

Model

Timor Leste Onshore Production Sharing Contract

between

AUTORIDADE NACIONAL DO PETROLEUM

and

XXXX

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PRODUCTION SHARING CONTRACT

[Dated]

This Contract is a production sharing contract made under the Act

BETWEEN

The Ministry of Petroleum and Mineral Resources (the “Ministry”), acting on behalf of the Democratic Republic of Timor-Leste (“Timor-Leste”) by the powers vested in it under Article 10 (1) of the Act,

AND

[insert company name] a corporation organized and existing under the laws of [insert relevant country], with registration number [insert company registration number], having its headquarters in [insert address].

[• and •]

[(referred to [collectively] as the “Contractor”).]

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

Whereas:

- A. The Republic Democratic of Timor Leste is the sole owner of all natural resources within the Territory and offshore area and has the right to develop, extract, exploit and utilize the natural resources in the interest of the people of all the national groups
- B. Title to, and control over, Petroleum existing within the Territory of Timor-Leste is vested in Timor-Leste;
- C. the Ministry has the power to conclude Petroleum Contracts for the benefit of the people and, amongst other, for the sustainable development of Timor-Leste;
- D. the Ministry wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the Ministry in doing so in the Contract Area; and
- E. the Contractor represents that it has the financial capability, the technical knowledge and technical ability to carry out exploration and development work and other Petroleum Operations in a manner wholly consistent with the Act and this Contract, and that it does not have a record of non-compliance with principles of good corporate citizenship;

NOW, THEREFORE, it is agreed:

Article 1 Definitions and Interpretation

1.1 Definitions

In this Contract capitalised terms not defined in the Contract have the meaning given to those terms in the Act and, for the avoidance of doubt, the Regulation, and unless otherwise clearly stated the following words and expressions shall have the following meanings:

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

“Act” means the Petroleum Act, as amended, varied, modified or replaced from time to time, and regulations made and orders and directions given thereunder including for the avoidance of doubt the Regulation for Petroleum Operations relating to the Subsea Petroleum Resources in the Timor-Leste Exclusive Area, (the “Regulation”) as amended, varied, modified or replaced from time to time, and any orders, directions or any other decision made or issued pursuant thereto, including rules, guidelines, policies and codes ;

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

“Appraisal Period “ means the period which Contractor deems to necessary to determine whether a Discovery is a Commercial Discovery,

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

"Arm’s Length" means the relationship that exists between two or more entities, where neither of such entities exerts or is in position to exert significant influence of any of the other entities having regard to all relevant factors;

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

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

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

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

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

“Committee” has the meaning given in Section 17.2;

“Contiguous area” means a block, or a number of blocks each having a point in common with another such block;

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

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

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

"Contractors" means [Insert names of Contractors] and “Contractor” means any one of them, in both cases, including their respective successors and permitted assignees;

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

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

"Cost Recovery Crude Oil" has the meaning given in Section 8.1 (b);

"Cost Recovery Natural Gas" has the meaning given in Section 8.1 (b);

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

“Day” means a period of twenty-four hours as a unit of time, counted from one midnight to

“ Delivery Point” means (a) the point of export, RDTL, of petroleum made available for export sale, (b) the agreed point of delivery within the relevant development and Production area for petroleum produced share and government entitle to Timor Gap pursuant to section 11 crude oil and natural gas made available for the RDTL domestic market,

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

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

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

“Force Majeure” has the meaning given in Section 21.1;

“Field Export Point” means the place where finally processed petroleum extracted from a reservoir within the contract area has reached the metering station at the ultimate landing terminal onshore in Timor Leste from where it may be freely traded as a commodity or when applicable when such petroleum is loaded onto a ship for bulk transportation.

“Gas Retention Area” means an area declared as such, in accordance with Section 3.3;

“Industry Best Practice” means in any circumstances the exercise of the highest degree of skill, care, prudence and foresight reasonably to be expected of persons carrying out the activities contemplated by this Contract, in the petroleum industry worldwide and includes, in respect of the relevant activities, Good Oil Field Practice;

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

“Insolvency Event” has the meaning given in the Act;

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

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

“Marketable Natural Gas” means the volumes of Natural Gas produced, less:

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

"Mcf" means one thousand (1000) standard cubic feet of gas (“SCF”), whereby one "SCF" is the amount of gas necessary to fill one cubic feet of space at atmospheric pressure of fourteen point seventy (14.70) pounds of pressure per square inch absolute at a base temperature of sixty (60) degrees Fahrenheit;

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

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

"MMcfd" means million cubic feet per day;

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

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

“Operator” means the Contractor appointed from time to time as such, whereby the initial Operator is _____;

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

- (a) controls the composition of that body's board; or
- (b) is in a position to cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of that body; or

- (c) holds more than one-half of the issued share capital of that body (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital); or
- (d) is the Parent Company of the Parent Company of the other body.

“Participating Interest” means, in respect of each Party constituting the Contractor, the undivided share expressed as a percentage of such Party’s participation in the rights and obligations under this Contract;

“Period” means the Initial Period, the Second Period or the Third Period (or any of them, as the case may be) as set out in Sections 4.3, 4.4 and 4.5;

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

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

“Profit Crude Oil” has the meaning given in paragraph 9.1(c);

“Profit Natural Gas” has the meaning given in paragraph 9.1(c);

“Profit Petroleum” has the meaning given in paragraph 9.1(c);

“Quarter” has the same meaning as defined in the Regulation and “Quarterly ” shall have the corresponding meaning.

“Recoverable Costs” has the meaning given in Section 8.2;

“Reservoir” means a porous and permeable underground formation containing an individual and separate natural accumulation of producible hydrocarbons (oil and/or gas) that is confined by impermeable rock and/or water barriers and is characterized by a single natural pressure system;

“Review Period” has the meaning given in Section 19.8 (b);

“Revised Local Content Proposal” has the meaning given in Section 7.4 (b);

“Security” means:

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

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

“Uplift” has the meaning given in Clause 2.6 of Annex D;

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

“Work Programme and Budget” means a work programme for Petroleum Operations and a budget for carrying out that work programme, approved in accordance with Applicable Law.

1.2 Headings

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

1.3 Further Interpretation

In this Contract, unless the context otherwise requires:

- (a) the words “including” and “in particular” shall be construed as being by way of illustration or emphasis only, and shall not be construed as, nor shall they take effect as, limiting the generality of any preceding words;
- (b) a reference to an Article, Section, paragraph, sub-paragraph, to an Annex or Schedule is to an Article, Section, paragraph, sub-paragraph of or to an Annex or Schedule to this Contract;
- (c) a reference to a Contract (including this Contract), Schedule or instrument is to the same as amended, varied, novated, modified or replaced from time to time;
- (d) a reference to an act, regulation, direction, guideline or other legislative instrument is to the same as amended, varied, modified or replaced from time to time;
- (e) “person” includes a corporation or other legal entity, even if without juridical personality;
- (f) the singular includes the plural, and vice versa;
- (g) any gender includes the other;
- (h) a reference to the consent or approval of the Ministry means the consent or approval, in writing, of the Ministry and in accordance with the conditions of that consent or approval; and
- (i) where a word or expression is defined, similar words and expressions shall be construed accordingly.

1.4 Annexes

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

Article 2 Scope and Term

2.1 Scope

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

2.2 Terms of Contract

This PSC includes an Exploration Period and Exploitation Period defined as follows :

Exploration Period

- (a) The Exploration Period shall cover a period of (7) Contract Year, subdivided into phases as follows :
 1. A first Exploration phase of three years
 2. A second exploration phase of two years
 3. A third exploration phase of two years

The Contractor can only proceed to the next Exploration phase provided that its Exploration commitment is executed under the applicable RDTL petroleum law in accordance with this PSC related to the prior phase.

- (b) If the Contractor decide not to enter into the second phase Exploration phase or the third Exploration phase, the operator shall notify the Ministry at least 30 days prior to the expiry of the then current Exploration phase.
- (c) Contractor may request for extension of the Exploration Period provided that justification for the needs to extend to complete its Exploration commitment or evaluation of seismic study. This extension shall not exceed two years.
- (d) If no Commercial Discovery is made and notified in the Contract Area, the Contrat shall terminate at the end of the Exploration Period or any extension thereof,

Development Period

A Development and Production Period shall commence with respect to each Development and Production Area on the date that Contractor gives notice of the Commercial Discovery relating to the Contract Area and the Ministry Declared such Commercial Discovery. The Development and Production Period shall continue until the expiration of the Twenty (20) years from the date the Field Development Plan is approved by the Ministry.

2.3 Conditions Precedent

- (a) This Contract is conditional on:
- (i) the appointment of an Operator in accordance with Section 17.1;
 - (ii) if there is more than one Contractor, the conclusion of a Joint Operating Agreement between them, such Agreement coming into full force and effect upon the approval by the Ministry,
 - (iii) the submission of copies of any Joint Operating Agreement and all related contracts to the Ministry;
 - (iv) each Contractor providing the Ministry with a Security in such form and with such content as is satisfactory to the Ministry for the performance of the Contractor's Minimum Exploration Work Requirements and provided further that if a Parent Company guarantee is accepted as the form of Security, such Parent Company guarantee shall be substantially in the form in Schedule C;
 - (v) each Contractor providing the Ministry with a Security in such form and with such content as is satisfactory to the Ministry in the sum of [XXX] United States Dollars (USD [X]) for the performance of any obligation under this Contract other than those covered by the Security under paragraphs 2.2 (iv) and (vi), provided that if a Parent Company guarantee is accepted as Security, it shall be substantially in the form of Schedule D;
 - (vi) each Contractor providing the Ministry with a Parent Company guarantee in the form set out in Schedule B with any amendments acceptable to the Ministry representing an undertaking from its ultimate Parent Company that such Parent Company shall provide all technical and financial resources that the Contractor may require to meet on a timely basis the Contractor's obligations under this Contract; and
 - (vii) the Contractor demonstrating, to the satisfaction of the Ministry, that it has complied with its obligations under Section 20.3 in regard to insurance.
- (b) If the conditions in paragraph 2.2(a) are not fulfilled before the sixtieth (60th) day after the date of signing this Contract, this Contract shall terminate and be of no further force or effect.

2.4 Effective Date and Term

- (a) This Contract shall commence on the Effective Date and terminate on the first to occur of:
- (i) all of the Contract Area being relinquished pursuant to Article 3;

- (ii) the Parties mutually agreeing in writing to terminate this Contract;
 - (iii) termination pursuant to Section 2.5; or
 - (iv) expiry of the maximum term of Petroleum Contracts as set out in article 2.2 and the Act.
- (b) Provided that the Contractor notifies the Ministry at least one (1) year prior to the expiry of this Contract, the Contractor shall have the option to extend this Contract in respect of any Development Area for such periods as are stipulated by the Act.

2.5 Grounds for Termination

The Ministry may terminate this Contract by notice in writing:

- (a) immediately, if:
 - (i) a Party comprising Contractor is insolvent, is adjudged bankrupt or makes any assignment for the benefit of its creditors, or is adjudged to be unable to pay its debts as the same fall due;
 - (ii) a petition is filed in a court having jurisdiction or an order is made, or an effective resolution is passed, for the dissolution, liquidation or winding up of a Party comprising Contractor;
 - (iii) a receiver is appointed or an encumbrancer takes possession of a majority of the assets or undertaking of a Party comprising Contractor; or
 - (iv) a Contractor ceases or threatens to cease to carry on its business or execution is forced against all or a majority of its property and is not discharged within fourteen (14) Days.
- (b) immediately, where the Contractor:
 - (i) has committed a material breach of any plan, programme, approval, condition or term to which this Contract is subject;
 - (ii) has not complied with the Act;
 - (iii) has provided information to the Ministry in connection with this Contract or in order to obtain this Contract which it knew, or ought reasonably to have known, or believed to be false; or
 - (iv) has not paid any amount payable by it under the Act or under this Contract within a period of three (3) months after the Day on which the amount became due and payable.
- (c) on thirty (30) Days' notice to the Contractor if the Contractor is in material default under this Contract and does not, within that thirty (30) Days, remedy the default to the satisfaction of the Ministry.
- (d) If there is more than one Contractor and circumstances arise in which the Ministry may terminate this Contract, the Ministry may, on such conditions as it decides, terminate this Contract only in respect of that or those Contractors whose acts or omissions (or in relation to whom acts, omissions or events have occurred which)

have led to such circumstances arising, if:

- (i) it is satisfied that the other Contractors did not connive in such acts, omissions or events, and could not reasonably have been expected to prevent them occurring;
- (ii) it is satisfied that it is fair and reasonable to do so in all the circumstances; and
- (iii) an agreement is made with the other Contractor(s) to accept the Participating Interest of the Contractor(s) at fault,

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

2.6 Other Resources

- (a) This Contract applies exclusively to Petroleum and it shall not extend to any other natural resources which may exist in the Contract Area. Therefore, the Contractor is prohibited from using, making good use of or disposing, in any way and under any title, totally or partially, of such resources other than Petroleum.
- (b) Any discovery of any natural resources other than Petroleum such as other hydrocarbons, minerals and any other natural resources or items of archaeological value or interest within the Contract Area shall be notified exclusively and in writing by the Contractor to the Ministry within a maximum of twenty-four (24) hours. The notice shall be accompanied by all relevant available data and information in respect of that discovery.

In the case of discovery of any natural resources other than Petroleum the Contractor will be obliged to comply with the instructions issued by and allow the performance of the relevant measures as determined by the Ministry or other competent authorities. While waiting for such instructions, the Contractor shall refrain from taking any measures which could put at risk or in any way impair the measures to be taken by the Ministry or other competent authorities with the discovered natural resources. The Contractor shall not be obliged to interrupt its Petroleum Operations, except in cases in which those Petroleum Operations put at risk the discovered natural resources.

Any interruption of Petroleum Operations, due exclusively to the discovery of other natural resources, will have its term computed and recognised by the Ministry for purposes of an extension of the relevant Period or contract term under Section 2.3 or the Act.

2.7 Surviving Obligations

- (a) Expiration or termination of this Contract for any reason, in whole or in part, shall be without prejudice to rights and obligations expressed in the Act or this Contract to survive termination, or to rights and obligations accrued thereunder prior to termination. All provisions of this Contract reasonably necessary for the full enjoyment and enforcement of those accrued rights and obligations shall survive termination for the period so necessary.

- (b) The obligations to Decommission and prevent the cause of pollution by the Facilities and to clean up such pollution are continuing obligations and survive the expiration or termination of this Contract. Any issues that arise out of or in connection with such Facilities after the cessation of Petroleum Operations shall be the responsibility of the Contractor. For the avoidance of doubt, this obligation may cease if agreed in accordance with the Act.
- (c) The obligation to give any surplus in the Decommissioning Fund to the Ministry, is a continuing obligation and survives the expiration or prior termination of this Contract.
- (d) For the avoidance of doubt, in case of termination of this Contract only in respect of those persons identified in paragraph 2.4(e) letter (a) – (c) above apply correspondingly.

Article 3 Relinquishment of Areas

3.1 Periodic Relinquishment of Exploration Area

Not later than at the end of the Exploration Period, all of the Contract Area other than Discovery Area and Development and Production Area shall be relinquished. Contractor may at any time relinquish voluntarily its right hereunder in all or any part of the Contract Area in accordance with the Act.

No relinquishment shall relieve Contractor from accrued but unfulfilled minimum expenditure commitment under section 4 of this Contract.

3.2 Termination of Contract and Continuing Obligations in respect of Relinquished Area

- (a) This Contract shall terminate in respect of a part of the Contract Area which is relinquished.
- (b) For the avoidance of doubt, Section 2.7 applies correspondingly in cases of relinquishment of all or a part of the Contract Area.

3.3 Retention Areas

- (a) The Contractor may request the Ministry to declare a retention area in accordance with the procedures and on such conditions as stipulated in the Act.

Article 4 Exploration Period

4.1 Work Programmes and Budgets

Subject to Sections 4.2 to 4.5 and 4.9, the Contractor shall carry out Petroleum Operations substantially in accordance with Work Programmes and Budgets submitted to and approved by the Ministry in accordance with the Act. Such approval by the Ministry is without

prejudice to any other obligation or liability of the Contractor under this Contract.

4.2 Commencement of Exploration

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

4.3 Minimum Exploration Work Requirements in Initial Period

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

(a) Description of Work:

<u>Contract Years</u>	<u>Data Evaluation</u>	<u>Surveys</u>	<u>Wells</u>
1-3	(LIST DATA EVALUATION AND OTHER GEOLOGICAL WORK HERE)	(LIST SURVEYS AND OTHER GEOPHYSICAL WORK HERE)	Drilling of at least XXX (X) Exploration Wells, to a depth of at least XXX thousand (XXX) metres, true vertical depth below mudline, with spudding of such well to be not later than thirty (30) Months after the Effective Date.

(b) Minimum expenditure:

During the three (3) years Initial Exploration Period, CONTRACTOR shall spend a total of not less than US Dollars (US\$) to execute Geological and Geophysical Studies, Seismic Acquisition, Processing and Interpretation during Year 1 of the Initial Exploration Period, Drilling of XX well during Year 2 of the Initial Exploration Period, post-well evaluation and drilling of XX well during Year 2 of the Initial Exploration Period (or) drilling of XX wells in the Contract Area during Year 2 and 3 of the Initial Exploration Period and shall completely perform, unless otherwise agreed, the type of work as specified in Section 4.3 relating to Initial Exploration Period.

4.4 Minimum Exploration Work Requirements in Second Period

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

(a) Description of Work:

<u>Contract Years</u>	<u>Data Evaluation</u>	<u>Surveys</u>	<u>Wells</u>
4 and 5	(LIST DATA EVALUATION AND OTHER GEOLOGICAL WORK HERE)	(LIST SURVEYS AND OTHER GEOPHYSICAL WORK HERE)	Drilling of at least XXX (X) Exploration Wells, to a depth of at least XXX thousand (XXX) metres, true vertical depth below

(b) Minimum expenditure:

Contractor's minimum expenditure for the work required in the second Period shall be US\$ (INSERT AMOUNT)

4.5 Minimum Exploration Work Requirements in Third Period

Subject to Section 4.7, in the third Period (Contract Years 6 and 7), unless the Contractor has relinquished all of the Contract Area not being a Development Area or a Gas Retention Area or Petroleum Retention Area before the start of the sixth (6th) year, the Contractor shall carry out the Minimum Exploration Work Requirements (including the minimum expenditure) specified below:

(a) Description of Work:

<u>Contract Years</u>	<u>Data Evaluation</u>	<u>Surveys</u>	<u>Wells</u>
6 and 7	<u>Description of Work:</u> (LIST DATA EVALUATION AND OTHER GEOLOGICAL WORK HERE)	<u>Description of Work:</u> (LIST SURVEYS AND OTHER GEOPHYSICAL WORK HERE),	<u>Description of Work:</u> Drilling of at least XXX (X) Exploration Wells, to a depth of at least XXX thousand (XXX) metres, true vertical depth below mudline,

(b) Minimum expenditure:

Contractor's minimum expenditure for the work required in the third Period shall be US\$ (INSERT AMOUNT)

4.6 Amendments to the Minimum Exploration Work Requirements

The Contractor may propose to the Ministry alterations to the work activities in the Minimum Exploration Work Requirements, together with a supporting technical report, and the Ministry may approve those alterations where the revised Minimum Exploration Work Requirements will result in an amount of financial expenditure which is equal to or above the minimum expenditure required for the corresponding Period, as set out in Sections 4.3 to 4.5, and is, in the reasonable opinion of the Ministry, technically justified.

4.7 Performance of Exploration

- (a) If the Contractor completes the Minimum Exploration Work Requirements within the required timeframe for each Period of Exploration to the satisfaction of the Ministry and upon receipt of proof acceptable to the Ministry from the Contractor, the Contractor shall have a right to proceed to any subsequent Period provided that the Contractor and the Ministry shall reassess the value of the Minimum Exploration Work Requirements for that Period. If the value at that time is more than the value given as Security under paragraph 2.2 (a) (iv) then Contractor shall provide the Ministry with additional Security in such form and with such content as is satisfactory to the Ministry for the performance of the Contractor's Minimum Exploration Work Requirements under the Work Programme and Budget in that Period. For the avoidance of doubt, expenditure of the minimum expenditure amount alone shall not be taken as satisfying the Minimum Exploration Work Requirements.
- (b) The following work does not qualify as fulfilling the Minimum Exploration Work Requirements and no expenditure incurred carrying out the following work will be counted towards the minimum expenditure requirements set out in the Minimum Exploration Work Requirements:
 - (i) work carried out prior to the Effective Date;
 - (ii) work carried out after the termination of the Period or any extension thereof agreed to in writing by the Ministry;
 - (iii) work carried out outside the Contract Area;
 - (iv) work which is not carried out in accordance with an agreed Work Programme (including as amended in accordance with Section 4.6);
 - (v) Appraisal Wells, seismic surveys or any other Petroleum Operations which are carried out as part of an Appraisal or any work carried out as part of the development of a Commercial Discovery in accordance with Section 4.9; or
 - (vi) work which does not qualify as Petroleum Operations under this Contract.
- (c) Except with the consent of the Ministry, no work in a Development Area will be regarded as Exploration for the purposes of this Article 4, Article 8 and Annex D, except in respect of a formation deeper than the Field concerned and in which no Discovery has been made.
- (d) Any Well required in a Period of Exploration shall be drilled to such depth as is

necessary to ensure penetration and allow for the proper testing of the prospective zone, even if that requires drilling beyond the minimum depth requirement set out in the Minimum Exploration Work Requirements, unless before reaching such depth basement is encountered as agreed to and approved by the Ministry.

- (e) Additional line kilometres of seismic data and additional wells or further drilling beyond the minimum required in each Period under the Minimum Exploration Work Requirements may, with the prior approval of the Ministry, which will not be unreasonably withheld, be carried forward to meet the minimum obligations for seismic data or exploration wells, as the case may be, under the Minimum Exploration Work Requirements for a subsequent Period, provided that such a work obligation exists in the subsequent Period and the Minimum Exploration Work Requirement for each Period (including any preceding Period) is fulfilled.
- (f) Subject to paragraph 4.7(g) below, the Contractor may discontinue a Drilling Operation if, in the course of drilling a Well, the Contractor determines, in its reasonable opinion and with the consent of the Ministry, which will not be unreasonably withheld, that further drilling is technically impossible or imprudent because:
 - (i) further drilling would present an obvious danger, such as but not limited to the presence of abnormal pressure or excessive losses of drilling mud;
 - (ii) impenetrable formations are encountered; or
 - (iii) Petroleum-bearing formations are encountered which require protecting, thereby preventing planned depths from being reached.
- (g) If a Well is abandoned due to technical difficulties under paragraph 4.7(f) above, the Contractor is not relieved of its obligation to carry out the required work activities stipulated as Minimum Exploration Work Requirements and the Ministry shall have the option of either:
 - (i) requiring the Contractor to drill a substitute Exploration Well at a location determined by the Contractor with the agreement of the Ministry, to the depth stipulated in the Minimum Exploration Work Requirements for the corresponding Period; or
 - (ii) where the Ministry agrees with the Contractor that further drilling or a substitute Well is technically impossible or imprudent and the Contractor is therefore unable to carry out the required work activities, waiving the minimum depth requirement and accepting a payment of money corresponding to the amount of outstanding drilling, to be determined by the Ministry, or an independent consultant retained on its behalf at the cost of the Contractor, in which case the Contractor will be deemed to have satisfied the obligation to drill such Exploration Well, such payment (including any costs of an independent consultant) not to be Recoverable Costs.

4.8 Consequences of Non-Performance of Minimum Exploration Work Requirements

Without affecting the operation of paragraph 4.7(g), if the Contractor does not fulfil the Minimum Exploration Work Requirements for any Period, the Contractor shall submit a report to the Ministry detailing its reasons and the Ministry may, in its sole discretion:

- (a) require payment of the amount of the minimum expenditure obligation

corresponding to the amount of the unfulfilled work activities, to be determined by the Ministry or an independent consultant retained on its behalf at the cost of the Contractor, as fulfilment of the Minimum Exploration Work Requirements for that Period, such payment (including any payment to an independent consultant) not to be a Recoverable Cost;

- (b) provided that the Contractor has requested an extension at least thirty (30) Days prior to the expiration of the Period and the reasons stated in the request are accepted by the Ministry, and no extension has previously been granted for that Period, extend the period of time in which the Contractor may carry out the Minimum Exploration Work Requirements for that Period, by up to a maximum of six (6) months; or
- (c) terminate this Contract and require payment corresponding to the amount of all unfulfilled work activities under the Minimum Exploration Work Requirements, such payment to be determined by the Ministry or an independent consultant retained on its behalf (such payment including any payment to an independent consultant not to be a Recoverable Cost).

4.9 Emergency and Other Expenditures Outside Work Programmes and Budgets

- (a) Without further approval by the Ministry, the Contractor may over-expend, by the lesser of fifty thousand United States Dollars (USD \$50,000) or ten percent (10%) on any line item in an approved Work Programme and Budget for a Contract Year.
- (b) Without further approval by the Ministry, the total of all over-expenditures under paragraph 4.9(a) under the Work Programme and Budget for that Contract Year shall not exceed the lesser of one million United States Dollars (USD \$1,000,000) or ten percent (10%) of the total expenditures in that Work Programme and Budget.
- (c) The Contractor shall promptly inform the Ministry if it anticipates (or should reasonably anticipate) that any such limit in paragraph 4.9(b) will be exceeded and seek an amendment to the appropriate Work Programme and Budget.
- (d) In determining whether to approve the over-expenditures contemplated at paragraphs 4.9(a) and (b), the Ministry shall consider whether such increases are necessary to complete the Work Programme, provided that such increase is not the result of any failure of the Contractor to fulfil its obligations under this Contract.
- (e) Nothing in this Section 4.9 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 Ministry of the details of the emergency and of the actions it has taken and intends to take.

4.10 Discovery and Appraisal

- (a) In case of a Discovery, the Contractor shall comply with the rules and procedures for Discovery, Appraisal and, if applicable, declaration of Commercial Discovery as

stipulated in the Act.

Article 5 Development and Production Period

5.1 Development Plan

- (a) The Contractor shall have the right to commence Development upon approval of a Development Plan prepared and submitted in accordance with the Act.

5.2 Approved Contracts

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

Article 6 Decommissioning

6.1 Decommissioning

- (a) The Contractor shall prepare and implement the approved Decommissioning Plan in accordance with the Act.
- (b) Upon the commencement of Commercial Production, the Contractor shall establish a Decommissioning Fund in accordance with the Act which shall be in the form of an interest bearing escrow account, which is a conservative account yielding a maximum of one (1) percentage point margin above the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds), in the name of the Ministry at a financial institution approved by the Ministry. On a yearly basis, Contractor shall pay fifty (50) cents in USD per barrel of oil equivalent produced into said Decommissioning Fund. The monies contributed to the Decommissioning Fund as described in this Section 6.1 shall be charged as Recoverable Costs beginning in the Calendar Year following the Calendar Year in which Commercial Production first occurs. The interests accumulated in the Decommissioning Fund are neither Recoverable Costs nor tax deductible and shall be considered a Miscellaneous Receipt for the purposes of Clause 2.7 of Annex D. All amounts paid into such Decommissioning Fund shall be certified by an auditor and conform to the IAS 37 as at the date of signing of this Contract. If IAS 37 is updated or amended during the term of this Contract the Parties will negotiate in good faith as to whether the new standard will replace the adopted one.

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

7.1 Proper and Workmanlike Manner

- (a) The Contractor shall carry on Petroleum Operations, and shall procure that they are carried on, diligently and in accordance with the Act, Applicable Law, this Contract and Industry Best Practice.
- (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 potentially affected local communities based on sustainable development and ensure that Petroleum Operations result in minimum of ecological damage or destruction or detrimental social impact;
 - (ii) ensure the safety, health and welfare of persons in or affected by Petroleum Operations;
 - (iii) manage the Petroleum Operations in a way which has long-term benefits to Timor-Leste;
 - (iv) maintain in safe and good condition and repair, the Contract Area and all Facilities and other property, and other works, used or to be used in Petroleum Operations;
 - (v) on the earlier of:
 - (aa) termination of this Contract; and
 - (bb) when no longer required for Petroleum Operations;and, in either case:
 - (cc) subject to the Decommissioning Plan;
Decommission, remove or dispose of the Facilities, property and other works mentioned in paragraph 7.1(b)(iv) and in the Decommissioning Plan and clean up the Contract Area and make it good and safe, and protect and restore the environment in accordance with the Decommissioning Plan;
 - (vi) control the flow and prevent the waste or escape of Petroleum, water or any product used in or derived by processing Petroleum;
 - (vii) prevent the escape of any mixture of water or drilling fluid with Petroleum;
 - (viii) prevent damage to Petroleum-bearing strata in or outside the Contract Area;
 - (ix) except with the prior consent of the Ministry, keep separate:
 - (aa) each Reservoir discovered in the Contract Area; and
 - (bb) such of the sources of water discovered in the Contract Area as the Ministry directs;
 - (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 Industry Best Practice;
 - (xi) minimise interference with pre-existing rights and activities, including the rights of potentially affected local communities, navigation, fishing and other lawful offshore activities; and

- (xii) to remedy in a timely fashion any damage caused to the environment.
- (c) Notwithstanding anything elsewhere contained in this Contract, the Contractor shall clean up pollution resulting from Petroleum Operations to the satisfaction of the Ministry and other relevant authorities, and meet the costs of so doing to the extent done by anyone else (including the Ministry).

7.2 Access to Contract Area

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

7.3 Health, Safety and the Environment

The Contractor shall safeguard a high level of health and safety in Petroleum Operations and shall implement such health and safety measures to ensure the hygiene, health and safety of relevant personnel as is required by Applicable Law as varied, amended, modified or replaced from time to time.

7.4 Local Content

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

- (f) The Ministry shall notify the Contractor whether it approves an amended Revised Local Content Proposal pursuant to paragraph 7.4 (e) within thirty (30) days of receipt and the procedure set out in paragraphs 7.4 (d) and (e) shall apply to the amended Revised Local Content Proposal.

7.5 Contributions

- (a) The Contractor shall make the following annual payments, at its own expense and not as a Recoverable Cost, within one (1) month of the Effective Date of this Contract and thereafter within the first month of each Contract Year in respect of the following items:
- (i) A training contribution to the University of _____ and/ or such institution as the Ministry may direct for the financing of training of nationals of Timor-Leste in appropriate fields of study associated with the energy sector as follows:
- (aa) payment of _____ for the first year of this Contract and increasing at a rate of four percent (4%) per Calendar Year until Commercial Discovery;
- (bb) in the event of a Commercial Discovery the amount shall increase to _____ in the year following Commercial Discovery increasing by four percent (4%) per Calendar Year until Commercial Production from the first Development Area under this Contract; and
- (cc) where the first Development Area under this Contract has initiated Commercial Production, the payments under this paragraph 7.5(a) shall become zero point twenty-five percent (0.25%) of the value of Contractor's share of Profit Petroleum on a monthly basis.
- (ii) A research and development contribution for the financing of Petroleum related research and development activity as follows:
- (aa) _____ for the first year of this Contract and increasing at a rate of four percent (%) per Calendar Year until Commercial Discovery;
- (i) in the event of a Commercial Discovery the amount shall increase to _____ in the year following Commercial Discovery increasing by four percent (%) Calendar Year until Commercial Production from the first Development Area under this Contract; and
- (ii) where the first Development Area under this Contract has initiated Commercial Production, the payments under this paragraph (ii) shall become zero point twenty-five percent (0.25%) of the value of Contractor's share of Profit Petroleum on a monthly basis; and
- (iii) A bonus of _____ to be used for technical assistance and/or equipment to be used by the Government of Timor Leste and payable as directed by the Ministry either:

- (aa) in cash within one (1) month of the Effective Date of this Contract;
or
 - (bb) in technical assistance and /or equipment to a total delivered cost of _____, such technical assistance and/or equipment to be delivered to the Ministry within three (3) months of the date that a list of such technical assistance and /or equipment is agreed between the Ministry and the Contractor.
- (b) The Contractor shall fund the award of scholarships for the training of nationals of Timor-Leste in appropriate fields of study associated with the energy industry. The value of such funding shall be _____ per Calendar Year for the first year of this Contract and increasing at a rate of four percent (%) per Calendar Year for each following Calendar Year for the term of this Contract.

7.6 Natural Gas Use

- (a) The Contractor shall use with priority any Natural Gas in the Contract Area for the purpose of increasing the recovery of Petroleum, where Industry Best Practice indicates that the use of Natural Gas for this purpose is required.
- (b) The Contractor may use free of charge any Natural Gas in the Contract Area for Petroleum Operations.
- (c) The Contractor shall have the right to export any Marketable Natural Gas, produced from the Contract Area and treated as LNG. Such volume shall consist of:
 - (i) the Contractor's Cost Recovery Natural Gas; and
 - (ii) the Contractor's Profit Natural Gas.
- (d) Where the Contractor intends to export the Marketable Natural Gas as LNG, any LNG facilities which the Contractor constructs and operates for this purpose shall:
 - (i) be constructed and operated on the basis of a separate LNG export agreement to be negotiated in good faith between the Contractor and the Ministry; and
 - (ii) if practicable be made available for use by third parties.
- (e) Except with the consent of the Ministry, or in an emergency, immediately following which the Contractor will report to the Ministry the details of such emergency, the Contractor shall not flare Natural Gas.

Article 8 Recoverable Costs

8.1 Generally

- (a) Each Contractor's accounts shall be prepared and maintained in accordance with Annex D.
- (b) Only costs and expenses incurred by the Operator in carrying on Petroleum Operations, including additions to the Decommissioning Fund, and (unless there is only one Contractor and the Contractor is the Operator) properly charged to the Contractor under an agreement made between them and approved by the Ministry, are Recoverable Costs, but without prejudice to any other provision of this Contract

which would result in any such cost or expense not being a Recoverable Cost.

- (c) Upon evidence showing any cost to be uncompetitive, the Ministry has the right to disallow it as a Recoverable Cost.
- (d) Subject to Annex D and the auditing provisions of this Contract, Contractor shall recover costs and expenses duly verified in accordance with Article 8 of this Contract in respect of the Petroleum Operations hereunder of all Available Crude Oil and/or all Available Natural Gas from the Contract Area ("Cost Recovery Crude Oil" and/or "Cost Recovery Natural Gas").

8.2 Recoverable Costs

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

- (a) the sum of:
 - (i) Recoverable Exploration Costs;
 - (ii) Recoverable Appraisal Costs;
 - (iii) Recoverable Capital Costs; and
- (b) Contributions to the Decommissioning Fund allowable in that Calendar Year without taking into account the interests accruing to the Decommissioning Fund; and
- (c) Recoverable Costs in the previous Calendar Year, to the extent in excess of the value of the Contractor's share of Petroleum under paragraph 9.1(b)(i) in that previous Calendar Year; and
- (d) a Quarterly amount equal to the product of the rate of Uplift and the Quarterly balance of outstanding Recoverable Costs,

less Miscellaneous Receipts and less any deductions pursuant to paragraph 9.4 (a).

Article 9 Sharing Of Petroleum

9.1 Determination of Shares

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

- (a) the Ministry share of royalty for crude and natural gas as the wellhead revenue before cost recovery shall be based on the following table:

Barrel Oil Per day	Royalty
0-10,000	6%
10,001-25,000	8%
25,001-50,000	10%
50,001-75,000	12%
Above 75,000	14%

Million Cubic Feet per day	Royalty
0-60	4%
61-150	6%
151-300	8%
301-500	10%
Above > 500	12%

- (b) the Contractor:
- (i) the remaining gross income after the first shares in paragraphs 9.1 (a)(i) and not more than is equal in value to Recoverable Costs for the Calendar Year concerned; plus
 - (ii) it is share of any Profit Petroleum as set out in paragraph 9.1(c).
- (c) The remaining Available Petroleum including any portion of Cost Recovery Crude Oil or Cost Recovery Natural Gas not required to cover costs (hereinafter referred to as "Profit Crude Oil" and/or "Profit Natural Gas" and collectively as "Profit Petroleum") shall be allocated between the Ministry and Contractor as follows:
- (i) Contractor's share of Profit Petroleum shall be the remaining portion after deducting the Ministry's share in accordance with the provisions of paragraph 9.1(c)(ii).
 - (ii) The Ministry's share of Profit Crude Oil or Profit Natural Gas for a Calendar Month from the Contract Area shall be determined separately for Crude Oil and Natural Gas by reference to the applicable price class in the relevant table(s) detailed in paragraphs 9.1(c)(iii) and (iv). The relevant price class shall be determined using the value of Profit Crude Oil and Profit Natural Gas calculated in accordance with Chapter 14 of the Regulation.
 - (iii) Ministry's share of Profit Crude Oil (%)

The Ministry's share of Profit Crude Oil shall be determined each Calendar Month based on each of the percentages in the table below.

Production Tier	Crude Oil Price Class				
	A	B	C	D	E
Production up to 10,000 B/D	35	40	45	50	50
Production in excess of 10,000 B/D and up to 25,000 B/D	35	40	45	50	50
Production in excess of 25,000 B/D and up to 50,000 B/D	40	45	50	55	55
Production in excess of 50,000 B/D and up to 75,000 B/D	45	50	55	60	60

Production greater than
75,000 B/D

50	55	60	65	65
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Where:
B/D refers to Barrel of Oil per Day

Crude Oil Price Class

Where:

Price Class A refers to the Ministry's share for a Crude Oil price less than or equal to USD 40.00 per Barrel.

Price Class B refers to the Ministry's share for a Crude Oil price greater than USD 40.00 per barrel but less than or equal to USD 60.00 per Barrel.

Price Class C refers to the Ministry's share for a Crude Oil price greater than USD 60.00 per barrel but less than or equal to USD 80.00 per Barrel.

Price Class D refers to the Ministry's share for a Crude Oil price greater than USD 80.00 per barrel but less than or equal to USD 100.00 per Barrel.

Price Class E refers to the Ministry's share for a Crude Oil price greater than USD 100.00 per Barrel.

- (iv) The Ministry's share of Profit Natural Gas shall be determined each month based on each of the percentages in the table below.

Production Tier	Natural Gas Price Class				
	A	B	C	D	E
Production up to 60 MMcfd	35	40	45	50	50
Production in excess of 60 MMcfd and up to 150 MMcfd	35	40	45	50	50
Production in excess of 150 MMcfd and up to 300 MMcfd	40	45	50	55	55
Production in excess of 300 MMcfd and up to 500 MMcfd	45	50	55	60	60
Production greater than					

- (ii) in respect of Timor-Leste's share of Natural Gas, in connection with its approval of the Development Plan.

9.3 Lifting

- (a) Subject to this Contract, each Contractor may lift, dispose of its share of Petroleum and retain the proceeds from the sale or other disposition of that share. Any export project shall require prior approval of the Ministry.
- (b) The Contractor and the Ministry shall, from time to time, make such agreements between them as are reasonably necessary, in accordance with Industry Best Practice, for the separate lifting of their shares of Petroleum.

9.4 Title and Risk

- (a) Petroleum shall be at the risk of the Contractor until it is delivered at the Field Export Point. Without prejudice to any obligation or liability of the Contractor as a consequence of a failure of the Contractor to comply with their obligations under this Contract (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 each Contractor's Recoverable Costs under Section 8.1.
- (b) Title in the Contractor's share of Petroleum shall pass to it when (and risk therein shall remain with the Contractor after) it is delivered at the Field Export Point.
- (c) Title in the Ministry's share of Petroleum taken by a Contractor pursuant to Section 9.2 shall pass to the Contractor when (and risk therein shall remain with the Contractor after) it is delivered at the Field Export Point.
- (d) Each Contractor shall defend, indemnify and hold harmless the Ministry in accordance with the provisions of Section 20.2 and the Act from and against all claims and demands asserted in respect of Petroleum wherein the risk is with the Contractor.

9.5 Payments

- (a) Unless the Ministry has made an election under paragraph 9.2(b), the Contractor shall pay to the Ministry an amount equal to the Ministry's share of all amounts received by the Contractor for the Petroleum within thirty six (36) hours of receipt.
- (b) In the event that the Contractor has not received payment for Petroleum within sixty (60) days of production, it nonetheless will make a provisional payment to the Ministry of the estimated value of the Ministry's share of such Petroleum.

Article 10 State Participation

10.1 Elections

- (a) Timor-Leste may decide to participate in Petroleum Operations at two (2) times for any Development Area in the Contract Area, as set for below in paragraphs 10.1(b) and 10.1(c).

- (b) Timor-Leste may, within six (6) months of a declaration of Commercial Discovery, decide to participate in the Development of Petroleum through a State-Owned Contractor. The Participating Interest which Timor-Leste may elect to take under this paragraph 10.1(b) may be any percentage up to but shall not exceed twenty (20) percent.
- (c) Timor-Leste may, within ninety (90) days after Commercial Production, decide to participate in the Production of Petroleum through a State-Owned Contractor. The Participating Interest which Timor Leste may elect to take under this Article 10.1 (c) when combined with that, if any, taken under Article 10.1 (b) shall not exceed twenty (20) percent.
- (d) The decision under paragraphs 10.1(b) and under 10.1(c) shall specify the Participating Interest which Timor-Leste intends to take, according to the principle that taken together these two Participating Interests cannot exceed a maximum of a total twenty (20) percent Participating Interest.

10.2 Participation

- (a) The State-Owned Contractor shall be responsible for all of its own costs in respect of the Petroleum Operations covered by the approved Development Plan. For the avoidance of doubt, the State-Owned Contractor's Participating Interest in respect of the remainder of the Contract Area shall be carried and paid for by the Contractors (other than the State-Owned Contractor) in proportion to their respective Participating Interests (not including the State Owned Contractor's) until such time as the State Owned Contractor elects to convert its carried interest into a full working interest in accordance with Section 10.1.
- (b) If the State-Owned Contractor elects to convert its carried interest to a working interest, the Development costs, expenditures and obligations incurred by the Contractor (other than the State Owned Contractor) in relation to the State Owned Contractor's carried Participating Interest shall be reimbursable by the State-Owned Contractor. For the avoidance of doubt, the State Owned Contractor shall not reimburse any Exploration costs whatsoever but the State Owned Contractor will reimburse its proportionate share of Development costs out of the Ministry's profit sharing share as defined in Article 9.1. The State-Owned Contractor may within thirty (30) days of the Contractors presentation of an amount to be reimbursed by the state-owned Contractor, request that an audit shall be performed by an independent third party in order to verify the amount.
- (c) The Contractor is bound by its commitment in its bidding proposal pursuant to the Act to assist the State-Owned Contractor to secure financial and technical capacity in fulfilling its obligations in this Article 10.

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

11.1 Domestic Market Obligation

Notwithstanding paragraph 9.3 (a), the Ministry may require the Contractor to supply Crude Oil and Natural gas to the Timor-Leste domestic market in accordance with the Act.

11.2 Calculation of Domestic Supply Obligation

- (a) The Contractor' obligation to supply Crude Oil and Natural gas for domestic purposes shall be calculated in any Calendar Year as follows:
- (i) the total quantity of Crude Oil or natural gas produced from the Contract Area is multiplied by a fraction the numerator of which is the total quantity of Crude Oil or Natural gas to be supplied pursuant to paragraph 11.1(a) and the denominator is the entire Timor-Leste production of Crude Oil or Natural gas from all Contract Areas;
 - (ii) twenty-five (25) percent of the total quantity of Crude Oil or Natural Gas produced from the Contract Area is calculated;
 - (iii) the lower quantity computed under either paragraph 11.2(a)(i) or paragraph 11.2 (a) (ii) is multiplied by the percentage of production from the Contract Area to which the Contractor are entitled as provided under Article 9 of this Contract.
- (b) The quantity of Crude Oil or Natural gas computed under paragraph 11.2(a)(iii) shall be the maximum quantity to be supplied by the Contractor in any Calendar Year pursuant to this Article. Deficiencies, if any, shall not be carried forward to any subsequent Calendar Year. If for any Calendar Year, Recoverable Costs exceed the difference of total sales proceeds from Crude Oil or Natural gas produced and saved hereunder minus the royalty as provided under paragraph 9.1(a)(i) hereof, the Contractor shall be relieved from this supply obligation for such Calendar Year.
- (c) The price at which such Crude Oil or Natural gas shall be delivered and sold under this Article 11 shall be the price as determined in accordance with the Regulation Chapter 14.
- (d) The Contractor shall not be obliged to transport such Crude Oil or Natural beyond the Field Export Point, but upon request by the Ministry, the Contractor shall assist in arranging transportation and such assistance shall be without cost or risk to the Contractor.

Article 12 Contractor Operation Account and Payments

12.1 Contractor Operation account during operation of the petroleum contract shall be maintained at local commercial bank. All transactions in relation to petroleum operation shall through the local commercial bank established in Timor Leste.

12.2 Fees

The Contractor shall pay to the Ministry all fees and other payments as provided for in the Act or under this Contract.

12.3 Payment Mechanism

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

12.4 Late Payment

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

12.5 Minimum Payment

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

Article 13 Procurement of Goods and Services

- (a) The Contractor shall comply with the procurement requirements established in the Act.
- (b) Costs for goods and services procured on other than an arm's length basis, the price payable for which is in excess of one hundred thousand United States Dollars (USD 100,000.00), shall be established in accordance with the provisions of Annex D.

Article 14 Title to Assets

14.1 Ownership of Assets

Subject to Section 14.3, ownership of any asset, whether fixed or moveable, acquired and owned by the Contractor in connection with Petroleum Operations hereunder shall pass to the Ministry without consideration when the part of the Contract Area in which the asset is located is relinquished or at the end of the term of this Contract, whichever first occurs, except in cases where the Ministry notifies the Contractor that it does not accept the particular asset. Where the Ministry elects not to take a particular asset the Contractor shall carry out the approved Decommissioning Plan and shall be free to dispose of the asset.

14.2 Production beyond the Term of this Contract

Where Production from a Development Area is possible beyond the term of this Contract, the Contractor shall hand over to the Ministry without consideration such Development Area and all Facilities and other property required for carrying out existing operations, in good working order, normal wear and tear excepted. Upon the transfer of said Development Area and related Facilities, the Ministry shall assume all responsibility for the Facilities and other property and their Decommissioning and hold the Contractor harmless against any liability with respect thereto accruing after the date of such transfer to the Ministry but without prejudice to any obligations or liabilities accrued by Contractor prior thereto including but not limited to the obligation to Decommission.

14.3 Moveable Property

Subject to Section 14.2, whenever the Contractor relinquishes any part of the Contract Area, all moveable property located within the part of the Contract Area so relinquished, may be removed to any part of the Contract Area that has been retained.

14.4 Rented or Leased Materials, Facilities, or Other Property

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

14.5 Moving of Property

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

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

14.6 Other Uses of Property

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

Article 15 Dispute resolution

15.1 Application of this Article

Any dispute between the Parties under this Contract shall be dealt with in accordance with this Article 15.

15.2 Notice of Dispute

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

15.3 Elevation of Dispute

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

15.4 Arbitration

- (a) If the dispute has not been resolved under paragraph 15.3(a) within thirty (30) Days (or such longer period as agreed by the Parties), or if no document recording the resolution is signed under paragraph 15.3(b) within fifteen (15) Days of a resolution, the parties shall refer the dispute to arbitration, in accordance with this Section 15.4.
- (b) Arbitration between the Ministry and a Contractor shall, as agreed by the Ministry and Contractor, be conducted in accordance with:
 - (i) the 1965 Washington Convention, or the regulations and rules, of the International Centre for the Settlement of Investment Disputes (ICSID) between States and Nationals of other States; or
 - (ii) the rules set out in the ICSID Additional Facility adopted on 27 September 1978 by the Administrative Council at the ICSID between States and Nationals of other States, whenever the foreign entity does not meet the requirements provided for in Article 25 of the 1965 Washington Convention; or
 - (iii) the rules of such other international instances of recognised standing, (as agreed by the Parties, in respect of the conditions for implementation, including the method for the designation of the arbitrators and the time limit within which the decision must be made).
- (c) The place of arbitration shall be Singapore. The language of the arbitration shall be English.

15.5 Commercial Arrangement and Waiver of Sovereign Immunity

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

15.6 Obligations Continue During Dispute Resolution

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

Article 16 Reports, Data and Information

16.1 This Contract

- (a) This Contract is not confidential, and data or information relating to the Contract shall not be treated as confidential other than as expressly provided in Applicable Law or paragraphs 16.3(e) and 16.4(d) below.
- (b) A copy of this Contract shall be made available by the Ministry at its central office for inspection by the public during normal office hours. This is in addition to the copy which the Ministry is required to make available to the public in the public register according to Article 30(1)(a)(i) of the Act.

16.2 Reports and Records

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

16.3 Ownership and Use of Project Data and Operational Information

- (a) Timor-Leste has title to all data including Project Data, Operational Information and Operational Information Reports and, to the extent necessary, the Contractor hereby assigns all of its rights, including copyright, in the Project Data, Operational Information and Operational Information Reports to the Ministry and agrees to do all things necessary and to execute all documents necessary to so assign ownership (including of copyright).
- (b) Subject only to the limitations set out Applicable Law and paragraph 16.3(e) below, the Ministry may publish or disclose or make such use as it wishes of any Project Data, Operational Information, Operational Information Reports and any other reports, plans and records provided to it by the Contractor.
- (c) Nothing in this Article 16 prevents the Ministry using any data and information (including that contained in Project Data and Operational Information) for the purpose of general statistical and other general reporting (public or otherwise) on its activities.
- (d) The Operational Information is not confidential and may be made available to the public by the Ministry as it elects or as requested under Article 30(3)(b) or 30(4) of the Act.
- (e) The Ministry shall not publicly disclose or make available, other than as required by the Act or for the purpose of the resolution of disputes under this Contract, any of the Project Data until the earliest of:
 - (i) [two (2) years] after it was acquired by the Contractor, unless the Parties agree in writing to a different period of time, not to exceed five (5) years;
 - (ii) in respect of Project Data which is included in or relates to a Development Plan, approval of that Development Plan;

- (iii) in respect of Project Data which relates to a relinquished area, relinquishment of that area;
 - (iv) this Contract ceasing to apply for any reason to an area, in respect of Project Data which relates to that area; or
 - (v) expiration or termination of this Contract.
- (f) The Contractor may only use the Project Data for the Petroleum Operations or for an application for an Authorisation, unless it obtains prior written consent from the Ministry.
- (g) The Contractor shall not disclose the Project Data other than:
- (i) to its employees, agents, contractors and affiliates to the extent necessary for the proper and efficient carrying on of Petroleum Operations and provided that, prior to disclosure, that person has agreed to maintain the confidentiality of the Project Data on the same terms as the Contractor;
 - (ii) as required by any law applicable to the Contractor;
 - (iii) for the purpose of the resolution of disputes under this Contract; or
 - (iv) as required by a recognised stock exchange.
- (h) Except with the prior written consent of the Ministry, or as required by Applicable Law, provided that the Contractor has provided advance prior notice to the Ministry sufficient to allow the Ministry to object, a Contractor may not sell or disclose any Project Data or Operational Information or any other data or information relating to the Petroleum Operations.
- (i) Any copies of, additional samples of or other material related to, the Project Data that has been reproduced for use in Petroleum Operations shall be returned to the Ministry upon termination of Petroleum Operations if requested by Ministry.
- (j) The non-disclosure obligations set out in paragraphs 16.3 (e) above do not apply to any piece of Project Data which a Party can show is or becomes part of the public domain, other than by a breach of this Contract or in respect of which the Ministry or other government agency of Timor-Leste determines that the public interest in disclosure outweighs any interest in maintaining confidentiality.

16.4 Contractor Confidential Information and Contractor Developments

- (a) The Contractor shall own all Contractor Developments.
- (b) The Contractor shall, subject to paragraph 16.4(d) below, disclose to the Ministry all Contractor Developments as soon as practicable after they are made and hereby grants an irrevocable, royalty-free licence to the Ministry to use the Contractor Developments for the purpose of conducting the Petroleum Operations under this Contract.
- (c) At the request of the Ministry, the Contractor shall discuss in good faith the grant of a licence to the Ministry to use the Contractor Developments for any purpose whatsoever within Timor-Leste, such use to be negotiated on a competitive and fair market basis.
- (d) The Ministry agrees to maintain as confidential and not to disclose to any third party the Contractor Confidential Information or the Contractor Developments other than

as required by the Applicable Law or for the purpose of the resolution of disputes under this Contract.

- (e) The confidentiality obligations set out in paragraph 16.4(d) above shall not apply to any information or part thereof which:
- (i) is or becomes part of, the public domain otherwise than by breach of this Contract;
 - (ii) is lawfully obtained by the Ministry from another person without any restriction as to use and disclosure; or
 - (iii) was in the Ministry's possession prior to disclosure to it by the Contractor, or
 - (iv) the Ministry serves notice on the Contractor requiring it to show cause, within the time specified in the notice, as to why that Contractor Confidential Information should still be subject to the confidentiality obligations in paragraph 16.4(d) and the Contractors or any of them do not show cause within that time.

16.5 Right to Attend Meetings

- (a) Pursuant to the Act, representatives of the Ministry or the Autoridade Nacional do Petróleo shall be entitled to attend, as observers, in any meetings of committees or groups established in connection with the Petroleum Operations of the Contractor under this Agreement.
- (b) At the the Ministry's or Autoridade Nacional do Petróleo request, the Contractor shall arrange for the transportation of any of their representatives from their places of work to and from the places where the meetings are to be held, and shall also provide accommodation. The associated expenditure shall be borne by the Contractors and is not a Recoverable Cost.

16.6 Public Statements

An Operator or Contractor may only make public statement about this Contract or the Petroleum Operations in accordance with Applicable Law or as required by any law or the rules of a recognised stock exchange.

Article 17 Management of Operations

17.1 Operator

The appointment or change of an Operator by the Contractor is, pursuant to the Act, subject to prior approval by the Ministry.

17.2 Constitution of Committee

For the purpose of this Contract there will be a Committee consisting of [•] representatives from the Ministry, one of whom shall be the chairman, and the same number of representatives from the Contractor, and if there is more than one Party comprising

Contractor, at least one representative from each Contractor, as nominated by the Ministry and the Contractor, respectively. For each of its representatives, the Ministry and the Contractor may nominate an alternate to act in the absence of the representative.

17.3 Meetings

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

Article 18 Third Party Access

- (a) The Contractor shall, in accordance with the Act, provide for third party access to the Facilities and other property within the Contract Area on reasonable terms and conditions.

Article 19 Books of Account, Financial Report, Audit, and Cost Verification

19.1 Arm's Length Transactions

A transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if the third party has engaged in the same transaction under the same or identical circumstances. An arm's length transaction result may be determined under any method without requesting contractor to establish the inapplicability of other method, but if another method is subsequently shown to produce a more reliable measure of an arm's length result, such other method must be used. Except as otherwise agreed in writing between the Ministry and the Contractor, all transactions giving rise to revenues, costs or expenses which will be credited or charged to the books, accounts, records and reports prepared, maintained or submitted hereunder shall be conducted at arm's length or on such a basis as will assure that all such revenues will not be lower and costs or expenses will not be higher than the international market price for goods and services of similar quality supplied on similar terms prevailing in South and South

East Asia at the times such goods or services were contracted by Contractor for transactions conducted at arm's length on a competitive basis with third parties.

19.2 Maintenance of Books

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

19.3 Audit of Contractor's financial statements and tax returns

Each Contractor shall have all of its tax financial statements and tax returns for each Calendar Year audited in accordance with international auditing standards by an independent auditor appointed by the respective Contractor and approved to carry out such audits by the appropriate authority of each of Timor-Leste. The reasonable cost of retaining such auditor shall be borne by the respective Contractor and shall be a Recoverable Cost. The report of such auditor shall be submitted to the Ministry within thirty (30) Days after completion of such audit.

19.4 Right of Ministry to Inspect and Audit

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

19.5 Books of Affiliates and Sub-Contractors

- (a) The Contractor must require all of its Affiliates and Sub-Contractors to maintain in Timor-Leste, in accordance with Annex D, books of account and all such other

books and records as are necessary to show the work performed under this Contract, the costs incurred and the quantity and value of all Petroleum produced and saved from the Contract Area and not used in Petroleum Operations. Records and books shall be maintained in one of the official languages of Timor-Leste and English languages.

- (b) The Contractor must require all of its Affiliates and Sub-Contractors to allow the Ministry to audit the books, records and documents of the Affiliates or Sub-Contractors maintained under paragraph 19.5(a), in accordance with the procedures set out in this Article 19 in relation to audit of the Contractor's books, records and documents.
- (c) The Ministry may require the Contractor to engage the independent auditors of any entity comprising the Contractor to examine at the Contractor's cost and in accordance with international auditing standards, the books and records of an Affiliate or Sub-Contractor to verify the accuracy and compliance with the terms of this Contract insofar as a charge from the Affiliate or Sub-Contractor is included directly or through the Contractor as a Recoverable Cost under this Contract. Whenever an independent audit of an Affiliate's or Sub-Contractor's books is required, the Ministry shall specify in writing the item or items for which it requires verification from such independent audit. A copy of the independent auditor's findings shall be delivered to the Ministry and the minister responsible for finance within thirty (30) Days after completion of such audit.
- (d) If the books, records or documents of an Affiliate or Sub-Contractor which relate to any cost which the Ministry wishes to verify, are not made available under paragraphs (b) and (c) above, that cost will not be allowed as a Recoverable Cost under this Contract.

19.6 Initial Verification Procedure

- (a) Subject to Annex D, the following procedure shall be implemented with respect to each Calendar Quarter to initially verify and establish promptly the Contractor's costs that qualify as Recoverable Costs under this Article 19.
- (b) The Contractor shall submit the statements required under Annex D, in accordance with the procedure detailed in Annex D, to the Ministry who shall initially verify:
 - (i) that claimed costs qualify as Recoverable Costs under the terms of this Contract and Annex D; and
 - (ii) that the claimed amount of a qualifying cost is correct based on documentation made available at the Contractor's office in Timor-Leste.
- (c) The initial verification of expenditures shall be the basis for provisionally determining the sharing of Petroleum, but shall not constitute final approval by the Ministry of these amounts. Such final approval shall only be provided after final auditing has been completed pursuant to Section 19.7 below. The Ministry may submit a written exception notice to the Contractor during the initial verification, such written exception notice shall identify the particular cost or costs being contested and the reason for the exception.
- (d) The Contractor shall submit to the Ministry within thirty (30) Days after receipt of the Ministry's written exception notice such additional information in written form as the Ministry requires as well as such additional information as the Contractor

considers appropriate to support the correctness and/or recoverability of the contested cost or costs. If the Contractor does not make a written submission within such time supporting the charge, the cost or costs shall be deemed disallowed for purposes of cost recovery.

- (e) If additional written information supporting the contested cost or costs is submitted by the Contractor within the prescribed period, the Ministry shall notify the Contractor of its decision as to whether to allow the contested cost or costs within thirty (30) Days after receipt of such information.
- (f) If the Ministry notifies the Contractor that the exception remains, the charge shall be deemed disallowed as a Recoverable Cost under this Contract subject to the right of the Contractor to request within thirty (30) Days after the receipt of such notice that the final determination as to recoverability of the disputed cost or costs be made by experts.
- (g) The Contractor shall promptly correct its books of account to reflect any changes resulting from the initial verification procedure outlined in this Section 19.6.

19.7 Audit Process

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

19.8 Audit exceptions, Claims and Queries

- (a) Within ninety (90) Days after the end of any audit conducted under this Article 19, the Ministry shall present to the Contractor a report setting out audit exceptions, claims and queries.
- (b) The Contractor shall allow or deny in writing all exceptions, claims and queries set out in the report within ninety (90) Days of the presentation of the report (the "Review Period"). In relation to all denials, the Contractor shall provide a detailed statement of the Contractor's reasons for each denial together with supporting evidence.
- (c) All exceptions, claims or queries that are not denied by the Contractor within the Review Period will be deemed allowed.
- (d) The Ministry and the Contractor shall negotiate in good faith to reach final resolution on exceptions, claims and queries which have been denied within (90) Days from the end of the Review Period. If any exceptions, claims and queries are not resolved during this period, either Party may initiate dispute resolution procedures in accordance with Article 15 of this Contract, such dispute to be considered a technical matter.

19.9 Right to Re-examine

Subject to any adjustments resulting from such audits or notification of a dispute by the Ministry, reports and statements shall be considered final and not subject to further audit after the end of the period provided for under paragraph 19.7(a). Notwithstanding any provision herein or in this Contract to the contrary, if in a subsequent period an issue or error is identified which relates to another period or to fraud or willful

misconduct alleged to have occurred at any time, the Ministry shall have the right to re-examine reports and statements otherwise considered final or not previously audited.

19.10 Audit of Operator or any other Contractor

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

19.11 Time Periods for Maintenance of Books

The Contractor must, and shall procure that all Affiliates and Sub-Contractors must, retain all books, records and documents maintained under this Article 19, and make such books, records and documents available for inspection until the later of:

- (a) sixty (60) months after the termination of each Contract Year;
- (b) if any cost or amount is under dispute, the time at which that dispute has been resolved; or
- (c) such longer period as may be required by Applicable Law.

19.12 Technical Audit

- (a) The Contractor shall provide any authority of Timor-Leste which has responsibility for any of the Contractor's activities, with relevant information and allow their free access in accordance with Applicable Law.
- (b) Under no circumstances shall the Ministry assume any responsibility for the performance or not of any activity which it has audited or inspected pursuant to this Section 19.12. Such responsibility shall remain with the Contractor, at its own account and risk.

Article 20 Warranty, Indemnity and Insurance

20.1 Warranty

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

20.2 Indemnity

The Contractor shall in accordance with the Act defend, indemnify and hold harmless the Ministry from all claims of whatsoever nature which are brought against the Ministry by any third party directly or indirectly in respect of Petroleum Operations, including as a result of a breach of the warranty in Section 20.1 above, and all costs, expenses and liabilities incurred by the Ministry as a consequence thereof. The Ministry shall give the Contractor prompt notice of any such claim and shall not settle it without the prior consent of the

Contractor.

20.3 Insurance

- (a) The Contractor shall:
- (i) take out and maintain insurance on a strict liability basis in respect of its obligations under Section 20.2 and in respect of such other matters as [reasonably] required by the Ministry (including in respect of pollution), for such amounts as the Ministry requires from time to time and otherwise as required by Industry Best Practice, and
 - (ii) obtain and maintain all insurances required by Applicable Law.

Notwithstanding anything to the contrary herein, the insurance policies referred in article 20.3 (a) above shall cover, including but not limited to :

- i. any loss or damage to any asset used in the petroleum operation for no less than full replacement value of the assets
 - ii. Operators Extra Expenses Coverage as per EED 8.86 with endorsement for, Underground Blow Out, Making Wells safe endorsement, Extended Re-drill, Evacuation expenses, Care Custody and Control this coverage to be for a minimum limit of 5 times AFE.
- (b) The Contractor shall ensure that all insurances obtained under this Article shall name the Ministry **and the members of** Board of Director of ANP including ANP Management Executive as co-insured and the Contractor shall obtain from its insurance companies the inclusion of, in all of its policies, a clause by which they expressly waive the exercise of any rights, implicit or explicit, subrogation rights against the Ministry.
- (c) Pollution caused in the course of Petroleum Operation;
- (d) Property loss or damage or bodily injured or death suffered by any person including third parties, in the course of Petroleum Operation;
- (e) The cost of removing wrecks and clean up operation following an accident or upon decommissioning of facilities; and
- (f) The Contractor's liability to its employees engaged in the Petroleum Operations
- (g) Self-insurance, insurance through Affiliates or use of policies global insurance programs shall only be permitted upon prior written approval by the Ministry, such approval to be given at its sole discretion and where risks cannot be insured by an insurance company as referred to in the (h) below,
- (h) The Contractor shall be responsible for the filing of all claims made under any insurance policy maintained by Contractor which relates to this Contract.
- (i) Any reasonable amount under any insurance policy maintained by the Contractor which relates to this Contract for which the Contractor itself is liable in the event of making any insurance claim shall, upon making such insurance claim, be a Recoverable Cost by the Contractor in accordance with the provisions of Annex D.
- (j) Where in respect of the risks to be covered and premia payable, an insurance

company which is a Timor-Leste Supplier which is solvent, reliable and reinsured in to International markets with rating no less than Standard and Poors or AM Best A-rating or the equivalent and offers terms and conditions no less favorable to the Contractor than other insurers in the South and South East Asia region, insurance shall be effected with such company, otherwise with a company of the Contractor's choice.

- (k) The Contractor shall require its Sub-Contractors to obtain and maintain the insurance required of the Contractor in this Article 20, relating mutatis mutandis to such Sub-Contractors, and shall upon demand of the Ministry provide proof of such insurance affected by the Sub-Contractors to the Ministry.

Article 21 Force Majeure

21.1 Force Majeure Relief

- (a) "Force Majeure" means any event that is unforeseeable, insurmountable and irresistible, not due to any error or omission by the Party claiming Force Majeure but due to circumstances beyond its control, which prevents or impedes execution of all or part of its obligations under this Contract. Such events shall include but not be limited to following:
 - (i) war, whether declared or not, civil war, insurrection, riots, civil commotion, terrorism, any other hostile acts, whether internal or external;
 - (ii) quarantine restrictions or epidemics;
 - (iii) any act, event, happening or occurrence due to natural causes, in particular, but without limitation, floods, storms, cyclones, fires, lightning, or earthquakes, and

Force Majeure affecting an Affiliate of a Contractor entity shall be deemed Force Majeure affecting such Contractor entity only if the consequence of such Force Majeure prevents the performance of any of Contractor's obligations under this Contract.

- (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, any law, or any action or inaction of the government, of a place other than Timor-Leste (or of a political subdivision thereof);
 - (iii) in the case of the Ministry, the law of Timor-Leste, or any action or inaction of the government, of Timor-Leste;
 - (iv) in the case of the Contractor, any failure to deliver and maintain a Security or to obtain and maintain insurance as required by this Contract; and
 - (v) in the case of the Contractor, strikes, lockouts and other industrial disturbances of the Operator's (or of its agents' and sub-Contractor') employees and not part of a wider industrial dispute materially affecting other employers.

- (c) Subject to the provisions of this Section 21.1, a Party shall not be liable for any failure to perform an obligation under this Contract to the extent such performance is prevented, hindered or delayed by a Force Majeure event.

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.

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 Contract in relation to this Contract with a third party, a failure by the third party to perform an obligation under that Contract shall be a Force Majeure event 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 Contract in the capacity of the Party concerned) would (in accordance with the provisions of this Article 21) be a Force Majeure event 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 Contract.

Article 22 Restrictions on Assignment

22.1 Assignment

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

22.2 Assumption of obligations

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

22.3 Right of First Refusal

If an Assignment is proposed during the period of Production, the State-Owned Contractor shall have a preferential right to such Assignment, under the same terms and conditions specified in the Assignment application, provided however that the designated State-Owned Contractor shall be exempt from paying any transfer fee.

22.4 Right of Ministry to Transfer

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

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

- (a) Where the Assignment of a part of the Contract Area results in a modification in the composition of the Contractor, in such a way that the composition is not identical for all the Contiguous areas within the Contract Area or when the

Assignment results in the division of areas, the Contractor entities must execute new production sharing contracts with the Ministry within thirty (30) Days from the date of approval of the Assignment, maintaining the same terms, obligations and terms of this Contract, except for the provisions of Annex A (Contract Area) and formalizing, in this new production sharing contract, the situation of the Contiguous areas of the Contract, the composition of the Contractor, and the appointment of the Operator. Failure to execute this new production sharing contract within this time frame will result in the lapse of the consent of the Ministry to Assign.

- (b) If the Assignment results in the division of the area of a Contiguous area, the area to be Assigned and the remaining area must be circumscribed by a sole polygonal line drawn in accordance with a network compatible with a geological map sheet in the scale 1:10,000, according to the International Map of the World 1:1 Million – IMW. This network shall comply with the dimensions of 2'30" (two minutes and thirty seconds) of latitude and 3'45" (three minutes and forty-five seconds) of longitude. If the Contractor provides technical reasons for a different network, which the Ministry determines to be justified on the basis of those technical reasons, the Ministry may accept different networks.
- (c) If paragraphs 22.1(a) to (c) apply, the Ministry shall define an additional Work Programme for the divided areas of the Contract Area and, if this occurs during Exploration, Minimum Exploration Work Requirements, for the areas to be divided.
- (d) The sum of the activities and expenditure in the resulting Work Programmes shall always be greater than the original Work Programme, and each of the divided Contract Areas must have a Work Programme associated with it and, in the case of Exploration in that Contract Area, Minimum Work Requirements.
- (e) In the event of the application of the provisions of this Section 22.5, the resulting areas shall become independent for all resulting effects, including the calculation of participations by a State Owned Contractor.

22.6 Transfer of Decommissioning Fund

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

Article 23 Other Provisions

23.1 Notices

- (a) Any notices required to be given by any Party to another Party shall be served in accordance with the Act.
- (b) All notices to be served on a Contractor shall be addressed to its registered 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 the Ministry and the Contractor. Both the Portuguese and English text are binding. However, the Portuguese text will prevail in the case of conflict.

23.3 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Timor-Leste as applicable from time to time.

23.4 Third Party Rights

Unless specifically provided in this Agreement, 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.

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.

23.7 Inurement

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

23.8 Joint and Several Liability

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

23.9 No Waiver

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

IN WITNESS WHEREOF, the Parties have executed this Agreement.

For Timor-Leste

BY: _____

-

BY: _____

-

BY: _____

[CONTRACTOR]
Annex A – Contract Area Description

Annex B – Map of the Contract Area

Annex C – Proposals

Clause 1 Health, Safety and Welfare Proposal

Clause 2 Environmental Proposal

Clause 3 Local Content Proposal

Annex D – Accounting Procedure

Clause 1 – General Provisions

1.1 Purpose and Definitions

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

1.2 Accounting Records

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

1.3 Language and Units of Account

- (a) The *International System of Units* (metric units) and barrels shall be employed for measurements and quantities under this Contract.
- (b) The Accounting Records, and all reports to the Ministry, will be in one of the official languages of Timor-Leste. These records and reports may be in English, if an official translation in one of the official languages of Timor-Leste is provided.
- (c) The Accounting Records, and all reports to the Ministry, will be in United States Dollars. Costs and revenues in another currency will be translated at the exchange rate set on the day the cost is incurred, or the revenue realised, at a time and by a financial institution designated by the Contractor and approved by the Ministry.
- (d) Exchange gains or losses 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 Work Programme and Budget for Exploration, but without

prejudice to Section 4.9 of the Contract, including costs of:

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

2.2 Appraisal Costs

Appraisal Costs are those costs that directly relate to Appraisal.

2.3 Capital Costs

Capital Costs are:

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

and are incurred in respect of activities carried out in accordance with an approved development work programme and budget, but without prejudice to Section 4.9 of the Contract, including costs of:

- (c) workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- (d) production facilities including offshore platforms (including the costs of labour, fuel hauling and supplies for both the offsite fabrication and onsite installation of platforms, and other construction costs in erecting platforms), wellhead production tubing, sucker rods, surface pumps, flow lines, gathering equipment, storage facilities, facilities and modules on platforms, treating plants and equipment, secondary recovery systems;
- (e) pipelines and other facilities for transporting Petroleum produced in the Contract Area to the Field Export Point;
- (f) movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment;
- (g) floating craft, automotive equipment, furniture and office equipment; and

- (h) if approved by the Ministry, employee and welfare housing, recreational, educational, health and meal facilities, and other similar costs necessary for the Development.

2.4 Operating Costs

Operating Costs are, in respect of a Development Area and after the start of Commercial Production from it, those costs of an operating nature which directly relate to the Development thereof, or to the production of Petroleum therefrom, and are incurred in respect of activities carried out substantially in accordance with an approved Development Work Programme and Budget, but without prejudice to Section 4.9 of the Contract.

2.5 Decommissioning Fund

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

2.6 Uplift

Uplift is the amount which, when compounded quarterly, is equal to the average for the business days of the Quarter of the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds) plus an annual margin of six (6) percentage points. Uplift shall apply to capital costs only and not to operating costs.

2.7 Miscellaneous Receipts

Miscellaneous Receipts are:

- (a) all monies received by each Contractor, other than for the sale or other disposal of Petroleum from a Development Area, which are directly related to the conduct of Petroleum Operations, including:
 - (i) amounts received from the sale or other disposal of Petroleum from production testing activities undertaken in Exploration Wells and Appraisal Wells;
 - (ii) amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;
 - (iii) the proceeds of any insurance or claim or judicial awards in connection with Petroleum Operations under the Contract or any assets charged to the accounts under the Contract where such operations or assets have been insured and the premia charged to the accounts under the Contract;
 - (iv) amounts received as insurance (the premiums of which are Recoverable Costs), compensation or indemnity in respect of Petroleum lost or destroyed prior to the Field Export Point;
 - (v) amounts received from the hiring or leasing of property, the cost of which is a Recoverable Cost;
 - (vi) amounts received from supplying information obtained from Petroleum Operations in accordance with the confidentiality and other applicable provisions of the Contract;
 - (vii) amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs;
 - (viii) interests earned on the payments made to the Decommissioning Fund;

- (ix) amounts received in respect of expenditures which are Recoverable Costs, by way of indemnity or compensation for the incurring of the expenditure, refund of the expenditure, or rebate, discount or commission in respect of the expenditure; and
- (xi) the value of property as determined by the Ministry, the cost of which is a Recoverable Cost, when that property ceases to be used in Petroleum Operations.

2.8 Ineligible Costs

Ineligible Costs are:

- (a) interest (or any payment in the nature of, in lieu of, or having the commercial effect of, interest) or other cost under, or in respect of, a Loan Facility;
- (b) foreign exchange and currency hedging costs;
- (c) the positive difference between the costs relating to formation of corporations or of any partnerships or joint venture arrangements, other than in respect of a unitisation as required by the 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 Contract and payments associated with the acquisition of an interest under this Contract;
- (h) costs incurred by the Contractor before and during the negotiation of this Contract;
- (i) costs and charges incurred after the signing of the Contract but before the Effective Date;
- (j) expenditure in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including but not limited to interest, commission, brokerage and fees related to such transaction as well as exchange losses on loan or other financing whether between Affiliates or otherwise;
- (k) expenditure incurred in obtaining, furnishing and maintaining the guarantees required under the Contract and any other amount spent on indemnities with regard to non-fulfilment of contractual obligations;
- (l) payments of taxes under the taxation law of Timor-Leste, and all other taxes on income, profit or gain wherever arising;
- (m) fines and penalties imposed by any authority;
- (n) payments of administrative accounting costs, and other costs indirectly associated with Petroleum Operations;
- (o) except with the consent of the Ministry, costs incurred in respect of Petroleum after it has passed the Field Export Point;
- (p) the positive difference between the costs of goods and services and the international market price for goods and services of similar quality supplied on similar terms prevailing in South and South East Asia at the times such goods or services were contracted by Contractor;

- (q) charges for goods and services which are not in accordance with the relevant Contract with the Sub-Contractor or supplier;
- (r) costs incurred as a result of non-compliance by a Contractor with any law or this Contract, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of a Contractor, its agents or Sub-Contractor, including any amount paid in settlement of any claim alleging negligence or wilful misconduct, whether or not negligence or misconduct is admitted or whether such sum is stated to be paid on an ex-gratia or similar basis;
- (s) costs, expenses and charges incurred for goods and services received under contracts awarded in non-compliance with the tendering procedures of the Contract;
- (t) costs incurred as a result of wilful misconduct or negligence of a Contractor;
- (u) payment of compensation or damages under this Contract;
- (v) costs relating to the settlement of disputes, which are not approved in advance by the Ministry, including all costs and expenses of arbitration or litigation proceedings under this Contract;
- (w) costs of expert determination pursuant to Article 19 of the Contract;
- (x) Decommissioning costs actually incurred which have been taken into account for the purposes of determining the Decommissioning Fund;
- (y) interests earned on the payments made to the Decommissioning Fund;
- (z) payments under Article 12 of the Contract;
- (aa) fees and accounting fees (excluding fees and expenses incurred for the conduct of audit and accounting services required by this Contract) incurred pursuant to the auditing and accounting requirements of any law and all costs and expenses incurred in connection with intra-group corporate reporting requirements (whether or not required by law);
- (bb) except with the consent of the Ministry and in accordance with the conditions of the consent, any expenditure in respect of the hiring or leasing of Facilities, or other property, or of other works;
- (cc) except with the consent of the Ministry, costs, including donations, relating to public relations or enhancement of the Party's corporate image and interests;
- (dd) costs associated with local offices and local administration, including staff benefits, which, by reference to International Financial Reporting Standards, are shown to be excessive;
- (ee) costs for which original records do not or are not correct in any material respect;
- (ff) except with the consent of the Ministry, but subject to Section 4.9 of the Contract, costs not included in a budget for the relevant year; and
- (gg) costs not falling within any of the above items which are stated elsewhere in this Contract not to be recoverable (including in Article 2.1(d)), or costs incurred without the consent or approval of the Ministry (where such is required).

2.9 Other Matters

- (a) The methods mentioned in this Clause 2.9 will be used to calculate Recoverable

Costs.

- (b) Depreciation is not a Recoverable Cost.
- (c) General and administration costs, other than direct charges, allocable to Petroleum Operations shall be determined by a detailed study, and, subject to approval by the Ministry, the method determined by such a study shall be applied each Calendar Year consistently.
- (d) Inventory levels shall be in accordance with Industry Best Practice. The value of inventory items not used in Petroleum Operations, or sold, the cost of which has been recovered as an Operating Cost, shall be treated as Miscellaneous Receipts. The cost of an item purchased for inventory shall be a Recoverable Cost at such time as the item is incorporated in the works.
- (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 Contract, the following costs, charges and credits shall be included in the determination of Recoverable Costs.

3.1 Surface Rights

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

3.2 Labour and Associated Labour Costs

- (a) Costs of the Contractor's locally recruited employees based in Timor-Leste. Such costs shall include the costs of employee benefits and state benefits for employees and levies imposed on the Contractor as an employer, transportation and relocation costs within Timor-Leste of the employee and such members of the employee's family (limited to spouse and dependent children) as required by Timor-Leste law or customary practice. If such employees are also engaged in other activities, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.
- (b) Costs of salaries and wages including bonuses of the Contractor's employees directly and necessarily engaged in the conduct of the Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Contract, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in paragraphs 3.2(c), 3.2(d), 3.2(e), 3.2(f) and 3.2(g) shall be charged and the basis of

such pro-rata allocation shall be specified For the avoidance of doubt, this provision shall not allow personal income taxes or any other taxes pursuant to be Recoverable Costs in accordance with 2.8 (h) above.

- (c) The Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable at actual cost, provided however that such total costs shall not exceed twenty-five percent (25%) of the total labor costs 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).
- (g) Actual transportation expenses of expatriate personnel transferred to Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expenses of personnel transferred from Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum Operations. Transportation cost as used in this 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.
- (h) Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under paragraph 3.2(b) and for which expenses such personnel reimbursed under the Contractor's standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

3.3 Transportation and Employee Relocation Costs

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

3.4 Charges for Services

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

(a) Third Parties

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

(b) Affiliates of the Contractor

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

(ii) Scientific or Technical Personnel: cost of scientific or technical personnel services provided by any Affiliate of the Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. Unless the work to be done by such personnel is covered by an approved Exploration Work Programme or Exploration Work Programme and Budget, the Contractor shall not authorise work by such personnel.

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

3.5 Communications

Costs of acquiring, leasing, installing, operating, repairing and maintaining communication

systems including radio and microwave facilities between the Contract Area and the Contractor's base facility in Timor-Leste.

3.6 Office, Storage and Miscellaneous Facilities

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

3.7 Ecological and Environment

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

3.8 Material Costs

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

- (a) Acquisition – the Contractor shall only supply or purchase materials for use in Petroleum Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.
- (b) Components of costs, arm's length transactions – except as otherwise provided in paragraph 3.8(c), material purchased by the Contractor in arm's length transactions in the open market for use in the Petroleum Operations shall be valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the Contractor has arranged the purchase, coordinated the forwarding and expediting effort, the cost of such transaction shall not exceed the cost of similar transactions conducted with third parties under similar conditions.
- (c) Accounting – such material costs shall be charged to the Accounting Records and books in accordance with the "First in, First out" (FIFO) method.

- (d) Material purchased from or sold to Affiliates of the Contractor or transferred from other activities of the Contractor to or from Petroleum Operations shall be valued and charged or credited at the prices specified in paragraphs 3.8(d)(i), 3.8(d)(ii) and 3.8(d)(iii).
- (i) New material, including used new material moved from inventory (Condition “A”), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm’s length transactions in the open market.
 - (ii) Used material (Conditions “B”, “C” and “D”):
 - a. Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition “B” and priced at not more than seventy-five per cent (75%) of the current price of new material defined in paragraph 3.8(d)(i);
 - b. Material which cannot be classified as Condition “B”, but which after reconditioning will be further serviceable for its original function, shall be classified as Condition “C” and priced at not more than fifty 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;
 - 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 Contract consistent with the value of the service rendered.
 - (v) Premium prices – whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge Petroleum Operations for the required material at the Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Ministry of the proposed charge prior to charging Petroleum Operations for such material and the Ministry shall have the right to challenge the transaction on audit.
 - (vi) Warranty of material furnished by the Contractor – the Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

3.9 Rentals, Duties and Other Assessments

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

3.10 Insurance and Losses

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

3.11 Legal Expenses

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

3.12 Claims

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

3.13 Training Costs

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

3.14 General and Administrative Costs

The costs described in Clause 2.9(c).

3.15 Other Expenditures

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

3.16 Duplication

There shall be no duplication of charges and credits.

Clause 4 – Inventories

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

Clause 5 – Production Statement

5.1 Production Information

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

- (a) the quantity of Crude Oil produced and saved;

- (b) the quality characteristics of such Crude Oil produced and saved;
- (c) the quantity of Natural Gas produced and saved;
- (d) the quality characteristics of such Natural Gas produced and saved;
- (e) the quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage;
- (f) the quantities of Crude Oil and Natural Gas unavoidably lost;
- (g) the quantities of Natural Gas flared and vented;
- (h) the size of Petroleum stocks held at the beginning of the month in question;
- (i) the size of Petroleum stocks held at the end of the month in question;
- (j) the quantities of Natural Gas reinjected into the Reservoirs; and
- (k) in respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Field Export Point.

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

5.2 Submission of Production Statement

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

Clause 6 – Value of Production and Pricing Statement

6.1 Value of Production and Pricing Statement Information

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

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

6.2 Submission of Value of Production and Pricing Statement

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

Clause 7 – Cost Recovery Statement

7.1 Quarterly Statement

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

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

7.2 Preparation and Submission of Cost Recovery Statements

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

7.3 Annual Statement

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

Clause 8 – Statements of Expenditure and Receipt

8.1 Quarterly Statement

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

- (a) actual expenditures and receipts for the Quarter in question;
- (b) cumulative expenditure and receipts for the Calendar Year in question;
- (c) latest forecast cumulative expenditures at the Calendar Year end;

(d) variations between budget forecast and latest forecast and explanations thereof.

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

8.2 Annual Statement

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

SCHEDULE A

DOCUMENTS IN SUPPORT OF APPLICATION FOR ASSIGNMENT OR TRANSFER UNDER ARTICLE 22

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

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

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

(WHERE A FINANCIAL INSTITUTION IS INVOLVED)

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

(WHERE A PARENT COMPANY IS INVOLVED)

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

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

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

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

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

Schedule B
Parent company guarantee for the provision of technical and financial resources

Parent Company Guarantee for 2.2(a)(v)

(Insert Name of Company)

UNDERTAKING

in accordance with

Paragraph 2.2(a) (v)

of the

PRODUCTION SHARING CONTRACT

for

B L O C K *(insert Block Name)*

NOTE:

The Ministry shall require that this Guarantee be prepared using the official corporate letter head of the ultimate parent company and the official corporate seal thereof shall be affixed hereto.

(Official Letterhead)

(Date)

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

**Undertaking in accordance with Paragraph 2.2(a) (v)
of the Production Sharing Contract for Block (Insert No.)**

Dear Sir

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

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

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

In accordance with **Paragraph 2.2(a)(v)** of the **PSC**, at the request of and on behalf of [Name of Company requiring Guarantee], [Name, Address and Incorporation details of Ultimate Parent Company] **HEREBY UNDERTAKES** and **IRREVOCABLY GUARANTEES** that it shall provide all technical and financial resources that (Name, Address, Incorporation details of Company requiring a Guarantee) may require, to perform on a timely basis [its Minimum Exploration Work Requirements under the PSC / its % proportionate share of the Contractor’s Minimum Exploration Work Requirements under the PSC].

This irrevocable Undertaking is subject to and shall be construed and applied in accordance with the Uniform Rules for Contract Guarantees of the International Chamber of Commerce (Publication No.325), as in effect on the Effective Date of the PSC.

IN WITNESS WHEREOF, the undersigned has executed this irrevocable Undertaking this
.....day of.....

[*Name of Ultimate Parent Company*]

By:

Name:

Title:

Date:

Accepted for and on behalf of the Democratic Republic of Timor-Leste this day of ,

By:

SCHEDULE C
**Parent company guarantee for the performance of the Contractor's exploration work and
expenditure obligations in accordance with Sections 4.3, 4.4 and 4.5**

(Insert Name of Company)

G U A R A N T E E

in accordance with

Paragraph 2.2 (a)(iii) and

Section 4.3 and *[Insert 4.4 and 4.5 as applicable]*

of the

P R O D U C T I O N S H A R I N G C O N T R A C T

for

B L O C K *(Insert Block Name)*

NOTE: The Ministry shall require that:

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

(Official Letterhead)

(Date)

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

Letter of Guarantee in accordance with Section 2.2(a) (iii) and Section 4.3 and [Insert 4.4 and 4.5 as applicable] of the Production Sharing Contract for Block (Name)

Dear Sir

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

[If applicable]

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

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

In accordance with **Section 2.2(a) (iii) and Section 4.3 and [Insert 4.4 and 4.5 as applicable]** of the PSC, at the request of and on behalf of [Name of Company requiring Guarantee], [Name, Address and Incorporation details of Guaranteeing Entity] being the ultimate parent company thereof, (hereinafter referred to as **“Guarantor”**), **HEREBY COVENANTS AND AGREES** with the Beneficiary acting on behalf of the Ministry, as follows:

[IF GUARANTEE IS FOR TOTAL COST]

1.0 GUARANTEE

1.1 The Guarantor hereby issues an **UNCONDITIONAL AND IRREVOCABLE LETTER OF GUARANTEE** in favour of the Beneficiary in the sum of [.....**UNITED STATES DOLLARS US\$**], (hereinafter referred to as the **“the Guarantee Sum** representing the total estimated costs for (Name of Company requiring Guarantee) to carry out:

- [the Minimum Exploration Work Requirements for the (Initial, Second or Third Exploration Period pursuant to Article 4) of the PSC.

OR

**[IF GUARANTEE for PROPORTION OF TOTAL COST
/AND OR A CARRIED INTEREST SHARE]**

1.1 The Guarantor hereby issues an **UNCONDITIONAL AND IRREVOCABLE LETTER OF GUARANTEE** in favour of the Beneficiary in the sum of [.....**UNITED STATES DOLLARS US\$**] (*hereinafter referred to as the “the Guarantee Sum*) representing (*Name of Company requiring Guarantee*):

- (i) Percentage interest of [.....%] under the PSC; and
- (ii) Liability for the [.....%] carried interest share of (*Name of Company*) percentage interest under the PSC, (*hereinafter referred to as “the Carried Interest Share”*)

and representing the estimated costs of the percentage interest of (*Name of Company requiring Guarantee*) to carry out:

- [the Minimum Exploration Work Requirements for the (Initial, Second or Third Exploration Period pursuant to Article 4) of the PSC.

1.2 The Guarantor warrants that this Letter of Guarantee constitutes its legally binding obligations enforceable in accordance with its terms (subject to insolvency laws, creditors’ rights and principles of equity) and to the best of its knowledge does not conflict with any law, regulation or instrument binding on or relating to the Guarantor and that this Guarantee is within its powers and has been duly authorized by it.

1.3 The Guarantor warrants that it shall act in good faith and exercise all due care having regard to the generally accepted standards of practice of parent company guarantees.

1.4 The obligations of the Guarantor under this Letter of Guarantee shall extend only to [*Name of Company requiring Guarantee and/or Name of Carried Company*] interest share of the Contractor obligations under [*Section...*] of the PSC and shall in no way be construed as a guarantee of the obligations of any other entity comprising the Contractor.

1.5 The liability of the Guarantor shall not be discharged by any payment or succession of payments hereunder, unless and until such payment or payments shall amount in the aggregate to the Guarantee Sum.

2.0 EFFECTIVE DATE and TERM

2.1 This Letter of Guarantee shall become effective on the [*day of* ,] and remain in effect until such time as the obligations

- [*the Minimum Exploration Work Requirements for the (Initial, Second or Third Exploration Period pursuant to Article 4)* have been completed by the Contractor;

3.0 REDUCTION of GUARANTEE

3.1 During the [*Year/Period*], the Guarantor may reduce the amount available for payment to the Beneficiary under this irrevocable and unconditional Letter of Guarantee, on a [*year-by-year basis or obligation-by-obligation basis from time to time*] provided that the Contractor delivers to the Guarantor a certificate, duly issued and signed by the Beneficiary to the effect that:

(i) The obligations of the relevant year or the relevant obligations or the relevant items of work, have been completed in accordance with the PSC and any amendments or modifications thereto;

(ii) All technical data related thereto has been delivered to the Beneficiary; and

(iii) The amount by which the Guarantee sum is approved for reduction on a [*year-by-year basis or obligation-by-obligation basis from time to time*] is expressly stated and in accordance with the following schedule:

[REDUCTION ON YEAR-BY-YEAR BASIS]

(a) by an amount of [*State sum of dollars (US\$*)] *dollars upon completion of the Exploration Work Programme for the first year.*

(b) by an amount of [*State sum of dollars (US\$*)] *upon completion of the Exploration Work Programme for the second year.*

(c) by an amount of [*State sum of dollars (US\$*)] *upon completion of the Exploration Work Programme for the third year.*

(d) by an amount of [*State sum of dollars (US\$*)] *upon completion of the Exploration Work Programme for the fourth year.*

(e) by an amount of [*State sum of dollars (US\$*)] *upon completion of the Exploration Work Programme for the fifth year.*

(f) by an amount of [*State sum of dollars (US\$*)] *upon completion of the Exploration Work Programme for the sixth year.*

(INCLUDE FURTHER PARTICULARS AS AGREED)

[REDUCTION ON OBLIGATION-BY-OBLIGATION BASIS]

(a) by the sum ofupon completion ofas set forth in Section 4.3 of the PSC;

(b) by the sum ofupon completion ofas set forth in Section 4.4 of the PSC;

(c) by the sum ofupon completion ofas set forth in Section 4.5 of the PSC;

(INCLUDE FURTHER PARTICULARS AS AGREED)

4.0 ENFORCEMENT OF GUARANTEE

In accordance with **Section 2.2(a) (iii) and Section 4.3 and [Insert 4.4 and 4.5 as applicable]** of the PSC, if at the end of the (*Initial, Second or Third Period pursuant to Article 4*) **or** upon revocation or termination of the PSC,

(i) the Contractor has failed to perform all or any part of its obligations arising out of the *Minimum Exploration Work Requirements for the (Initial, Second or Third Exploration Period pursuant to Article 4)* in accordance with the PSC; or

(ii) an order is made or an effective Resolution is passed for the winding up of the [*Name of Company requiring Guarantee*]

the Beneficiary shall

- (a) notify [*Name of Company requiring Guarantee*], the Contractor and Guarantor in writing of Contractor's non-compliance and the details thereof; and
- (b) allow the Contractor sixty (60) days from the date of such notice at (i) above, to perform its requisite obligations and correct its non-compliance, failing which [*the Guarantee sum, /the amount corresponding to the proportionate share of the aggregate amount of which the Contractor is in default under the PSC,*] shall be available for payment within five (5) working days after presentation by the Beneficiary to [*Name of Company requiring Guarantee*] of the following:
 - 1. Letter of Guarantee; and
 - 2. A written demand signed by the Beneficiary, which **sets forth**
 - (i) **the amount claimed by the Beneficiary and certifying** that the amount claimed represents the amount due and owing by *Name of Company requiring Guarantee and/or Name of Carried Company*] with respect to its **...% interest share**, as Contractor under the PSC, of the obligations under [*Section...*] of the PSC, that the Contractor failed to perform;
 - (ii) details of Contractor's non-compliance and failure to perform its requisite obligations and/or correct its non-compliance;
 - (iii) *Name of Company requiring Guarantee and/or Name of Carried Company*] has been notified in writing by the Beneficiary, by registered letter or courier (**a copy of which is attached to the Beneficiary's written demand**) that a drawing is being made against this irrevocable Letter of Guarantee.

4.5 Payment of the Guarantee sum in accordance with Section 4.4 above, shall be subject to any reduction under Section 3.1 hereof and shall be in full satisfaction of all claims by the Beneficiary concerning work to be performed by [*Name of Company requiring Guarantee and/or Name of Carried Company*], in respect of - [*the Minimum Exploration Work Requirements for the (Initial, Second or Third Exploration Period pursuant to Article 4)*]

4.6 All sums due and payable by the Guarantor under this Letter of Guarantee shall be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of any future or present taxes, levies, imposts, duties, charges, fees, deductions, or withholdings, now or hereafter levied, collected, withheld or assessed by a governmental authority.

5.0 CANCELLATION AND DISCHARGE OF GUARANTEE

5.1 This Letter of Guarantee shall be duly cancelled and discharged and the Guarantor shall be completely released from this Letter of Guarantee, provided that the Contractor delivers to the Guarantor a certificate, duly issued and signed by the Beneficiary or the Permanent Secretary to the effect that:

(i) (a) the Contractor, in accordance with the PSC and any amendments or modifications thereto, has completely fulfilled all or any part of its obligations in respect of - [*the Exploration Work Programme for the (Initial, Second or Third Exploration Period pursuant to Article 4)*]; and

(b) all technical data related thereto has been delivered to the Beneficiary; or

(ii) (a) the Guarantor has paid the Guarantee Sum in accordance with Section 4.4 and subject to any reduction under Section 3.1 hereof; and

(b) the Contractor has delivered all technical data related thereto to the Beneficiary; or

- (iii) (a) the Contractor has ceased to engage in Petroleum Operations; and
- (b) all technical data related thereto has been delivered to the Beneficiary.

5.2 [*Name of Company requiring Guarantee and/or Name of Carried Company*] may terminate this Guarantee by written notice to the Guarantor, provided however, that no such notice shall become effective until the Guarantor receives written authorisation for termination of the Guarantee from the Beneficiary.

5.3 Upon its cancellation and written authorisation by the Beneficiary, this Letter of Guarantee shall be returned to the Guarantor.

6.0 VALIDITY of GUARANTEE in case of AMENDMENTS to the CONTRACT or REORGANIZATIONS

6.1 Suspension, revocation, termination, amendment or variation to the PSC, including without limitation, extensions of time for performance, concession or waiver by the Beneficiary or any other person in respect of the Contractor's obligations under the PSC, forbearance or forgiveness in respect of any matter or thing concerning the PSC on the part of the Contractor, shall not in any way prejudice, affect, discharge, impair or diminish the validity of this Letter of Guarantee and liability of the Guarantor thereunder.

6.2 In the event that –

- i) there is a change in ownership of *Name of Company requiring a Guarantee*;
- ii) *Name of Company requiring a Guarantee* transfers all or part of its interest in the PSC to a third party;
- iii) the Guarantor ceases to be the ultimate parent company of *Name of Company requiring a Guarantee*; or
- iv) an order is made or an effective Resolution is passed for the winding up of the Guarantor;

Name of Company requiring a Guarantee shall promptly notify the Beneficiary accordingly and this Letter of Guarantee shall be replaced by a guarantee, as approved by the Beneficiary.

6.3 Delay or omission by the Beneficiary in exercising any right, power or remedy under this Letter of Guarantee shall not impair that right, power or remedy or constitute a waiver of it nor shall any single or partial exercise of any right, power or remedy preclude the exercise of that right, power or remedy.

6.4 This Letter of Guarantee is in addition to and not in substitution for or prejudiced by any present and future guarantee, lien or other security held by the Beneficiary as security for the obligations of the Contractor. The Beneficiary's rights, powers and remedies under this Guarantee are in addition to and not exclusive of those provided by law.

7.0 SUCCESSORS and ASSIGNS

7.1 The Guarantor may not assign or transfer any of its rights or obligations under this Letter of Guarantee without the Beneficiary's prior written consent.

7.2 All of the covenants and Contracts of Guarantor set forth herein shall bind the Guarantor

and its successors and assigns and shall inure to the benefit of the Beneficiary, his successor and assigns.

7.3 The Beneficiary may assign all or any part of its rights and benefits under this Letter of Guarantee at any time without the consent of the Contractor and the Guarantor.

8.0 GOVERNING LAW

8.1 This irrevocable Letter of Guarantee is subject to and shall be construed and applied in accordance with the Uniform Rules for Contract Guarantees of the International Chamber of Commerce (Publication No.325), as in effect on the Effective Date of the PSC.

9.0 MISCELLANEOUS

9.1 The terms contained herein, unless otherwise defined herein or the context hereof otherwise requires, shall have the same meanings as ascribed to them in the PSC.

9.2 Every provision contained in this Letter of Guarantee shall be severable and distinct and if at any time any one or more of such provisions is or becomes invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected thereby.

9.3 This Letter of Guarantee shall not be amended, modified, altered or supplemented without the prior written approval of the Beneficiary.

10.0 NOTICES

10.1 Any notices under this Guarantee shall be in writing and delivered by hand or courier at the address set out hereunder as follows:

(i) THE BENEFICIARY

[insert information]

(ii) THE GUARANTOR

[insert information]

10.2. Notice under any provision of this Letter of Guarantee shall be deemed delivered when received by the Party to whom such notice is directed.

10.3. Oral communication does not constitute notice for purposes of this Letter of Guarantee.

10.4. Each Party shall have the right to change its address at any time and/or designate that copies of all such notices be directed to another address, by giving at least (10) days prior written notice thereof to the other party.

IN WITNESS WHEREOF, the undersigned has executed this Letter of Guarantee, with due authority, this day of _____ 20__.

[Name of Guarantor]

By:

Name:

Title:

Date:

Accepted for and on behalf of the Ministry

By:

SCHEDULE D

**PARENT COMPANY GUARANTEE FOR THE PERFORMANCE OF ANY
OBLIGATION UNDER THE CONTRACT OTHER THAN THOSE IN ACCORDANCE
WITH SECTIONS 4.3, 4.4 AND 4.5**

(Insert Name of Company)

G U A R A N T E E

in accordance with

Paragraph 2.2(a) (iv)

of the

P R O D U C T I O N S H A R I N G C O N T R A C T

for

B L O C K *(Insert Block Name)*

NOTE: The Ministry shall require that:

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

(Official Letterhead)
(Date)

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

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

Dear Sir

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

[If applicable]

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

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

[FOR A FINANCIAL INSTITUTION ISSUING A GUARANTEE]

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

OR

[FOR A PARENT COMPANY ISSUING A GUARANTEE]

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

[IF GUARANTEE IS FOR TOTAL COST]

1.0 GUARANTEE

1.1 The Guarantor hereby issues an **UNCONDITIONAL AND IRREVOCABLE LETTER OF GUARANTEE** in favour of the Beneficiary in the sum of [*XXX HUNDRED THOUSAND UNITED STATES DOLLARS US\$ X00,000.00*], (*hereinafter referred to as the “the Guarantee Sum”*) for the performance of any obligations under the PSC other than those obligations referred to in **Sections 4.3, 4.4 and 4.5** of the PSC.

OR

[IF GUARANTEE IS FOR PROPORTION OF TOTAL COST AND/ OR A CARRIED INTEREST SHARE]

The Guarantor hereby issues an **UNCONDITIONAL AND IRREVOCABLE LETTER OF GUARANTEE** in favour of the Beneficiary in the sum of [*XXX HUNDRED THOUSAND UNITED STATES DOLLARS US\$ 200,000.00*] (*hereinafter referred to as the “the Guarantee Sum”*) representing (*Name of Company requiring Guarantee*):

Percentage interest of [*.....%*] under the PSC; and

Liability for the [*.....%*] carried interest share of (*Name of State Company*) percentage interest under the PSC, (*hereinafter referred to as “the Carried Interest Share”*)

for the performance of any obligations under the PSC other than those referred to in **Sections 4.3, 4.4 and 4.5** of the PSC.

1.2 The Guarantor warrants that this Letter of Guarantee constitutes its legally binding obligations enforceable in accordance with its terms (subject to insolvency laws, creditors’ rights and principles of equity) and to the best of its knowledge does not conflict with any law, regulation or instrument binding on or relating to the Guarantor and that this Guarantee is within its powers and has been duly authorized by it.

1.3 The Guarantor warrants that it shall act in good faith and exercise all due care having regard to the generally accepted standards of practice of parent company guarantees.

1.4 The obligations of the Guarantor under this Letter of Guarantee shall extend only to [*Name of Company requiring Guarantee and/or Name of Carried Company*] interest share of Contractors obligations in and under the PSC, other than those obligations referred to in **Sections 4.3, 4.4 and 4.5** of the PSC and shall in no way be construed as a guarantee of the obligations of any other entity comprising the Contractor.

1.5 The liability of the Guarantor shall not be discharged by any payment or succession of payments hereunder, unless and until such payment or payments shall amount in the aggregate to the Guarantee Sum.

2.0 EFFECTIVE DATE and TERM

2.1 This Letter of Guarantee shall become effective on the [*day of ,*] and remain in effect for the [*Number of Year/Year/Period*] of the PSC until the earlier of:

- (i) such time as the obligations other than those obligations referred to in **Sections 4.3, 4. and 4.5** of the PSC have been performed by the Contractor; or
- (ii) [*period of time*] after the expiry of [*Number of Year/Year/Period*]

3.0 ENFORCEMENT OF GUARANTEE

3.1 In accordance with the PSC, if

- (i) the Contractor has failed to perform all or any part of its obligations under the PSC other than those obligations referred to in **Sections 4.3, 4.4 and 4.5** of the PSC; or
- (ii) an order is made or an effective resolution is passed for the winding up of [*Name of Company requiring Guarantee*]
the Beneficiary shall

(a) notify [*Name of Company requiring Guarantee*] and Guarantor in writing of Contractor's non-compliance and the details thereof; and

(b) allow the Contractor sixty (60) days from the date of such notice at (i) above, to perform its requisite obligations and correct its non-compliance, failing which [*the Guarantee sum, /the amount corresponding to the proportionate share of the aggregate amount of which the Contractor is in default under the PSC,*] shall be available for payment within five (5) working days after presentation by the Beneficiary to [*Name of Company requiring Guarantee*] of a Letter of Guarantee and a written demand signed by the Beneficiary, which **set forth:**

(i) **the amount claimed by the Beneficiary and certifying** that the amount claimed represents the amount due and owing by [*Name of Company requiring Guarantee and/or Name of Carried Company*] with respect to its **....% interest share**, as Contractor under the PSC, for obligations other than those referred to in **Sections 4.3, 4.4 and 4.5** of the PSC, that the Contractor failed to perform;

(ii) Details of Contractor's non-compliance and failure to perform its requisite obligations and/or correct its non-compliance;

(i) [*Name of Company requiring Guarantee and/or Name of Carried Company*] has been notified in writing by the Beneficiary, by registered letter or courier (a copy of which is attached to the Beneficiary's written demand) that a drawing is being made against this irrevocable Letter of Guarantee.

3.2 Payment of the Guarantee sum in accordance with Section 3.1 above, shall be in full satisfaction of all claims by the Beneficiary concerning work to be performed by [*Name of Company requiring Guarantee and/or Name of Carried Company*], in respect of obligations under the PSC other than those obligations referred to in **Sections 4.3, 4.4 and 4.5** of the PSC for [*Number of Year/Year/Period*]

3.3 All sums due and payable by the Guarantor under this Letter of Guarantee shall be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of any future or present taxes, levies, imposts, duties, charges, fees, deductions, or withholdings, now or hereafter levied, collected, withheld or assessed by a governmental authority.

4.0 CANCELLATION AND DISCHARGE OF GUARANTEE

4.4 This Letter of Guarantee shall be duly cancelled and discharged and the Guarantor shall be completely released from this Letter of Guarantee, provided that the Contractor delivers to the Guarantor, a certificate duly issued and signed by the Beneficiary to the effect that:

- (i) (a) the Contractor, in accordance with the PSC and any amendments or modifications thereto, has completely fulfilled all or any part of its obligations under the PSC, other than those obligations referred to in **Sections 4.3, 4.4 and 4.5** therein; and

- (b) all technical data related thereto has been delivered to the Beneficiary; or
- (ii) (a) the Guarantor has paid the Guarantee Sum in accordance with Section 3.1; and
 - (b) the Contractor has delivered all technical data related thereto to the Beneficiary; or
- (iii) (a) the Beneficiary has issued a certificate to the effect that the Contractor has ceased to engage in Petroleum Operations; and
 - (b) all technical data related thereto has been delivered to the Beneficiary.

4.5 [*Name of Company requiring Guarantee and/or Name of Carried Company*] may terminate this Guarantee by written notice to the Guarantor, provided however, that no such notice shall become effective until the Guarantor receives written authorisation for termination of the Guarantee from the Beneficiary.

4.6 Upon its cancellation and written authorisation by the Beneficiary this Letter of Guarantee shall be returned to the Guarantor.

5.0 VALIDITY of GUARANTEE in case of AMENDMENTS to the CONTRACT or REORGANIZATIONS

5.1 Suspension, revocation, termination, amendment or variation to the PSC, including without limitation, extensions of time for performance, concession or waiver by the Beneficiary or any other person in respect of the Contractor's obligations under the PSC, forbearance or forgiveness in respect of any matter or thing concerning the PSC on the part of the Contractor, shall not in any way prejudice, affect, discharge, impair or diminish the validity of this Letter of Guarantee and liability of the Guarantor thereunder.

5.2 In the event that –

- i) there is a change in ownership of *Name of Company requiring a Guarantee*;
- ii) *Name of Company requiring a Guarantee* transfers all or part of its interest in the PSC to a third party;
- iii) the Guarantor ceases to be the ultimate parent company of *Name of Company requiring a Guarantee*; or
- iv) an order is made or an effective Resolution is passed for the winding up of the Guarantor [*Name of Company requiring a Guarantee*] shall promptly notify the Beneficiary accordingly and this Letter of Guarantee shall be replaced by a guarantee, as approved by the Beneficiary.

5.3 Delay or omission by the Beneficiary in exercising any right, power or remedy under this Letter of Guarantee shall not impair that right, power or remedy or constitute a waiver of it nor shall any single or partial exercise of any right, power or remedy preclude the exercise of that right, power or remedy.

5.4 This Letter of Guarantee is in addition to and not in substitution for or prejudiced by any present and future guarantee, lien or other security held by the Beneficiary as security for the obligations of the Contractor. The Beneficiary's rights, powers and remedies under this Guarantee are in addition to and not exclusive of those provided by law.

6.0 SUCCESSORS and ASSIGNS

6.1 The Guarantor may not assign or transfer any of its rights or obligations under this Letter of Guarantee without the Beneficiary's prior written consent.

6.2 All of the covenants and Contracts of Guarantor set forth herein shall bind the Guarantor and its successors and assigns and shall inure to the benefit of the Beneficiary, his successor and assigns.

6.3 The Beneficiary may assign all or any part of its rights and benefits under this Letter of Guarantee at any time without the consent of the Contractor and the Guarantor.

7.0 GOVERNING LAW

7.1. This irrevocable Letter of Guarantee is subject to and shall be construed and applied in accordance with the Uniform Rules for Contract Guarantees of the International Chamber of Commerce (Publication No.325), as in effect on the effective date of the PSC.

8.0 MISCELLANEOUS

8.1 The terms contained herein, unless otherwise defined herein or the context otherwise requires, shall have the same meanings ascribed to them in the PSC.

8.2 Every provision contained in this Letter of Guarantee shall be severable and distinct and if at any time any one or more of such provisions is or becomes invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected thereby.

8.3 This Letter of Guarantee shall not be amended, modified, altered or supplemented without the prior written approval of the Beneficiary.

9.0 NOTICES

9.1 Any notices under this Letter of Guarantee shall be in writing and delivered by hand or courier at the address set out hereunder as follows:

(i) **THE BENEFICIARY**

[insert information]

(ii) **THE GUARANTOR**

[insert information]

9.2. Notice under any provision of this Letter of Guarantee shall be deemed delivered when received by the Party to whom such notice is directed.

9.3. Oral communication does not constitute notice for purposes of this Letter of Guarantee.

9.4. Each Party shall have the right to change its address at any time and/or designate that copies of all such notices be directed to another address, by giving at least (10) days prior written notice thereof to the other party.

IN WITNESS WHEREOF, the undersigned has executed this Letter of Guarantee, with due authority, this day of _____ 20__.

[Name of Guarantor]

By:

Name:

Title:

Date:

Accepted for and on behalf of the Ministry

By:

The Honourable.....

Ministry

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

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

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

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