



Timor Sea Designated Authority for the Joint Petroleum Development Area

Interim Directions issued under Article 37 of the Interim Petroleum Mining Code

Specific Requirements as to Petroleum Exploration and Exploitation in the Joint Petroleum Development Area

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PART I – INTRODUCTORY

Clause 101 Application of Directions

1. These Directions are issued for the purpose of elaborating various parts of the Treaty and its Annexes, and the Interim Petroleum Mining Code.
2. Where there is any inconsistency, the Treaty and its Annexes, and the Interim Petroleum Mining Code prevail.

Clause 102 Definitions

1. In these Directions unless inconsistent with the context or subject matter:

“approval” or “approved” means the approval of or approved by the Managing Director.

“Managing Director” is the person appointed by the Executive Director of the Designated Authority from time-to-time to be the Managing Director of the Technical Directorate responsible for petroleum activities in the JPDA

PART II - PRODUCTION ENTITLEMENTS INCLUDING THE RECOVERY OF INVESTMENT CREDITS AND OPERATING COSTS

Division 1 - General Requirements and Principles

Clause 201 Production Sharing Entitlements

1. References to Sections, sub-sections and sub-paragraphs in this Part II, unless otherwise stated, are references to Sections, sub-sections and sub-paragraphs in the Production Sharing Contract.
2. The contractor will be entitled to a share of petroleum production as provided in Section 7.
3. Claims for recoverable investment credits and operating costs will be provided by the contract operator to the Designated Authority for the purpose of calculating the contractor's production entitlement from actual expenditures incurred, as follows:
 - (a) if the costs were incurred in any other currency than United States dollars, expenditure will be converted to United States dollars at the opening mid-rate quoted by the United States Federal Reserve Bank on the day on which the expenditure was paid.
 - (b) estimates of investment credits and operating costs may be applied on a monthly basis, pending the aggregation of actual quarterly or annual expenditure provided in sub-clause (c) below. Such estimates will be based on or be consistent with:
 - (i) approved exploration and work program and agreed budget of operating costs;
 - (ii) exploration, capital and non-capital cost estimates included in breakdowns to be provided by "company authority for expenditure" (CAFE) or company equivalent internal expenditure approval as advised to the Designated Authority by the contract operator;
 - (iii) anticipated disbursements predicted for the month.
 - (c) each quarter the contract operator will revise estimates of expenditure, referred to in sub-clause 3 (b) above, to actual expenditure on the basis of actual expenditures disbursed and these expenditures will be reported in expenditure reports as provided in Clause 227.
 - (d) the contract operator will include only such expenditure as has been disbursed, rather than be accrued, in the books of account within a claim for a particular quarter or calendar year for the purpose of its inclusion in the calculation of the contractor's production entitlements for that quarter or calendar year as provided in Clause 227.
 - (e) expenditure may be claimed where this is incurred on, or directly related to, petroleum activities in the contract area but will exclude ineligible costs provided in sub-section 6.9.
 - (f) when expenditure is other than a cost incurred directly in the conduct of petroleum activities in the contract area, but includes allocations of overhead, general and administration costs which can be demonstrated to have been incurred in relation to petroleum activities in the contract area, the Designated Authority will approve the eligibility of such expenditure only after it has made or has otherwise independently obtained a detailed study, to determine how such expenditure may be identified, controlled and reported.

- (g) labour costs of the contract operator which are included in capital costs will only include labour which is employed in the physical construction and installation of facilities referred to in sub-section 6.7 subparagraphs (a), (b), (c) and (f).
- (h) where natural gas, as defined in sub-section 7.5, is marketed separately from crude oil, budgets and reports of expenditure will separately identify investment credits and operating costs associated with natural gas production.

Division 2 - Reporting and Data Submission

Clause 220 Petroleum Production Forecasts

As part of the annual work program and budget of operating costs referred to in Clause 225 below, the contract operator will provide details of petroleum production forecasts for the year.

Clause 221 Valuation of Petroleum Production

1. The general principles are defined in Section 8.
2. Petroleum sold to third parties shall be valued f.o.b. the contract area provided in sub-section 8.1. Accordingly petroleum sales contracts should be negotiated on an f.o.b. basis. However, if an f.o.b. sales contract becomes impracticable, and a sales contract provides a c.i.f. price at the port of destination, a price f.o.b. the contract area will be calculated, as provided in sub-section 8.1 (c), by allowing the following deductions:
 - (i) freight (including bunkers);
 - (ii) insurance;
 - (iii) demurrage at the port of destination;
 - (iv) wharfage at the port of destination;
 - (v) heating costs in the case of crude oil when required of the oil;
 - (vi) cargo surveys;
 - (vii) in the case of crude oil, a volumetric loss of up to 0.05% of the volume loaded in the contract area.
3. Contracts for the sale of petroleum will be written in United States dollars.
4. Nominations of tanker arrivals and loadings will be provided to the Managing Director-Technical of the Designated Authority. Consistent with the requirements of sub-section 8.7, tanker arrivals and loading nominations will also be advised to the Managing Director -Finance of the Designated Authority, together with the customer, the port of destination and the contract volumes and price and other relevant terms for c.i.f. contracts.

Clause 222 Estimated Expenditure

The contract operator will provide a series of estimates and planning documents to the Designated Authority, which may use these estimates and planning documents to review month to month claims for investment credits and operating costs, where these are based on estimates. The following estimates and planning documents, referred to in Clauses 222 to 225, may also be required for other purposes.

Clause 223
Exploration and Appraisal Strategy

The contract operator will prepare 2 months prior to the beginning of each contract year, an exploration and appraisal strategy for the contract area to be presented at a meeting between the contract operator and the Designated Authority.

Clause 224
Annual Work Program and Budget of Operating Costs (Exploration Phase).

1. An annual work program and budget of operating costs will be submitted by the contract operator for the approval of the Designated Authority one (1) month before the start of the calendar year.
2. The budgetary aspect of the annual work program and budget of operating costs will include estimates of the costs of each activity for the contract year - that is, the estimated aggregate cost of each data evaluation, seismic survey and well drilling will be stated. The contract operator will separately identify any budgeted exploration costs not covered by Section 6.5.
3. Where petroleum activities include the separate marketing of natural gas, or the prospective marketing of natural gas, as defined in sub-section 7.5, estimates provided under sub-clause 2 above will separately identify estimates relating specifically to natural gas.
4. Budgeted expenditure will be supported by detailed account line codes using typical oil industry codes.

Clause 225
Annual Work Program and Budget of Operating Costs
(Development and Production Stage)

1. The annual work program and budget of operating costs shall be submitted by the contract operator for the approval of the Designated Authority one (1) month before the start of the calendar year.
2. In addition to the information required to be provided in the program and budget in relation to exploration, the contract operator will submit information on the technical aspects of the annual program for development work, maintenance and production (estimated monthly production). The budgetary aspects shall include aggregate estimates of capital costs separately identifying these items covered by sub-section 6.7 subparagraphs (b), (c) and (d) from those included under sub-section 6.7 subparagraphs (a), (e) and (f), non-capital costs, miscellaneous receipts, and ineligible expenditures for the calendar year. The program and budget will also include the organisation structure and the relevant personnel budget.
3. Budgeted expenditure will be supported by detailed account line codes using typical oil industry codes.

Clause 226
Company Authority for Expenditure

For the information of the Designated Authority, the contract operator shall provide a copy of its internal “company authority for expenditure” (CAFE) or other authority for expenditure. It is expected that the CAFE would provide a full breakdown of the cost estimates for each proposed activity for the calendar year, identifying various capital and non-capital costs. The CAFE will be compared with tenders at the time the tenders are submitted for approval. No Designated Authority approvals are required.

Clause 227
Reporting of Operating Costs, Miscellaneous Receipts and Investment Credits

1. In those contract areas where there has been no declaration of a discovery area defined under Article 16 of the Interim Petroleum Mining Code, the contract operator will provide the Designated Authority with detailed annual and semi-annual returns of operating costs, miscellaneous receipts and investment credits, in the format provided in the attached Forms A and B “Return of Operating Costs, Miscellaneous Receipts and Investment Credits Under Sections 6 and 7 of the Production Sharing Contract” for each 12 month period ending 31 December. Form A will be returned to the Designated Authority by 28 February, and Form A, with a completed auditor’s report, will be returned by 30 April in each year. The attached Form B, “Return of Operating Costs, Miscellaneous Receipts and Investment Credits Under Sections 6 and 7 of the Production Sharing Contract” for each 6 month period ending 30 June, will be returned to the Designated Authority by 31 August in each year.
2. In those contract areas where there has been a declaration of a discovery area defined under Article 16 of the Interim Petroleum Mining Code, the contract operator will provide the Designated Authority with detailed annual and quarterly returns of expenditure and miscellaneous receipts, for the purposes of the calculation of production entitlements under Clauses 228 and 229. The annual return of expenditure and miscellaneous receipts is to be analysed in the format provided in the attached Form C “Return of Operating Costs, Miscellaneous Receipts and Investment Credits Under Sections 6 and 7 of the Production Sharing Contract” for each 12 month period ending 31 December, with effect from 31 December, following the first declaration of a discovery area in the contract area. Form C will be returned to the Designated Authority by 31 January, and Form C, with a completed auditors report, will be returned by 30 April in each year. The attached Form D, which is a quarterly return is to be completed for the first, second and third quarters of each year, is to be returned to the Designated Authority reporting the cumulative operating costs for the one, two or three quarters ending 31 March, 30 June, and 30 September by 10 April, 10 July and 10 October in each year. (The dates set for the completion of the annual return is consistent with the requirements of sub-section 8.5, while the date set for the completion of the quarterly return is consistent with the 10 day payment cycle provided under sub-section 9.3.)
3. Depreciation will be calculated, as provided in sub-paragraph 6.10 (a), on the basis of the capitalised actual expenditure incurred, beginning in the year that the asset is placed into service. “Placed into service” will be when the asset is used in petroleum activities but not, for example, when the asset is installed ready for use, but is not yet in operation.
4. Where petroleum activities include the separate marketing of natural gas, or the prospective marketing of natural gas, as defined by sub-section 7.5, reports of expenditure and miscellaneous receipts as required under sub-paragraph 6.10 (d), will separately identify expenditures specific to the production of natural gas.

5. For the purposes of the calculation of production entitlements under Clauses 228 and 229, the contract operator will calculate, based on the amounts of quarterly operating costs as returned under sub-clause 227.2 above, the amounts of operating costs which are recoverable and any excess operating costs carried forward from previous years, as provided under sub-sections 6.3 and 7.2, together with investment credits recoverable under sub-section 7.10.
6. Expenditure reports provided under paragraph 1 and 2 above will include account line codes details using typical oil industry account codes.
7. Where there is a significant difference of more than 25% between the budget estimates referred to in Clauses 224 and 225 and the actual expenditure reported under paragraphs 1 and 2 above, the contract operator will provide an explanation to the Designated Authority, including detailed comparisons between budget and actual expenditure by account line numbers.

Clause 228

Calculation of Production Entitlements (Crude Oil)

1. Without prejudice to the principle of production sharing, production entitlements as provided in Section 7 will be calculated by the contract operator as at the end of each month and to be provided to the Designated Authority within ten days of the end of each month, based on:
 - (a) year to date production volumes being the aggregate volume of petroleum cargoes loaded from a contract area into tankers (Symbol V);
 - (b) the cumulative number of days from 1 January up to and including the last day of the month for which production entitlements are being calculated;
 - (c) the aggregate value of all cargoes, detailed on a cargo by cargo basis, loaded in the calendar year (Symbol C);
 - (d) the Contractors Claim of Unrecovered Investment Credits and Operating Costs provided in sub-clause 227.3 above (Symbol U).
2. The calculation of the value of production entitlements of first tranche petroleum receivable by both the Designated Authority and the Contractor in accordance with sub-section 7.9 (Symbol F) will be based on the aggregate values of all cargoes provided in sub-paragraph 1(c) above - (Symbol C).
3. The calculation of the Designated Authority's revenue from its production entitlements in accordance with sub-section 7.3 and 7.4, or 'share oil', will be based on a calculation of the residual margin (Symbol R) expressed in United States dollars per barrel being revenue, excluding first tranche petroleum, net of investment credits and operating costs, calculated according to the following formula:

During First Five Years of Production	Thereafter
$R = \frac{(C - F) - U}{0.9V}$	$R = \frac{(C - F) - U}{0.8V}$

The value of R will be applied against the year to date actual production volumes in each tranche, net of first tranche petroleum, and prorated between the Designated Authority and the contractor according to the production sharing formula applicable to each tranche. Where U exceeds (C-F) no such calculation is necessary as all production, excluding first tranche petroleum, will be applied in the recovery of investment credits and operating costs.

4. The revenue attributable to the Designated Authority's share of petroleum production at the end of each month will be calculated by taking the cumulative value of its share of first tranche petroleum for the calendar year to the end of that month, net of aggregate first tranche petroleum proceeds paid to the Designated Authority in respect of prior months of the calendar year. Similarly the Designated Authority's cumulative share of share oil (as described in sub-clause 3 above) will be calculated for the calendar year to date. The Designated Authority will then be entitled to receive that amount net of any amounts paid to the Designated Authority in respect of share oil in prior months of the calendar year.
5. The contract operator will calculate the apportionment of revenue between the Designated Authority and the contractor using a sufficient number of decimal places such that the sum of the proceeds of first tranche petroleum, the recovery of investment credits and operating costs and the value of share oil (as described in sub-clause 3 above) equals the aggregate value of all cargoes loaded in the calendar year.
6. The contract operator will pay the Designated Authority the proceeds of the Designated Authority's share of production, as calculated under sub-clause 4 above, in United States dollars on, or before the tenth (10th) day of the month following the end of the month in which the obligation to make such payment is incurred, excepting that the payment to be made in January of each year in respect of the then completed calendar year will be made thirty (30) days after the end of the calendar year as provided in sub-section 8.5.
7. The contract operator, if directed by the Designated Authority, will hold the Designated Authority's share of receipts from petroleum sales, received but not yet paid to the Designated Authority, in an interest bearing trust account at a bank nominated by the Designated Authority.

Clause 229
Calculation of Production Entitlements (Natural Gas)

1. For the purposes of this clause, natural gas is as defined in sub-section 7.5.
2. Entitlements to natural gas production will be calculated as at the end of each month and provided to the Designated Authority within ten days of the end of each month, based on:
 - (a) year to date production volumes, being the aggregate volume of gas delivered from a contract area (Symbol GV);
 - (b) the cumulative number of days from 1 January up to and including the last day of the month for which production entitlements are being calculated;
 - (c) the aggregate value of all natural gas deliveries in the calendar year (Symbol GC); and
 - (d) the Contractor's Claim of Unrecovered investment credits and operating costs associated with natural gas operations (Symbol GU).
3. The value of first tranche petroleum entitlements from natural gas production receivable by the Designated Authority and the Contractor (Symbol GF), based on the aggregate value of all natural gas deliveries as reported in accordance with sub-clause 2 above (Symbol GC), will be split in equal shares as provided in sub-section 7.5.
4. The Designated Authority's revenue from its natural gas production entitlement will be based on a calculation of the entitlement remaining after first tranche petroleum, and the recovery of investment credits and operating costs. This residual entitlement, or 'share gas', (Symbol GR), will be calculated according to the following formula:

$$GR = (GC - GF) - GU$$

The value of share gas (GR) will be split fifty (50) percent to the Designated Authority and fifty (50) percent to the Contractor.

5. The Designated Authority's share of natural gas production at the end of each month will be the cumulative calendar year to date share of revenue from first tranche natural gas production (GF) plus the Designated Authority's cumulative calendar year to date share gas entitlement (GR) less any amounts paid to the Designated Authority in respect of natural gas production in prior months of the calendar year.
6. The provisions of sub-clauses 228.5, 228.6 and 228.7 will also apply to the calculation of apportionments, payment of sale proceeds and the holding of Designated Authority sales receipts.

Clause 231
**Independent Audit of Returns of Operating Costs,
Miscellaneous Receipts and Investment Credits**

1. An independent audit of the Annual Returns of Operating Costs, Miscellaneous Receipts, and Investment Credits is required to be completed as part of the submission of such Returns as provided by Clause 227.1 and 227.2 above for every calendar year during which a production sharing contract is in force. A pro forma audit report for completion by the independent auditor is to be provided with the Annual Return.
2. Once the Designated Authority has declared, under Article 16 of the Interim Petroleum Mining Code, the initial discovery area in a contract area, the Financial Managing Director of the Designated Authority will review the scope and findings of the independent audit (or audits) of the annual Returns of Operating Costs, Miscellaneous Receipts, and Investment Credits of the preceding calendar year; and prior calendar years. Thereafter, such review will be annual and directed principally at the annual Return of Operating Costs, Miscellaneous Receipts, and Investment Credits of the preceding calendar year. The object of the review will be to assess the overall strength and integrity of internal check and control over operations; and to provide accurate and consistent reporting in the Returns of Operating Costs, Miscellaneous Receipts and Investment Credits. The contract operator will be represented during such review. This review will include at least the following 5 review components:
 - (a) relevant internal control procedures, accounting policies including: procedures and controls to ensure that the costs as reported in US\$ fairly represent actual costs incurred; the controls on the measurement, transfer and sale of petroleum as prescribed by Clause 622 of the Regulations, together with effective control and custody of documentation showing measurement of, and transfer of title to, petroleum sold; the procedure and controls for the implementation of the calculation of petroleum production entitlements as provided under Clauses 228 and 229 of the Directions; the system for the control of inventory movements as provided by Clause 622 of the Directions; the system for charging overheads; account code classifications for operating costs; delegated authorities; service agreements with both third parties and affiliated/parent companies; organisation charts (see also Clause 301 of these Directions) including those employees for whom a part of their time is charged to the contract operator; and details of other related control and organisational structures;
 - (b) the scope of the audit carried out by the independent corporate auditor (and the internal auditor if applicable) of the contract operator and assess in particular the adequacy of specific consideration given to the provisions of the Production Sharing Contract in the context of the Designated Authority's responsibilities to the Contracting States;

- (c) review any internal control memoranda sent by the corporate external auditor (or internal auditor) to the contract operator and follow-up actions taken;
 - (d) the supplementary information to the returns of Operating Costs, Miscellaneous Receipts and Investment Credits to be provided annually following the declaration of a discovery area under Clause 233 below; and
 - (e) the findings under the specific audit checks and procedures to be undertaken by the independent auditor of a contract operator under Clause 234.
3. In relation to the initial audit review following the declaration of a discovery areas provided in Clause 231.2 above, the Designated Authority will consider the scope of the audits as completed for prior calendar years, particularly the extent of supplementary information available as provided for under Clause 233 and the audit checks and procedures specified under Clause 234, and the adequacy of information under Clause 233 and the adequacy of the scope of audit checks in relation to Clause 234. The Designated Authority will then advise the contract operator in writing of any additional information required, or audit checks to be completed.
4. The independent audit referred to under sub-clauses 1 and 2 above of this Clause, consistent with the provisions of sub-section 14.2 of the PSC, and Article 41 of the Interim Petroleum Mining Code, shall not prejudice the rights of the Designated Authority to inspect and audit the contractor's books and accounts.

Clause 232

Audit by the Designated Authority

The Designated Authority reserves the right to inspect and audit the books and records of the contract operator. An audit conducted by the Designated Authority may include the review of the additional information for prior contract years as provided in Clause 231.3 above, or at the discretion of the Designated Authority, may be extended to other matters.

Clause 233

Supplementary Information to the Returns of Operating Costs, Miscellaneous Receipts and Investment Credits to be Provided Annually following the Declaration of a Discovery Area

1. Additional information will be provided of general and administrative charges, and any costs charged by an affiliated corporation, or affiliate (as defined in Section 1 of the PSC). This information will provide the basis of the review, as provided by Section 6.10 (b) of the PSC, of the determination of a method whereby such charges may be allocated consistent with the overriding requirement that such costs are demonstrated as being directly related to current year petroleum activities in the contract area. All costs charged to the contract operator, other than costs charged by a third party non-affiliated corporation or entity, will be set out on a schedule, or schedules. The schedule, or schedules, will include the following details:
 - (a) corporate cost centres from which charges have been made to the contract operator, the basis on which charges are made from such costs centres, and the extent to which within these costs centres that over or under recoveries of costs have been made;
 - (b) details of any reviews made of the cost recoveries made by corporate cost centres;
 - (c) details of any service agreements, or other agreements, under which such costs are charged;
 - (d) the amount of such costs charged;

- (e) the nexus between the charge and its relationship to current calendar year's petroleum activities in the contract area;
- (f) the affiliated corporation, or affiliate, making such charges; and
- (g) any other charges made, or costs incurred, not charged by a third party, including goods, materials and supplies.

The schedule, or schedules, containing these details will be reviewed by the independent auditor, who will report whether the details provided are a "true and fair statement of the details of the costs charged to the contract operator, other than costs charged by a third party non-affiliated corporation or affiliate".

Clause 234

Specific Audit Checks and Procedures to be Undertaken by the Independent Auditor of a Contract Operator following the Declaration of a Discovery Area.

1. The contract operator will instruct the independent auditor, in addition to the audit review process with the Designated Authority as provided in Clause 231.2, to include in the audit review to be undertaken those enquiries and checks as set out in paragraphs 2, 3, 4 and 5 below. The audit review program as set out below is framed to review the amounts included in the Returns of Operating Costs, Miscellaneous Receipts and Investment Credits and compliance with certain Treaty obligations. The independent auditor will report to the Designated Authority their specific findings on the specific issues addressed in the audit review program. (It is not intended that the audit review, as provided below, should result in the exclusion of other areas audit otherwise required from a corporate management/control perspective.)
2. Review of contract administration and purchase orders:
 - (a) Obtain a summary of payments made under contracts. Compare these payments under these contracts against the CAFEs (or AFEs) issued in accordance with Clause 226 of the Directions. Document exceptions where payments are made outside approvals provided by the CAFEs.
 - (b) Ascertain the extent to which contracts were tendered, and all findings are to be documented.
 - (c) Obtain the "annual work program and budget of operating costs" for the year as approved by the Designated Authority. Compare this against actual operating costs as reported, and obtain explanations for major differences, ascertaining the extent of Designated Authority approvals to such variations.
 - (d) Carry out in-depth test checks on the management of selected contracts (including principal contracts under exploration expenditures and capital costs under development program). Obtain summaries of contract conditions, if available, and if not establish how contract information is disseminated to maintain effective contract controls. Review such summaries/information against the contract as appropriate, particularly for progress payment provisions; review the internal controls on progress payments; contract variations; and final payments made on completion of contracts. At each stage consider the extent of information available to decision makers, particularly those responsible for approving progress payments. Document the extent to which overall system of internal control is satisfactory.
 - (e) Ascertain the extent to which third party goods and services have been provided outside the tender provisions of Section 10 of the PSC. Review the operation of internal controls on such purchases, particularly purchase orders. Conduct in-depth test checks to ascertain: why any contract was not tendered; the authority for issuing a purchase order; alternative purchasing processes followed outside of contract or purchase order procedures; the extent of quotes

obtained and the documentation of those quotes; the extent to which the scope/coverage of purchase orders was subsequently extended to cover additional items or numbers of items. All findings are to be documented.

- (f) Review the process and control of cost collections for consolidation in the Return of Operating Costs, Miscellaneous Receipts and Investment Credits. (Schedules are to have been provided with these returns which will provide documentation, though generally expressed in US\$). Extend the in-depth test of cost items tested in Clause 234.2 a). to e). above, and Clause 234.3 a). to d). below to their inclusion on the Return. Assess in each case whether the basis on which these specific costs items is returned is consistent with the criterion that the costs relate directly to the current calendar year's operations in the contract area. All findings are to be documented.
 - (g) Schedules 1 (a), 4 (a), and 4 (c) of the Return of Operating Costs, Miscellaneous Receipts and Investment Credits refer to materials used. Identify the extent of inventories of unused materials on a schedule, and compare this against the inventories shown in the Financial Statements of the contract operator. Ascertain whether such costs have been included in Return of Operating Costs, Miscellaneous Receipts and Investment Credits. All findings are to be documented.
3. Review cost collections of internal allocations and non-third party supplies of goods and services:
- (a) Ascertain which supplies of goods are sourced from internal corporate/affiliate supply or inventory sources. By enquiry and test checks establish whether such items were charged at the original cost price to the affiliate purchasing the goods from a third party, and if not the extent to which the price to the contract operator exceeded, or was less than, the cost price. Document the basis on which cost has been determined (eg LIFO (last in first out), FIFO (first in first out) or average costs) and record the evidence obtained of costs of purchases. In particular test check the supply arrangements for tubulars used in drilling wells and related drilling equipment supplied to the contract operator from affiliated corporations. Ascertain the pricing procedure adopted and test from stock records and/or other substantive records on what basis such inventory items were supplied to the contract operator. Ascertain whether or not these arrangements were specifically approved by the Designated Authority. Assess whether the transfer price was reasonable as compared to the initial purchase cost of the items to the affiliated corporation, or affiliate. If possible obtain prices for supplies ex third party suppliers. Document whether or not prescribed supply and pricing practices are followed, and where alternative practices are provided for, and the criteria on which alternative practices were selected.
 - (b) Give careful consideration to whether general administrative overheads have been included under Schedules 1 and 4, which do not "directly relate to the current calendar year's operations in the contract area", and identify and report any exceptions. For example accounting staff employed directly on the accounting of current calendar year's operations in the contract area are allowable, while a corporate accounting overhead is not allowable. Where specific accounting/finance functions such as payroll, purchasing and treasury are charged, a specific basis will need to have been established. (See sub-section 6.9 (h) of the PSC). All findings are to be documented.
 - (c) Check by sampling whether the direct labor costs returned under Schedules 1 (a) iv), 1 (b) iv) and 6 exclude oncosts or overheads such as office rentals, and document the extent of any such overheads or charges are included. Assess whether the time writing records provide reasonable assurance that the activity was related to "the current calendar years exploration operation in the contract area". All findings are to be documented.
 - (d) Direct costs of survey support services for data processing, dark room and drawing office services, which are charged out based on time costs directly to exploration operations in the

contract area, may be included as an exploration cost under sub-section 6.5 (b) item iii). Similarly direct costs of design support services for data processing, dark room and drawing office services, which are charged directly to an item of capital cost, directly related to petroleum activities in the contract area, such expenditure may be included as a cost of that item under sub-section 6.7. When these services are not charged out on a time cost basis, but as an overhead, these costs will be considered as being technical and related services, which may be claimed under sub-section 6.6 (b) item i). Test check how charges for such services have been made and whether their treatment complies with item c) of the "Directions for the Completion of this Return". All findings are to be documented.

- (e) Costs of office, services and general administration directly related to the petroleum activities carried in the contract area including technical and related services, office supplies, office rentals, other rentals of services and property, and personnel expenses will constitute neither "exploration costs" (sub-section 6.5) nor "capital costs" (sub-section 6.7); but may be returned only under sub-section 6.6 (b), providing the test of directness within the meaning of that sub-section is met. Establish and document the overall extent and scope of charges, and how such charges have been returned.
- (f) Rentals claimed under sub section 6.6 (b), as office rentals, other rentals of services and property, may include charges for:
 - (i) rental charges for office space at commercial rates, including property taxes if applicable, for space occupied by persons directly engaged in petroleum activities in the contract area; and
 - (ii) rental charges for other assets used in relation to petroleum activities in the contract area, based on the cost of the asset and its useful life, where no other charge for such asset usage is included under charges for services or other operating costs.

Review the basis on which office rentals, other rentals for services and property have been set, and whether they conform with item j) of the "Directions for the Completion of this Return".

- (g) Obtain and review the extent to which service contracts have been entered into, and that the charging of costs under such is consistent with the necessary direct relationship "to current calendar year's operations in the contract area". Identify and report any exceptions.
4. Review costs of labor, materials and services incurred as part of exploration costs, non-capital costs and capital costs.
- (a) Establish through test checks the extent and effectiveness of controls for the enforcement of contract conditions for contracted staff and specialist staff employed under sub-contracts consistent with Treaty Article 11. All findings are to be documented.
 - (b) Establish whether or not the obligation to provide terms and conditions, that are no less favourable than those which would apply from time to time to comparable categories of employment in Australia and Timor-Leste. Document how these arrangements have been effected.
 - (c) Review the overall procedures for the control of numbers of employees, and the steps taken to ensure that employment levels are consistent with minimum staffing levels from operational and safety standards. All findings are to be documented.
 - (d) Test check salaries paid against contracts, time records, and income tax records. Include in the test nationals/permanent residents of Australia, Timor-Leste and third countries. Taxation of the salaries of Australian and Timor-Leste residents is payable to the respective Australian and Timor-Leste taxation authorities, while taxation on the salaries of nationals of third countries is taxable, subject to a rebate entitlement against the tax payable in each Contracting

State of the reduction percentage of the gross tax payable in the Contracting State. All findings are to be documented.

- (e) Review the “direct labor cost” as returned on Schedules 1 (a) iv), 1 (b) iv), 4 (a) i), 4 (b) i) and ii) and ensure by comprehensive test checks that direct labor costs are consistent with Direction d) of the “Directions for the Completion of this Return” and exclude allocations additional to direct salary costs. All findings are to be documented.
- (f) The contract operator must be able to substantiate the allocation of direct labor costs by reference to time sheets or employment records, which demonstrate that such labor costs were directly related to petroleum activities in the contract area in relation to “exploration costs” (sub-section 6.5), “non-capital costs” (sub-section 6.6) and “capital costs” (sub-section 6.7). Test check direct labor costs against the above criterion. All findings are to be documented.
- (g) Eligible costs will in the normal course of events be incurred in the first instance by the contract operator and accounted for in the first instance in the books of account of the contract operator. Alternatively where the costs are charged onto the contract operator by an affiliated corporation, eligible costs will be supported by one of the following:
 - (i) actual time based charges for such eligible costs incurred;
 - (ii) allocations of eligible costs incurred, based on a system which is demonstrated as being fairly formulated, and is subject to frequent and regular review;
 - (iii) a service agreement which provides for a reasonable recovery of eligible costs.

Test allocations from affiliated corporations against the above criterion. All findings are to be documented.

- (h) Review by test checks the adequacy and effectiveness of controls over ordering, purchasing, inventory, payment, budget and costing records for purchases of goods and materials. Establish by tests and enquiry at what point in time goods and materials are charged as an operating cost under sub-section 6.6 a), in particular are such purchases of goods and materials expensed at time of purchase, and if so assess the extent of prospective inventory levels in quantitative and monetary terms. All findings are to be documented.

5. Review specific issues requiring particular treatment, or consideration, under the Production Sharing Contract.

- (a) Ascertain from the contract operators corporate accounts, cash books receipt summaries and other available sources the extent to which Miscellaneous Receipts as provided in Section 6.8 of the PSC may have been received during the calendar year. All findings are to be documented.
- (b) Ascertain whether any Ineligible Costs as provided under sub-section 6.9 have been excluded in the Return. From audit enquiries, and a general overview, including a review of charges against particular account codes where ineligible costs may have been charged, ascertain whether Ineligible Costs have been identified, and excluded from the amounts returned. Document Ineligible Costs as excluded and any costs which may be considered to be Ineligible Costs, which have not been excluded from the Return.
- (c) Unless otherwise approved by the Designated Authority, costs incurred by the contractors other than the contract operator, will be ineligible costs (sub-paragraph 6.9 (k)). During the exploration phase of petroleum activities, individual contractors may, subject to Designated Authority approval, insure their individual interests in exploration activity under world wide, or separate policies, rather than a policy effected for the contract as a whole by the contract operator. Two criterion have to be met:

- (i) the basis of the allocation of such insurance premiums paid has to be consistent between all contractors for that contract area; and
- (ii) the basis of allocation is to reflect the relationship of exploration activity in the contract area to the overall exploration activity of the contractor.

Confirm that such criterion have been met. All findings are to be documented.

- (d) With the declaration of a discovery areas provided under Article 16 of the Interim Petroleum Mining Code, the Designated Authority will consider proposals from the contract operator, and if appropriate will agree the procedure for the conversion of a non-US\$ currency transactions to US\$ for the purpose of returning Operating Costs, Miscellaneous Receipts and Investment Credits. Test check major items of expenditure to ensure that the rate of exchange as applied was the rate applicable on the date the payment was made. All findings are to be documented.
- (e) Consider the overall integrity of the system of internal controls and internal check, where an integrated set of books of account are not maintained in US\$, to ensure that amounts returned in the Returns of Operating Costs, Miscellaneous Receipts and Investment Credits, can be reconciled back to total expenditures as recorded in the books of account in non-US\$ currencies. All findings are to be documented.
- (f) Review and document the extent of accrued liabilities provided by the contract operator and the extent to which these are included in the Return of Operating Costs, Miscellaneous Receipts and Investment Credits. In principle the recovery of operating costs through entitlements to shares of petroleum production arises on costs incurred on a cash basis. All findings are to be documented.
- (g) The review of expenditures on capital costs is to have been reviewed under Clause 234.2 & 234.3, in relation to payments made under contracts, and allocations for labour and overheads. Review the related progress reports tenders and quotes on the construction/ supply of these items, and inspection, test or delivery reports together with any other documentation recording progress on the fabrication, construction and delivery of these items. Establish whether those items claimed to have been “placed into service”, meet the criterion for placed into service as provided in Clause 227.3 of the Directions. Check the calculation of depreciation on capital costs on a 20% straight line basis.
- (h) Review the extent to which the audit has covered the amounts included in the Return of Operating Costs, Miscellaneous Receipts and Investment Credits, and set out on a schedule those cost items not reviewed.

PART III - REPORTING ON ORGANIZATION STRUCTURE

Clause 301

Organization Structure and Personnel Establishment

The contract operator will provide the Designated Authority annually with:

1. A chart of its Organization Structure which will be submitted together with the documents under Clause 224 and 225.
2. A report of the Personnel Establishment filling positions in the above Organization Structure (as referred to in Clause 225.2), including the names and job-titles of the officers, and the anticipated percentage of time-allocation in case of part-time assignees.
3. Its program by which it will meet its obligations under Section 5.2 (i) of the contract.

PART IV - SERVICE CONTRACTS

Clause 401

Reporting on Service Contracts

The contract operator will report to the Designated Authority monthly in brief, on service contracts entered into, as required under Section 10.5 of the Contract, by listing particulars, including:

1. The name of the persons/individuals contracted, their nationality, effective date, term, kind of service provided, contract-sum, and terms of payments; and
2. Progress of service completion and details of payments made during the month and cumulative; expenditures on each service contract.

Clause 402

Service Preference Program

The contract operator will provide the Designated Authority annually with its program to meet its obligations under section 5.2 (h) of the contract.

Clause 403

Subcontracting for Services

1. Pursuant to subsection 5.2 of the Production Sharing Contract, the Contract Operator shall ensure that any of its subcontracts contain a stipulation that the parties thereto shall comply with the requirements of the Treaty, including the Interim Petroleum Mining Code and the regulations and directions issued thereunder, the Production Sharing Contract, and the Taxation Code.
2. The Designated Authority requires the Contract Operator to take appropriate measures that in any subcontract within the JPDA preference is given to employment of Timor-Leste nationals and permanent residents, with due regard to efficient operations and to good oilfield practice (based on Article 11 of the Treaty).

3. To ensure due compliance with this requirement, the measures should be taken from an early stage of the process of subcontracting.

PART V - PREPARATION AND PRESENTATION OF A DEVELOPMENT PLAN AND COMMENCEMENT OF DEVELOPMENT

Clause 501 Development Plan

1. As provided by Section 2.4 of the contract and Article 16.1 of the Interim Petroleum Mining Code, the Designated Authority shall declare a discovery area and the contract operator shall commence development, provided that the Designated Authority and the contract operator can agree that a discovered petroleum pool can be produced commercially.
2. To facilitate the means for considering commerciality referred to in the above paragraph, the subsequent declaration of a discovery area, and for commencing work on the development of a petroleum discovery pursuant to Section 4.9 of the contract, the contract operator shall prepare and submit to the Designated Authority, a Development Plan.
3. The Development Plan, which will be based on all pertinent operating and financial data, shall set out details such as:
 - (a) The proposed petroleum reservoir development and recovery management program;
 - (b) the reservoir-drainage pattern adopted, and projection of the production profile for the expected life of the project;
 - (c) production facilities, including the layout, field production processing system, petroleum storage and loading facilities, and the supply and logistics system of personnel and goods;
 - (d) feasibility of fabrication, hauling, installation and project commissioning stages of the facilities, the project implementation schedule, and estimates of the capital and non-capital expenditures of the plan; together with the estimated percentage of the total to be expended in Australia and Timor-Leste;
 - (e) projection of costs of operation/production; together with the relevant percentages of the total to be spent on Australian and Timor-Leste services and personnel;
 - (f) calculation of the economics to show commerciality of the Development Plan.

Clause 502 Commencement of Development

1. Upon the Designated Authority and the contract operator agreeing that a discovered petroleum pool can be produced commercially in accordance with section 2.4 of the contract, then as to that particular block or blocks of the contract area and Designated Authority shall declare a discovery area and the contract operator shall commence development.
2. Subject to paragraph 1. above, all necessary steps shall be taken to enable the commencement of exploitation of the petroleum resource, consistent with the Development Plan, as soon as possible. Specifically in the case of the natural gas development project however, the Designated Authority may allow the contract operator the time necessary for making gas marketing arrangements and conclusion of a gas sales contract.

PART VI - EQUIPMENT ENTERING OR LEAVING JPDA

Division 1 - Principles and Responsibilities

Clause 601 Movements of Equipment

1. The Treaty requires that the Designated Authority controls all movements into, within and out of the JPDA including the movements of equipment which includes vessels, aircraft, structures and equipment employed in exploration for and exploitation of petroleum resources.
2. The contract operator will ensure that equipment and goods do not enter structures in the JPDA without first entering Timor-Leste or Australia, where they are subject to customs control in accordance with the laws of the Contracting State through which entry into the JPDA is to be made.
3. The Designated Authority's responsibility to control such movements of equipment including materials and goods is also related to the need to correlate operating costs recoveries against equipment and goods entering or leaving the JPDA, as:
 - (a) items purchased for inventory shall be recoverable as operating costs at such time as the items are landed in the JPDA;
 - (b) depreciation of capital costs begin in the calendar year the asset is placed into service which takes place in the contract area in the JPDA; and
 - (c) the value of property, the cost of which is an operating cost, when the property ceases to be used in petroleum activities in the contract area would constitute a miscellaneous receipt.

Division 2 - Control on Movements of Equipment

Clause 620 Equipment Owned by Service Companies

Designated Authority control on movements into, within and out of the JPDA of equipment owned by service companies, including their aircraft, seismic, drill, supply and service vessels engaged in petroleum activities, with their onboard equipment and inventory, is provided under Clause 216, 401 and 501 of these Regulations; it is not subject to Clause 621 subsequent hereto.

Clause 621 Equipment Acquired by Contract Operators

1. A contract operator shall maintain and lodge with the Managing Director, a master list of all equipment shipped into JPDA and shall include materials and goods acquired and owned by the contract operator for use or installation in its contract area. The "master list" shall list the items according to their cost category, ie. exploration cost, non-capital cost or capital cost.
2. The master list should also indicate:
 - (a) the name(s) or identification of the item(s) or lots of items listed, the manufacturer/fabricator and country of origin;

- (b) the United States dollar value of the items(s) or lots of items listed;
 - (c) for capital cost item(s) or lots of capital cost items, the segment of production system to which the item(s) belong eg. oil/gas wells, platform structure, production processing, pipeline/flowlines segment, crude oil storage etc.;
 - (d) for lots of non-capital cost items (eg. for inventory, consumables, spare-parts), the reference number(s) of detail documents of such lots of items (eg. packing lists, confirmed purchase orders) in lieu of listing the items themselves;
 - (e) name and address of carrier, and reference number of the Bill of Lading;
 - (f) the place of final destination in the contract area;
 - (g) the signature of the contract operator's authorised officer responsible for correctness of the master list's contents;
 - (h) the date of lodgement; and
 - (i) the signature and stamp of the Timor-Leste or Australian customs evidencing that the equipment and goods listed have been duly cleared pursuant to Section 5.2 (k).
3. For equipment including materials and goods leaving the contract area, the contract operator shall also lodge with the Managing Director a similar master list, except that it should also indicate:
- (a) the place in the contract area the items have been taken away from;
 - (b) the destination;
 - (c) the reason for taking away from the contract area; and
 - (d) the date of lodgement.
4. Any equipment including materials and goods acquired and owned by a contract operator entering or leaving its contract area not covered by such master list(s), represents a default on the part of the contract operator.
5. When the contract operator considers it helpful for the purpose of obtaining clearance through either the Timor-Leste or Australian customs, the contract operator may request the Managing Director to sign and stamp the master list(s) in order to provide evidence of the Designated Authority's authorisation for the items listed to enter or leave the JPDA, whichever is the case.

Clause 622

Reporting of Inventory Movements

1. After commencement of production, a contract operator shall quarterly report movements during the quarter, of materials and equipment inventory in the contract area used/to be used in petroleum activities in accordance with subsection 6.10 (e) of the Production Sharing Contract, expressed in United States dollars as follows :
- (a) total value of items purchased and added or returned to such inventory;
 - (b) total value of items taken out from inventory for use in petroleum activities;
 - (c) value of non-moving inventory items, subdivided into values of items which have not moved for:
 - (i) less than 1 year;
 - (ii) 1 to 2 years; and
 - (iii) more than 2 years.

- (d) value of items used outside the contract area, soled or otherwise removed from the contract area; and
 - (e) total value of inventory level at end of quarter.
2. Contract operator will also include in the report:
- (a) the locations where the inventory items are stored; and
 - (b) a bar chart depicting the above quarterly inventory movements.

PART VII - INSURANCE

Division 1 - General Principles

Clause 701 Strict Liability of Contractor

Insurance is required to be taken out and maintained by the Contractor on a strict liability basis under Article 25 of the Interim Petroleum Mining Code. The Contractor is accordingly liable for any damage or injury arising in connection with the carrying out of petroleum activities and other activities associated with those operations, whether or not it exercised reasonable care; such liability being non-delegable.

Clause 702 Independent Contractor

The Contract Operator, having the exclusive right and responsibility to undertake petroleum activities in a contract area, is and shall act as an independent contractor, and all personnel assigned to the petroleum activities by the Contract Operator shall in no sense be nor be deemed to be agents or employees of the Designated Authority.

Clause 703 Damage or Expenses incurred from Pollution

The Contractor shall be liable for damage or expenses incurred as a result of pollution of the marine environment arising out of petroleum activities and other activities associated with those operations.

Clause 704 Insurance Cover and Limits

Insurance cover and limits specified in policies, cannot be construed in any way as limiting the Contractor's liability or as constituting acceptance by the Designated Authority of responsibility for any financial or other liabilities of the Contractor.

Clause 705 Claims

The word "Claims" includes any and all claims, liens, judgements, awards, remedies, debts, damages, injuries, costs, losses, expenses or causes of action of whatever nature, including, without limitation, punitive or exemplary damages and those made or enjoyed by dependents, heirs, claimants, executors, administrators, successors, survivors or assigns.

Division 2 - Insurance Requirements

Clause 730 Additional Insured

The Contract Operator shall ensure that the Designated Authority is named as additional insured on all policies (other than Employer's liability and Worker's Compensation Insurance) which Contractor is required to effect arising out of or with respect to its petroleum activities and other activities associated with those operations.

Clause 731 Waiver of Rights of Subrogation

Each Contractor shall provide the Designated Authority with written confirmation that the Contractor's insurers have agreed to waive all rights of subrogation against the Designated Authority with respect to the Contractor's petroleum activities and other activities associated with those operations.

Clause 732 Subcontractors' Insurance

The Contract Operator must ensure that each sub-contractor engaged by it in the conduct of petroleum activities under the Contract takes out and maintains for the duration of the Contract, employer's liability, worker's compensation and other insurances required by law, together with such other insurance as Contract Operator may consider necessary. Any deficiencies in the cover or policy limits of sub-contractors' insurances shall be the sole responsibility of Contract Operator. Contract Operator shall also procure that its sub-contractors and their respective insurers waive all express or implied rights of subrogation against the Designated Authority; and that in their sub-contractors' insurances the Designated Authority is named as an additional insured.

Clause 733 Indemnity

Contract Operator shall procure that, notwithstanding:

- (a) any negligence of the sub-contractor, its employees, servants and agents;
- (b) defects in or unfitness of any equipment, building or structure;
- (c) the place where any loss, damages, destruction or injury occurs; or
- (d) the negligence of the Contract Operator and the Designated Authority or either of them,

each sub-contract provides for the sub-contractor to protect, defend, indemnify and hold harmless the Designated Authority from and against any and all claims, demands, liabilities and damages arising out of:

- (a) illness or injury to, or death of, the employees, servants and agents of such sub-contractor and/or its sub contractors or their employees, servants or agents, and/or
- (b) loss of, or destruction of property, owned or hired, or equipment, materials and supplies of such sub-contractor, its sub-contractors, and its or their respective employees, servants or agents, where such loss or injury is occasioned by, incidental to, or arises out of or in conjunction with the sub-contract.

Clause 734 Deductibles

Any deductibles applicable to the insurances shall be for the account of Contract Operator, or its sub-contractors as may be expressly provided in their contracts.

Clause 735 Evidence of Insurances Effected

1. Before or on the commencement of petroleum activities, the Contract Operator shall provide to the Designated Authority certified copies of the Contractor's insurance policies. Renewal policies shall be obtained by Contract Operator as and when necessary and certified copies thereof shall be forwarded promptly to the Designated Authority.
2. Should an individual corporation, being one of the contracting corporations to a Production Sharing Contract, wish to effect insurance for the exploration phase, through individual policies pursuant to Clause 761 of these Directions, rather than through a single policy effected for that Contract as a whole, it shall be deemed to have satisfied the requirement under paragraph (1) of this Clause by promptly providing the Designated Authority with an original copy of a "Declaration of Insurances" in accordance with the format in Annex A to Part VII of these Directions; and renewals thereof shall also be promptly forwarded to the Designated Authority.
3. Where the Contract Operator has effected insurances for the exploration phase through a policy, or policies, for the Production Sharing Contract as a whole, the Contract Operator may satisfy the requirements under paragraph (1) of this Clause by promptly providing the Designated Authority with an original copy of a "Declaration of Insurances" in accordance with the format in Annex A to Part VII of these Directions; and renewals thereof shall also be promptly forwarded to the Designated Authority. The Designated Authority reserves the right, however, to be provided with certified copies of the Contract Operator's insurance policies as provided by paragraph (1) of this Clause.
4. The Contract Operator shall also furnish the Designated Authority with copies of the certificates of sub-contractors' insurances stating: (a) kinds and amounts of insurance; (b) insurance company(ies) carrying the coverages; (c) effective and expiration dates of policies; (d) that an endorsement of waiver of subrogation has been attached to all policies; and (e) that the other requirements of Clauses 732 and 733 have been met.
5. Any material change in or cancellation of the documents required to be submitted to the Designated Authority under this Clause, shall be notified by the Contractor at least 30 days prior to such change or cancellation, and the Designated Authority shall be provided with the replacement copy as applicable.
6. If the Designated Authority is not satisfied with the arrangements for insurances that have been made as evidenced by the documents required to be submitted to the Designated Authority under this Clause, including inadequacy of the quality of cover and security of the insurer, it will so notify the Contractor for due rectification thereof.

Clause 736
Acquisition of Insurances

Subject to Article 25 of the Interim Petroleum Mining Code, Contract Operator shall take out and maintain insurance in accordance with subsection 5.2 of the Contract.

Division 3 - Types of Insurances

Clause 760
Insurances to be effected

Pursuant to Article 25 of the Interim Petroleum Mining Code, and without prejudice to the liabilities and responsibilities of the Contractor and Contract Operator set forth above, Contract Operator shall take out and maintain with respect to and for the duration of petroleum activities under the Contract, insurances which shall include:

1. Workers Compensation and Employers' Liability Insurance, to limits in compliance with applicable laws.
2. Insurance to cover damage to Contract Operator's properties, including equipment, installations, machinery and all other equipment of any description to be furnished by Contract Operator to conduct petroleum activities under the Contract.
3. General Third Party Liability Insurance against any property damage and/or loss and/or personal injury or death arising out of or in any way connected with petroleum activities.
4. Insurance to cover expenses and liabilities associated with clean-up, remedy and control of the seepage and the escape of petroleum from within the contract area (including costs to regain control of a well), polluting the environment.
5. Insurance to cover for costs of or incidental to, the actual or attempted raising, removal or destruction of the wreckage or debris (howsoever caused) of property of the Contract Operator and of other contracted parties in connection with petroleum activities not otherwise insured.

Any such coverage to be provided hereunder, shall not stop the collection of claims that may become apparent after the end of the operations by virtue of having "claims made" policies or the like.

Clause 761
Insurance Effected by the Individual Corporations, being one of the Contracting Corporations to a Production Sharing Contract

Insurance may be effected by individual corporations, which are one of the contracting corporations to a Production Sharing Contract (PSC), only during the exploration phase of petroleum activities. The requirement to be met should such corporations wish to effect insurance through individual policies held by them, rather than through a single policy effected for the PSC as a whole, are:

1. the requirements of Article 25 of the Interim Petroleum Mining Code, together with the Directions under this Part VII, are to be met under the policies effected by such corporations;

2. the requirements of Section 10 of the PSC are met in such a way that the contract operator can demonstrate that the aggregate cost of insurance effected by the individual corporations, is competitive against the cost of independent tenders/quotes, based on the same terms of reference, for the insurance of the risk when insured for the block as a whole; and
3. that the contract operator sets out for consideration of the Designated Authority the system/method on which the cost of corporate package insurance policies may be allocated to the PSC by the respective parent (or affiliated) of such corporations, with the sum of the insurance premiums charged as an operating cost of the PSC.

Once a discovery area has been declared as provided in Article 16 of the Interim Petroleum Mining Code, insurance as required under Article 25 of the Interim Petroleum Mining Code, relating to the development and production phases of petroleum activities in, or from the discovery area will be effected by the contract operator in respect of all interests under the PSC.

This Direction is restricted to the exploration phase of petroleum activities.