

**TIMOR SEA DESIGNATED AUTHORITY FOR THE
JOINT PETROLEUM DEVELOPMENT AREA**

PRODUCTION SHARING CONTRACT

JPDA 03-12

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This production sharing contract, which has been approved by the Joint Commission established under the Timor Sea Treaty (hereinafter called the Treaty), is made and entered into on this 2 day of April 2003 by and between the Designated Authority established under the Treaty, party of the first part, and ConocoPhillips (91-12) Pty Ltd ABN 73 064 963 346, a corporation organised and existing under the laws of Australia, Santos (JPDA 91-12) Pty Ltd ABN 44 056 937 75, a corporation organised and existing under the laws of Australia, Inpex Sahul, Ltd ARBN 059 844 781, a corporation organised and existing under the laws of Japan, Petroz (Timor Sea) Pty Ltd ABN 85 053 698 794, a corporation organised and existing under the laws of Australia and Emet Pty Ltd ABN 49 050 134 908, a corporation organised and existing under the laws of Australia hereinafter collectively called the “contractor”, parties of the second part, both hereinafter sometimes referred to either individually as the “Party” or collectively as the “Parties”.

WITNESSETH

WHEREAS, petroleum existing within the Joint Petroleum Development Area established by the Treaty is a resource to be exploited by the Contracting States;

WHEREAS, the Designated Authority, with the approval of the Joint Commission, has an exclusive authority to contract for petroleum activities in and throughout the area described in Appendix A of this contract and outlined on the map which is Appendix B of this contract, which area is hereinafter referred to as the “contract area”;

WHEREAS, the Designated Authority wishes to promote petroleum activities in the contract area and the contractor desires to join and assist the Designated Authority in accelerating the exploration and development of the potential petroleum resources within the contract area;

WHEREAS, the contractor has the necessary financial capability, and technical knowledge and ability to carry out the petroleum activities hereinafter described;

WHEREAS, in accordance with the Treaty, including the Petroleum Mining Code as referred to in Article 7(b) of the Treaty, a cooperative agreement in the form of a production sharing contract may be entered into between the Designated Authority and corporations for the purpose of petroleum activities; and

WHEREAS, by Annex F of the Treaty, a contract shall be offered to those corporations holding, immediately before entry into force of the Treaty, contract numbered 91-12 in the same terms as that contract, modified to take into account the administrative structure under the Treaty, or as otherwise agreed by Timor-Leste and Australia, and this is that first mentioned contract;

NOW, therefore, in consideration of the mutual covenants herein contained, it is agreed as follows:

SECTION 1

SCOPE AND DEFINITIONS

SCOPE

1.1 This contract is a production sharing contract subject to the Treaty, including the Petroleum Mining Code. The Designated Authority shall be responsible for the management of the activities contemplated hereunder in accordance with its management functions defined under the Treaty, including the Petroleum Mining Code. The contractor appoints and authorises ConocoPhillips (91-12) Pty Ltd, being one of the contracting corporations, to be the contract operator who, on behalf of the contractor, shall be responsible to the Designated Authority for the execution of petroleum activities in accordance with the provisions of this contract, and is hereby appointed and constituted as the exclusive corporation to conduct petroleum activities.

The contractor shall provide all human, financial and technical resources required for the performance of petroleum activities authorised by this contract, and shall therefore have an economic interest in the development of the petroleum pools in the contract area and be entitled to share in petroleum produced from the contract area in accordance with the provisions of Section 7 of this contract.

1.2 Except for expenditures on capital costs for the development of petroleum pools, the contractor shall not incur interest expenses to finance petroleum activities.

DEFINITIONS

1.3 Words and terms used in this contract shall have the same meaning as those defined in the Treaty, including the Petroleum Mining Code, as referred to in Article 7(b) to the Treaty, except where a new definition is expressly provided for in this contract.

“affiliated corporation or affiliate” means a corporation or other entity that controls, or is controlled by a Party to this contract, it being understood that control shall mean ownership by one corporation or entity of at least fifty (50) per cent of:

- (i) the voting stock, if the other corporation is a corporation issuing stock; or
- (ii) the controlling rights or interests, if the other entity is not a corporation.

“barrel” means a quantity or unit of oil, having a volume of forty-two (42) United States gallons at the temperature of sixty (60) degrees Fahrenheit.

“contract area” means the area, not relinquished or surrendered, constituted by the blocks which are the subject of this contract and which are specified in Appendices A and B of this contract.

“contract year” appearing before or in relation to a calendar year means the period commencing on 7 February of that calendar year and ending on 6 February of the following calendar year, except that when appearing before or in relation to the calendar year 2002 it means the period commencing on 20 May 2002 and ending 6 February 2003.

“crude oil” means crude mineral oil and all liquid hydrocarbons in their natural state or obtained from natural gas by condensation or extraction.

“development plan” means a description of the proposed petroleum reservoir development and management program, details of the production facilities, the production profile for the expected life of the project, the estimated capital and non-capital expenditure covering the feasibility, fabrication, installation and pre-production stages of the project, and an evaluation of the commerciality of the development of the petroleum from within a discovery area.

“exploration and appraisal strategy” means a brief description of the exploration/geological play concepts for, the extent to which the leads and prospects are identified in, and the data reviews, seismic surveys and exploration wells planned for the contract area.

“first tranche petroleum” means the quantity of petroleum production defined in subsection 9 of Section 7.

“force majeure” means circumstances beyond the control and without the fault or negligence of the contract operator and the Designated Authority including but not restricted to acts of God or the public enemy, perils of navigation, fire, hostilities, war (declared or undeclared), blockade, labor disturbances, strikes, riots, insurrections, civil commotion, quarantine restrictions, epidemics, storms, earthquakes, or accidents.

“natural gas” means all gaseous hydrocarbons, including wet mineral gas, dry mineral gas, casinghead gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.

“previous contract” means contract numbered 91-12 as mentioned in the Recitals.

SECTION 2

TERM OF THIS CONTRACT

2.1 Subject to the provisions of this Section and Section 13, the term of this contract shall commence on the effective date of the Treaty, being 20 May 2002, (the effective date) and shall expire on the last moment of 6 February 2022 (the expiration date). Notwithstanding the foregoing, all work programmes, expenditures and approvals, including but not limited to decisions, notices, returns and audits related thereto and all correspondence (written or oral), results and submissions in support of such work programmes, expenditures, approvals, decisions, notices, returns and audits under the previous contract shall be deemed to have occurred under this contract and the contractor shall be entitled to rely upon such. Information supplied by the Contractor under the previous contract is deemed to have been supplied under this contract.

[2.2 – paragraph deliberately omitted]

[2.3 – paragraph deliberately omitted]

2.4 If petroleum is discovered in any block or blocks of the contract area which the Designated Authority and the contract operator agree can be produced commercially, based on the consideration of all pertinent operating and financial data, then as to that particular block or blocks of the contract area the Designated Authority shall declare a discovery area and the contract operator shall commence development. In other blocks in the contract area, the contract operator shall continue exploration.

2.5 If petroleum production has not ceased permanently in and from the contract area by the expiration date, the Designated Authority shall give sympathetic consideration to extending the term of this contract until production ceases permanently. In the case of a natural gas project, the contract term shall be automatically extended to the end of the term of the natural gas sales contract.

2.6 If petroleum production has ceased permanently in and from the contract area before the expiration date, then this contract shall be terminated upon the permanent cessation of production.

SECTION 3

RELINQUISHMENT OF BLOCKS

[3.1 – paragraph deliberately omitted]

[3.2 – paragraph deliberately omitted]

[3.3 – paragraph deliberately omitted]

[3.4 – paragraph deliberately omitted]

3.5 Upon thirty (30) days written notice to the Designated Authority prior to the end of any contract year, the contract operator shall have the right to surrender some, but not all, of the blocks in the contract area, provided the conditions of the contract have been met to the satisfaction of the Designated Authority.

3.6 The contract operator shall advise the Designated Authority in advance of the date of relinquishment of the blocks to be relinquished. For the purpose of relinquishments, the contract operator and the Designated Authority shall consult with each other regarding which blocks are to be relinquished. So far as is reasonable, such blocks shall form an area of sufficient size and convenient shape to enable petroleum activities to be conducted thereon.

[3.7 - paragraph deliberately omitted]

SECTION 4

WORK PROGRAM AND EXPENDITURES

4.1 The contract operator shall continue with petroleum activities being carried out on the effective date.

The Designated Authority and the contract operator shall agree to an exploration work program and expenditures for each contract year.

[4.2 – paragraph deliberately omitted]

[4.3 – paragraph deliberately omitted]

[4.4 – paragraph deliberately omitted]

[4.5 – paragraph deliberately omitted]

[4.6 – paragraph deliberately omitted]

4.7 At least two (2) months prior to the beginning of each contract year, the contract operator shall prepare and submit, for approval by the Designated Authority, an exploration and appraisal strategy to be adopted for the ensuing contract year for the contract area.

4.8 At least one (1) month prior to the beginning of each calendar year, the contract operator shall prepare and submit, for approval by the Designated Authority, a work program and budget of operating costs to be carried out during the ensuing calendar year for the contract area.

4.9 Before work can commence on the development of a petroleum discovery, the contract operator shall prepare and submit, for approval by the Designated Authority, a development plan.

4.10 Should the Designated Authority wish to propose a revision to specified aspects of the work program and budget of operating costs, the Designated Authority shall specify its reasons for requesting those changes but shall not require the contract operator to undertake more petroleum activities than the minimum work program and expenditure commitments specified in this contract. The Parties shall reach agreement on any changes before they become effective.

4.11 It is recognised by the Designated Authority that the details of the work program and budget of operating costs, and the development plan may require changes in the light of existing circumstances and nothing herein contained shall limit the rights of the contract operator to make such changes, provided they do not change the general objective, quantity and quality of the petroleum activities.

4.12 The Designated Authority shall ensure that every effort is made to avoid delays in approving the exploration and appraisal strategy, the work program and budget of operating costs, and the development plan.

SECTION 5

RIGHTS AND OBLIGATIONS OF THE PARTIES

5.1 The contract operator shall have the rights accorded to it under the Treaty, including the Petroleum Mining Code and the taxation code, and in particular shall:

- (a) subject to paragraph (k) of subsection 2 of this Section, have the right to enter and leave the contract area and move to and from the contract operator's facilities wherever located at all times;
- (b) have the right to have access to and use all geological, geophysical, drilling, well (including well location maps), production and other information held by the Designated Authority relating to the contract area; and
- (c) in accordance with the provisions of the Petroleum Mining Code, have the right to have access to and use all geological, geophysical, drilling, well, production and other information now or in the future held by the Designated Authority relating to the blocks in the Joint Petroleum Development Area adjacent to the contract area.

5.2 The contract operator shall comply with all of the obligations imposed on it by the Treaty, including the Petroleum Mining Code and the taxation code, and the regulations and directions issued under the Petroleum Mining Code and, in particular, shall:

- (a) provide all human, financial and technical resources required for the performance of the petroleum activities;
- (b) carry out petroleum activities in a proper and workmanlike manner and in accordance with good oilfield practice;
- (c) take the necessary precautions to avoid interference with navigation and fishing;
- (d) develop an environmental management plan to be approved by the Designated Authority, prevent pollution of the marine environment, and pay for the costs associated with clean-up of any pollution from any petroleum activities within the contract area;
- (e) upon the termination of this contract, clean-up the contract area and remove all structures, equipment and other property brought into the contract area;
- (f) submit to the Designated Authority copies of all original geological, geophysical, drilling, well, production and other data (including cores, cuttings and samples taken in connection with petroleum activities in the contract area) and reports compiled during the term of this contract;
- (g) appoint and authorise a person to represent the contract operator and communicate with the Designated Authority, and that person shall have an office in either Dili or Darwin or both;
- (h) give preference to goods and services which are produced in Australia or Timor-Leste, or provided by subcontractors operating out of Australia or Timor-Leste, provided they are offered on competitive terms and conditions compared with those available from other countries;
- (i) give preference to the employment of Timor-Leste nationals and permanent residents, having due regard to safe and efficient activities and good oilfield practice;

- (j) take out and maintain, to the Designated Authority's satisfaction, from the effective date of this contract, insurance cover to the value of not less than US\$40 million in accordance with Article 25 of the Petroleum Mining Code;
- (k) except as otherwise approved by the Designated Authority, ensure that all persons, equipment and goods do not enter structures in the contract area without first entering Australia or Timor-Leste, and notify the Designated Authority of all persons, vessels, aircraft and structures entering or leaving the contract area, and of movements within the contract area; and
- (l) make secure and safe all structures in the contract area, including the installation of warning lights, radar and other appropriate equipment.

5.3 The contractor shall have the rights accorded under the Treaty, including the Petroleum Mining Code and the taxation code, and in particular shall:

- (a) have the right to appoint a new contract operator subject to prior approval by the Designated Authority;
- (b) have the right to transfer all or part of its undivided participating interest in this contract to any affiliated corporation or any other corporation with the approval of the Designated Authority. Such approval shall not be unreasonably withheld provided the corporation taking up those rights and obligations under this contract has, in the opinion of the Designated Authority, the necessary financial capability and technical knowledge and ability, in accordance with Article 11 of the Petroleum Mining Code.
- (c) have the right during the term of this contract to lift, dispose of and export its share of petroleum production, subject to Section 7 of this contract, and retain abroad the proceeds obtained therefrom; and
- (d) have the right to retain ownership and control of all property purchased or leased for the purposes of complying with the conditions of this contract, and be entitled to freely remove the same from the contract area, Australia or Timor-Leste provided the conditions of this contract have been met.

5.4 The contractor shall comply with all of the obligations imposed on it by the Treaty, including the Petroleum Mining Code and the taxation code, and the regulations and directions issued under the Petroleum Mining Code and, in particular, shall:

- (a) be jointly and severally liable to meet the obligations imposed on the contract operator; and
- (b) be subject to the taxation law of the Contracting States, in accordance with Article 5 of the Treaty and Annex (G) of the Treaty.

5.5 The Designated Authority shall comply with all of the obligations imposed on it by the Treaty, including the Petroleum Mining Code and, in particular, shall be responsible for the management of the petroleum activities contemplated hereunder having regard to the contract operator's responsibilities for undertaking the petroleum activities.

SECTION 6
OPERATING COSTS

GENERAL PROVISIONS

6.1 The accounting procedures in this Section shall be followed and observed in the performance of the contractor's obligations under the contract.

6.2 The contractor's books and accounts shall be prepared and maintained in accordance with a generally accepted and recognised accounting system consistent with modern petroleum industry practices and procedures. Books and accounts shall be available for the use of the Designated Authority in order that it may carry out its auditing responsibilities under this contract.

6.3 "Operating costs" means the sum of the following costs incurred in petroleum activities undertaken before or at the point of tanker loading:

- (a) current calendar year exploration costs;
- (b) current calendar year non-capital costs;
- (c) current calendar year depreciation of capital costs; and
- (d) allowable operating costs incurred in previous calendar years which have not been recovered in accordance with subsection 2 of Section 7 of this contract;

less

- (e) miscellaneous receipts as defined in subsection 8 of this Section.

6.4 All calculations required to determine operating costs shall be done in United States dollars. Where costs are denoted in any other currency, they shall be translated into United States dollars at the exchange rate set, on the day the cost was incurred, by a bank designated by the Designated Authority.

EXPLORATION COSTS

6.5 "Exploration costs" means those operating costs incurred which relate directly to the current calendar year's exploration activities in the contract area and include but are not limited to the following:

- (a) costs of exploratory and appraisal drilling in the contract area including labor, materials and services used in the drilling of wells with the object of finding unproven reservoirs of petroleum;
- (b) costs of surveys in the contract area including labor, materials and services (including desk studies and analysis of survey data) used in aerial, geological, geochemical, geophysical and seismic surveys, and core hole drilling; and

- (c) costs of other exploration directly related to petroleum activities in the contract area, including the cost of auxiliary or temporary facilities used in exploration.

NON-CAPITAL COSTS

6.6 “Non-capital costs” means those operating costs incurred that relate directly to the current calendar year’s activities in the contract area, excluding exploration costs and capital costs. Non-capital costs include, but are not limited to the following:

- (a) costs of labor, materials and services used in day to day well activities, field production facilities activities, secondary recovery activities, storage handling, transportation and delivery activities, gas processing auxiliaries and utilities, and other operating activities, including repairs and maintenance;
- (b) costs of office, services and general administration directly related to the petroleum activities carried out in the contract area including technical and related services, office supplies, office rentals and other rentals of services and property, and personnel expenses;
- (c) costs of production drilling in the contract area including labor, materials and services used in drilling wells with the object of penetrating a proven reservoir such as the drilling of delineation wells as well as redrilling, deepening or recompleting wells;
- (d) costs of feasibility studies and environmental impact assessments directly related to petroleum activities in the contract area;
- (e) application fees, contract service fees, and registration fees directly related to petroleum activities in the contract area;
- (f) premiums paid for insurance normally required to be carried for the petroleum activities carried out by the contract operator under this contract;
- (g) closing down costs, being those expenditures incurred at the end of the production life of a petroleum pool in the contract area which could include the costs of:
 - (i) removal of all production facilities including the removal of platforms and associated facilities;
 - (ii) environmental restoration including any feasibility studies; and
- (h) costs of purchased geological and geophysical information.

CAPITAL COSTS

6.7 “Capital costs” means expenditures made for items directly related to petroleum activities in the contract area and which normally have a useful life of more than one (1) year. Capital costs include but are not limited to the following:

- (a) costs of construction utilities and auxiliaries, workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- (b) costs of production facilities including offshore platforms (including the costs of labor, fuel hauling and supplies for both the offsite fabrication and onsite installation of platforms, and other construction costs in erecting platforms), wellhead production tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines, storage facilities, all other equipment, facilities and modules on platforms, oil jetties and anchorages, treating plants and equipment, secondary recovery systems, gas plants and steam systems;
- (c) costs of pipelines and other facilities for the transporting of petroleum produced in the contract area to the point of tanker loading;
- (d) costs of movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment used for production in the contract area;
- (e) costs of floating craft, automotive equipment, furniture and office equipment; and
- (f) if approved by the Designated Authority, costs of employee and welfare housing, recreational, educational, health and meals facilities, and other similar costs necessary for petroleum activities in the Joint Petroleum Development Area.

MISCELLANEOUS RECEIPTS

6.8 “Miscellaneous receipt” means the value of property defined in paragraph (c) below and all monies received by the contractor, other than for the disposal of petroleum produced from the contract area, which are directly related to the conduct of petroleum activities in the contract area. Miscellaneous receipts include, but are not limited to, the following:

- (a) any amounts received from the sale or disposal of petroleum produced from production testing activities undertaken in exploration and appraisal wells;
- (b) any amounts received for the disposal, loss, or destruction of property the cost of which is an operating cost;
- (c) the value of property, the cost of which is an operating cost, when that property ceases to be used in petroleum activities in the contract area;
- (d) any amounts received by the contract operator under an insurance policy, the premiums of which are operating costs, in respect of damage to or loss of property;
- (e) any amounts received as insurance, compensation or indemnity in respect of petroleum production lost or destroyed prior to the point of tanker loading;
- (f) any amounts received from the hiring or leasing of property, the cost of which is an operating cost;

- (g) any amounts received from supplying information obtained from surveys, appraisals, or studies the cost of which is an operating cost;
- (h) any amounts received as charges for the use of employee amenities, the cost of which is an operating cost; and
- (i) any amounts received in respect of expenditures which are operating 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.

INELIGIBLE COSTS

6.9 The following expenditures are not eligible as operating costs:

- (a) payments of principal or interest on a loan or other borrowing costs unless approved by the Designated Authority under paragraph (c) of subsection 10 of this Section;
- (b) payments of interest components of credit-purchase payments;
- (c) payments of dividends or the cost of issuing shares;
- (d) repayments of equity capital;
- (e) payments of private override royalties;
- (f) payments associated with a farm-in agreement;
- (g) payments of taxes under the taxation law of either Contracting State made in accordance with Article 5 of the Treaty and Annex (G) of the Treaty;
- (h) payments of administrative accounting costs, and other costs indirectly associated with petroleum activities in the contract area;
- (i) costs incurred once petroleum production has passed the point of tanker loading;
- (j) costs incurred as a result of non-compliance by the contract operator with the provisions of this contract, the Petroleum Mining Code or the regulations and directions issued under the Petroleum Mining Code; and
- (k) unless otherwise approved by the Designated Authority, costs incurred by contractors other than the contract operator.

ACCOUNTING METHODS TO BE USED TO CALCULATE RECOVERY OF OPERATING COSTS

6.10 The following methods shall be used to calculate the recovery of operating costs.

- (a) Depreciation

Depreciation shall be calculated beginning in the calendar year in which the asset to be depreciated is placed into service. A full year's depreciation shall be allowed in that calendar year. In each calendar year the allowable recovery of capital cost depreciation shall be twenty (20) per cent of the individual asset's initial capital cost (calculated using the straight line method of depreciation).

- (b) Allocation of overhead costs
General and administration costs, such as those listed in paragraph (b) of subsection 6 of this Section, but other than direct charges, allocable to petroleum activities in the contract area shall be determined by a detailed study, and the method determined by such a study shall be applied each year consistently. The method determined shall require agreement of the Designated Authority and the contractor.
- (c) Interest Recovery
Interest on loans obtained by a contractor at rates not exceeding prevailing commercial interest rates on loans for capital investments in development of petroleum pools may be recoverable as an operating cost provided the Designated Authority has given its approval. The Designated Authority may give its approval if it is satisfied that recovery of interest is necessary to ensure the financial viability of the project.
- (d) Gas Costs
The following procedures shall be used to allocate operating costs related to natural gas production.
 - (i) Operating costs directly related to the production of natural gas shall be directly chargeable against natural gas revenues in determining the entitlements of the Designated Authority and the contractor under Section 7.
 - (ii) Operating costs incurred for the production of both natural gas and crude oil shall be allocated to natural gas and crude oil revenues based on the relative value of the products produced for the current calendar year. Common support costs shall be allocated on an equitable basis agreed to by both Parties.
 - (iii) If after commencement of production, the natural gas revenues do not permit full recovery of natural gas costs, as outlined above, then the excess costs shall be recovered from crude oil revenues. Likewise, if there are excess crude oil costs (crude oil costs less crude oil revenues), this excess shall be recovered from natural gas revenues.
 - (iv) If production of either natural gas or crude oil has commenced while the other has not, the allocable production costs and common support costs shall be allocated on an equitable basis agreed to by both Parties. Propane and butane fractions extracted from natural gas but not spiked in crude oil shall be deemed as natural gas for the purpose of accounting.
- (e) Inventory Accounting

Inventory levels shall be based on normal good oilfield practice. The value of inventory items used outside the contract area or sold, the cost of which has been recovered as an operating cost, shall be treated as miscellaneous receipts in accordance with subsection 8 of this Section. The costs of items purchased for inventory shall be recoverable as operating costs at such time as the items are landed in the Joint Petroleum Development Area.

(f) Insurance and Claims

Operating costs shall include premiums paid for insurance normally required to be carried for the petroleum activities relating to the contractor's obligations conducted under the contract, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgements and other expenses, including fees relating to the contractor's obligations under the contract.

(g) Apportioning of Costs and Miscellaneous Receipts

Where property, or any other thing, for which an operating cost is allowable or a miscellaneous receipt is assessable, is only used partially in conducting petroleum activities in the contract area, only that proportion of the cost or the receipt which relates to the conduct of petroleum activities in the contract area shall be allowed as an operating cost or assessed as a miscellaneous receipt.

SECTION 7

RECOVERY OF OPERATING COSTS AND SHARING OF PETROLEUM PRODUCTION

7.1 The contractor is authorised by the Designated Authority and obliged to market all petroleum produced and saved from the contract area subject to the following provisions.

7.2 Subject to subsections 9 and 10 of this Section, to recover operating costs, the contract operator shall be entitled to a quantity of petroleum production, which is produced and saved hereunder and not used in petroleum activities, equal in value to those costs. If in any calendar year, the operating costs exceed the value of petroleum produced and saved hereunder and not used in petroleum activities, then the unrecovered excess of operating costs shall be carried forward and recovered in succeeding years.

7.3 In each calendar year in which petroleum is produced from the contract area, if the investment credit and operating costs recoverable under subsections 10 and 2 of this Section respectively are less than the value of the quantity of petroleum produced from the contract area, then of the petroleum production remaining after deducting the quantity of petroleum production equal in value to the investment credit and operating costs, the Parties shall be entitled to take and receive the following:

- (a) the Designated Authority fifty (50) per cent and the contractor fifty (50) per cent for the tranche of 0 to 50,000 barrels daily average of all crude oil production from the contract area for the calendar year;

- (b) the Designated Authority sixty (60) per cent and the contractor forty (40) per cent for the tranche of 50,001 to 150,000 barrels daily average of all crude oil production from the contract area for the calendar year; and
- (c) the Designated Authority seventy (70) per cent and the contractor thirty (30) per cent for the tranche of more than 150,000 barrels daily average of all crude oil production from the contract area for the calendar year.

For the purposes of calculating the daily average of all crude oil production in the calendar year when the first commercial production of crude oil from the contract area is produced, the daily average production shall be calculated by reference to the number of days in the calendar year from the day when commercial production commenced. In the calendar year when commercial production of crude oil from a contract area is terminated, the daily average production shall be calculated by reference to the number of days in the calendar year up to the day on which production is terminated in the contract area.

7.4 The method of recovering investment credits and operating costs before the entitlements are taken by each Party as provided under subsection 3 of this Section shall be subject to the following proration method. For each calendar year, the recoverable investment credits and operating costs shall be apportioned for deduction from the production of each of the tranches defined in subsection 3 of this Section using the same ratios as the production from each such tranche over the total production of that calendar year.

7.5 Of the amount of natural gas, including propane and butane fractions extracted from natural gas but not spiked in crude oil, remaining after recovering investment credits and operating costs associated with natural gas activities, the Designated Authority shall be entitled to take and receive fifty (50) per cent and the contractor shall be entitled to take and receive fifty (50) per cent.

7.6 Title to the contractor's share of petroleum production under subsections 3, 5 and 9 of this Section as well as to the shares of petroleum production exported and sold to recover investment credits and operating costs under subsections 10 and 2 of this Section respectively shall pass to the contractor at the point of tanker loading.

7.7 The contractor shall use its best reasonable efforts to market petroleum production to the extent markets are available.

7.8 Any natural gas produced from the contract area and not used in petroleum activities hereunder may be flared if the processing and utilisation of the natural gas is not considered by the Parties to be economic. Such flaring shall be permitted to the extent that gas is not required to enable the maximum economic recovery of petroleum by secondary recovery activities, including repressuring and recycling.

7.9 Notwithstanding the other provisions of this Section, in the initial five (5) calendar years of production from the contract area (such period to be determined without regard to whether production commenced under this contract or the previous contract), the Parties shall be entitled to take and receive a quantity of petroleum equal to ten (10) per cent of the petroleum production in those years, called the "first tranche petroleum", before any recovery of investment credits and operating costs. In each subsequent calendar year, the first tranche petroleum shall be equal to twenty (20) per cent of the petroleum produced in that year. The quantity of first tranche petroleum from crude oil production for each calendar year shall be shared between the

Designated Authority and the contractor in accordance with the sharing percentages as provided under subsection 3 of this Section, by apportioning it as applicable to the respective production tranches as therein defined, using the same ratios as the production from each such tranche over the total production of that calendar year. The quantity of first tranche petroleum from natural gas production for each calendar year, including propane and butane fractions extracted from natural gas but not spiked in crude oil, shall be shared between the Designated Authority and the contractor in accordance with the sharing percentages as provided under subsection 5 of this Section. The initial five (5) calendar years of production is to commence on the day when the first commercial production of petroleum is produced and shall end at midnight (2400 hours) local time, being 1600 hours Greenwich Mean Time on the day preceding the fifth anniversary of this first commercial production from the contract area.

7.10 Investment credits for exploration and capital costs defined in subsection 5 of Section 6 and paragraphs (b), (c) and (d) of subsection 7 of Section 6 shall be allowed to the contract operator, and, in each calendar year, shall be recoverable by the contract operator after the sharing of the first tranche petroleum but before the recovery of operating costs. The contract operator shall recover the investment credits, as a quantity of petroleum production equal in value to one hundred and twenty seven (127) per cent of such exploration and capital costs incurred. Investment credits not recovered in the calendar year in which the exploration and capital costs were incurred may be carried forward and recovered in subsequent years.

7.11 Notwithstanding the provisions of subsection 1 of this Section which oblige the contractor to market all petroleum produced from the contract area, the Designated Authority may market any or all petroleum when the Designated Authority secures a net realized price for the petroleum, f.o.b. the contract area, which is greater than the price which can be realized by the contractor. The Designated Authority's right to market any or all of the petroleum shall continue for such period as it can secure a net realized price, f.o.b. the contract area, greater than that which can be realized by the contractor. The contract operator shall coordinate the efficient lifting of the petroleum production, including tanker nomination and scheduling.

SECTION 8

VALUATION OF PETROLEUM PRODUCTION

8.1 Petroleum production sold to third parties shall be valued as follows:

- (a) all petroleum production to which the contractor is entitled under this contract and which is sold to third parties, shall be valued at the net realized price, f.o.b. the contract area;
- (b) all petroleum production to which the Designated Authority is entitled under this contract which is sold to third parties shall be valued at the net realized price. f.o.b. the contract area; and
- (c) where a contract of sale involves other than a net realized price f.o.b., the Designated Authority shall determine a fair and reasonable net f.o.b. price for the purposes of that sale.

8.2 Petroleum production sold to other than third parties shall be valued by the Designated Authority as follows:

- (a) by using the weighted average per unit price, adjusted as necessary for quality, quantity, grade and specific gravity of the petroleum production, received by the contractor and the Designated Authority from sales to third parties during the three (3) months preceding such sale, excluding commissions and brokerages incurred in relation to such third party sales; and
- (b) if there are no third party sales as defined in paragraph (a), at prevailing market prices, adjusted to take account of quality, quantity, grade and specific gravity of the petroleum production and taking into consideration any special circumstances with respect to sales of such petroleum production.

8.3 For the purpose of this Section, 'third party sales' means sales by the contractor to independent purchasers with whom, at the time the sale is made, the contractor has no direct or indirect contractual relationship or joint interest.

8.4 Commissions or brokerages incurred in connection with sales to third parties, if any, shall not exceed the customary and prevailing rate.

8.5 During any calendar year in which petroleum is produced from the contract area, the contractor shall be liable to make provisional payments to the Designated Authority, equal to the estimated value of petroleum to which the Designated Authority is entitled under Section 7 of this contract. The provisional payments shall be made on a monthly basis unless the Designated Authority and the contractor agree on alternate arrangements. The amount of each provisional payment shall be calculated by the contractor using the estimates of operating costs contained in the work program and budget of operating costs, and the contractor's estimate of the value of quantities of petroleum sold. During the calendar year the provisional payments may be adjusted having regard to actual operating costs and the actual value of sales of petroleum. Within thirty (30) days after the end of the calendar year, adjustments and cash settlements between the Designated Authority and the contractor shall be made on the basis of the actual amounts of the operating costs and actual value of sales of petroleum made during the calendar year, in order to comply with Section 7. Similarly, where the Designated Authority markets petroleum production pursuant to subsection 11 of Section 7, the Designated Authority shall be liable to make provisional payments to the contractor in a manner consistent with this subsection.

8.6 Petroleum production disposed of other than by sale or destruction shall be valued using the method defined in subsection 2 of this Section.

8.7 The contractor shall notify the Designated Authority of quantities and sales prices of all petroleum production sold or disposed of before the sales or disposals are made.

SECTION 9

PAYMENTS

9.1 The contract operator shall make all payments to the Designated Authority for which it is liable under this contract in United States dollars or some other currency agreed between the contract operator and the Designated Authority. Payments shall be made to a bank designated by

the Designated Authority. Where a payment is made in currency other than United States dollars, the exchange rate used to convert the United States dollars liability into that currency shall be the exchange rate set down on the day of payment by a bank designated by the Designated Authority.

9.2 The Designated Authority shall make all payments to the contract operator in United States dollars or some other currency agreed between the contract operator and the Designated Authority. Where a payment is made in currency other than United States dollars, the exchange rate used to convert the United States dollar liability into that currency shall be the exchange rate set down on the day of payment by a bank designated by the Designated Authority.

9.3 Any payments required to be made pursuant to this contract shall be made within ten (10) days following the end of the month in which the obligation to make such payments is incurred.

SECTION 10

TENDERS FOR PETROLEUM ACTIVITIES

10.1 The contract operator shall draw invitations to tender or sub-contracts to the attention of Australian and Timor-Leste sub-contractors

10.2 Subject to subsection 4 of this Section, all tenders for petroleum activities called by the contract operator shall be subject to approval by the Designated Authority.

10.3 The Designated Authority shall provide its approval or non-approval within thirty (30) days of receipt of the tender details from the contract operator. The tender details to be provided by the contract operator shall include a summary of the tenders received compared against the tender criteria determined by the contract operator and the reasons for the selection of the preferred tender.

10.4 Notwithstanding subsection 2 of this Section, the contract may enter into sub-contracts without the approval of the Designated Authority where:

- (a) the tender for petroleum activities is expected to involved expenditure of less than US\$ two million (2,000,000);
- (b) the tender for petroleum activities is expected to involve expenditure of less than US\$ ten million (10,000,000) and those activities form part of a project for the development of petroleum resources, the cost of which is expected to exceed US\$ one hundred million (100,000,000); or
- (c) the tender selected by the contract operator is the lowest cost tender and has been submitted by an Australian or Timor-Leste corporation.

10.5 The contract operator shall provide the Designated Authority, for information, with full financial details of the sub-contract, irrespective of the amount of the expenditure involved.

SECTION 11

TITLE TO EQUIPMENT

11.1 Equipment purchased by the contract operator pursuant to the work program and budget of operating costs remains the property of the contractor and shall be used in petroleum activities.

SECTION 12

CONSULTATION AND ARBITRATION

12.1 Periodically, the Designated Authority and the contract operator shall meet to discuss the conduct of petroleum activities under this contract and shall make every effort to settle amicably any problems arising therefrom.

12.2 Disputes, if any, arising between the Designated Authority and contractor relating to this contract or the interpretation and performance of this contract which cannot be settled amicably shall be submitted to arbitration.

12.3 Except as may be otherwise agreed by the Parties, arbitration shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce.

12.4 The Designated Authority on the one hand and the contractor on the other hand shall each appoint one arbitrator and so advise the other Party, and these two arbitrators shall appoint a third. If either Party fails to appoint an arbitrator within thirty (30) days after receipt of a written request to do so, such arbitrator shall, at the request of the other Party, if the Parties do not otherwise agree, be appointed by the President of the International Chamber of Commerce. If the first two arbitrators appointed as aforesaid fail to agree on a third within thirty (30) days following the appointment of the second arbitrator, the third arbitrator shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the International Chamber of Commerce. If an arbitrator fails or is unable to act, that arbitrator's successor shall be appointed in the same manner as the arbitrator who is replaced.

12.5 The decision of the majority of the arbitrators shall be final and binding upon the Parties and an award may be enforced in any court having jurisdiction for that purpose. In accordance with paragraph (b) of Article 4 of the Treaty, in the event that the Designated Authority cannot meet an obligation under an arbitral award arising from a dispute under this contract, the Contracting States shall contribute the necessary funds in the same proportion as set out in paragraph (a) of Article 4 of the Treaty to enable the Designated Authority to meet that obligation.

12.6 The place of arbitration shall be Singapore. The language of arbitration shall be the English language.

SECTION 13

TERMINATION

[13.1 – paragraph deliberately omitted]

13.2 This contract may be terminated at any time by agreement of the Parties or in accordance with Article 48 of the Petroleum Mining Code.

SECTION 14

BOOKS, ACCOUNTS AND AUDITS

BOOKS AND ACCOUNTS

14.1 In addition to any requirements pursuant to paragraph (b) of subsection 4 of Section 5, the contractor shall keep complete books and accounts recording all operating costs as well as monies received from the sale or disposal of petroleum production.

AUDITS

14.2 The Designated Authority may require independent auditing of the contractor's books and accounts relating to this contract for any calendar year and may require the independent auditor to perform such auditing procedures as are deemed appropriate by the Designated Authority. The contractor shall forward a copy of the independent accountant's report to the Designated Authority within sixty (60) days following the completion of the audit. The Designated Authority reserves the right to inspect and audit the contractor's books and accounts relating to this contract.

SECTION 15

OTHER PROVISIONS

NOTICES

15.1 Any notices required or given by either Party to the other shall be served in accordance with Article 35 of the Petroleum Mining Code.

15.2 All notices to be served on the contract operator shall be addressed to:

ConocoPhillips (91-12) Pty Ltd
Level3, 53 Ord Street
West Perth, WA 6872
Australia
Facsimile: +61 8 9423 6675

15.3 All notices to be served on the Designated Authority relating to matters for which the office of the Designated Authority is responsible shall be addressed to:

Timor Sea Designated Authority for the Joint Petroleum Development Area
8th Floor, Northern Territory House
22 Mitchell Street, Darwin N.T
Australia 0800
Facsimile: +61 8 8981-7365

15.4 All notices to be served on the Designated Authority relating to matters for which the Technical Directorate of the Designated Authority is responsible shall be addressed to:

Timor Sea Designated Authority for the Joint Petroleum Development Area
8th Floor, Northern Territory House
22 Mitchell Street, Darwin N.T
Australia 0800
Facsimile: +61 8 8981-7365

15.5 Either Party may substitute or change the above such address by giving written notice to the other.

APPLICABLE LAW

15.6 Subject to the provisions of the Treaty, including the Petroleum Mining Code, the law of England shall apply to this contract.

SUSPENSION OF OBLIGATIONS

15.7 Any failure or delay on the part of either Party in the performance of its obligations or duties under the contract shall be excused to the extent that such failure or delay is attributable to force majeure.

15.8 If exploration is delayed, curtailed or prevented by force majeure the Designated Authority shall agree to vary the work program and expenditure commitments or exempt the contract operator from part or all of the work program and expenditure commitments during the period of force majeure.

15.9 The Party whose ability to perform its obligations is so affected by force majeure shall immediately notify the other Party in writing, stating the cause, and both Parties shall do all that is reasonably within their power to discharge their obligations.

SECTION 16

EFFECTIVENESS

16.1 This contract shall be deemed to come into effect on 20 May 2002.

16.2 This contract shall not be amended or modified in any respect, except by the mutual consent in writing of the Parties.

IN WITNESS WHEREOF, the Parties hereto have executed this contract, in six original copies and in the English language, on this 2 day of April, 2003.

THE DESIGNATED AUTHORITY

BY Einar Riss

CONOCOPHILLIPS (91-12) PTY LTD ABN 73 064 963 346

BY Bla Murphy.

SANTOS (JPDA 91-12) PTY LTD ABN 44 056 937 752

BY Bla Murphy.

INPEX SAHUL, LTD ARBN 059 844 781

BY 渡辺 寛

PETROZ (TIMOR SEA) PTY LTD ABN 85 053 698 794

BY Bla Murphy-

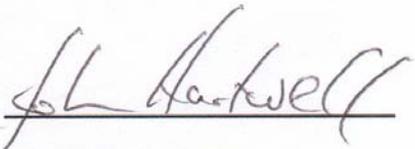
EMET PTY LTD ABN 49 050 134 908

BY 

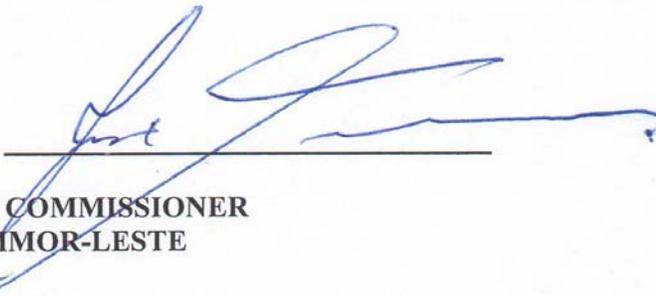
APPROVED BY THE JOINT COMMISSION on this 2 day of April 2003

BY 

JOINT COMMISSIONER
FOR TIMOR-LESTE

BY 

JOINT COMMISSIONER
FOR AUSTRALIA

BY 

JOINT COMMISSIONER
FOR TIMOR-LESTE

APPENDIX A

Description of contract area

Commencing at the point of Latitude 10°50'00" South, Longitude 126°25'00" East; proceed east to the point of Latitude 10°50'00" South, Longitude 126°31'00" East; then proceed south to the point of Latitude 10°52'00" South, Longitude 126°31'00" East; then proceed west to the point of Latitude 10°52'00" South, Longitude 126°26'00" East; then proceed north to the point of Latitude 10°51'00" South, Longitude 126°26'00" East; then proceed west to the point of Latitude 10°51'00" South, Longitude 126°25'00" East; then proceed north returning to the point of Latitude 10°50'00" South, Longitude 126°25'00" East.

Commencing at the point of Latitude 10°52'00" South, Longitude 126°33'00" East; proceed east to the point of Latitude 10°52'00" South, Longitude 126°36'00" East; then proceed south to the point of Latitude 10°52'20" South, Longitude 126°36'00" East; then proceed east to the point of Latitude 10°52'20" South, Longitude 126°38'00" East; then proceed south to the point of Latitude 10°54'00" South, Longitude 126°38'00" East; then proceed west to the point of Latitude 10°54'00" South, Longitude 126°33'00" East; then proceed north returning to the point of Latitude 10°52'00" South, Longitude 126°33'00" East.

Commencing at the point of Latitude 11°01'00" South, Longitude 126°29'00" East; proceed east to the point of Latitude 11°01'00" South, Longitude 126°36'00" East; then proceed north to the point of Latitude 11°00'00" South, Longitude 126°36'00" East; then proceed east to the point of Latitude 11°00'00" South, Longitude 126°37'00" East; then proceed north to the point of Latitude 10°59'00" South, Longitude 126°37'00" East; then proceed east to the point of Latitude 10°59'00" South, Longitude 126°40'00" East; then proceed south to the point of Latitude 11°10'00" South, Longitude 126°40'00" East; then proceed west to the point of Latitude 11°10'00" South, Longitude 126°32'00" East; then proceed north to the point of Latitude 11°08'00" South, Longitude 126°32'00" East; then proceed west to the point of Latitude 11°08'00" South, Longitude 126°30'00" East; then proceed north to the point of Latitude 11°06'00" South, Longitude 126°30'00" East; then proceed east to the point of Latitude 11°06'00" South, Longitude 126°31'00" East; then proceed north to the point of Latitude 11°04'00" South, Longitude 126°31'00" East; then proceed west to the point of Latitude 11°04'00" South, Longitude

126°30'00" East; then proceed north to the point of Latitude 11°03'00" South, Longitude 126°30'00" East; then proceed west to the point of Latitude 11°03'00" South, Longitude 126°28'00" East; then proceed north to the point of Latitude 11°02'00" South, Longitude 126°28'00" East; then proceed east to the point of Latitude 11°02'00" South, Longitude 126°29'00" East; then proceed north returning to the point of Latitude 11°01'00" South, Longitude 126°29'00" East.

APPENDIX B

Map of contract area

