose must:
 - (i) be build and operated on the basis of a separate LNG export agreement in acceptable commercial terms to be negotiated in good faith between the Contractor and ANPM; and
 - (ii) such LNG Facilities must be made available for use by any third party at reasonable commercial terms and conditions.
- (e) Unless otherwise authorized by ANPM or in case of emergency, to be immediately notified to ANPM with all relevant details, Contractor is not allowed to flare Natural Gas.

Article 8 Recoverable Costs

8.1 General

- (a) Contractor's books and accounts shall be prepared and maintained in accordance with the provisions of Annex C.
- (b) Without prejudice to any other provision of this Contract stating otherwise, only the costs and expenses incurred by the Operator in carrying out Petroleum Operations, including the funds deposited in the Decommissioning Fund on an annual basis, and properly charged to Contractor under the relevant Joint Operating Agreement as approved by ANPM, are eligible as Recoverable Costs.
- (c) In case ANPM obtain any evidence that a cost incurred by the Operator is not competitive, ANPM is entitled to disallow such cost as Recoverable Cost, unless Contractor is able to produce proper evidence, to ANPM's satisfaction, that the cost was incurred in the acquisition

of goods or services not readily obtainable at fair market prices due to any circumstance behind his reasonable control, such as national emergencies, strikes or other unusual causes.

- (d) Subject to the provisions of Annex C and the auditing provisions contained in this Contract, Contractor shall recover the costs and expenses duly verified in accordance with this Article 8 to the extent of and out of hundred percent (100%) of all Available Crude Oil and/or all Available Natural Gas recovered from the Contract Area, in accordance with the rules of Article 9.1(a).

8.2 Cost Recovery in Respect of Facilities Transferred to TIMOR GAP

- (a) Costs incurred in respect of Facilities build or purchased for use in the Petroleum Operations under this Contract shall be eligible as Recoverable Cost in accordance with Article 8.3 below regardless of whether the ownership of such Facilities remains with the Contractor or is transferred to TIMOR GAP in accordance with the Applicable Law in Timor-Leste.
- (b) Except for the cases in which TIMOR GAP elects to continue the operation of a given Development Area beyond the term of this Contract, TIMOR GAP is not entitled to either book or depreciate any costs related to Facilities which title has been transferred to it by the Contractor in accordance with the Applicable Law in Timor-Leste.

8.3 Recoverable Costs

- (a) For the purpose of determining the sharing of Petroleum, all past costs and Capital Costs shall be recovered first and any remaining revenues shall then be used to recover the Operating Costs of incurred in the relevant Calendar Year.
- (b) Subject to the provisions of Annex C, Recoverable Costs in each Calendar Year are the following, provided they do not qualify as Ineligible Costs:
 - (i) the sum of:
 - (a) recoverable Exploration Costs;
 - (b) recoverable Appraisal Costs;
 - (c) recoverable Capital Costs; and
 - (d) recoverable Operating Costs.
 - (ii) Decommissioning costs as calculated pursuant to Article 6.1(c) and allowable in the relevant Calendar Year, without taking into account the interest accrued to the Decommissioning Fund;
 - (iii) Recoverable Costs of the previous Calendar Year, to the extent they are in excess of the value of the Contractor's share of Petroleum pursuant to Article 9.1(b)(i) in such Calendar Year; and
 - (iv) a Quarterly amount equal to the product of the rate of Uplift and the Quarterly balance of outstanding Recoverable Costs, less Miscellaneous Receipts.

Article 9 Sharing of Petroleum

9.1 Determination of Shares

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

- (a) ANPM's first share of Petroleum at the Field Export Point before cost recovery shall be of:
 - (i) five percent (5%) for Crude Oil; and
 - (ii) five percent (5%) for Natural Gas.
- (b) The Contractor is entitled to:
 - (i) the remaining gross income after deduction of the first share set forth in Articles 9.1 (a)(i) and 9.1(a)(ii) above, provided it does not exceed the amount of Recoverable Costs of the relevant Calendar Year; plus
 - (ii) its share of any Profit Petroleum as set forth in Article 9.1(c) below.
- (c) The remaining Available Petroleum, including any portion of Cost Recovery Crude Oil or Cost Recovery Natural Gas not required to cover costs (hereinafter referred to as "Profit Crude Oil" and/or "Profit Natural Gas" and collectively as "Profit Petroleum"), shall be allocated between ANPM and the Contractor as follows:
 - (i) Contractor's share of Profit Petroleum shall correspond to the remaining portion of Profit Petroleum after the deduction of ANPM's share pursuant to the provisions of Article 9.1(c)(ii) below.;
 - (ii) ANPM's share of Profit Crude Oil or Profit Natural Gas for any given calendar month shall be determined separately, in accordance to the terms set forth in Articles 9.1(c)(iii) and 9.1(c)(iv) below;
 - (iii) ANPM's share of Profit Crude Oil is of forty percent (40%); and
 - (iv) ANPM's share of Profit Natural Gas is of forty percent (40%).

9.2 ANPM's Option

- (a) Unless ANPM elects otherwise pursuant to Article 9.2(b) below, Contractor shall take and receive, and dispose of, in common stream with its own share and on terms no less favourable to ANPM than Contractor receives for its own share, ANPM's entire share of Petroleum.
- (b) ANPM may elect to take and separately dispose of its share of Petroleum. However, unless otherwise agreed with Contractor, and Contractor shall not unreasonably withhold its agreement to a proposal from ANPM, ANPM may not elect to take and separately dispose of its share of Petroleum:
 - (i) in respect of the whole, or the same percentage of the whole Timor-Leste's shares of Crude Oil for and throughout each Calendar Year, without less than a ninety (90) Days prior written notice to the Contractor prior to the commencement of the Calendar Year to which the Crude Oil respects to; and
 - (ii) in respect of Timor-Leste's share of Natural Gas, in breach of an approved Development Plan.

9.3 Lifting and Marketing

- (a) Subject to the provisions of this Contract, the Contractor may lift and dispose of its share of Petroleum, retaining the proceeds from the sale or other type of disposition of such share of Petroleum.
- (b) Upon ANPM's request, Contractor is required to make available all the relevant marketing information and the respective sales and purchase agreement(s), no matter whether the sale arrangements are made directly or through a trading agent.
- (c) Contractor and ANPM shall, from time to time, make such agreements between them as reasonably necessary, in accordance with Good Oil Field Practice for the separate lifting of their shares of Petroleum.

9.4 Title and Risk

- (a) The risk in relation to the Petroleum shall be of and remain with the Contractor until its delivery at the Field Export Point. Without prejudice to any obligation or liability of the Contractor as a consequence of its failure to comply with any obligations under this Contract (including Article 7.1), Petroleum lost after its recovery at the well-head and before its delivery at the Field Export Point, shall be deducted from each parcel of Contractor's Recoverable Costs pursuant to Article 8.1 above.
- (b) Title to Contractor's share of Petroleum shall pass to it when (and risk therein shall remain with the Contractor afterwards) it is delivered at the Field Export Point.
- (c) Title to ANPM's share of Petroleum taken by the Contractor pursuant to Article 9.2 above shall remain with ANPM until its transfer to a third party under a sale and purchase agreement, except if otherwise agreed between ANPM and the Contractor. Notwithstanding the above, the risk in relation to ANPM's share of Petroleum shall remain with the Contractor until its transfer to a third party under a sale and purchase agreement.
- (d) Contractor shall defend, indemnify and hold ANPM harmless in accordance with the Applicable Law in Timor-Leste from and against all claims and demands asserted in respect of Petroleum wherein the risk is with the Contractor.

9.5 Payments

- (a) Unless ANPM elects otherwise pursuant to Article 9.2 (b) above, Contractor shall pay to ANPM an amount equal to the ANPM's share of all amounts received by the Contractor for the Petroleum taken, received and disposed of in accordance with Article 9.2(a) above within five (5) working Days as of its receipt by Contractor.
- (b) In case Contractor does not receive payment for the Petroleum disposed within forty five (45) Days after the date of the relevant bill of lading, payment to ANPM of the estimated value of the its share of Petroleum taken, received and disposed by Contractor in accordance with Article 9.2(a) is immediately due and payable without need of any further notice or other request by ANPM.

Article 10 Timor-Leste Participation

10.1 Election

- (a) Timor-Leste may decide to participate in all phases of the Petroleum Operations through - TIMOR GAP, in accordance with Article 22 of the Petroleum Activities Law.
- (b) The decision on the Timor-Leste participation in Petroleum Operations can be made in two (2) different moments: either at Exploration and/or Development, as set forth in Articles 10.1(c) and 10.1(d) below.
- (c) Timor-Leste may, within sixty (60) Days as of the Effective Date, decide to participate in the Petroleum Operations.
- (d) Timor-Leste may, within six (6) months of the date of declaration of Commercial Discovery, decide to participate in the Petroleum Operations.
- (e) The Timor-Leste participation under Articles 10.1(c) and 10.1(d) above shall be free carried, up to the Development stage, before the first production. In making its decision to participate in the form of free carried equity, Timor-Leste shall take the profitability and field life of the project into consideration.

10.2 Participation

- (a) For the avoidance of doubt, TIMOR GAP's Participating Interest as stipulated under Article 10.1 shall be carried and paid for by the Contractor (other than TIMOR GAP) on a pro rata basis to its Participating Interests. All expenditure incurred as a result of Timor-Leste participation under Articles 10.1(c) and 10.1(d) shall be reimbursable through cost recovery in accordance with the provisions of Article 8.
- (b) In the event that TIMOR GAP elects to convert its carried interest to a working interest, TIMOR GAP shall be responsible for all of its own costs in respect of the Petroleum Operations. For the avoidance of doubt, any outstanding Exploration, Appraisal, and Development Costs, and obligations incurred prior to the decision to convert its carried interest into working interest becomes effective shall be reimbursable through cost recovery in accordance with the provisions of Article 8.
- (c) Within thirty (30) Days of the date Contractor's submits the report with the amounts to be reimbursed by TIMOR GAP, TIMOR GAP may request an audit to Contractor's accounts which shall be performed by an independent third party in order to verify amounts claimed. The cost of the independent audit shall be borne by TIMOR GAP.

Article 11 Supply of Crude Oil and Natural Gas to Timor-Leste Domestic Market

11.1 Domestic Market Obligation

- (a) Notwithstanding Article 9.3(a) above, ANPM may require the Contractor to supply Crude Oil and Natural Gas to the Timor-Leste domestic market in accordance with the Applicable Law in Timor-Leste.
- (b) If the Government of Timor-Leste decides that it is necessary to limit exports of Petroleum, ANPM may, by means of a sixty (60) Days prior written notice, require Contractor to meet the

needs of the domestic market with Petroleum that it has produced and received under this Contract.

11.2 Calculation of Domestic Supply Obligation

- (a) Contractor's obligation to supply Crude Oil and Natural Gas for domestic purposes shall be calculated in any Calendar Year as follows:
 - (i) the total quantity of Crude Oil or Natural Gas produced from the Contract Area is multiplied by a fraction, the numerator of which is the total quantity of Crude Oil or Natural Gas to be supplied pursuant to Article 11.1 and the denominator is the whole Timor-Leste production of Crude Oil or Natural Gas from all contract areas;
 - (ii) twenty-five percent (25%) of the total quantity of Crude Oil or Natural Gas produced from the Contract Area is calculated; and
 - (iii) the lower quantity computed under either Article 11.2(a)(i) or Article 11.2 (a)(ii) above is multiplied by the percentage of production from the Contract Area to which the Contractor is entitled, as set forth in Article 9 of this Contract.

- (b) The quantity of Crude Oil or Natural Gas computed under Article 11.2(a)(iii) above shall be the maximum quantity to be supplied by the Contractor in any Calendar Year pursuant to this Article. Deficiencies, if any, shall not be carried forward to any subsequent Calendar Year. If for any Calendar Year, Recoverable Costs exceed the difference of total sales proceeds from Crude Oil or Natural Gas produced and saved hereunder minus ANPM's first shares of Petroleum as provided in Article 9.1(a) hereof, Contractor shall be relieved from this supply obligation for such Calendar Year.

- (c) The price at which such Crude Oil or Natural Gas shall be delivered and sold under this Article shall be the price as determined in accordance with the Applicable Law in Timor-Leste.

- (d) Contractor shall not be required to transport such Crude Oil or Natural Gas beyond the Field Export Point, but upon request by ANPM, the Contractor shall assist in arranging transportation and such assistance shall be without cost or risk to the Contractor.

Article 12 Contractor Operation Account and Payments

12.1 Contractor's Operational Account

Contractor is required to open, maintain and operate a local bank account with a commercial bank domiciled in Timor-Leste during the whole term of this Contract. All transactions in relation to Petroleum Operation shall be conducted through the commercial bank domiciled in Timor-Leste elected by Contractor for such purpose.

12.2 Fees

Contractor shall pay to ANPM all fees and other applicable charges, as provided for in the Applicable

Law in Timor-Leste and this Contract.

12.3 Payment Mechanism

All payments to be made under this Contract shall, unless otherwise established or agreed, be made in United States Dollars. Unless otherwise established or agreed, all payments shall be made within ten (10) Days as of the end of the month in which the obligation to make such payment has arisen, into a bank account with a commercial bank domiciled in Timor-Leste, as may be indicated from time to time by the Party to whom the payment is due.

12.4 Late Payment

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

12.5 Minimum Payment

If this Contract is terminated for any reason before the end of the third (3rd) Contract Year, Contractor shall, on the effective date of termination, pay to ANPM any and all fees and charges provided for in Article 12.2 above that would have been due if termination had not occurred prior to the end of the third (3th) Contract Year.

Article 13 Procurement of Goods and Services

- (a) Unless otherwise provided for in the Applicable Law in Timor-Leste and this Contract, Contractor shall not enter into any procurement contract in relation to the Petroleum Operations in an amount higher than three hundred thousand United States Dollars (USD 300,000) without obtaining ANPM's prior approval.
- (b) In the absence of a decision from ANPM in relation to Contractor's request for approval of a contract under Article 13(a) above within thirty (30) Days as of the date of receipt of such request, the approval shall be deemed as implicitly granted.
- (c) All procurement in relation to Petroleum Operations shall be carried out on an arm's length basis and follow general principles for sourcing, tender, evaluation, monitoring and close out.
- (d) Tender, notification, approvals and reporting of procurement in relation to Petroleum Operations are governed by the Applicable Law in Timor-Leste.
- (e) Contractor shall make its best endeavour to procure Timor-Leste Goods and Timor-Leste Services from Timor-Leste Suppliers with due consideration to quality and health and safety requirements set forth in the Applicable Law of Timor-Leste, being Contractor required to:
 - (i) acquire Timor-Leste Goods and Timor-Leste Services of acceptable quality, available for purchase and delivery in due time, at prices not exceeding ten percent (10%) the price of

similar imported items, transportation and insurance costs and customs duties and charges included;

- (ii) ensure that provisions as referred in Article 13(e) above is included in all contracts entered into between the Contractor and its sub-contractors; and
 - (iii) In the absence of Timor-Leste Goods and Timor-Leste Services, Contractor may consider utilising imported goods and imported services, subject to ANPM's prior approval.
- (f) Foreign suppliers rendering services in Timor-Leste for more than twelve (12) consecutive months or that are awarded contracts with a duration exceeding twelve (12) months shall be required to incorporate, prior to the commencement of performance of the respective contracts, and subsequently maintain, a company in Timor-Leste and all costs and expenses incurred by Contractor with foreign suppliers who are in breach of this provision are not eligible as Recoverable Costs.
- (g) All companies performing services or providing goods for Petroleum Operations in Timor-Leste shall mandatorily use Suai Supply Base and petroleum infrastructure in Timor-Leste as their base of operations.

Article 14 Tender Invitation

- (a) Contractor and its sub-contractors shall be liable for the prequalification of their suppliers to provide goods and services for Petroleum Operations.
- (b) The invitation to tender shall be made based on the list of qualified suppliers approved by ANPM.
- (c) Before inviting any bidders for tenders of contracts for the provision of goods or services, Contractor shall submit to ANPM's approval the relevant bid package and tender terms of reference, which shall include the following mandatory elements:
 - (i) draft contract;
 - (ii) scope of work;
 - (iii) a technical proposal;
 - (iv) a commercial proposal form;
 - (v) a local content proposal;
 - (vi) a tender evaluation criteria and relative weight; and
 - (vii) a timeframe for the tender.
- (d) Contractor shall, before awarding any contract for goods and services, obtain ANPM's written approval.
- (e) Contractor's recommendation for award of a contract shall include the following mandatory elements:
 - (i) contract performance time frame;
 - (ii) evaluated contract price; and

- (iii) score card used during the tender evaluation process.
- (f) Contractor's recommendation for the award of a contract shall be made within fifteen (15) Days after evaluation of the tender.
- (g) Contractor must obtain ANPM's prior approval in order to:
 - (i) make any variation to the existing contracts; and
 - (ii) grant any extension of the term of the existing contracts.
- (h) Except for the information required under Articles 14(c)(i) to 14(c)(v), ANPM may exempt Contractor, in whole or in part, from complying with the procurement processes set forth in this Article 14 under the following conditions:
 - (i) no bid is submitted in a given tender or such bid does not translate into a fair value for money transaction;
 - (ii) no bid submitted in a given tender meets the minimum content and format required;
 - (iii) urgency due to unforeseen conditions;
 - (iv) exceptionally advantaged situation; and
 - (v) goods and services can only be supplied by a particular company.

Article 15 Other Information on Goods and Services

- (a) Contractor shall submit to ANPM copies of all contracts for the supply of goods and services in relation to the Petroleum Operations promptly after their execution.
- (b) From time to time, ANPM may request any additional information related with the goods and services procured by the Contractor and its sub-contractors. Contractor shall, within sixty (60) Days after the receipt of such request, submit to ANPM the information so requested.

Article 16 Title to Facilities

16.1 Ownership of Facilities

- (a) The Facilities, whether immovable or movable, purchased by the Contractor to be used in the Petroleum Operations under this Contract shall become property of TIMOR GAP when purchased in Timor-Leste and, if acquired abroad, upon its entry into Timor-Leste' Territory.
- (b) Contractor shall possess and have control over the Facilities mentioned in Article 16.1(a) above and is entitled to use them in the Petroleum Operations free of charge during the whole term of the Contract.
- (c) Contractor shall be liable to carry out proper maintenance and repair of all Facilities so as to ensure their integrity and usefulness at all times.

16.2 Production Beyond the Term of Contract

- (a) Where Production from a Development Area is possible beyond the term of this Contract, Contractor shall handover to TIMOR GAP such Development Area and all Facilities and other

property required for carrying out existing operations, in good state of repair and operation. Upon the transfer of the relevant Development Area and related Facilities, TIMOR GAP shall assume all responsibility for the Facilities and other property and their Decommissioning and hold the Contractor harmless against any liability with respect thereto accruing after the date of such transfer to TIMOR GAP but without prejudice to any obligations or liabilities accrued by Contractor prior to the above transfer.

- (b) Where TIMOR GAP elects not to take on the responsibility to continue Production in the Development Area beyond the term of this Contract, ANPM and Contractor may agree on new terms and conditions based on this Contract to allow the Production to continue. The new terms and conditions for continuation of Production must result in an increase of Timor-Leste's entitlement to the Production.

16.3 Rented or Leased Materials, Facilities or Other Property

- (a) Contractor shall procure that TIMOR GAP has the right to purchase at fair market value or to lease in terms and conditions no less favourable than those applied to Contractor, any Facilities and other property rented or leased by the latter or which belong to Contractor's employees and/or service providers, provided that the ownership of any such items by any Person other than the Contractor is clearly documented with ANPM at the time of its acquisition or entry into Timor-Leste's territory, whichever applies.
- (b) Articles 16.1 and 16.2 shall not apply to the Facilities and other property mentioned in Article 16.3(a) above.

16.4 Moving of Property

Contractor's move of property located on the Contract Area and no longer used in Petroleum Operations to another location within Timor-Leste's territory for further use, is subject to ANPM's prior approval. Upon receipt of such approval, the Contractor shall pay to TIMOR GAP either:

- (a) an amount equal to the transfer price mutually agreed between the Parties; or
- (b) if no price is agreed and Contractor still wishes to move the Facilities or other property to other location, an amount equal to the percentage of the cost of such property recovered by the Contractor as Recoverable Cost under this Contract as of the date such property is moved, multiplied by the depreciated value of the same property determined in accordance with this Contract and international accounting standards.

16.5 Other Uses of Property

The use by Contractor of property located within the Contract Area for operations and other works not related to the Petroleum Operations and/or the Contract Area, is subject to ANPM's and TIMOR GAP's prior approval.

Article 17 Dispute Resolution

17.1 Application of this Article

Any disputes between the Parties under this Contract shall be settled in accordance with this Article 17.

17.2 Notice of Dispute

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

17.3 Elevation of Dispute

- (a) If the dispute is not settled by the Parties within thirty (30) Days as of the date of receipt of the written notice of the dispute set forth in Article 17.2 above, the dispute shall be referred to, on the part of the Contractor, Contractor's most senior executive residing in Timor-Leste and, on the part of ANPM, the Chairperson of the Board of Directors. Those senior executives shall use all reasonable and best endeavours, acting in good faith, to negotiate a settlement for the dispute within an additional thirty (30) Days period.
- (b) If the senior executives of the Parties have settled the dispute, such settlement shall be documented and signed by the Parties within fifteen (15) Days as of the date the Parties reached an agreement.

17.4 Arbitration

- (a) If the dispute has not been settled pursuant to Article 17.3(a) above within the assigned deadlines (or such a longer period as may be agreed between the Parties), or the Parties fail to document the settlement they may have reached pursuant to Article 17.3(b) above within fifteen (15) Days of the date they reached an agreement, the Parties shall refer the dispute to arbitration, in accordance with this Article 17.4.
- (b) Arbitration between ANPM and Contractor shall be conducted in accordance with the following rules:
 - (i) the 1965 Washington Convention; and
 - (ii) the ICSID Additional Facility;
 - (iii) the venue of the arbitration shall be Singapore; and
 - (iv) the language of the arbitration shall be the English.

17.5 Commercial Arrangement and Waiver of Sovereign Immunity

- (a) This Contract is a commercial agreement.
- (b) Both ANPM and the Contractor waive any claim to sovereign immunity which they may have, in relation to both procedure and enforcement.

17.6 Obligations Continue During Dispute Resolution

The obligations of the Parties under this Contract shall continue pending the settlement of any dispute under this Article 17.

Article 18 Reports, Data and Information

18.1 This Contract

- (a) This Contract is not confidential and the data or information relating to the Contract shall not be treated as confidential other than as expressly provided in the Applicable Law in Timor-Leste or Articles 18.3(e) and 18.4(d) below.
- (b) A copy of this Contract shall be made available by ANPM at its head offices for inspection by the public during normal office hours. In addition to the above, ANPM may also be required to make a copy of the Contract available at a public registry according to the Applicable Law in Timor-Leste.

18.2 Reports

In addition to any obligation contained in this Contract or in the Applicable Law in Timor-Leste, Contractor shall provide ANPM with monthly reports, detailing the Operational Information.

18.3 Ownership and Use of Project Data and Operational Information

- (a) ANPM has title over all data and information acquired during the course or due to the carrying out of the Petroleum Operations.
- (b) Article 18.3(a) above includes, but it is not limited to, all project data and information, whether raw, derived, processed, interpreted or analysed (including cores, cuttings, samples, and all geological and geophysical, geochemical, drilling, Well, production and engineering data and information), operational information, and operational information report that Contractor obtains, collects and compiles under this Contract.
- (c) This Article 18 does not prevent ANPM, in the course of its activities, from using any data and information (including that contained in project data and Operational Information) for the purpose of general statistical and other general reporting purpose (public or otherwise).
- (d) The Operational Information is not confidential and may be made available to the public by ANPM, at its sole discretion or at request under the Applicable Law in Timor-Leste.
- (e) Unless otherwise required by the Applicable Law in Timor-Leste or for the purpose of settle any dispute under Article 17 above, ANPM shall not publicly disclose or make available any of the data and information in relation to the Petroleum Operations until the earliest of:
 - (i) two (2) Calendar Years after the date in which the data and information was acquired by the Contractor, unless the Parties agree in writing a longer period, which cannot, in any case, exceed five (5) Calendar Years;
 - (ii) in respect to data and information included in or related to a Development Plan, until the date of approval thereof;
 - (iii) in respect to project data and information related to the relinquishment of areas, until the date of relinquishment thereof;
 - (iv) in relation to data and information related to portions of the Contract Area to which this Contract ceases to apply for any reasons, the date in which this Contract ceases to apply;
or

- (v) upon expiry or termination of this Contract.
- (f) The Contractor may only use the data and information for the Petroleum Operations or to apply for other Authorisation.
- (g) The Contractor shall not disclose the data and information related to the Petroleum Operations other than:
 - (i) to its employees, agents, contractors and Affiliates, to the extent necessary for the proper and efficient carrying out of the Petroleum Operations and provided that, prior to its disclosure, that Person has agreed to maintain the confidentiality of such data and information on the exact same terms as the Contractor;
 - (ii) as required by any law applicable to the Contractor;
 - (iii) for the purpose of settling any dispute under this Contract; or
 - (iv) as required by a recognised stock exchange entity.
- (h) Contractor cannot sell or disclose any data or Operational Information or any other data or information related to the Petroleum Operations, unless with ANPM's prior express written consent or as required by Applicable Law in Timor-Leste and, in this latter case, always provided Contractor gives a reasonable advance prior notice to ANPM, so as to allow ANPM to object to such disclosure.
- (i) Any copies of, additional samples of or other material related to, the data and Operational Information that has been reproduced for use in the Petroleum Operations shall be returned to ANPM upon termination of Petroleum Operations or this Contract, whichever occurs first.
- (j) The non-disclosure obligations set forth in Article 18.3(e) above do not apply to any piece of data and Operational Information which a Party can unequivocally evidence to be or had become of the public domain, by any means other than breach of this Contract, or in relation to which ANPM or any Government agency of Timor-Leste has determined that the public interest in its disclosure outweighs any interest in maintaining it confidential.

18.4 Contractor Confidential Information and Contractor Developments

- (a) Contractor shall own all Contractor Developments, unless otherwise specifically mutually agreed between ANPM and the Contractor.
- (b) Subject to Article 18.4(d) below, Contractor shall disclose to ANPM all Contractor Developments as soon as practicable after they are made and hereby grants an irrevocable, royalty-free licence to ANPM to use the Contractor Developments for the purpose of conducting the Petroleum Operations under this Contract.
- (c) At ANPM's request, Contractor shall negotiate in good faith the grant of a licence to ANPM to use the Contractor Developments for any purpose whatsoever within Timor-Leste, such use to be negotiated on a competitive and fair market basis.
- (d) ANPM agrees to maintain as confidential and not to disclose to any third-party Contractor's confidential information or the Contractor Developments other than as required by the Applicable Law in Timor-Leste or for the purpose of the settlement of disputes under this Contract.

- (e) The confidentiality obligations set forth in Article 18.4(d) above shall not apply to any information or part thereof which:
- (i) is or becomes part of the public domain, by any means other than breach of this Contract; or
 - (ii) is lawfully obtained by ANPM from another Person without any restrictions as to its use and disclosure; or
 - (iii) was already in ANPM's possession prior to its disclosure by Contractor; or
 - (iv) ANPM serves notice to Contractor requiring it to explain, within a period to be specified in the notice, as to why Contractor's confidential information and Contractor Developments should still be subject to the confidentiality obligations of Article 18.4(d) above and the Contractor fails to provide such explanation.

18.5 Right to Attend Meetings

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

18.6 Public Statements

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

Article 19 Management of Operations

19.1 Operator

The appointment or change of Operator by the Contractor is always subject to ANPM's prior approval.

19.2 Constitution of Committee

For the purpose of this Contract there shall be a Committee comprising two (2) representatives appointed by ANPM, one of whom shall be the Chairperson, and an equal number of representatives appointed by the Contractor, unless the Contractor is composed by more than one Person, in which case each Person shall be entitled to appoint at least one representative (the "Committee"). For each representative, ANPM and Contractor may appoint an alternate to act in the absence of the effective representative.

19.3 Meetings

- (a) The Committee shall meet at least twice each Calendar Year at ANPM's offices or such other

place as ANPM may indicate, with a thirty (30) Days' prior notice given by the Chairperson, in order to discuss any matters related to Petroleum Operations. There shall be at least one meeting of the Committee for each of the following purposes:

- (i) determining the process under which the Contractor shall submit the Work Program and Budget to ANPM for approval, in accordance with Article 4 above;
 - (ii) examining the Minimum Exploration Work Requirements and their progress, as well as the Work Program and Budget for the following years which Contractor is required to submit under the Applicable Law in Timor-Leste; and
 - (iii) reviewing any proposed or agreed amendments to the Minimum Exploration Work Requirements or Work Program and Budget and the progress of the Petroleum Operations under the relevant Work Program and Budget.
- (b) Contractor or ANPM may request the Chairperson to convene a meeting of the Committee at any time. The above request must include a detailed agenda for the meeting and the Chairperson shall be required to convene the meeting pursuant to Article 19.3(a) above.

Article 20 Third Party Access to Facilities and Land Use

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

Article 21 Books of Account, Financial Report, Audit and Cost Verification

21.1 Arm's Length Transactions

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

21.2 Maintenance of Books

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

21.3 Right of ANPM to Inspect and Audit

- (a) In accordance with the Applicable Law in Timor-Leste, ANPM has the right to inspect and

audit all Contractor's books, accounts and records relating to Petroleum Operations under this Contract for the purpose of verifying Contractor's compliance with the terms and conditions thereunder.

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

21.4 Books of Persons comprising Contractor, such Person's Affiliates and Contractor's Affiliates and Sub-Contractors

- (a) Contractor shall ensure to make available all books, records and documents of the Persons comprising Contractor, their Affiliates and Contractor's Affiliates or sub-contractors for audit of Contractor's books, records and documents.
- (b) ANPM may require Contractor to engage with independent auditors to examine, at Contractor's cost and in accordance with international auditing standards, the books and records of such Person and their Affiliates and Contractor's Affiliates or sub-contractors to verify the accuracy and compliance with the terms of this Contract insofar as a charge from such Person, and their Affiliates and Contractor's Affiliates or sub-contractor is included directly or through Contractor as a Recoverable Cost under this Contract. Whenever an independent audit of such Person and their Affiliates and Contractor's Affiliate's or sub-contractor's books is required, ANPM shall specify in writing the item or items for which it requires verification from such independent audit. A copy of the independent auditor's findings shall be delivered to ANPM and the ministers responsible for the petroleum sector and finance within thirty (30) Days as of the date of completion of such audit.
- (c) If the books, records or documents of such Person and their Affiliates and Contractor's Affiliate or sub-contractor which related to any costs which ANPM wishes to verify, are not made available pursuant to Articles 21.4(a) and 21.4(b) above, such costs shall not be allowed as Recoverable Costs under this Contract.

21.5 Initial Verification Procedure

- (a) Subject to Annex C, the following procedure shall be implemented with respect to each Quarter to initially verify and establish promptly Contractor's costs which qualify as Recoverable Costs under this Article 21.
- (b) Contractor shall submit to ANPM the statements required under Annex C, in accordance with the procedure detailed therein, and ANPM shall initially verify:

- (i) the qualification of the claimed costs as Recoverable Costs under this Contract; and
 - (ii) if the amounts claimed as qualifying as Recoverable Costs are correct based on documentation made available at Contractor's offices in Timor-Leste.
- (c) The initial verification of expenditures shall be the basis for provisionally determining the sharing of Petroleum, but shall not constitute a final approval by ANPM of those amounts. Such final approval shall only be provided after final auditing has been completed pursuant to Article 21.6 below. ANPM may submit a written exception notice to Contractor during the initial verification, expressly identifying the particular cost or costs being contested and the reason for the exception.
- (d) Within thirty (30) Days as of the date of receipt of the written exception notice mentioned in Article 21.5(c) above, Contractor shall submit to ANPM such additional written information as ANPM may require, as well as the information Contractor may consider appropriate to support the correctness and/or recoverability of the contested cost or costs. If Contractor does not make a written submission within the above deadline in support of the charge, the cost or costs shall be deemed disallowed for purposes of cost recovery.
- (e) If additional written information supporting the contested cost or costs is submitted by the Contractor within the assigned deadline, ANPM shall notify the Contractor of its decision as to whether or not to allow the contested cost or costs within thirty (30) Days as of the date of receipt of such information.
- (f) If ANPM notifies Contractor that the exception remains, the charge shall be deemed disallowed as a Recoverable Cost under this Contract, without prejudice of Contractor's right to request a final determination on the recoverability of the disputed cost or costs by experts within thirty (30) Days as of the date of receipt of ANPM's notice.
- (g) Contractor shall promptly correct its books of account to reflect any changes resulting from the initial verification procedure outlined in this Article 21.5.

21.6 Audit Process

All audits shall be completed within twenty-four (24) months as of the term of the relevant Contract Year to which such audits refer to. Auditors may examine all Contractor's books, accounts and records in relation to a specific period of time or a particular aspect of such records.

21.7 Audit Exceptions, Claims and Queries

- (a) Within ninety (90) Days as of the end of any audit conducted under this Article 21, ANPM shall submit to Contractor a report outlining the audit exceptions, claims and queries.
- (b) Within ninety (90) Days as of the date of submission of the report mentioned in Article 21.7 above (the "Review Period"), Contractor shall agree or oppose in writing to all exceptions, claims and queries. In relation to any and all objections, Contractor is required to provide a detailed statement of its justifications for the objections together with any supporting evidence.
- (c) All exceptions, claims or queries to which Contractor does not object within the Review Period shall be deemed as allowed.
- (d) ANPM and Contractor shall negotiate in good faith to reach final settlement on the exceptions, claims and queries to which Contractor has objected within ninety (90) Days as of the term of

the Review Period. If any exceptions, claims and queries are not settled during the above period, either Party is allowed to initiate dispute resolution procedures in accordance with Article 17 above, which shall qualify as a technical matter.

21.8 Right to Re-examine

Subject to any adjustments resulting from audits or notification of a dispute made by ANPM, the reports and statements shall be considered final and not subject to further audit after the term of the period set forth in Article 21.7(d) above. Notwithstanding any provision to the contrary in this Contract, if in a subsequent period an issue or error is identified which relates to another period or to possible fraud or wilful misconduct to have occurred at any time, ANPM shall have the right to re-examine any reports and statements otherwise considered as final reports and statements or not previously audited.

21.9 Audit of Operator or Other Persons Comprising Contractor

If Contractor conducts an audit to the books and records of the Operator or any other Person comprising the Contractor pertaining to this Contract, it shall promptly provide to ANPM a copy of the audit results and a report detailing the audit exceptions, claims and queries.

21.10 Time Periods for Maintenance of Books

Contractor must maintain all books, records and documents mentioned in this Article 21, and make such books, records and documents available for inspection in accordance with the Applicable Law in Timor-Leste until the later of:

- (a) sixty (60) months as of the term of each Contract Year;
- (b) if any cost or amount is under dispute at the term of the 60-month period set forth in 21.10(a) above, until the date the dispute is settled; or
- (c) such longer period as may be required by the Applicable Law in Timor-Leste.

21.11 Technical Audit

- (a) In accordance with the Applicable Law in Timor-Leste, Contractor shall provide all relevant information to the authorities of Timor-Leste responsible for any of Contractor's activities, and shall allow them to have free access to such information.
- (b) Under no circumstances shall ANPM assume any responsibility for the performance or non-performance of any of the activity which it has audited or inspected pursuant to this Article 21.11, such responsibility remaining solely with the Contractor, at its own account and risk.

Article 22 Warranty, Indemnity and Insurance

22.1 Warranty

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

22.2 Indemnification Right

Contractor shall defend, indemnify and hold ANPM and Timor-Leste harmless from all and any claims and economic losses of whatsoever nature, including, but not limited to, environmental damage, which may be brought against Timor-Leste by any Person or any third party, directly or indirectly, in respect of the Petroleum Operations. Contractor shall be fully liable for all costs, expenses and liabilities incurred as a consequence of the above claims and economic losses.

22.3 Insurance

- (a) Contractor shall:
 - (i) take out and maintain insurance on a strict liability basis and in respect of such other matters as reasonably required by ANPM (including in respect of pollution), for such amounts as ANPM may require from time to time or as otherwise required by Good Oil Field Practice; and
 - (ii) obtain and maintain all insurances policies required by the Applicable Law in Timor-Leste.
- (b) Notwithstanding anything to the contrary herein, the insurance policies referred in Article 22.3(a) above shall cover, but are not limited to, the following risks:
 - (i) any loss or damage to any asset used in the Petroleum Operations for no less than its full replacement value;
 - (ii) Operators Extra Expenses Coverage as per EED 8.86 with endorsement for, Underground Blow Out, Making Wells safe endorsement, Extended Re-drill, Evacuation expenses, Care Custody and Control this coverage to be for a minimum limit of 3 times AFE;
 - (iii) pollution caused in the course of Petroleum Operations;
 - (iv) property loss or damage or bodily injured or death suffered by any Person including third parties, in the course of Petroleum Operations;
 - (v) the cost of removing wrecks and clean-up operations following an accident or upon Decommissioning of Facilities; and
 - (vi) Contractor's liability towards its employees engaged in the Petroleum Operations.
- (c) Contractor shall ensure that all insurance policies took out pursuant to this Article 22 shall have ANPM as co-insured and Contractor shall obtain from its insurance companies the inclusion in all its policies of a clause whereby they expressly waive the exercise of any rights, implicit or explicit, including subrogation rights against ANPM.
- (d) Self-insurance, insurance through Affiliates or use of global insurance programs policies shall

only be allowed upon ANPM's prior written approval, such approval to be given at ANPM's sole discretion, and provided the relevant risks cannot be insured by an insurance company.

- (e) Contractor shall be responsible for the filing of all claims made under any insurance policy maintained by Contractor in relation to this Contract.
- (f) Any reasonable amounts deductible under any insurance policy maintained by the Contractor in relation to this Contract shall, upon the filing of an insurance claim, qualify as a Recoverable Cost in accordance with the provisions of Annex C.
- (g) Contractor shall require its sub-contractors to obtain and maintain the insurance required under this Article 22, relating mutatis mutandis to such sub-contractors, and shall upon ANPM's request provide the latter with documental evidence of the existence and validity of such insurance policies taken out by its sub-contractors.

Article 23 Force Majeure

23.1 Force Majeure Relief

- (a) "Force Majeure" means any event that is unforeseeable, insurmountable and irresistible, not due to any error or omission by the Party claiming Force Majeure but rather due to circumstances beyond its reasonable control, which prevent or impede the discharge of all or part of its obligations under this Contract. Such events include, but are not be limited to, the following:
 - (i) war, whether declared or not, civil war, insurrection, riots, civil commotion, terrorism, any other hostile acts, whether internal or external;
 - (ii) quarantine restrictions or epidemics; and
 - (iii) any act, event, happening or occurrence due to natural causes, in particular, but without limitation, floods, storms, cyclones, fires, lightning, or earthquakes.
- (b) For the purposes of this Article it is understood that a Force Majeure event affecting a Person comprising the Contractor or a Contractor's Affiliate is deemed as a Force Majeure event affecting such Person or its Affiliates only if the consequence of such Force Majeure event prevents the performance of any of Contractor's obligations under this Contract.
- (c) Notwithstanding Article 23.1(a) above, the following events do not qualify as Force Majeure events for the purposes of this Contract:
 - (i) failure to make timely payments;
 - (ii) in the case of Contractor, the entering into force of any law, or any action or inaction of the Government, of a place other than Timor-Leste (or of a political subdivision thereof);
 - (iii) in the case of ANPM, any amendment or change to the Applicable Law in Timor-Leste or any action or inaction of the Government of Timor-Leste;
 - (iv) in the case of Contractor, any failure to deliver and maintain a Security or to obtain and maintain insurance policies as required by this Contract; and
 - (v) in the case of Contractor, strikes, lockouts and other industrial disturbances of Operator's (or of its agents' and sub-contractor's) employees which are not part of a wider industrial dispute materially affecting other employers.
- (d) Subject to the provisions of this Article 23.1, a Party shall not be liable for any failure to

perform an obligation under this Contract to the extent such performance is prevented, hindered or delayed by a Force Majeure event.

23.2 Procedure

A Party claiming Force Majeure shall:

- (a) Notify the other Party as soon as reasonably practicable (not exceeding twenty-four (24) hours) of the event or circumstance concerned, and of the extent to which performance of its obligations is prevented, hindered or delayed thereby;
- (b) Keep the other Party fully informed as to the actions taken, or to be taken, by it to overcome the effects thereof, and, from time to time, provide it with such information and permit it such access, as it may reasonably require for the purpose of assessing such effects and the actions taken or to be taken; and
- (c) Resume performance of its obligations as soon as reasonably practicable after the event or circumstance has ceased.

23.3 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 the Petroleum Operations as a result of a Force Majeure event.

23.4 Extension of Time

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

Article 24 Restrictions on Assignment

24.1 Assignment

- (a) In accordance with the Applicable Law in Timor-Leste, Contractor cannot Assign this Contract without ANPM's prior written consent and no Assignment shall be effective until such consent is granted.
- (b) Assignor and Assignee shall be jointly and severally liable for providing all Securities in relation to the fulfilment of any unfulfilled accrued obligations of Assignor prior to the effective date of the Assignment, and the instrument of Assignment must state precisely that the Assignee is bound by all covenants contained in this Contract.
- (c) In accordance with the Applicable Law in Timor-Leste, ANPM may approve the Assignment upon application in writing submitted by the Contractor and on such terms and conditions as it may, in its sole discretion, deem appropriate. An application for approval of

an Assignment must be accompanied by all relevant information and documents relating to the prospective Assignee and the terms of the proposed Assignment, as set forth in the Applicable Law in Timor-Leste and as ANPM may reasonably require to be in a position to properly consider and decide on the application.

- (d) In order to be eligible as an Assignee, the prospective Assignee must meet the requirements for entering into petroleum contracts set forth in the Applicable Law in Timor-Leste.
- (e) Contractor is required to deliver ANPM copies of the duly executed Assignment agreement and all related documents within thirty (30) Days as of the receipt of the notification of approval of the Assignment.
- (f) ANPM is entitled to immediately terminate this Contract if Contractor Assigns this Contract without its prior written approval or in breach of any of the terms and conditions of ANPM's consent, even if such Assignment is valid in accordance to the Applicable Law in Timor-Leste.

24.2 Assumption of Obligations

After the effective date of the Assignment, and subject to the payment of any transfer fees that may be due under the Applicable Law in Timor-Leste, Assignor may be released and discharged from its obligations under this Contract, but only to the extent such obligations are assumed by the Assignee and always and in any case further to ANPM's prior approval.

24.3 Right of First Refusal

If an Assignment is proposed during the Production Period, TIMOR GAP shall have a preferential right in relation to such Assignment, in the exact same terms and conditions set forth in Contractor's application to ANPM. TIMOR GAP shall be exempted from paying any transfer fees. Such preferential right shall be exercised within sixty (60) Days as of the date of receipt of the written notification of the proposed Assignment by TIMOR GAP.

24.4 Timor-Leste's Right to Transfer

If the Government of Timor-Leste determines that a different entity should hold the rights and obligations held by ANPM under this Contract, the Government shall notify the Contractor and advise that the rights and obligations of ANPM under this Contract have been transferred to such entity. Promptly upon receipt of such notice, Contractor shall deal with the new entity for all purposes of this Contract.

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

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

provisions of Annex A (Contract Area) and formalize, in the new production sharing contract, the situation of the Contiguous Areas to the Contract Area, the composition of the Contractor and the appointment of the Operator. Failure to execute this new production sharing contract within the above deadline shall cause the immediate extinction of ANPM's consent to the Assignment.

- (b) In the case of Article 24.5(a) above, ANPM shall define an additional Work Program and Budget for the new areas resultant from the split of the Contract Area and, if the Assignment occurs during Exploration, the Minimum Exploration Work Requirements applicable to such new areas.
- (c) The sum of the activities and expenditure resultant from all the above Work Programs and Budget shall always be higher than the ones of the original Work Program, and each of the new areas resultant from the split of the Contract Area must have its own separate Work Program and Budget and, in case the Assignment occurs during Exploration, its own separate Minimum Exploration Work Requirements.
- (d) The areas resulting from the split of the Contract Area under this Article 24.5 shall become independent for all purposes and effects, namely, without limitation, for the calculation of State's participation.

24.6 Transfer of Decommissioning Fund

In the event of an Assignment or transfer when a Decommissioning Fund is already created pursuant to this Contract, the account or the total deposits of Assignor in the Decommissioning Fund must be credited on Assignee's behalf.

Article 25 Other Provisions

25.1 Notices

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

25.2 Language

This Contract has been drafted in the Portuguese and English languages and [...] [...] originals of each version have been prepared for signature by ANPM and the Contractor. Both the Portuguese and English versions are valid and binding. In case of discrepancies between the Portuguese and the English versions, the former shall prevail.

25.3 Governing Law

This Contract shall be governed by and construed in accordance with the Applicable Law in Timor-Leste.

25.4 Third Party Rights

Unless expressly provided for in this Contract, the Parties do not intend that any term of this Contract be enforceable by any Person who is not a Party to this Contract.

25.5 Amendments/Modification

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

25.6 Entire Contract

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

25.7 Inurement

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

25.8 Joint and Several Liability

- (a) Contractor's obligations and liabilities under this Contract, except in relation to TIMOR GAP, are jointly and severally obligations and liabilities of each and all the Persons comprising Contractor.
- (b) The exception referred to in Article 25.8(a) above shall not apply in case TIMOR GAP is appointed as Operator or holds the majority of the Participating Interests.

25.9 No Waiver

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

IN WITNESS WHEREOF, the Parties have executed this Contract.

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 shall be recorded, Recoverable Costs shall be determined, and each of Contractor's books and accounts shall 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 otherwise expressly stated.
- (c) A reference to an Article is to an Article of the Contract to which this Annex C is attached.

1.2 Accounting Records

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

1.3 Language and Units of Account

- (a) The *International System of Units* (metric units) and barrels shall be employed for measurements and quantities under this Contract.
- (b) The Accounting Records, and all reports to ANPM, shall be in one of the official languages of Timor-Leste. These records and reports may be in English, if a certified translation in one of the official languages of Timor-Leste is also provided.
- (c) The Accounting Records, and all reports to ANPM, shall be in United States Dollars. Costs and revenues in another currency shall be converted 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 Contractor and approved by ANPM.
- (d) Exchange gains or losses charged to the Accounting Records shall be in accordance with Clause 2.8(b) below.

Clause 2 – Classification and Allocation

2.1 Exploration Costs

Exploration Costs are those costs, whether of a capital or operating nature, which directly relate to Exploration and are incurred in respect of activities carried out substantially in accordance with an approved Work Program and Budget for Exploration, but without prejudice to Article 4.9 of the Contract, including costs of:

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

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

2.2 Appraisal Costs

Appraisal Costs are those costs that directly relate to Appraisal.

2.3 Capital Costs

Capital Costs are:

- (a) In respect of a Development Area, and before the commencement of Commercial Production from it, those costs, whether of a capital or operating nature, which directly relate to the its Development; and
- (b) In respect of a Development Area, and after the commencement of Commercial Production from it, those costs of a capital nature which directly relate to its Development, or to the Production of Petroleum from it,
and are incurred in respect of activities carried out in accordance with an approved Development Work Program and Budget, but without prejudice to Article 4.9 of the Contract, including costs of:
 - (c) Workshops, power and water Facilities, warehouses, site offices, access and communication facilities;
 - (d) Production Facilities including onshore platforms (including the costs of labour, fuel hauling and supplies for both the offsite fabrication and onsite installation of platforms, and other construction costs in erecting platforms), wellhead production tubing, sucker rods, surface pumps, flow lines, gathering equipment, storage Facilities, Facilities and modules on platforms, treating plants and equipment, secondary recovery systems;
 - (e) Pipelines and other Facilities for transporting Petroleum produced in the Contract Area to the Field Export Point;
 - (f) Movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment;
 - (g) Floating craft, automotive equipment, furniture and office equipment; and
 - (h) If previously approved by ANPM, 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 commencement of Commercial Production from it, those costs of an operating nature which directly relate to its Development, or to the Production of Petroleum therefrom, and are incurred in respect of activities carried out substantially in accordance with an approved Development Work Program and Budget, but without prejudice to Article 5.3 of the Contract.

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

- (a) Costs of labour, materials and services used in day to day Well activities, field production facilities activities, secondary recovery activities, storage handling, transportation and delivery activities, gas processing auxiliaries and utilities, and other operating activities, including repairs and maintenance;
- (b) Costs of office, services and general administration directly related to the petroleum activities carried out in the Contract Area including technical and related service, office supplies, office rentals and other rentals of services and property, and personnel expenses;
- (c) Costs of production drilling in the Contract Area including, labour, materials and services used in drilling Wells with object of penetrating a proven Reservoir such as the drilling of delineation Wells as well as redrilling, deepening or recompleting Wells;
- (d) Cost of feasibility studies and environmental impact assessment directly related to petroleum activities in the Contract Area;
- (e) Premium paid for insurance normally required to be carried for the petroleum activities carried out by the Operator under this Contract;
- (f) Annual Decommissioning costs provision; and
- (g) Costs of purchased geological and geophysical information.

2.5 Decommissioning Fund

The Decommissioning Fund is the amount determined in accordance with Article 6.5.

2.6 Uplift

Uplift is the amount, when compounded quarterly, which 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 nine (9) percentage points. Uplift shall apply to Exploration, Appraisal and Capital Costs only and not to Operating Costs.

In the event Contractor withholds any taxes on behalf of its subcontractors, namely in respect of taxes on goods and services or employees' wages income tax, Contractor shall only be allowed to recover the base tax as Recoverable Costs with no Uplift.

2.7 Miscellaneous Receipts

Miscellaneous Receipts are:

- (a) All monies received by each Contractor, other than for the sale or other disposal of Petroleum from a Development Area, which are directly related to the conduct of Petroleum Operations, including:
 - (i) Amounts received from the sale or other disposal of Petroleum from production testing activities undertaken in Exploration Wells and Appraisal wells;
 - (ii) Amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;
 - (iii) The proceeds of any insurance or claim or judicial awards in connection with Petroleum Operations under the Contract or any assets charged to the accounts under the Contract where such operations or assets have been insured and the

premium charged to the accounts under the Contract;

- (iv) Amounts received as insurance (the premiums of which are Recoverable Costs), compensation or indemnity in respect of Petroleum lost or destroyed prior to the Field Export Point;
- (v) Amounts received from the hiring or leasing of property, the cost of which is a Recoverable Cost;
- (vi) Amounts received from supplying information obtained from Petroleum Operations in accordance with the confidentiality and other applicable provisions of the Contract;
- (vii) Amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs;
- (viii) 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
- (ix) The value of property as determined by ANPM, the cost of which is a Recoverable Cost, when that property ceases to be used in Petroleum Operations.

2.8 Ineligible Costs

Ineligible Costs are:

- (a) Interest (or any payment in the nature of, in lieu of, or having the commercial effect of, interest) or other cost under, or in respect of, a Loan Facility;
- (b) Foreign exchange and currency hedging costs;
- (c) The positive difference between the costs relating to formation of corporations or of any partnerships or joint venture arrangements, other than in respect of a unitisation as required by the Applicable Law in Timor-Leste;
- (d) Payments of dividends or the cost of issuing shares;
- (e) Repayments of equity or loan capital;
- (f) Payments of private override royalties, net profits interests and the like;
- (g) All expenditure (including professional fees, publicity and out-of-pocket expenses) incurred in connection with the negotiation, signature or ratification of this Contract and payments associated with the acquisition of an interest under this Contract;
- (h) Costs incurred by the Contractor before and during the negotiation of this Contract;
- (i) Costs and charges incurred after the signing of the Contract but before the Effective Date;
- (j) Expenditure in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including but not limited to interest, commission, brokerage and fees related to such transaction as well as exchange losses on loan or other financing whether between Affiliates or otherwise;
- (k) Expenditure incurred in obtaining, furnishing and maintaining the guarantees required under the Contract and any other amount spent on indemnities with regard to non-fulfilment of contractual obligations;
- (l) Payments of taxes under the taxation law of Timor-Leste, and all other taxes on income, profit or gain wherever arising with exception to withholding taxes as a result of the Contractor acting as withholding agent on behalf of the subcontractors;
- (m) Fines and penalties imposed by any authority;

- (n) Payments of administrative accounting costs, and other costs indirectly associated with Petroleum Operations;
- (o) Except with ANPM's consent, costs incurred in respect of Petroleum after it has passed the Field Export Point;
- (p) The positive difference between the costs of goods and services and the international market price for goods and services of similar quality supplied on similar terms prevailing in South and South East Asia at the times such goods or services were contracted by Contractor;
- (q) Charges for goods and services which are not in accordance with the relevant Contract with the sub-contractor or supplier;
- (r) Costs incurred by Contractor in breach of any law or this Contract, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of the Contractor, its agents or sub-contractor, including any amount paid in settlement of any claim alleging negligence or wilful misconduct, whether or not negligence or misconduct is admitted or whether such sum is stated to be paid on an ex-gratia or similar basis;
- (s) Costs, expenses and charges incurred for goods and services received under contracts awarded in non-compliance with the tendering procedures of the Contract;
- (t) Costs incurred as a result of Contractor's wilful misconduct or negligence;
- (u) Payment of compensation or damages under this Contract;
- (v) Costs relating to the settlement of disputes, which are not approved in advance by ANPM, including all costs and expenses of arbitration or litigation proceedings under this Contract;
- (w) Costs of expert determination pursuant to Article 21 of the Contract;
- (x) Decommissioning costs actually incurred which have been taken into account for the purposes of determining the Decommissioning Fund;
- (y) Interests earned on the payments made to the Decommissioning Fund;
- (z) Payments under Article 12 of the Contract;
- (aa) Fees and accounting fees (excluding fees and expenses incurred for the conduct of audit and accounting services required by this Contract) incurred pursuant to the auditing and accounting requirements of any law and all costs and expenses incurred in connection with intra-group corporate reporting requirements (whether or not required by law);
- (bb) Except with ANPM's consent and in accordance with the conditions of such consent, any expenditure in respect of the hiring or leasing of Facilities, or other property, or of other works;
- (cc) Except with ANPM's consent, costs, including donations, relating to public relations or enhancement of the Party's corporate image and interests;
- (dd) Costs associated with local offices and local administration, including staff benefits, which, by reference to International Financial Reporting Standards, are shown to be excessive;
- (ee) Costs for which original records do not or are not correct in any material respect;
- (ff) Except with ANPM's consent, but subject to Articles 4.9 and 5.3 of the Contract, costs not included in a Work Program and Budget for the relevant Calendar Year; and
- (gg) Costs not falling within any of the above items which are stated elsewhere in this Contract not to be recoverable (including in Article 2.1(c)), or costs incurred without ANPM's consent or approval (where such is required).

2.9 Other Matters

- (a) The methods mentioned in this Clause 2.9 shall be used to calculate the Recoverable Costs.

- (b) Depreciation is not a Recoverable Cost except for the purpose of corporate income tax.
- (c) No gains or losses shall be recognized upon title of assets are transferred from Contractor to TIMOR GAP.
- (d) Parent Company's overhead cost record that Contractor sought for cost recovery shall be made available and accessible to ANPM. Parent Company's overheads charge shall be 2% and shall only be applicable during Petroleum Operations and shall not be included in the Decommissioning estimate.
- (e) General and administration costs, other than direct charges, allocable to Petroleum Operations shall be determined by a detailed study, and, subject to ANPM's approval, the method determined by such a study shall be applied each Calendar Year consistently.
- (f) Inventory levels shall be in accordance with Good Oil Field Practice. The value of inventory items not used in Petroleum Operations, or sold, the cost of which has been recovered as an Operating Cost, shall be treated as Miscellaneous Receipts. The cost of an item purchased for inventory shall be a Recoverable Cost at such time as the item is incorporated in the works.
- (g) Where the cost of anything, or a receipt (or value) in respect of anything, relates only partially to the carrying out of Petroleum Operations, only that portion of the cost or the receipt (or value) which relates to the carrying out of Petroleum Operations shall 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 Costs and Operating Costs, or to more than one Development Area, the cost or related receipt (or value) shall be apportioned in an equitable manner.

Clause 3 – Costs, Expenses and Credits

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

3.1 Surface Rights

Notwithstanding Clause 2.8(z), all direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of the Contract.

3.2 Labour and Associated Labour Costs

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

and housing and other customary allowances applicable to the salaries and wages chargeable at actual cost, provided however that such total costs shall not exceed twenty-five percent (25%) of the total labour costs under paragraph 3.2(b).

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

3.3 Transportation and Employee Relocation Costs

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

3.4 Charges for Services

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

(a) Third Parties

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

(b) Affiliates of the Contractor

- (i) Professional and Administrative Services Expenses: cost of professional and administrative services provided by any Affiliates of the Contractor for the direct benefit of Petroleum Operations, including services provided by the production, exploration, legal, financial, insurance, accounting and computer services, divisions

other than those covered by paragraph 3.4(b)(ii) or Clause 3.6 or 3.8(b) which the Contractor may use in lieu of having its own employees. Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favourable than similar charges for comparable services carried on in South and Southeast Asia, competitive and based on actual costs without profits. The charge-out rate shall include all costs incidental to the employment of such personnel. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return thereto, including Days which are not working Days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

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

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

3.7 Ecological and Environment

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

3.8 Material Costs

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

- (a) Acquisition – the Contractor shall only supply or purchase materials for use in Petroleum Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.
- (b) Components of costs, arm's length transactions – except as otherwise provided in paragraph 3.8(c), material purchased by the Contractor in arm's length transactions in the open market for use in the Petroleum Operations shall be valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the Contractor has arranged the purchase, coordinated the forwarding and expediting effort, the cost of such transaction shall not exceed the cost of similar transactions conducted with third parties under similar conditions.
- (c) Accounting – such material costs shall be charged to the Accounting Records and books in accordance with the "First in, First out" (FIFO) method.
- (d) Material purchased from or sold to Affiliates of the Contractor or transferred from other activities of the Contractor to or from Petroleum Operations shall be valued and charged or credited at the prices specified in paragraphs 3.8(d)(i), 3.8(d)(ii) and 3.8(d)(iii).
 - (i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
 - (ii) Used material (Conditions "B", "C" and "D"):
 - (a) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at not more than seventy-five per cent (75%) of the current price of new material defined in paragraph 3.8(d)(i);
 - (b) Material which cannot be classified as Condition "B", but which after reconditioning will be further serviceable for its original function, shall be classified as Condition "C" and priced at not more than fifty percent (50%) of the current price of new material as defined in paragraph 3.8 (d)(i); the cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning does not exceed the value of Condition "B" material; and
 - (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 Contractor shall be disposed of as junk.
 - (iii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in paragraph 3.8(d)(i).
 - (iv) When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price as provided for in paragraph 3.8(d)(ii)(b), such material shall be priced on a basis that will result in a net charge to the accounts

under this Contract consistent with the value of the service rendered.

- (v) Premium prices – whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge Petroleum Operations for the required material at the Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to ANPM of the proposed charge prior to charging Petroleum Operations for such material and ANPM shall have the right to challenge the transaction on audit.
- (vi) Warranty of material furnished by the Contractor – the Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

3.9 Rentals, Duties and Other Assessments

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

3.10 Insurance and Losses

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

3.11 Legal Expenses

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of the Petroleum Operations, or sums paid in respect of legal services necessary for the protection of the joint interest of ANPM 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 Clauses 3.2 or 3.4(b) as applicable.

3.12 Claims

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

3.13 Training Costs

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

3.14 General and Administrative Costs

The costs described in Clause 2.9(e).

3.15 Other Expenditures

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

3.16 Duplication

There shall be no duplication of charges and credits.

Clause 4 – Inventories

4.1 Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three years with respect to immovable assets. The Contractor shall give ANPM at least thirty (30) Days written notice of its intention to take such inventory and ANPM 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 ANPM a full report on such inventory within thirty (30) Days of the taking of the inventory. When an Assignment of rights under this Contract takes place, the Contractor may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the Assignee.

4.2 Inventory or assets transferred from Contractor or an Affiliate to be in use in the Petroleum Operations under this Contract shall obtain prior consent from ANPM. Decision to transfer of such assets for use shall be foreseeable and align with the Work Program planned in that given Calendar Year

Clause 5 – Production Statement

5.1 Production Information

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

- (a) The quantity of Crude Oil produced and saved;
- (b) The quality characteristics of such Crude Oil produced and saved;
- (c) The quantity of Natural Gas produced and saved;
- (d) The quality characteristics of such Natural Gas produced and saved;
- (e) The quantities of Crude Oil and Natural Gas used for the purposes of carrying on Drilling

- and Production Operations and pumping to field storage;
- (f) The quantities of Crude Oil and Natural Gas unavoidably lost;
 - (g) The quantities of Natural Gas flared and vented;
 - (h) The size of Petroleum stocks held at the beginning of the month in question;
 - (i) The size of Petroleum stocks held at the end of the month in question;
 - (j) The quantities of Natural Gas reinjected into the Reservoirs; and
 - (k) In respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Field Export Point.

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

5.2 Submission of Production Statement

The Production Statement for each month shall be submitted to ANPM 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

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

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

6.2 Submission of Value of Production and Pricing Statement

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

Clause 7 – Cost Recovery Statement

7.1 Quarterly Statement

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

- (a) Recoverable Costs carried forward from the previous Quarter;
- (b) Recoverable Costs for the Quarter in question;
- (c) Credits under the Contract for the Quarter in question;
- (d) Total Recoverable Costs for the Quarter in question (paragraphs 7.1(a) plus 7.1(b) less

7.1(c));

- (e) Quantity and value of the Contractor's share of Petroleum under Article 9 of the Contract in the Quarter in question; and
- (f) Amount of Recoverable Costs to be carried forward into the next Quarter (paragraph 7.1(d) less 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 Clause 7.1 of Annex C for the relevant Calendar Year, separated into the Quarters of the Calendar Year in question, and showing the cumulative positions at the end of the relevant Calendar Year.

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 ANPM no later than fifteen (15) Days after the end of such Quarter.

8.2 Annual Statement

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

8.3 Work Programs and Budget and Expenditure and Receipt Reporting

Submission of Work Programs and Budget in each Calendar Year shall be accompanied with an

agreed for Expenditure which outlined the details of proposed budget item under the Work Programs and Budget.

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

Annex D – Proposals

Clause 1 Health, Safety and Welfare Proposal

Clause 2 Environmental Proposal

Clause 3 Local Content Proposal

SCHEDULE A – Documents in Support of Application for Assignment or Transfer

DOCUMENTS IN SUPPORT OF APPLICATION FOR ASSIGNMENT OR TRANSFER UNDER ARTICLE 24

In the case of an application for Assignment under Article 24 and in order to enable a decision to be made on a proposed assignee, the Contractor shall apply for the prior and express authorisation of ANPM for the Assignment, attaching to the application the following documents on the proposed assignee or transferee:

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

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

(WHERE A FINANCIAL INSTITUTION IS INVOLVED)

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

(WHERE A PARENT COMPANY IS INVOLVED)

- (a) Company background and corporate structure of ultimate Parent Company, including, subsidiaries, wholly owned limited liability companies and Affiliates.
- (b) Certificate(s) of incorporation of ultimate Parent Company.
- (c) All incorporation documents of the ultimate Parent Company.
- (d) (Financial Authority) Resolution of Board of Directors of ultimate Parent Company on:
 - (i) Borrowing of money and execution of documents.
 - (ii) Guarantee of contractual performance of Affiliates, wholly-owned limited liability companies and subsidiaries.

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

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

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

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

NOTE: The Ministry shall require that:

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

(Official Letterhead)
(Date)

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

SCHEDULE B – Parent Company Guarantee

Letter of Guarantee in accordance with Article 2.2 (a)(iv) of the Production Sharing Contract for Block
(*Insert Block Name*)

Dear Sir

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

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

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

[FOR A FINANCIAL INSTITUTION ISSUING A GUARANTEE]

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

OR

[FOR A PARENT COMPANY ISSUING A GUARANTEE]

In accordance with Paragraph 2.2 (a)(iv) of the PSC, at the request of and on behalf of [*Name of Company requiring Guarantee*], [*Name, Address and Incorporation details of Guaranteeing Entity*] being the ultimate parent company thereof, (*hereinafter referred to as “Guarantor”*), HEREBY COVENANTS AND AGREES with ANPM, as follows:

PARENT COMPANY GUARANTEE
THIS GUARANTEE made as of the ...day of ... 20...

BETWEEN:

AUTORIDADE NACIONAL DO PETROLEO E MINERAIS – ANPM, a public institute established by Decree-Law No. 20/2008, of 19 June 2008, as amended by Decree-Law No. 1/2016, of 9 February 2016, and Decree-Law No. 27/2019, of 27 August 2019, in its capacity as regulatory authority for the oil and gas industry and in representation of the Timor-Leste State, pursuant to Articles 3.1 and 26.1 of the Decree-Law No. 20/2008, of 19 June 2009 (*hereinafter called “ANPM”*).

-and-

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

(“GUARANTOR”)

WHEREAS:

A. GUARANTOR is the Parent Company of Contractor (Register Number...)

(“SUBSIDIARY”);

- B. SUBSIDIARY, (Register number...) entered into a Production Sharing Contract dated ...in respect of Petroleum Activities Law, Law No.13/2005, of 2 September 2005, as amended, for the purpose of exploration, exploiting and developing oil and natural gas resources located within the Contract Area (the “PSC”);
- C. This Guarantee is entered pursuant to Article 6 of the PSC for the purpose of providing ANPM with Security for the performance of SUBSIDIARY’s as hereinafter define; and
- D. GUARANTOR has the capacity to enter this Guarantee and has taken all steps necessary to ensure that this Guarantee is valid and binding upon it in accordance with the terms hereof.

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

1.0 Definitions

1.1 Unless expressly indicated otherwise herein, all capitalized words and phrases used herein and in the recitals hereto shall have the same meaning as attributed to them in the PSC.

(a) “Guarantee” means this Parent Company Guarantee.

(b) “Obligation” means performance of the SUBSIDIARY’s proportionate share of Decommissioning obligation and Minimum Exploration Work Requirements pursuant to Article 6 of the PSC.

1.2 The headings in this Guarantee are inserted for convenience of reference only and shall not affect the construction or interpretation of any provision hereof.

2.0 Guarantee

2.1 GUARANTOR hereby absolutely, irrevocably and unconditionally guarantees, at all times, full and prompt performance when due, of the obligations.

2.2 ANPM shall not be required to commence any action or obtain any judgement against SUBSIDIARY, or pursue any other remedy it may have against SUBSIDIARY under the PSC before enforcing this Guarantee against GUARANTOR.

2.3 Notwithstanding any other provision of this Guarantee the total amount recoverable under this Guarantee is limited to any amount equal to ... %, being the SUBSIDIARY’s proportionate share in the Contract Area, and liability for ... %, carried interest share of TIMOR GAP - Timor Gás e Petróleo, E.P. percentage interest, of the sum required under Article 6 of the PSC.

2.4 GUARANTOR shall be entitled to rely on any of the same defences that SUBSIDIARY may raise under the PSC and to raise any such defence on its own behalf in any appropriate forum as if it were SUBSIDIARY.

2.5 GUARANTOR shall indemnify ANPM for all costs (including legal costs) incurred in enforcing this Guarantee.

3.0 Continuing Guarantee

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

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

4.0 Notices

4.1 GUARANTOR'S address for the service is:

Address xxx

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

(a) in the case of personal delivery or delivery by courier, when actually received by the party to whom the notice is directed; or

(b) in the case of delivery by facsimile, upon receipts as confirmed by the sender's facsimile machine, except if received after business hours, on the next day in which the recipient is open for business.

5.0 Governing Law and Jurisdiction

This Guarantee shall be governed by and construed in accordance with the laws of Timor-Leste without regards to conflict of law provisions that would otherwise direct the laws of another jurisdiction to be applied.

6.0 Assignment

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

7.0 Term

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

(a) complete satisfaction of the performance of all Obligations;

(b) an assignment made by SUBSIDIARY of its entire interest in the PSC or a change of control of the Subsidiary in accordance with Article 24 of the PSC; or

(c) termination of the PSC in accordance with its terms.

8.0 Miscellaneous

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

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

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

Executed as an Agreement by:

Signed for and on behalf of

by its duly authorized representative

in the present of:

Signature of Attorney

Signature of Witness

Full Name

Full Name

Date

Date

Executed for and on behalf of the

AUTORIDADE NACIONAL DO PETROLEO E MINERAIS

by its duly authorized officer in the presence of:

Signature of Attorney

Signature of Witness

Full Name

Full Name

Date

Date

SCHEDULE C – Bank Guarantee

BANK GUARANTEE in accordance with Article 2.2 (a)(iii) of For Production Sharing Contract for Block
....

[DATE]

TO

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

DILI, TIMOR-LESTE

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

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

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

WHEREAS:

1. The ANPM of the one part and Contractor, a company established under the laws of xxx with registered office at company address, a company existing under the laws of Company incorporate in origin country, and JVs partners addresses, a company existing under the laws of JV origin country address (hereinafter referred to as the "Contractor Parties") have executed a Production Sharing Contract PSC xxx ((hereinafter referred to as the "Contract") related to BLOCK XXX in onshore Timor-Leste on dated of PSC awarded.
2. Under the terms of the Contract, each Contractor Party must submit a Performance Bond to guarantee its share of the Minimum Exploration Work Requirements and expenditure commitments under sub-articles 4.4, 4.5 and 4.6 of the Contract. Consequently, Contractor provided Performance Bond number xxxx for US\$ xxx (xxxx) (hereinafter referred to as the "Initial Performance Bond") to guarantee its share of the Minimum Exploration Work Requirements and expenditure commitments as required by sub-articles 4.4 of the Contract.
3. The terms used in this Performance Bond shall have the same meaning as those in the Contract.

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

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

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

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

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

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

In Witness whereof the SURETY has signed and sealed this Bond on this [X] day of [MONTH] 20xx.

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

INFORMATION TO BE SUBMITTED TO FACILITATE CONSIDERATION OF AN APPLICATION TO BE APPOINTED AS OPERATOR

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

An applicant for qualification as an operator shall submit the following information to ANPM:

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