

PRODUCTION SHARING CONTRACT ("CONTRACT")
KEY TERMS AND CONDITIONS

Scope

- Under the Contract, and subject to its terms, the contractor:
 - (i) Shall, and have the exclusive right to carry on petroleum operations in accordance with the Petroleum Activities Law and the Contract at its sole cost, risk and expense;
 - (ii) Shall provide all human, financial and technical resources therefore; and
 - (iii) Shall share in petroleum produced from the contract area as set out in the Contract.

Effective Date and Term

- The Contract shall commence on the Effective Date and terminate on the first to occur of:
 - (i) All of the Contract Area being relinquished;
 - (ii) The parties mutually agreeing in writing to terminate the Contract;
 - (iii) Termination pursuant to a default; or
 - (iv) Expiry of the maximum term of Petroleum Contracts as set out in the Applicable Law in Timor-Leste (Development and Production Period of up to 25 years).
- Providing that the contractor notifies the Ministry at least one (1) year prior to the expiry of the Contract, the contractor shall have the option to extend the Contract in respect of any Development Area for such periods as stipulated by the Applicable Law in Timor-Leste.

Exploration Period

- Work Programmes and Budgets

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 Applicable Law in Timor-Leste.
- Minimum Exploration Work Requirements in the Initial Period

In the initial Period (Contract Years 1 to 4), the contractor shall carry out the Minimum Exploration Work Requirements as specified in the Contract. (Reference to the RFP Work Program)
- Minimum Exploration Work Requirements in Second Period

In the second Period (Contract Years 5, 6 and 7), unless the contractor has relinquished all of the contract area of not being a development area or a Gas Retention Area before the start of the fifth (5th) Contract Year, the contractor shall carry out the Minimum Exploration Work Requirements as specified in the Contract. (Reference to the RFP Work Program)
- Minimum Exploration Work Requirements in Third Period

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In the third Period (Contract Years 8 and 9), 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 eighth (8th) year, the contractor shall carry out the Minimum Exploration Work Requirements specified in the Contract. (Reference to the RFP Work Program)

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

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:

- (i) Require payment of the amount attributed to the unfulfilled work obligation of the Minimum Exploration Work Requirements for that Period, such payment not to be a Recoverable Cost;
- (ii) 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
- (iii) Terminate the 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.

Decommissioning

- The contractor shall prepare and implement the approved Decommissioning Plan in accordance with the Applicable Law in Timor-Leste and good oil field practice.
- Upon the commencement of Commercial Production, the contractor shall establish a Decommissioning Fund in accordance with the Applicable Law in Timor-Leste which shall be in the form of an interest bearing escrow account, which is a conservative account yielding a maximum of one (1) percentage point margin above the annual yield on long-term United States Treasury Bonds (thirty-year (30) bonds), in the name of the Ministry at a financial institution approved by the Ministry. The interests accumulated in the Decommissioning Fund are neither Recoverable Costs nor tax deductible.
- Annual Decommissioning cost provision is calculated based on the total estimated abandonment costs and calculated annual Decommissioning cost provision shall be charged as Recoverable Costs beginning in the Calendar Year following the Calendar Year in which Commercial Production first occurs.
- If, the actual Decommissioning cost is less than the accumulated Decommissioning Fund when Decommissioning is completed, such surplus shall be treated as Profit Crude Oil and transferred to the Ministry in accordance with the Applicable Law in Timor-Leste.

Recoverable Costs

- The contractor's accounts shall be prepared and maintained in accordance with the Accounting Procedure annexed to the Contract.
- Only costs and expenses incurred by the Operator in carrying on Petroleum Operations, including annual Decommissioning cost provision deposited into the Decommissioning

Fund, and properly charged to the contractor under the relevant Joint Operating Agreement as approved by the Ministry, are Recoverable Costs.

- Upon evidence showing any cost to be uncompetitive, the Ministry has the right to disallow it as a Recoverable Cost.

Sharing of Petroleum

- The Ministry share of royalty for crude and natural gas as the wellhead revenue before cost recovery shall be:
 - Royalty for Liquid is 6%, and;
 - Royalty for Gas is 4%.
- The contractor shall be entitled to the remaining gross income after the first shares referred above, but no more than is equal in value to Recoverable Costs for the Calendar Year concerned.
- The remaining available Petroleum shall be allocated between the Ministry and contractor as follows:
 - The Ministry's share of Profit Crude Oil shall be determined each Calendar Month based on each of the percentages in the table below.

| Price Class A | Price Class B | Price Class C |
|---------------|---------------|---------------|
| 35% | 40% | 50% |

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 60.00 per Barrel.
 - Price Class B 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 120.00 per Barrel.
 - Price Class C refers to the Ministry's share for a Crude Oil price greater than USD 120.00 per barrel.
- The Ministry's share of Profit Natural Gas shall be determined each month based on each of the percentages in the table below.

| Price Class A | Price Class B | Price Class C |
|---------------|---------------|---------------|
| 30% | 35% | 40% |

Natural

Gas Price Class

Where:

- Price Class A refers to Ministry's share for a Natural Gas price less than or equal to USD 4.00 per Mcf.
- Price Class B refers to Ministry's share for a Natural Gas price greater than USD 4.00

- per Mcf but less than or equal to USD 10 per Mcf.
- Price Class C refers to Ministry's share for a Natural Gas price greater than USD 10 per Mcf
 - (iii) Contractor's share of Profit Petroleum shall be the remaining portion after deducting the Ministry's share.

Dispute Resolution

- If a dispute has not been resolved by the Parties, the parties shall refer the dispute to arbitration.
- Arbitration between the Ministry and a contractor shall, as agreed by the Ministry and the contractor, be conducted in accordance with:
 - (i) The 1965 Washington Convention; and
 - (ii) The ICSID Additional Facility;
- The venue of arbitration shall be Singapore;
- The language of the arbitration shall be English;

Warranty, Indemnity and Insurance

- The contractor 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 in Timor-Leste and the Contract, and does not have a record of non-compliance with principles of good corporate citizenship.
- The contractor shall defend, indemnify and hold harmless Timor-Leste from all claims and economic loss of whatsoever nature, including but not limited to environmental damage, which are brought against Timor-Leste by any Authorised Person or any third party directly or indirectly in respect of petroleum operations. The contractor shall be fully responsible for all costs, expenses and liabilities incurred as a consequence thereof.
- The contractor shall:
 - (i) take out and maintain insurance on a strict liability basis 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 good oil field practice, and
 - (ii) obtain and maintain all insurances required by the Applicable Law in Timor-Leste.

Assignment

- In accordance with the Applicable Law in Timor-Leste, the contractor may not Assign the Contract without prior written approval of the Ministry and no Assignment shall be effective until such approval is given.

Governing Law

- The Contract shall be governed by and construed in accordance with the Applicable Law in Timor-Leste as applicable from time to time.

Joint and Several Liability

- The obligations and liabilities of each contractor under the Contract, except TIMOR GAP - Timor Gás & Petróleo, E.P., are the obligations and liabilities of them all, jointly and severally.