



Palácio das Cinzas's

Alternative PSC

14th September 2004

Alternative Production Sharing Contract from Palácio das Cinzas, 2004

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PRODUCTION SHARING CONTRACT

[Dated]

This Agreement, which has been approved by the PETRONATIL, is a Production Sharing Contract made under the Timor-Leste Petroleum Act

BETWEEN

the [PETRONATIL], on behalf of the State Democratic Republic of Timor-Leste;

AND

• and • (collectively, the "Contractor")

(both referred to individually as a "Party" or collectively as the "Parties").

Whereas:

- A. petroleum existing within the Democratic Republic of Timor-Leste is a resource owned by the State of the Democratic Republic of Timor-Leste pursuant to the Article 139 of Timor-Leste's Constitution. The PETRONATIL, pursuant to the Timor-Leste Petroleum Act 2004, thereto on behalf of the State, will manage, regulate, promote, explore and exploit the petroleum resource, and will use in fair and equitable manner in accordance with national interest;
- B. the PETRONATIL has the power to enter into Petroleum Contracts;
- C. the PETRONATIL wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the PETRONATIL in exploring for, developing and producing Petroleum in the Contract Area; and
- D. the Contractor has the financial capability, and the technical knowledge and technical ability, to carry on the Petroleum Operations in a manner wholly consistent with the Act, the regulations and this Agreement.

NOW, THEREFORE, it is agreed:

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Article 1 Interpretation

1.1 1.1 Definitions

In this Agreement:

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

"Act" means the Timor-Leste Petroleum Act of 2004 as amended, varied, modified or replaced from time to time, and regulations made and directions given under it;

"Affiliate" means, in respect of a person, a person that Controls, is Controlled by, or is under common Control with, that person;

"Agreement" means this Production Sharing Contract;

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

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

"Approved Contract" means a contract made by the Contractor and approved by the PETRONATIL as a part of a Development Plan;

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

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

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

"Commercial Discovery" means any discovery of Petroleum that is sufficient to entitle the Contractor to apply for authorization from the PETRONATIL to commence exploitation;

"Commercial Production" starts when commissioning of the major production facilities has been concluded and, in the case of Crude Oil, the first regular cargo is shipped to a

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buyer or storage, and/or in the case of Natural Gas, regular deliveries to the buyer or storage are effected. The exact date is as approved by the PETRONATIL as part of a Development Plan;

"Contract Area" means the area specified in Annexes A and B, but not any part of it which has been relinquished under Article 4;

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

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

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

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

"Cost Petroleum" means, the portion of the total value of Crude Oil, and Natural Gas produced from the Contract Area which the Contractor is entitled to take in a particular period, for the recovery of Recoverable Costs provided in Article 9;

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

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

"Crude Oil Field" means:

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

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from which Crude Oil and Associated Gas may be produced;

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

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

“Decommissioning Cost” has the meaning given in sub-paragraph 5.14(d)(i).

“Decommissioning Costs Reserve” has the meaning given in sub-paragraph 5.14(d)(v);

“Decommissioning Security Agreement” means an agreement between the PETRONATIL and the Contractor as mentioned in Section 5.15;

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

“Development Work Programme and Budget” has the meaning given in Section 5.12;

“Development Area” has the meaning given in Section 5.10;

“Development Plan” means a development plan for a Development Area, as referred to in Section 5.11;

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

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

“Exploration” means, subject to paragraph 5.3(c), any exploration activities, including geological, geophysical, geochemical and other surveys, investigations and tests, and the drilling of shot holes, core holes, stratigraphic tests, exploration wells and other drilling and testing operations for the purpose of making a Discovery, and all related activities;

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

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"Exploration Work Programme and Budget" has the meaning in Sections 5.1 and 5.2;

"Field" means a Gas Field or a Crude Oil Field or combination of both as the case may be, from which Petroleum may be produced;

"Field Export Point" means the point at which Petroleum from the Contract Area leaves the Contract Area, or such earlier point at which it is loaded onto or enters a vessel, pipeline or other means of transportation to be transported from the Contract Area;

"Force Majeure" has the meaning given in Article 21;

"Gas Field" means:

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

from which Non-Associated Gas may be produced;

"Gas Retention Area" has the meaning given in Section 4.5;

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

"Initially Processed" means, in relation to Petroleum, processed to a point where it is ready for off-take from the production facility and may include such processes as the removal of water, volatiles and other impurities;

"Joint Operating Agreement" means an agreement of the type described at Section

16.1 of the Act;

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

"PETRONATIL" means Petróleo Nacional de Timor-Leste established pursuant Timor-Leste Petroleum Act 2004;

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

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

"Non-Associated Gas" means Natural Gas which is not Associated Gas;

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

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

"Petroleum" means:

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

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

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

"Petroleum Operations" means any activity authorised by the PETRONATIL hereunder, and includes:

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

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- (e) planning and preparation for the activities mentioned in paragraphs (a), (b), (c) and (d) above;

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

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

"Recoverable Costs" has the meaning given in Article 9;

"Reservoir" means a discrete accumulation of Petroleum in a geological feature located in whole or in part in the Contract Area limited by

- (a) lithological boundaries; or
- (b) structural boundaries

so that the entire accumulation of Petroleum is in pressure, fluid or gas communication;

"Security" means:

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

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

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

"Timor-Leste" means the Democratic Republic of Timor-Leste.

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

“Uplift” has the meaning given in Clause 2.6 of Annex C.

“Value of Production and Pricing Statement” has the meaning given in Clause 6 of Annex C; and

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

1.2 Headings

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

1.3 Further Interpretation

In this Agreement, unless the context otherwise requires:

- (a) the words “including” and “in particular” shall be construed as being by way of illustration or emphasis only, and shall not be construed as, nor shall they take effect as, limiting the generality of any preceding words;
- (b) a reference to an Article, Section, paragraph, sub-paragraph, sub-sub-paragraph or to an Annex, is to an Article, Section, paragraph, sub-paragraph sub-sub-paragraph of or to an Annex to, this Agreement;
- (c) a reference to an agreement (including this Agreement) or instrument, is to the same as amended, varied, novated, modified or replaced from time to time;
- (d) “person” includes a corporation or other legal entity;
- (e) the singular includes the plural, and vice versa;
- (f) any gender includes the other;
- (g) an agreement includes an arrangement, whether or not having the force of law;

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- (h) a reference to the consent or approval of the PETRONATIL means the consent or approval, in writing, of the PETRONATIL and in accordance with the conditions of that consent or approval;
- (i) a reference to a consent, approval or agreement not to be unreasonably withheld includes a reference to its not being unreasonably delayed;
- (j) "law" includes the Act and any other applicable legislation in Timor-Leste;
- (k) "contiguous area" means a block, or a number of blocks each having a point in common with another such block; and
- (l) where a word or expression is defined, cognate words and expressions shall be construed accordingly;

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

1.4 Annexes

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

1.5 Joint and Several Liability

If the Contractor is more than one person, the obligations and liabilities of the Contractor under this Agreement are the obligations and liabilities of them all, jointly and severally.

1.6 Operator

- (a) The appointment of an Operator by the Contractor shall be subject to prior approval by the PETRONATIL where:
 - (i) there is more than one Authorised Person in respect of a particular Authorisation and the person appointed as Operator is one of those Authorised Persons, and

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- (ii) the person appointed as Operator is not an Authorised Person.
- (b) Except with the prior approval of the PETRONATIL as required under paragraph 1.6(a), the Contractor shall not permit any person to exercise any function of an Operator.
- (c) For all purposes of this Agreement, the Operator shall represent the Contractor, and the PETRONATIL may deal with, and rely on, the Operator. The obligations, liabilities, acts and omissions of the Operator are, additionally, the obligations, liabilities, acts and omissions of the Contractor.
- (d) The Operator shall conduct its operations under this Agreement from an office located in Timor-Leste.
- (e) Any change in Operator shall be subject to the prior approval of the PETRONATIL.
- (f) Where the PETRONATIL determines that an Operator is no longer competent to be an Operator, the PETRONATIL may, by written notice to the Operator and to the Contractor, revoke its approval.

Article 2 Scope and Term

2.1 Scope

- (a) This Agreement, and the rights, interests and benefits of the Contractor, and the obligations and liabilities of the PETRONATIL, under it, are subject to the Act. The Contractor shall, at all times and in regard to all things, comply with its obligations under the Act. No provision of this Agreement shall excuse the Contractor from so complying, nor derogate from any right or privilege of the PETRONATIL thereunder.
- (b) Subject to this Agreement, the Contractor:
 - (i) shall, and has the exclusive right to, carry on Petroleum Operations at its sole cost, risk and expense; and
 - (ii) shall provide all human, financial and technical resources therefor; and
 - (iii) shall share in Petroleum from the Contract Area.

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- (c) Without prejudice to paragraph 7.2(a), the Contractor is not authorised to carry on Petroleum Operations in any part of Timor-Leste outside the Contract Area, other than in accordance with an Access Authorisation granted to it by the PETRONATIL under Article 9 of the Act.
- (d) This Agreement does not authorise the Contractor to process Petroleum beyond the point at which it is Initially Processed, and no expenditure in respect of further processing shall be a Recoverable Cost.

2.2 Conditions Precedent

- (a) This Agreement is conditional on:
 - (i) the appointment of an Operator in accordance with Section 1.6;
 - (ii) if the Contractor is more than one person, the conclusion of a Joint Operating Agreement in accordance with Section 16.1 of the Act, and such agreement coming into full force and effect (subject only to satisfaction of this condition);
 - (iii) the Contractor (and, if more than one person, each such person) providing the PETRONATIL with a Security (in form and content satisfactory to the PETRONATIL) for the performance of the Contractor's minimum work and expenditure obligations in accordance with Sections 5.1 and 5.2; and
 - (iv) the Contractor demonstrating, to the satisfaction of the PETRONATIL, that it has complied with its obligations under Article 200 in regard to insurance.
- (b) If the conditions mentioned in paragraph 2.2(a) are not fulfilled before the seventh (7th) day after the date of this Agreement, this Agreement shall terminate and be of no further force or effect.

2.3 Effective Date and Term

- (a) The effective date of this agreement is the later of the seventh (7th) day after the date of this Agreement and the date on which all of the conditions precedent set out at Section 2.2 have been satisfied ("Effective Date").

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- (b) This Agreement shall terminate on the first to occur of:
 - (i) all of the Contract Area being relinquished pursuant to Article 3;
 - (ii) the Parties so agreeing; or
 - (iii) termination pursuant to Section 2.4;

2.4 Grounds for Termination

The PETRONATIL may terminate this Agreement:

- (a) forthwith, if:
 - (i) the Contractor (or if more than one person, any such person) 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 Contractor (or if more than one person, any such person);
 - (iii) a receiver is appointed or an encumbrancer takes possession of a majority of the assets or undertaking of the Contractor (or if more than one person, any such person); or
 - (iv) the Contractor (or if more than one person, any such person) ceases or threatens to cease to carry on its business or execution is forced against all or a majority of the Contractor's (or if more than one person, any such person's) property and is not discharged within fourteen (14) days;
- (b) on thirty (30) days notice to the Contractor if the Contractor is in material default under this Agreement and does not, within that thirty (30) days, remedy the default to the satisfaction of the PETRONATIL; and
- (c) as provided in Article 221.

2.5 Surviving Obligations

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

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

Article 3 Participating Interests

3.1 Timor-Leste's Right to Participate

- (a) In every Joint Venture for Exploration and Exploitation of Petroleum in Timor-Leste, PETRONATIL shall have a minimum share of **10%**;
- (b) The PETRONATIL, at its option, should take the share or assign it to its nominee;
- (c) The PETRONATIL (or its nominee), shall be exempted from bearing the costs of Exploration, and such PETRONATIL (or its nominee) will not be entitle for the reimbursement of Exploration Costs (Recoverable Cost)

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during the exploration as provided in the Article 9, but will take and fulfill its rights and obligations as provided in Section 3.3 during the Development and Production phase.

- (d) The Contractor will be assessed in its bidding proposal pursuant to the Act, the commitment to assist PETRONATIL (or its nominee) in its initial venture, to secure financial and technical capacity in fulfilling its obligations in the paragraph 3.1(c).

3.2 The initial Participating Interest of the Parties in the Exploration phase comprising the Contractor shall be as follows:

X Company _____ :

Y Company _____ :

Z Company _____ :

3.3 The initial Participating Interest of the Parties in Development and Production phase comprising the Contractor shall be as follows:

X Company _____ :

Y Company _____ :

Z Company _____ :

PETRONATIL ___ 10%___ :

3.4 Except as provided in this Article or elsewhere in this Agreement, the rights and obligations of the Parties comprising the Contractor shall include but not be limited to:

- (a) the right to take Cost Petroleum in accordance with the provisions of Paragraph 9.2(b);
 - (b) the right to take its Participating Interest share of Profit Petroleum in accordance with the provisions of Paragraph 9.3(b or c or d, whichever is applicable);
 - (c) the right to receive its Participating Interest share of any incidental income and receipts arising from Petroleum Operations;
- and

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- (d) the obligation to contribute its Participating Interest share of costs and expenses.

Article 4 Relinquishment of Blocks

4.1 Periodic Relinquishment of Exploration Area

- (a) The Contractor shall relinquish:
 - (i) at the end of the third (3rd) Contract Year, not less than twenty five percent (25%) of the original Contract Area;
 - (ii) at the end of the fifth (5th) Contract Year, not less than a further twenty five percent (25%) of the original Contract Area.
- (b) Except with the consent of the PETRONATIL relinquished areas shall form one discrete area, and the area not relinquished shall form one or more discrete areas, all of sufficient size and convenient shape to enable Petroleum Operations to be conducted thereon.
- (c) At the end of any Contract Year, and subject to paragraph 4.1(f), the Contractor may relinquish some, or all, of the Contract Area. Any area so relinquished will be credited against the next relinquishment obligation of the Contractor under paragraph 4.1 (a).
- (d) The Contractor shall consult with and give not less than thirty (30) days notice to the PETRONATIL of the area which, at any time, it wishes to relinquish. ,
- (e) If the Contractor does not relinquish a portion of the Contract Area at the time and in the manner required by this Section 4.1, all of the Contract Area shall be deemed relinquished at the end of the Contract Year concerned.
- (f) Without the consent of the PETRONATIL, and notwithstanding paragraph 4.1(b), the Contractor may not relinquish all of the Contract Area if it has not then fulfilled its obligations under Sections 5.1 and 5.2, or is then in breach of any provision of this Agreement.

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4.2 Final Relinquishment of Exploration Area

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

- (a) If, at the end of the seventh (7th) Contract Year, a Discovery has been made but there has been insufficient time for the Contractor (acting, and having acted, in accordance with this Agreement) to Appraise it, the obligation of the Contractor under Section 4.2 may be postponed:
 - (i) for such area as the Contractor may propose and the PETRONATIL may determine to be reasonably necessary for Appraisal of the Discovery;
 - (ii) for such period as is reasonably necessary to permit the Contractor to Appraise (or to complete the Appraisal of) the Discovery; and
 - (iii) as a consequence of that Appraisal, for the Contractor to decide whether to declare a Commercial Discovery and, if it does so, for the PETRONATIL to declare a Development Area in respect of it.

4.3 Relinquishment of Development Area

- (a) Except with the consent of the PETRONATIL, a Development Area shall be deemed to be relinquished on the first to occur of:
 - (i) production from the Development Area ceasing permanently or for a continuous period of twelve (12) months (or, if because of Force Majeure, twenty four (24) months); and
 - (ii) the twentieth (20th) anniversary of the date on which the first (1st) Development Plan in respect of the Development Area was approved by the PETRONATIL for a Gas Field Or fifteenth (15th) anniversary of the

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date on which the first (1st) Development Plan in respect of the Development Area was approved by the PETRONATIL for an Oil Field.

- (b) Without the consent of the PETRONATIL, the Contractor may not otherwise relinquish all or any part of a Development Area.

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

- (a) This Agreement shall terminate in respect of a part of the Contract Area which is relinquished.
- (b) Without prejudice to the generality of paragraph 2.5(a), relinquishment of all or a part, of the Contract Area is without prejudice to the obligations of the Contractor to Decommission.

4.5 Gas Retention Area

- (a) If the Appraisal of a Discovery of Non-Associated Gas demonstrates that the Discovery, although substantial, is not then, either alone or in combination with other Discoveries, commercially viable, but is likely to become so within five (5) years, the PETRONATIL may, at the request of the Contractor, declare a Gas Retention Area in respect of it for that period.
- (b) This Article 34 (but not Section 4.3) applies to and in respect of a Gas Retention Area as it does to and in respect of a Development Area for as long as, during that period, the Contractor diligently seeks to make it commercially viable, and demonstrates to the PETRONATIL that it is doing so.
- (c) The Gas Retention Area consists of those blocks (forming a single contiguous area) that encompass the Gas Field, plus a reserve margin sufficient to cover the probable and possible extent of it, but the PETRONATIL may exclude deeper formations in which no Discovery has been made. The PETRONATIL, at any time

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and from time to time, and whether of its own volition or at the request of the Contractor, may:

- (i) add blocks then in the Contract Area to,
- (ii) remove blocks from, or
- (iii) vary the depth within the Contract Area of,

a Gas Retention Area as may be required to ensure that it encompasses the Gas Field. The Contractor shall relinquish any part of the Contract Area removed from a Gas Retention Area as a consequence of such removal or other variation if it occurs after the time for the relinquishment provided for in paragraph 4.2(a).

- (d) The Gas Retention Area shall be deemed to have been relinquished on the earlier of:
 - (i) expiry of the period mentioned in paragraph 4.5(a);
 - (ii) the Contractor ceasing to meet its obligations under paragraph 4.5(b);
and
 - (iv) the Contractor declaring a Commercial Discovery in respect of it and the PETRONATIL declaring a Development Area as a consequence thereof.

Article 5 Work Programmes and Budgets

5.1 Commitment in Initial Period

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

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

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

5.2 Commitment in Second Period

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

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

5.3 Commitment in Third Period

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

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

5.4 Performance of Exploration Work Programme and Budget

- (a) If any well forming part of the Exploration Work Programme and Budget provided for in this Article 5 is abandoned for any reason other than a reason

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specified in paragraph 5.4(b) before reaching the defined objectives of such well, the Contractor shall drill a substitute well. In this event, the First, Second or Third Exploration Period, as the case may be, shall be extended by a period of time equal in length to the time spent in preparing for and drilling the substitute well, including mobilisation and demobilisation of the drilling rig, if applicable.

(b) Unless otherwise agreed by the PETRONATIL, any well which forms part of the Exploration Work Programme and Budget provided for in this Article 5 shall be drilled to such depth as is necessary for the evaluation of the geological formation established by the available data as the target formation and which Good Oil Field Practices would require the Contractor to attain, unless before reaching such depth:

- (i) a formation stratigraphically older than the deepest target formation is encountered;
- (ii) basement is encountered;
- (iii) further drilling would present an obvious danger, such as but not limited to the presence of abnormal pressure or excessive losses of drilling mud;
- (iv) impenetrable formations are encountered;
- (v) Petroleum-bearing formations are encountered which require protecting, thereby preventing planned depths from being reached; or
- (vi) the Contractor and the PETRONATIL agree to terminate the drilling operation; and
- (vii) the PETRONATIL confirms that the drilling obligation has been fulfilled;

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

(c) Where a well which forms part of the Exploration Work Programme and Budget provided for in this Article 5 results in a Discovery and the Contractor informs

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the PETRONATIL pursuant to Section 5.9 that the Discovery merits Appraisal, that well will be deemed to have met its objective and to have satisfied the Contractor's obligations in respect of that well.

5.5 Consequences of Non-Performance

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

The Parties agree that the amount payable under this paragraph 5.5 (a) is a reasonable estimate of the loss which would be suffered by the PETRONATIL.

- (b) If, in a Contract Year, the Contractor carries out more Exploration than is required of it, the excess shall be credited against Exploration to be carried out in the following Contract Year and, to the extent in excess of that Exploration, shall be further carried forward.
- (c) For the purposes of the foregoing provisions of this Article 5, and of Article 9 and Annex C, and except with the consent of the PETRONATIL, no work in a Development Area will be regarded as Exploration except to the extent in respect of a formation deeper than the Field concerned and in which no Discovery has been made.

5.6 Work Programmes and Budgets

Subject to Section 5.7, the Contractor shall carry out Petroleum Operations substantially in accordance with Work Programmes and Budgets approved by the PETRONATIL. Such an approval by the PETRONATIL is without prejudice to any other obligation or liability of the Contractor under this Agreement.

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5.7 Emergency and Other Expenditures Outside Work Programmes and Budgets

- (a) Without further approval by the PETRONATIL, the Contractor may overspend, by the lesser of fifty thousand United States Dollars (US \$50,000) or ten percent (10%) on any line item in an approved Work Programme and Budget for a Contract Year.
- (b) The total of all over-expenditures under paragraph 5.7(a) under that Work Programme and Budget for that Contract Year shall not exceed the lesser of one million (US \$1,000,000) United States Dollars or five percent (5%) of the total expenditures in that Work Programme and Budget.
- (c) The Contractor shall promptly inform the PETRONATIL if it anticipates (or should reasonably anticipate) that any such limit in paragraph 5.7(b) will be exceeded and seek, in the manner provided in this Article 5, an amendment to the appropriate Work Programme and Budget.
- (d) The PETRONATIL shall not unreasonably withhold its approval of an amendment to increase the budgeted expenditures necessary to complete the programme of works, provided that such increase is not the result of any failure of the Contractor to fulfil its obligations under this Agreement.
- (e) Nothing in Section 5.6 or paragraph 5.7(a) precludes or excuses the Contractor from taking all necessary and proper measures for the protection of life, health, the environment and property if there is an emergency (including a significant fire, explosion, Petroleum release, or sabotage; incident involving loss of life, serious injury to an employee, contractor or third party, or serious property damage; strikes and riots; or evacuation of the Operator's personnel). As soon as reasonably practicable, the Operator will inform the PETRONATIL of the details of the emergency and of the actions it has taken and intends to take.

5.8 Exploration

- (a) The Contractor shall submit annually, for the approval of the PETRONATIL, the Exploration Work Programmes and Budgets required by Sections 5.1, 5.2 and 5.3 for each Contract Year.

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- (b) From time to time, the Contractor may submit, for the approval of the PETRONATIL, amendments to the Exploration Work Programme and Budget.
- (c) The Contractor is not obliged to carry out more Exploration in a Contract Year than is required by Sections 5.1, 5.2 and 5.3.
- (d) The PETRONATIL may not unreasonably withhold its approval of an Exploration Work Programme and Budget, or of an amendment to it, properly submitted by the Contractor.

5.9 Discovery and Appraisal

- (a) The Contractor shall notify the PETRONATIL of a Discovery and shall provide the PETRONATIL with such information in respect of it as the Act requires.
- (b) As soon as reasonably practicable after a Discovery is made, the Contractor shall advise the PETRONATIL whether or not, having regards to paragraph 5.9(e), the Discovery merits Appraisal.
- (c) At such time and in such manner as the PETRONATIL requires, the Contractor shall submit, for the approval of the PETRONATIL, an Appraisal Work Programme and Budget for each Calendar Year.
- (d) From time to time the Contractor may submit, for the approval of the PETRONATIL, amendments to the Appraisal Work Programme and Budget.
- (e) An Appraisal Work Programme and Budget for a Calendar Year will be such as would be undertaken by a person seeking diligently to Appraise (in accordance with this Agreement) a Discovery with a view to determining if it is, either alone or in combination with other Discoveries, a Commercial Discovery.
- (f) The PETRONATIL may not unreasonably withhold its approval of an Appraisal Work Programme and Budget or an amendment to it properly submitted by the Contractor in accordance with paragraphs 5.9(c) and 5.9(d).

5.10 Commercial Discovery

- (a) The Contractor may, at any time and having regards to paragraph 5.10(b), declare that a Commercial Discovery has been made.
- (b) The declaration is to be made in such manner, and be accompanied with a report describing such supporting data and information as the PETRONATIL

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requires, including the Contractor's proposal as to that part of the Contract Area to be declared a Development Area.

(c) The report on each Commercial Discovery referred to in Section 5.10(b) shall cover all the relevant data and information including, but not be limited to:

(aa) the chemical composition, physical properties and quality of Petroleum discovered;

(bb) the thickness and extent of the production strata, the structural closure;

(cc) petrophysical properties of the reservoirs including, but not limited to, permeability and porosity of the reservoirs;

(dd) the productivity indices for wells tested at various rates of flow;

(ee) the estimated Production capacity of the reservoirs; and

(ff) all relevant economic and commercial information which is necessary for the determination of a Discovery as a Commercial Discovery.

(d) The PETRONATIL shall declare those blocks which, as defined by the extent of structural closure and forming a single contiguous area, encompass the Field in which the Commercial Discovery has been made, to be a Development Area, but may exclude deeper formations in which no Discovery has been made. The PETRONATIL, at any time and from time to time, and whether of its own volition or at the request of the Contractor, may:

(i) add blocks then in the Contract Area to;

(ii) remove blocks from; or

(iii) vary the depth within the Contract Area of;

a Development Area as may be required to ensure that it encompasses the Field concerned, but not, unless the PETRONATIL and the Contractor otherwise

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agree, after the first Development Plan in respect of the Development Area has been approved by it. The Contractor shall relinquish any part of the Contract Area removed from a Development Area as a consequence of such removal or other variation, if it occurs after the time for the relinquishment provided for in paragraph 4.2(a).

5.11 Development Plan

- (a) Not more than twelve (12) months after the declaration of a Development Area, and as the PETRONATIL requires, the Contractor shall submit, for the approval of the PETRONATIL, a Development Plan for the Development Area.
- (b) From time to time, and in like manner, the Contractor may submit, for the approval of the PETRONATIL, amendments to the Development Plan.
- (c) A Development Plan will be such as would be undertaken by a person seeking diligently to develop and exploit (in accordance with this Agreement) the Petroleum in the Development Area in the long term, best interests of the Parties.
- (d) Except with the consent of the PETRONATIL, and without prejudice to the generality of paragraph 5.11(a), a Development Plan shall include:
 - (i) a description of the proposed reservoir development and management programme;
 - (ii) details of:
 - (aa) the geological and the reservoir work done, together with the production profiles simulated, in order to reach the best depletion alternative;
 - (bb) the production, treatment and transportation facilities to be located in Timor-Leste;
 - (cc) facilities for transporting the Petroleum from the Contract Area and Timor-Leste; and

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- (dd) facilities, wherever located, which are connected to any such facilities as aforesaid and which (or the operation of which) might affect the integrity, management or operation thereof;
- (iii) the production profiles for all hydrocarbon products including possible injections for the life of the Development including the commencement of Production and the specific rates of Petroleum Production, and the level of production and of deliveries which, the Contractor submits, should constitute the start of Commercial Production;
- (iv) the Decommissioning Plan, in such detail as the PETRONATIL requires, including a calculation of the Decommissioning Costs, the annual Decommissioning Cost Reserve, and the Contractor's proposal for the Decommissioning Security Agreement;
- (v) an environmental impact assessment, and an environmental management plan, including in respect of the marine environment, covering the life of the Development;
- (vi) a safety, health and welfare plan for persons in or about the proposed Petroleum Operations;
- (vii) the Contractor's proposals for:
 - (aa) the use of Timor-Leste goods and services;
 - (bb) training and employment of Timor-Leste nationals;
 - (cc) and gradual Timorisation in the Petroleum Operations; and
 - (dd) processing Petroleum in Timor-Leste;
- (viii) the estimated capital expenditure covering the feasibility, fabrication, installation, commissioning and pre-production stages of the Development;
- (ix) an evaluation of the commerciality of the Development, including a full economic evaluation;

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- (x) the Contractor's (and if more than one person, each such person's) proposals for financing;
- (xi) summary details and copies of:
 - (aa) all contracts and arrangements made or to be made by the Contractor for the sale of Natural Gas;
 - (bb) all contracts and arrangements made or to be made by persons in respect of that Natural Gas downstream of the point at which it is to be sold by the Contractor and which are relevant to the price at which (and other terms on which) it is to be sold by the Contractor or are otherwise relevant to the determination of the value of it for the purposes of this Agreement, but not beyond the point at which it is first disposed of in an arm's length transaction; and
 - (cc) all contracts and arrangements made or to be made by the Contractor in respect of facilities downstream of the Field Export Point for transporting, processing, liquefying, storing, handling and delivering that Natural Gas; and
- (xii) such other data and information (including in respect of insurance to be obtained by the Contractor, and buyers and shippers of Petroleum) as the Act requires and as the PETRONATIL otherwise requires.
- (d) The PETRONATIL may not unreasonably withhold its approval of a Development Plan, or of an amendment to it, properly submitted by the Contractor if a Decommissioning Security Agreement has been concluded in respect of the Development Area.
- (e) The PETRONATIL shall specify its reasons for not approving a Development Plan or an amendment to it.

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5.12 Development Work Programmes and Budgets

- (a) At such time and in such manner as the Act requires, and as the PETRONATIL otherwise requires, the Contractor shall submit, for the approval of the PETRONATIL, a Development Work Programme and Budget for each Development Area for each Calendar Year. At any time and from time to time, the Contractor may submit, for approval, amendments to it.
- (b) A Development Work Programme and Budget for a Calendar Year shall be substantially in accordance with the Development Plan for the Development Area.
- (c) The PETRONATIL may not unreasonably withhold its approval of a Development Work Programme and Budget properly submitted by the Contractor.

5.13 Approved Contracts

- (a) The Contractor may not sell or otherwise dispose of Natural Gas from the Contract Area other than pursuant to an Approved Contract or as otherwise may be provided in the Development Plan or in this Agreement.
- (b) The Contractor may not use any facilities downstream of the Field Export Point for transporting, processing, treating, liquefying, storing, handling or delivering Petroleum other than under the terms of an Approved Contract.
- (c) The Contractor may neither waive, nor fail to enforce, any provision of an Approved Contract without the approval of the PETRONATIL.

5.14 Decommissioning

- (a) The Contractor shall submit to the PETRONATIL, for its approval, pursuant to sub-paragraph 5.11(b)(iv), a Decommissioning Plan for the Development Area and a schedule of provisions for the Decommissioning Costs Reserve.
- (b) The Decommissioning Plan shall be revised and resubmitted to the PETRONATIL for its approval at such times as are reasonable having regard to the likelihood that the Decommissioning Plan (including cost estimates thereunder) may need to be revised.

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- (c) The Contractor shall carry out the Decommissioning Plan substantially in accordance with its terms.
- (d) Estimates of the monies required for the funding of the Decommissioning Plan shall be charged as Recoverable Costs beginning in the Calendar Year following the Calendar Year in which Commercial Production first occurs. The amount charged in each Calendar Year shall be calculated as follows:
- (i) The total Decommissioning Costs at the expected date of Decommissioning shall first be calculated.
 - (ii) There shall be deducted from such total Decommissioning Costs the provisions for Decommissioning Costs made, and taken as Recoverable Costs, in all previous Calendar Years together with interest on such Recoverable Costs calculated to the approved date of Decommissioning at the actual or forecast rate of Uplift (whichever is applicable).
 - (iii) The residual Decommissioning Costs, resulting from the calculations under sub-paragraph 15.4(d)(i) and (ii), shall then be discounted to the Calendar Year in question at the forecast rate of Uplift for each Calendar Year remaining until the Calendar Year of Decommissioning.
 - (iv) The discounted total of residual Decommissioning Costs shall then be divided by the total number of Calendar Years remaining prior to the Calendar Year of Decommissioning itself, including the Calendar Year in question.
 - (v) The resultant amount shall be the addition to the Decommissioning Costs Reserve for the Calendar Year in question.
 - (vi) It is the intention of this provision that the total accumulated provision allowed, including interest calculated to the Calendar Year of Decommissioning at the rate of Uplift rate, will equal the total Decommissioning Costs.

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- (vii) If the amount in sub-paragraph 15.4(d)(v) is a negative amount, then such amount shall be treated as a reduction of Recoverable Costs for the Calendar Year in question.

5.15 Decommissioning Security

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

Article 6 Associated Gas

6.1 Declaration of Associated Gas

- (a) In the event that a Discovery of Crude Oil contains Associated Gas, Contractor shall declare in the report for the declaration of the said Discovery as a Commercial Discovery, whether (and by what amount) the estimated production of Associated Gas is anticipated to exceed the quantities of Associated Gas allowable for Flaring, as provided in Section 7.7, such excess being hereinafter referred to as "the Excess Associated Gas";
- (b) In such an event the Contractor shall indicate whether, on the basis of the available data and information, it has reasonable grounds for believing that the Excess Associated Gas could be commercially exploited in accordance with the terms of this Contract along with the Commercial Production of the Crude Oil from Contract Area, and whether the Contractor intends to so exploit the Excess Associated Gas.
- (c) Based on the principle of full utilisation and minimum flaring of Associated Gas, a proposed development plan for an Oil Discovery shall,

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to the extent practicable, include a plan for utilisation of the Associated Gas including estimated quantities to be flared, reinjected, and to be used for Petroleum Operations; and, if the Contractor proposes to commercially exploit the Excess Associated Gas for sale in the domestic market in accordance with Timor-Leste (PETRONATIL)'s policy, or elsewhere, the proposed plans for such exploitation.

6.2 Rights to Exploit and Sell the Associated Gas

- (a) If the Contractor wishes to exploit the Excess Associated Gas, subject to Section 6.2(a), the Contractor shall be free to explore markets for the commercial exploitation of the said Excess Associated Gas and submit its proposals for such exploitation to the PETRONATIL in accordance with Section 5.10.
- (b) Where the Contractor is of the view that the Excess Associated Gas cannot be commercially exploited and chooses not to exploit the said Excess Associated Gas, or is unable to find a market for the Excess Associated Gas pursuant to Section 5.10, the PETRONATIL shall be entitled to take and utilise such Excess Associated Gas free of any cost/charge.
- (c) If the PETRONATIL elects to take the Excess Associated Gas as provided in Section 6.2(b):
 - (a) the Contractor shall deliver such Excess Associated Gas to the PETRONATIL (or its nominee) free of any cost/charge, at the downstream flange of the Gas/Oil separation facilities;
 - (b) the Contractor shall, based on sound petroleum engineering practices, install such facilities as would facilitate, insofar as practicable, uninterrupted delivery of such Excess Associated Gas to the PETRONATIL or its nominee;
 - (c) the cost of all facilities installed pursuant to paragraph (b) above shall be borne by the PETRONATIL (or its nominee);

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- (d) the PETRONATIL or its nominee shall bear all costs including gathering, treating, processing and transporting costs beyond the downstream flange of the Gas/Oil separation facilities; and
- (e) the delivery of such Excess Associated Gas shall be subject to procedures to be agreed between the PETRONATIL or its nominee and the Contractor prior to such delivery, such procedures to include matters relating to timing of off-take of such Excess Associated Gas. Parties shall endeavour that such procedures do not restrict Oil production.

6.3 Unutilized Associated Gas

- (a) The Excess Associated Gas which is not commercially exploited by the Contractor, or taken by the PETRONATIL or its nominee pursuant to this Section 6.2, shall be returned to the subsurface structure or flared or otherwise disposed off as approved by the PETRONATIL in the context of the Development Plan, provided that flaring will be resorted to only for small quantities and as a last resort;
- (b) As soon as practicable after the submission of the proposed development plan, the Contractor and the PETRONATIL or its nominee shall meet to discuss the sale and/or disposal of any Associated Gas discovered with a view to giving effect to the provisions of this Article 6 in a timely manner.

Article 7 Conduct of Work

7.1 Proper and Workmanlike Manner

- (a) The Contractor shall carry on Petroleum Operations, and shall procure that they are carried on, in a proper, efficient and workmanlike manner, and in accordance with the Act, this Agreement and Good Oil Field Practice.

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- (b) In particular, the Contractor shall carry on Petroleum Operations, and procure that they are carried on, in such a manner as is required by paragraph 7.1(a) to:
- (i) protect the environment and ensure that Petroleum Operations result in minimum ecological damage or destruction;
 - (ii) ensure the safety, health and welfare of persons in or affected by Petroleum Operations;
 - (iii) manage the resources in a way which has long-term benefits to Timor-Leste and the Contractor.
 - (iv) maintain in safe and good condition and repair, the Contract Area and all structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations;
 - (v) on the earlier of:
 - (aa) termination of this Agreement; and
 - (bb) when no longer required for Petroleum Operations;and, in either case:
 - (cc) except with the consent of the PETRONATIL; or
 - (dd) unless this Agreement otherwise provides;abandon, decommission, remove or dispose of the property and other works mentioned in paragraph 7.1(b)(iii), clean up the Contract Area and make it good and safe, and protect the environment.
 - (vi) control the flow and prevent the waste or escape of Petroleum, water or any product derived by processing Petroleum;
 - (vii) prevent the escape of any mixture of water or drilling fluid with Petroleum or any other matter;

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- (viii) prevent damage to Petroleum-bearing strata in or outside the Contract Area;
- (ix) keep separate:
 - (aa) each Reservoir discovered in the Contract Area; and
 - (bb) such of the sources of water discovered in the Contract Area as the PETRONATIL directs;
- (x) prevent water or any other matter entering any Reservoir through wells in the Contract Area, except when required by, and in accordance with, the Development Plan and Good Oil Field Practice; and
- (xi) minimise interference with navigation and fishing.

7.2 Access to Contract Area

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

7.3 Health, Safety and the Environment

- (a) Notwithstanding Section 7.1, the Contractor shall employ in regard to:
 - (i) the health, safety and welfare of persons in or affected by Petroleum Operations; and

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

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

- (iii) are employed by others exploring for, developing or exploiting Petroleum in Timor-Leste, with due and proper consideration for special circumstances;
 - (iv) are employed by the Contractor or any of its Affiliates (or, if the Contractor is more than one person, by any of those persons or any of their respective Affiliates) in a comparable place in comparable circumstances, with due and proper consideration for special circumstances;
 - (v) accompanied its application, under Article 6 of the Act, for this Agreement; and
 - (vi) are otherwise required by the Act or this Agreement.
- (b) Within three (3) months of the Effective Date, the Contractor shall submit to the PETRONATIL, for its approval, a health, safety and environment plan in all respects in compliance with paragraph 6.3(a). The plan shall be reviewed annually and amended from time to time as may be necessary to ensure its continuing compliance with paragraph 6.3(a), but not so that any standard, practice, method, procedure or thing shall thereby become less stringent without the consent of the PETRONATIL.
- (c) Notwithstanding anything elsewhere contained in this Agreement, the Contractor shall clean up pollution resulting from Petroleum Operations to the satisfaction of the PETRONATIL, and meet the costs of so doing to the extent done by anyone else (including the PETRONATIL).

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7.4 Flaring

- (a) except with the consent of the PETRONATIL, or in an emergency, the Contractor shall not flare Natural Gas.
- (b) the Contractor may flare the Associated Gas, with the consent of the PETRONATIL, or in an emergency but shall not be excessive.

7.5 Operator and its Sub-Contractors

The Operator, and only the Operator, may carry out Petroleum Operations, and may do so by itself, its agents and sub-contractors. This Section 7.6 does not relieve the Contractor of any obligation or liability under this Agreement; and the carrying out of Petroleum Operations by its agents or sub-contractors does not relieve the Operator (or the Contractor) of any obligation or liability under this Agreement.

Article 8 EMPLOYMENT, TRAINING, TRANSFER OF TECHNOLOGY, AND USE OF LOCAL GOODS AND SERVICES

8.1 Employment of Timor-Leste Nationals

the Contractor shall, to the maximum extent possible, employ, and require the Operator and Subcontractors to employ, Nationals of Timor-Leste having appropriate qualifications and experience, taking into account experience required in the level and nature of the Petroleum Operations.

8.2 Training and Schooling

- (a) the Contractor shall provide training and schooling for staff positions, including administrative and executive management positions. Contractor will require its Subcontractors operating in Timor-Leste to do the same. Contractor undertakes to gradually replace its expatriate staff with qualified nationals as they become available. An annual programme for employment and training of Nationals of Timor-Leste shall be established by Contractor and submitted for approval to the PETRONATIL. Such programme shall be included in the annual Work

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Programmes and Budgets. Within thirty (30) Days of the end of each Calendar Year, Contractor shall submit a written report to PETRONATIL describing, *inter alia*, the number of personnel employed, their nationality and positions and the status of training programmes for nationals of Timor-Leste;

(b) the Contractor shall spend on training a minimum amount of One Hundred Thousand US Dollars (US \$100,000) per Contract Year during Exploration Period and Two Hundred Thousand US Dollars (US \$200,000) per Contract Year during the Development and Production phase and this commitment shall be writing in the Work Programmes and Budgets . The unspent minimum training amount during a Year, unless agreed otherwise, shall be deposited into a special account maintained for the purpose by the PETRONATIL.

(c) the amount and training provisions mentioned above are the minimum requirements, however they are biddable items. The Contractor will be assessed, in their bidding proposal among other items, their commitments to the training and staffing of Timorese nationals and the use of local content to a maximum extent as possible.

8.3 Technical Assistance and Transfer of Technology

- (a) the Contractors shall separately endeavour to negotiate, in good faith, Technical Assistance Agreements with the PETRONATIL or a company nominated by PETRONATIL for this purpose setting forth the terms by which each Companies constituting the Contractor may render technical assistance;
- (b) Such assistance, shall include but not limited programmes that cover both technical and management disciplines (geology, geophysics, engineering, project management, accounting, economics and legal) and shall include on-the-job training, secondment and participation in in-house seminars.

8.4 Use of Local Goods and Services

- (a) The Contractor shall to the maximum extent as possible give preference to the acquisition of goods and services from local Timor-Leste national, and otherwise

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- (b) give preference to the acquisition of goods and services from persons based in Timor-Leste, provided they are offered on competitive terms and conditions; and
- (c) within thirty (30) Days of the end of each Calendar Year, Contractor shall submit a written report to PETRONATIL describing, *inter alia*, the number of Subcontractors of good and services acquired from Timor-Leste nationals and from persons based in Timor-Leste.

Article 9 Sharing of Petroleum

9.1 Cost Petroleum

- (a) All expenses incurred by the Contractor in carrying out Petroleum Exploration, Appraisals, Development and Operations and Decommissioning Cost Reserve consistent with the Approved Work Programmes and Budgets are hereto considered as "Cost Petroleum" for the purpose of this Agreement;
- (b) The Contractor is entitle to recover the Cost Petroleum
- (c) The Contractor's accounts shall be prepared and maintained in accordance with Annex C;
- (d) Recoverable Costs

In any Calendar Year, Recoverable Costs are, subject as further provided in Annex C, the sum of those of the following that are eligible costs:

- (i) the sum of:
 - (aa) Recoverable Exploration Costs;
 - (bb) Recoverable Appraisal Costs;
 - (cc) Recoverable Capital Costs; and
 - (dd) Recoverable Operating Costs;
- (ii) Decommissioning Costs Reserve, allowable in that Year;

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- (iii) Recoverable Costs in the previous Calendar Year, to the extent in excess of the value of the Contractor's share of Petroleum under sub-sub-paragraph 9.2(b)(ii)(aa) in that previous Calendar Year; and

less Miscellaneous Receipts and less any deductions pursuant to paragraph 9.6(a).

9.2 First Trench Petroleum

- (a) In each Calendar year twenty (20) percent value or quantity of Petroleum Produced at the year concerned, prior to reimbursement of any Cost Petroleum shall be set aside and to be split between Timor-Leste (PETRONATIL) and the Contractor at the ratio 25%:75%. The First Trench Petroleum shall be paid in cash or in kind if the PETRONATIL so elects.

- (b) Determination of Share

- (i) The PETRONATIL:

- (aa) five (5) percent from its share of First Trench Petroleum; plus
- (bb) its share of any balance as mentioned in paragraph 9.3(b or c or d, whichever is applicable);

- (ii) the Contractor:

- (aa) Fifteen (15) percent from its share of First Trench Petroleum; plus
- (bb) Eighty percent (80) but not more than equal in value to Recoverable Costs for the Calendar Year concerned; plus
- (cc) its share of any balance as mentioned in paragraph 9.3(b or c or d, whichever is applicable);

any Petroleum not taken by the Contractor under sub-sub-paragraph 9.2(b)(ii)(cc) shall be considered hereto as Profit Petroleum.

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9.3 Profit Petroleum

- (a) In each Calendar Year the remaining Petroleum available after deduction for Cost Petroleum and First Trench Petroleum shall be considered as Profit Petroleum, and shall be shared between PETRONATIL and Contactor following the formula provided in paragraph 9.3(b or c or d, whichever is applicable);
- (b) In each Calendar Year, if the Development Area is in Onshore Area, the share of Profit Petroleum shall:
 - (i) split 50 % : 50 % between PETRONATIL and Contractor for oil production up to 20,000 barrels/day;
 - (ii) split 60 % : 40 % between PETRONATIL and Contractor for oil production between 20,000 to 50,000 barrels/day;
 - (iii) split 70 % : 30% between PETRONATIL and Contractor for oil production more than 50,000 barrels/day
 - (iv) for gas; split 50%: 50% between PETRONATIL and Contractor at all rate of production.
- (i) In each Calendar Year, if the Development Area is in Offshore Area with water depth from 0 – 200 meters, the share of Profit Petroleum shall:
 - (i) split 40 % : 60 % between PETRONATIL and Contractor for oil production up to 20,000 barrels/day;
 - (ii) split 50 % : 50 % between PETRONATIL and Contractor for oil production between 20,000 to 50,000 barrels/day;
 - (iii) split 60 % : 40% between PETRONATIL and Contractor for oil production more than 50,000 barrels/day
 - (iv) for gas; split 40% : 60% between PETRONATIL and Contractor at all rate of production.
- (ii) In each Calendar Year, if the Development Area is in Offshore Area with water depth from 2001 – 1000 meters (Deep Water), the share of Profit Petroleum shall:
 - (i) split 35% : 65% between PETRONATIL and Contractor for oil production up to 20,000 barrels/day;
 - (ii) split 45% : 55% between PETRONATIL and Contractor for oil production between 20,000 to 50,000 barrels/day;
 - (iii) split 50% : 50% between PETRONATIL and Contractor for oil production more than 50,000 barrels/day

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- (iv) for gas; split 35%: 65% between PETRONATIL and Contractor at all rate of production.

- (iii) In each Calendar Year, if the Development Area is in Offshore Area with water depth is more than 1000 meters (Ultra Deep Water), the share of Profit Petroleum shall:
 - (i) split 30% : 70% between PETRONATIL and Contractor for oil production up to 20,000 barrels/day;
 - (ii) split 40% : 60% between PETRONATIL and Contractor for oil production between 20,000 to 50,000 barrels/day;
 - (iii) split 45% : 65% between PETRONATIL and Contractor for oil production more than 50,000 barrels/day
- (iv) for gas; split 30%: 70% between PETRONATIL and Contractor at all rate of production.

9.4 Option of PETRONATIL

- (a) If the PETRONATIL so elects, the Contractor shall take and receive, and dispose of, in common stream with its own share and on terms no less favourable to the PETRONATIL than the Contractor receives for its own share, all or any part of the Timor-Leste's share of Petroleum. The Petroleum shall be valued as provided in Article 11.

- (b) Unless the Contractor otherwise agrees, which agreement will not be unreasonably withheld, the PETRONATIL may not so elect other than:
 - (i) in respect of all, or the same percentage of all, of Timor-Leste's shares of all Petroleum for and throughout the Calendar Year concerned, but the PETRONATIL may make separate elections (including not making an election) in respect of one or more of Crude Oil, and Natural Gas; and

 - (ii) on not less than ninety (90) days prior written notice to the Contractor before the start of the Calendar Year concerned, but any notice given more than ninety (90) days prior thereto may, at any time and from time to time before such ninety (90) days, be amended or withdrawn, and, if withdrawn, given again.

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9.5 Lifting

- (a) Subject to this Agreement, the Contractor may lift, dispose of and export from Timor-Leste its share of Petroleum and retain the proceeds from the sale or other disposition of that share;
- (b) The PETRONATIL may lift, dispose of and export from its own share, if it so elects, from time to time, provided that the PETRONATIL and Contractor make agreement between them as are reasonably necessary, in accordance with Good Oil Field Practice and the commercial practices of the international petroleum industry, for the separate lifting of their shares of Petroleum.

9.6 Title and Risk

- (a) Petroleum shall be at the risk of the Contractor until it is delivered at the Field Export Point. Without prejudice to any obligation or liability of the Contractor as a consequence of a failure of the Contractor to comply with its obligations under this Agreement (including Section 7.1), Petroleum which is lost after it is recovered at the well-head, and before it is delivered at the Field Export Point, shall be deducted from the Contractor's Recoverable Costs under Section 9.1.
- (b) Title in the Contractor's share of Petroleum shall pass to it when (and risk therein shall remain with the Contractor after) it is delivered at the Field Export Point.
- (c) Title in the PETRONATIL's share of Petroleum taken by the Contractor pursuant to Section 10.2 shall pass to the Contractor when (and risk therein shall remain with the Contractor after) it is delivered at the Field Export Point.
- (d) The Contractor shall defend, indemnify and hold harmless the PETRONATIL from all claims and demands asserted in respect of Petroleum wherein the risk is with the Contractor.

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9.7 Payment on Account

- (a) If the PETRONATIL has made an election under Section 10.3(a) in respect of a Calendar Year, then, in each month of the Calendar Year, the Contractor shall pay to the PETRONATIL an amount equal to one-twelfth (1/12th) of the estimated value of the PETRONATIL's estimated share of the Petroleum that is the subject of the election in that Calendar Year. The estimated share shall be calculated by reference to the approved Work Programmes and Budgets for the Calendar Year and the estimated value shall otherwise be calculated by reference to the latest and best information available.
- (b) The estimate shall first be calculated in the month before the start of the Calendar Year, and shall be recalculated in each month after that.
- (c) If a recalculation shows an over or under payment in previous months of the Calendar Year, the amount payable in each of the succeeding months of the Calendar Year shall be decreased or increased, by a pro-rata amount of the over or under payment, but, subject to paragraph 7.5(d), the PETRONATIL is not obliged to repay any over payment resulting from any such decrease.
- (d) The accounts of the Parties shall be settled by reference to the actual aggregate value of the PETRONATIL's actual aggregate share within thirty (30) days after the end of the Calendar Year.

Article 10 Domestic Supply

- (a) Timor-Leste, through PETRONATIL, at it's option, may require Contractor to provide the Crude Oil or Natural Gas Production from the Contract Area to meet Timor-Leste's internal requirements of Petroleum, provided, however, such requirement be notified in writing six (6) months in advance to Contractor.
- (b) The price receives by the Contractor for the purpose in Article 10(a) should be no less favorable than the price of Petroleum set in the Article 11.

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Article 11 Valuation of Petroleum

11.1 Place of Valuation

Petroleum shall be valued f.o.b. (or equivalent) the Field Export Point.

11.2 Crude Oil

- (a) The value of Crude Oil sold f.o.b. (or equivalent) the Field Export Point by arm's length transaction shall be the price payable for it.
- (b) The value of Crude Oil sold at the Field Export Point by arm's length transaction other than f.o.b. shall be the price payable for it, less such fair and reasonable proportion of such price relates to the transportation and delivery of the Petroleum downstream of the Field Export Point.
- (c) The value of Crude Oil other than as mentioned in paragraphs 11.2(a) and (b) shall be the fair and reasonable market price thereof having regard to all relevant circumstances, including Crude Oil valued under paragraphs 11.2(a) and (b).

11.3 Natural Gas

The value of Natural Gas shall be the price payable under the Approved Contract or as otherwise may be provided in the Development Plan or in this Agreement.

11.4 Price Payable

The price payable is the price which is (or would be) payable by the buyer if the Petroleum were delivered by the Contractor and taken by the buyer, without set off, counterclaim or other withholding of any nature.

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Article 12 Payments

12.1 Fees

The Contractor shall pay to the PETRONATIL fees and other payments as provided for in the Act.

12.2 Payment Mechanism

All payments under this Agreement shall be made in United States Dollars, unless otherwise agreed, and within ten (10) days after the end of the month in which the obligation to make the payment is incurred to a bank specified by the Party to whom the payment is due.

12.3 Late Payment

Any amount not paid in full when due shall bear interest, compounded on a monthly basis, at a rate per annum equal to one (1) month term, London Interbank Offer Rate (LIBOR) for United States Dollar deposits, as published in London by the Financial Times or, if not so published, then as published in New York by The Wall Street Journal, current from day to day, plus five (5) percentage points, on and from the due date for payment until the amount, together with interest thereon, is paid in full.

12.4 Minimum Payment

If this Agreement is terminated for any reason before the end of the third (3rd) Contract Year, the Contractor shall, on such termination, pay, to the PETRONATIL, those fees and payments which it would have so paid under Section 12.1 if termination had not occurred until the end of the third (3rd) Contract Year.

Article 13 Local Office and Notice of Procurement

13.1 Local Office

The Contractor upon the signing of this Agreement is required to open an operational office in the territory of Timor-Leste.

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13.2 Notice

- (a) Except with the consent of the PETRONATIL, the Contractor shall draw to the attention of suppliers based in Timor-Leste, in such manner as the PETRONATIL agrees, all opportunities for the provision of goods and services for Petroleum Operations.
- (b) Subject to Section 13.2, the Contractor shall, before awarding any contract for goods or services, obtain the written approval of the PETRONATIL.
- (c) The Contractor shall provide the PETRONATIL, for information, with the full financial details of all contracts for goods and services, irrespective of the amount of the expenditure involved.

13.3 Contracts Not Requiring the PETRONATIL's Approval

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

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

13.4 Tender Invitations Requiring PETRONATIL's Approval

- (a) Notwithstanding Section 11.2, and except with the consent of the PETRONATIL, all goods and services shall be procured on an arm's length basis by competitive tendering, and the Contractor, before inviting any tender for goods or services, shall submit to the PETRONATIL, for its approval:

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- (i) a list of bidders which the Contractor proposes to invite to tender; and
- (ii) the bid package to accompany the invitation, which shall include:
 - (aa) a draft contract;
 - (bb) the scope of work;
 - (cc) a technical proposal form;
 - (dd) a commercial proposal form; and
 - (ee) the basis upon which bids will be evaluated.

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

- (b) Costs for goods and services procured on other than an arm's length basis shall be established in accordance with the provisions of Annex C.

13.5 Emergencies

The foregoing provisions of this Article 10 do not apply in the circumstances mentioned in paragraph 4.7(b) to the extent they would hinder the Contractor from taking all necessary and proper measures as therein mentioned.

13.6 Other Information to be Provided

- (a) The Contractor shall submit to the PETRONATIL copies of all contracts for the supply of goods and services promptly after their execution.
- (b) The Contractor shall, promptly after awarding a contract following a tender as mentioned in Section 10.3, provide the PETRONATIL with a detailed report on the reasons for the award.

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- (c) From time to time, if requested by the PETRONATIL, the Contractor shall, upon completion of a specific contract, submit, to the PETRONATIL, an appraisal and completion report covering details of the actual expenditures made, and of the manpower, goods and services utilised, in the performance of the contract.
- (d) From time to time, if requested by the PETRONATIL, the Contractor shall, within sixty (60) days after such request, submit to the PETRONATIL, details of goods and services actually procured both from suppliers based inside and outside Timor-Leste.

Article 14 Title to Assets

14.1 Property

- (a) Assets purchased by the Contractor for use in Petroleum Operations shall remain the property of the Contractor during the effective terms of this Agreement.
- (b) Contractor shall be responsible for proper maintenance, insurance and safety of all assets acquired for Petroleum Operations and for keeping them in good repair, order and working condition at all times, and the costs thereof shall be recoverable as Cost Petroleum in accordance with Recoverable Cost provision in this Agreement.

14.2 Retention

- (a) Upon the expiry or early termination of this Agreement, the PETRONATIL shall have the right to require vesting of full title and ownership in it, free of charge and encumbrances, of any or all assets, whether fixed or movable, acquired and owned by the Contractor for use in Petroleum Operations inside or outside the Contract Area, such right to be exercisable at the PETRONATIL's option.
- (b) The Contractor shall have no further obligation or liability in respect of assets acquired by the PETRONATIL pursuant to paragraph 11.2(a) (but without prejudice to obligations and liabilities accrued prior thereto), and will repay, to the PETRONATIL, all amounts included in the Decommissioning Costs Reserve and claimed by the Contractor under Article 9.1 in respect of it before the acquisition, and shall claim no further such amounts in respect of it.

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Article 15 Third Party Access

15.1 Third Party Access

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

Article 16 Consultation and Arbitration

16.1 Arbitration

Except as otherwise provided in this Agreement, any dispute between the PETRONATIL and the Contractor relating to this Agreement, or the interpretation and performance of it, and which cannot be settled amicably, shall be submitted to arbitration as specified in the Act.

16.2 Obligations Continue During Arbitration

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

Article 17 Financial and Technical Data, Records and Reports

17.1 Ownership

- (a) The PETRONATIL shall have title to all technical data and information acquired in the carrying on, or as a result, of Petroleum Operations.
- (b) Paragraph (a) includes:

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- (i) all data and information, whether raw, processed, interpreted or analysed (including cores, cuttings, samples, and all geological, geophysical, geochemical, drilling, well, production and engineering data and information); and
- (ii) all conclusions drawn wholly or partly therefrom, and all opinions based wholly or partly thereon;
- (iii) that the Contractor collects and compiles.

17.2 Records, Storage, Retrieval and Submission

- (a) The Contractor shall keep full, complete and accurate books, accounts and other records of Petroleum Operations and of the sale or other disposition of Petroleum, of the data and information mentioned in Section 13.1 and of all other financial, commercial, legal, operational, technical and other data and information acquired or generated for, or resulting, directly or indirectly, from, Petroleum Operations (including that relating to marketing and otherwise to the sale of Petroleum).
- (b) The Contractor shall make the originals or copies of all such data, information and records available to the PETRONATIL (or as it shall direct) at all reasonable times at the Operator's offices in Timor-Leste, and shall promptly deliver the same to the PETRONATIL (or as it directs) as and when, and in such manner as, the PETRONATIL directs.
- (c) Without prejudice to paragraph 13.2(b), the Contractor shall store all such data and information as the PETRONATIL, after consultation with the Contractor, reasonably directs, and otherwise in accordance with Good Oil Field Practice.
- (d) The Contractor may retain copies of all such data and information and records delivered to the PETRONATIL for use in or in relation to Petroleum Operations and its complying with obligations under law, but not otherwise without the consent of the PETRONATIL.
- (e) The Contractor may not sell or disclose any such data, information and records without the consent of the PETRONATIL or as otherwise provided in this Agreement.

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17.3 Reports

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

17.4 Export of Data and Information

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

17.5 Use of Data and Information

- (a) The PETRONATIL may make such use as it wishes of the data and information mentioned in this Article 13, and nothing in Sections 13.6 or 13.7 prevents the PETRONATIL using data and information for the purposes of general statistical and other general reporting (publicly or otherwise) on its activities.
- (b) Except with the consent of the PETRONATIL, the Contractor may only use the data and information mentioned in Section 13.1 for its Petroleum Operations or for an application for an Authorisation.

17.6 Confidentiality of Data and Information

- (a) The PETRONATIL shall not publicly disclose or, other than for the purpose of the administration of the Act, or as otherwise required by the Act or for the purpose of the resolution of disputes under this Agreement, make available to any person, any data or information mentioned in Section 13.1 until:
 - (i) other than in the case of a conclusion or opinion which has been clearly marked as such when submitted to the PETRONATIL, the earlier of two (2) years after it was acquired by the Contractor and this Agreement ceasing to apply in respect of the point at or in respect of which it was acquired; and
 - (ii) in the case of a conclusion or opinion so marked, the earlier of five (5) years after it was reached and the Agreement or Contract under which the data and information from which it was drawn, or on which it was

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based, wholly or partly, ceasing to apply in respect of the point at or in respect of which it was acquired.

- (b) Except with the consent of the PETRONATIL, the Contractor shall not disclose the data or information mentioned in Section 13.1 other than:
 - (i) to its employees, agents, contractors and Affiliates to the extent necessary for the proper and efficient carrying on of Petroleum Operations;
 - (ii) as required by law;
 - (iii) for the purpose of the resolution of disputes under this Agreement; or
 - (iv) as required by a recognised stock exchange.

The Contractor shall procure that a person mentioned in sub-paragraph 13.6(b)(i) maintains the data and information disclosed to it confidential in the terms of this Article 13.

17.7 Trade Secrets

- (a) Notwithstanding Section 17.6, the PETRONATIL shall not publicly disclose or, other than for the purpose of the administration of the Act, or as otherwise required by the Act or for the purpose of the resolution of disputes under this Agreement, make available to any person, any data or information submitted to it by the Contractor which:
 - (i) is a trade secret of, or other data and information the disclosure of which would, or could reasonably be expected to, adversely affect, the Contractor in respect of its lawful business, commercial or financial affairs; and
 - (ii) was clearly marked as such when it was submitted to the PETRONATIL.
- (b) Without prejudice to sub-paragraph 17.7(a)(i):
 - (i) the PETRONATIL may, at any time and from time to time, serve notice on a Contractor requiring it to show cause, within the time specified for the purpose in the notice, why information which it has marked pursuant to sub-paragraph 17.7(a)(ii) should still be considered a trade secret or other information as mentioned in that paragraph; and

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- (ii) if the Contractor does not show cause within that time, the data and information shall no longer be a trade secret or other such information for the purposes of this Section 17.7.

17.8 Public Announcement

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

Article 18 Management of Operations

18.1 Constitution of Committee

For the purpose of this Agreement there will be a committee consisting of [•] representatives from the PETRONATIL, one of which shall be the chairman, and [•] representatives from the Contractor, as nominated by the PETRONATIL and the Contractor respectively ("Committee"). For each of its representatives, the PETRONATIL and the Contractor may nominate an alternate to act in the absence of the representative.

18.2 Meetings

- (a) The Committee will meet at least twice in each year in the PETRONATIL's offices or such other place as the PETRONATIL may advise upon the chairman giving thirty (30) days notice thereof. There shall be at least one meeting of the Committee for each of the following purposes:
 - (i) examining the Programmes and Budgets for the following year which the Contractor is required to submit under Article 5; and
 - (ii) reviewing any proposed or agreed amendments to a Programme and Budget; reviewing the progress of Petroleum Operations under the current Programmes and Budgets; and discussing any other matter relating to Petroleum Operations.
- (b) The Contractor or the PETRONATIL may request a meeting of the Committee at any time by giving written notice to the chairman. Such notice shall include a

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full description of the purpose of the meeting. The chairman shall thereupon call such meeting by giving thirty (30) days notice thereof.

Article 19 Audit

19.1 Independent Audit

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

19.2 PETRONATIL Audit

The PETRONATIL may inspect and audit (by itself or as it directs), and at its own cost, the Contractor's books and accounts relating to this Agreement for any Calendar Year (starting within twenty four (24) months after the end of the Year).

19.3 Exceptions

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

19.4 Contractor to Assist

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

19.5 Affiliates

The foregoing provisions of this Article 19 apply in respect of Affiliates of the Contractor. The Contractor shall use its best endeavours to procure that its Affiliates

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comply with them (at the Contractor's expense in regard to an audit as mentioned in Section 19.1). If an Affiliate declines to accept an audit, the Contractor shall procure, at its expense, that the Affiliate's statutory auditors report to the PETRONATIL as it may reasonably require.

Article 20 Indemnity and Insurance

20.1 Indemnity

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

20.2 Insurance

- (a) The Contractor shall take out and maintain insurance on a strict liability basis in respect of its obligations under Section 20.1 and in respect of such other matters as the PETRONATIL requires (including in respect of pollution), for such amounts as the PETRONATIL requires from time to time and otherwise as required by Good Oil Field Practice.
- (b) All such insurances shall name the PETRONATIL as co-insured, and shall contain waivers of subrogation in its favor.

Article 21 Force Majeure

21.1 Force Majeure Relief

- (a) Subject to the further provisions of this Article 21, a Party shall not be liable for any failure to perform an obligation under this Agreement to the extent such performance is prevented, hindered or delayed by events or circumstances which are beyond its reasonable control and the effects of which could not (including by reasonable anticipation) and cannot reasonably be avoided or overcome by it ("Force Majeure").

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- (b) Notwithstanding paragraph 21.1(a), the following shall not be Force Majeure:
- (i) failure to pay money;
 - (ii) in the case of the Contractor, the law, or any action or inaction of the government, of a place other than Timor-Leste (or of a political subdivision thereof);
 - (iii) in the case of the PETRONATIL, the law, or any action or inaction of the government, of Timor-Leste;
 - (iv) in the case of the Contractor, any failure to deliver and maintain a Security or to obtain and maintain insurance as required by this Agreement; and
 - (v) in the case of the Contractor, strikes, lockouts and other industrial disturbances of the Operator's (or of its agents' and sub-contractors') employees and not part of a wider industrial dispute materially affecting other employers.

21.2 Procedure

A Party claiming Force Majeure shall:

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

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21.3 Consultation

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

21.4 Third Parties

Where a Party enters into an agreement in relation to this Agreement with a third party, a failure by the third party to perform an obligation under that agreement shall be Force Majeure affecting that Party only if performance of that obligation was prevented, hindered or delayed by events or circumstances which (if the third party were party to this Agreement in the capacity of the Party concerned) would (in accordance with the provisions of this Article 21) be Force Majeure affecting it.

21.5 Extension of Time

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

Article 22 Restrictions on Assignment and Change in Control

22.1 Assignment

- (a) Except with the consent of the PETRONATIL, such consent not to be unreasonably withheld, no assignment or other dealing by the Contractor in respect of this Agreement shall be of any force or effect.
- (b) Paragraph (a) includes any assignment, transfer, conveyance, novation, merger, encumbering or other dealing in any manner whatsoever or howsoever (whether legally, beneficially or otherwise, and whether conditionally or not) by a Contractor with:
 - (i) this Agreement, or all or any part of its rights, interests, benefits, obligations and liabilities under it;
 - (ii) Petroleum which has not then been, but might be, recovered in the Contract Area, or any proceeds of sale of such Petroleum; and

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- (iv) anything whereby this Agreement, that Petroleum or any of those rights, interests and benefits would, but for this Section 22.1, be held for the benefit of, or be exercisable by or for the benefit of, any other person.
- (c) Paragraph (a) does not apply to an agreement for the sale of Crude Oil under which the price therefor is payable (or such Crude Oil is exchanged for other Petroleum) after title thereto has passed to the Contractor.
- (d) If, notwithstanding paragraphs (a) and (b), any assignment or other dealing is effective by the laws of Timor-Leste, or any other place without that consent, the PETRONATIL may terminate this Agreement.
- (e) The PETRONATIL may not consent to a dealing which would result in a person other than a limited liability corporation, or an entity with limited liability, specifically established for the sole purposes of this Agreement, becoming a Contractor, and any consent otherwise is of no force or effect.
- (f) For the purposes of the foregoing, encumbrance includes any mortgage, charge, pledge, hypothecation, lien, assignment by way of security, title retention, option, right to acquire, right of pre-emption, right of set off, counterclaim, trust arrangement, overriding royalty, net profits interest, or any other security, preferential right, equity or restriction, any agreement to give or to create any of the foregoing and any transaction which, in legal terms, is not a secured borrowing but which has an economic or financial effect similar to that of a secured borrowing.

22.2 Change in Control

- (a) Except with the consent of the PETRONATIL, if:
 - (i) there is a Change in Control of the Contractor (or, if more than one person, any such person);
 - (ii) within thirty (30) days after the Contractor has advised the PETRONATIL in reasonable detail of the Change in Control, the PETRONATIL serves notice on the Contractor that it will terminate this Agreement unless such a further Change in Control of the Contractor as is specified in the notice takes place within the period specified in the notice; and
 - (iii) that further Change in Control does not take place within that period;

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the PETRONATIL may terminate this Agreement.

- (b) Paragraph 22.2(a) does not apply if the Change in Control is the direct result of an acquisition of shares or other securities listed on a recognised stock exchange.
- (c) For the purposes of paragraph 22.2(a), "Change in Control" includes a person ceasing to be in Control (whether or not another person becomes in Control), and a person obtaining Control (whether or not another person was in Control).

Article 23 Other Provisions

23.1 Notices

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

23.2 Language

This Agreement has been drawn up in the Portuguese and English languages and three (3) originals of each text have been prepared for signature by Timor-Leste and the Contractor. Both the Portuguese and English texts are binding; however, the Portuguese text will prevail in the case of conflict.

23.3 Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of Timor-Leste [and such rules of international law as may be applicable].

23.4 Third Party Rights

Unless specifically provided in this Agreement (including in Article 19), the Parties do not intend that any term of this Agreement be enforceable by any person who is not a Party to this Agreement.

23.5 Amendments/Modification

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

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23.6 Entire Agreement

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

IN WITNESS WHEREOF, the representatives of the Parties to this Contract being duly authorised have hereunto set their hands and have executed these Agreements this ____ day of _____, In_(place)_____

For Timor-Leste:

Signed for and on behalf of the President/CEO of the PETRONATIL

By: _____

In presence of _____

For Contractor:

Signed for and on behalf
of X Company (the Operator)

By: _____

In presence of _____

Signed for and on behalf
of Y Company

By: _____

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In presence of _____

Signed for and on behalf
of Z Company

By: _____

In presence of _____

Signed for and on behalf
of PETRONATIL Exploration & Production Unit (or its nominee)

By: _____

In presence of _____

Annex A – Contract Area Description

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Annex B – Map of the Contract Area

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Annex C – Accounting Procedure

Clause 1 – General Provisions

1.1 Purpose and Definitions

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

1.2 Accounting Records

- (a) The Contractor shall maintain complete accounts, books and records, on an accruals basis, of all costs, expenses and revenues of, or relating to, Petroleum Operations, and the sale or other disposition of Petroleum, on an accurate basis and in accordance with generally accepted accounting procedures and standards of the international petroleum industry and in accordance with the charts of accounts mentioned in paragraph 1.2(b).
- (b) Within sixty (60) days after the Effective Date, the Contractor shall submit to the PETRONATIL, for its approval, an outline of charts of accounts, books, records and reports to be used for the purposes of paragraph 1.2(a) and for reporting to the PETRONATIL thereon.

1.3 Language and Units of Account

- (a) Metric units and barrels shall be employed for measurements and quantities under this Agreement.
- (b) The Accounting Records, and all reports to the PETRONATIL, will be in English.

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- (c) The Accounting Records, and all reports to the PETRONATIL, will be in United States Dollars. Costs and revenues in another currency will be translated at the exchange rate set on the day the cost is incurred or the revenue realized at a time and by a bank designated by the PETRONATIL.
- (d) Exchange gains or losses will be credited or charged to the Accounting Records.

Clause 2 – Classification and Allocation

2.1 Exploration Costs

Exploration Costs are those costs, whether of a capital or operating nature, which directly relate to Exploration and are incurred in respect of activities carried out substantially in accordance with an approved Exploration Work Programme and Budget, but without prejudice to Article 4.7, including costs of:

- (a) drilling wells;
- (b) surveys, including labour, materials and services (including desk studies and analysis of survey data) used in aerial, geological, geochemical, geophysical and seismic surveys, and core hole drilling;
- (c) auxiliary or temporary facilities;
- (d) workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- (e) floating craft, automotive equipment, furniture and office equipment; and
- (f) if approved by the PETRONATIL, employee and welfare housing, recreational, educational, health and meals facilities, and other similar costs necessary for Exploration.
- (g) costs associated with local offices and local administration, including staff benefits, which are not excessive;

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- (h) costs for Training and Schooling of national employees of Timor-Leste
- (i) costs of Technical Assistance Agreements to the PETRONATIL or its nominee company.

2.2 Appraisal Costs

Appraisal Costs are those Exploration Costs that directly relate to Appraisal.

2.3 Capital Costs

Capital Costs are:

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

and are incurred in respect of activities carried out substantially in accordance with an approved Development and Production Work Programme and Budget, but without prejudice to Article 4.7, including costs of:

- (c) workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- (d) production facilities including offshore platforms (including the costs of labour, fuel hauling and supplies for both the offsite fabrication and onsite installation of platforms, and other construction costs in erecting platforms), wellhead production tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines, storage facilities, all other equipment, facilities and modules on platforms, oil jetties and anchorages, treating plants and equipment, secondary recovery systems, gas plants and steam systems;
- (e) pipelines and other facilities for transporting Petroleum produced in the Contract Area to the Field Export Point;

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- (f) movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment;
- (g) floating craft, automotive equipment, furniture and office equipment; and
- (h) if approved by the PETRONATIL, employee and welfare housing, recreational, educational, health and meals facilities, and other similar costs necessary for the Development.

2.4 Operating Costs

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

2.5 Decommissioning Costs Reserve

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

2.6 Uplift

Uplift is the amount which, when compounded Quarterly, is equal to the average for the business days of the Quarter of the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds) plus an annual margin of ten (10) percentage points.

2.7 Miscellaneous Receipts

Miscellaneous Receipts are:

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- (a) all monies received by the Contractor, other than for the sale or other disposal of Petroleum from a Development Area, which are directly related to the conduct of Petroleum Operations, including
 - (i) amounts received from the sale or other disposal of Petroleum from production testing activities undertaken in Exploration and Appraisal wells;
 - (ii) amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;
 - (iii) amounts received by the Contractor under an insurance policy, the premiums of which are Recoverable Costs, in respect of damage to or loss of property;
 - (iv) amounts received as insurance (the premiums of which are Recoverable Costs), compensation or indemnity in respect of Petroleum lost or destroyed prior to the Field Export Point;
 - (v) amounts received from the hiring or leasing of property, the cost of which is a Recoverable Cost;
 - (vi) amounts received from supplying information obtained from Petroleum Operations;
 - (vii) amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs; and
 - (viii) amounts received in respect of expenditures which are Recoverable Costs, by way of indemnity or compensation for the incurring of the expenditure, refund of the expenditure, or rebate, discount or commission in respect of the expenditure; and
- (b) the value of property, the cost of which is a Recoverable Cost, when that property ceases to be used in Petroleum Operations;

2.8 Ineligible Costs

Ineligible Costs are:

- (a) interest (or any payment in the nature of, in lieu of, or having the commercial effect of, interest) or other cost under, or in respect of, a Loan Facility;

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- (b) Foreign exchange and currency hedging costs;
- (c) costs relating to formation of corporations or of any partnerships or joint venture arrangements, other than in respect of a unitisation as required by the Act;
- (d) payments of dividends or the cost of issuing shares;
- (e) repayments of equity or loan capital;
- (f) payments of private override royalties, net profits interests and the like;
- (g) all expenditure (including professional fees, publicity and out-of-pocket expenses) incurred in connection with the negotiation, signature or ratification of this Agreement and payments associated with the acquisition of an interest under this Agreement;
- (h) payments of taxes under the taxation law of Timor-Leste, and all other taxes on income, profit or gain wherever arising;
- (i) payments of administrative accounting costs, and other costs indirectly associated with Petroleum Operations;
- (j) costs incurred as a result of non-compliance by the Contractor with the law or this Agreement, including costs incurred as a result of any negligent act or omission, or willful misconduct, of the Contractor, its agents and sub-contractors, including any amount paid in settlement of any claim alleging negligence or willful 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;
- (k) payment of compensation or damages under this Agreement;
- (l) costs relating to the settlement of disputes, which are not approved in advance by the PETRONATIL, including all costs and expenses of arbitration or litigation proceedings under this Agreement;

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- (m) Decommissioning costs actually incurred which have been taken into account for the purposes of determining the Decommissioning Costs Reserve;
- (n) payments, under Article 12 of this Agreement;
- (o) audit fees and accounting fees (excluding fees and expenses incurred for the conduct of audit and accounting services required by this Agreement) incurred pursuant to the auditing and accounting requirements of any law and all costs and expenses incurred in connection with intragroup corporate reporting requirements (whether or not required by law);
- (p) costs associated with local offices and local administration, including staff benefits, which are excessive;
- (q) costs which are not adequately supported and documented;
- (r) except with the consent of the PETRONATIL, but subject to Article 5.7, costs not included in a Budget for the relevant Year;
- (s) costs not falling within any of the above items which are stated elsewhere in this Agreement not to be recoverable (including in Article 2.1(d)), or costs incurred without the consent or approval of the PETRONATIL (where such is required).

2.9 Other Matters

- (a) The methods mentioned in this Clause 2.9 will be used to calculate Recoverable Costs.
- (b) Depreciation is not a Recoverable Cost.
- (c) General and administration costs, other than direct charges, allocable to Petroleum Operations shall be determined by a detailed study, and, subject to approval by the PETRONATIL, the method determined by such a study shall be applied each Calendar Year consistently.

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

Clause 3 – Costs, Expenses and Credits

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

3.1 Surface Rights

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of the Agreement.

3.2 Labour and Associated Labour Costs

- (a) Costs of the Contractor's locally recruited employees based in Timor-Leste. Such costs shall include the costs of employee benefits and state benefits for employees and levies imposed on the Contractor as an employer, transportation and relocation costs within Timor-Leste of the employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice therein. If such employees are also engaged in other activities, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.
- (b) Costs of salaries and wages including bonuses of the Contractor's employees directly and necessarily engaged in the conduct of the Petroleum Operations,

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whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Agreement, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in paragraphs 3.2(c), 3.2(d), 3.2(e), 3.2(f) and 3.2(g) shall be charged and the basis of such pro-rata allocation shall be specified.

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

Actual transportation expenses of expatriate personnel transferred to Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expenses of personnel transferred from Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum Operations. Transportation cost as used in this section shall mean the cost of freight and passenger service, meals, hotels, insurance and other expenditures related to vacation and transfer travel and authorised under the Contractor's standard personnel policies. The Contractor shall ensure that all expenditures related to transportation costs are equitably allocated to the activities which have benefited from the personnel concerned.

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- (g) Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under paragraph 3.2(b) and for which expenses such personnel reimbursed under the Contractor's standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

3.3 Transportation and Employee Relocation Costs

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

3.4 Charges for Services

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

- (a) Third Parties

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

- (b) Affiliates of the Contractor

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

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carried on by the Contractor and its Affiliates. The chargeout 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 Programme and Budget, the Contractor shall not authorise work by such personnel.

- (iii) Equipment and facilities: use of equipment and facilities owned and furnished by the Contractor's Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the PETRONATIL.

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 and Miscellaneous Facilities

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

3.7 Ecological and Environment

- (a) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources.
- (b) Costs incurred in environmental or ecological surveys required by this Agreement or regulatory authorities.
- (c) Costs to provide or have available pollution containment and removal equipment.
- (d) Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations.
- (e) Costs of restoration of the operating environment.

3.8 Material Costs

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

- (a) 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(d), material purchased by the Contractor in arm's length transactions in the open market for use in the Petroleum Operations shall be

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valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the Contractor has arranged the purchase, coordinated the forwarding and expediting effort, a fee equal to four (4) per cent of the value of the materials shall be added to the cost of the materials purchased.

- (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 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 are reconditioning will be further serviceable for its original function shall be classified as Condition “C” and priced at not more than fifty per cent (50%) of the current price of new material as defined in paragraph 3.8(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;

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- c. Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by the Contractor. If material is not fit for use by the Contractor it shall be disposed of as junk.
- (iii) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in paragraph 3.8(d)(i).
- (iv) When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price as provided for in paragraph 3.8(d)(ii)(b), such material shall be priced on a basis that will result in a net charge to the accounts under this Agreement consistent with the value of the service rendered.
- (v) Premium prices – whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge Petroleum Operations for the required material at the Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the PETRONATIL of the proposed charge prior to charging Petroleum Operations for such material and the PETRONATIL 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

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Petroleum Operations and paid directly by the Contractor (save where the contrary is expressly provided in this Agreement).

3.10 Insurance and Losses

3.11 Legal Expenses

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

3.12 Claims

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

3.13 Training and Technical Assistance Costs

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

3.14 General and Administrative Costs

The costs described in Clause 2.9(c).

3.15 Other Expenditures

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Other reasonable expenditures not covered or dealt with in the foregoing provisions of this Clause 3 which are necessarily incurred by the Contractor for the proper, economical and efficient conduct of Petroleum Operations.

3.16 Duplication

There shall be no duplication of charges and credits.

Clause 4 – Inventories

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

Clause 5 – Production Statement

5.1 Production Information

From the start of production from the Contract Area, the Contractor shall submit a monthly Production Statement to the PETRONATIL 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;

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- (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, if applicable;
- (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, if applicable; and
- (k) in respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Field Export Point.

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

5.2 Submission of Production Statement

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

Clause 6 – Value of Production And Pricing Statement

6.1 Value of Production and Pricing Statement Information

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

- (a) the quantities and the price payable thereof by the Contractor in respect of sales of Natural Gas and Crude Oil delivered to third parties during the Quarter in question; and

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

6.2 Submission of Value of Production and Pricing Statement

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

Clause 7 – Recoverable Cost Statement

7.1 Quarterly Statement

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

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

7.2 Preparation and Submission of Recoverable Cost Statement

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

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7.3 Annual Statement

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

Clause 8 – Statements Of Expenditure And Receipt

8.1 Quarterly Statement

The Contractor 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 Year in question;
- (c) latest forecast cumulative expenditures at the Year end;
- (d) variations between budget forecast and latest forecast and explanations thereof.

The Statement of Expenditure and Receipts of each Quarter shall be submitted to the PETRONATIL no later than fifteen (15) days after the end of such Quarter.

8.2 Annual Statement

The 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, Recoverable Cost Statement and Statement of Expenditure and Receipts, but will be based on actual quantities of Petroleum produced and costs incurred. This Statement will be used to make any adjustments that are necessary to the payments made by the Contractor under this Agreement. The Final End-of-Year Statement of

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each Calendar Year shall be submitted to the PETRONATIL within ninety (90) days of the end of such Calendar Year.