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## **PUBLIC NOTICE – TIMOR SEA TREATY**

### **Article 13 – Interim Petroleum Mining Code - Summary Details of Production Sharing Contract for the Joint Petroleum Development Area**

#### **PRODUCTION SHARING CONTRACT (PSC) 03-12**

##### **Parties**

On 2 April 2003 the Joint Commission approved the Production Sharing Contract JPDA 03-12 subjected to the Timor Sea Treaty signed between the Government of Timor-Leste and Australia 20<sup>th</sup> May 2002 and the Interim Petroleum Mining Code (IPMC) issued under article 7 of the Timor Sea Treaty. Parties to the contract are the **Designated Authority** established under the Treaty, party of the first part Production Sharing Contract JPDA 03-12 ('PSC 03-12') 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 44 056 937 752**, 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 (collectively 'the Contractor'), parties to the second part.

##### **Contract Term**

Term of this PSC shall commence on the effective date of the Treaty, being 20 May 2002, and shall expire on the last moment of 6 February 2022.

The Contractors appoints and authorises ConocoPhillips (91-12) Pty Ltd being one of the contracting corporations, to be the contract operator on behalf of the Contractor and responsible to the Designated Authority for the execution of petroleum activities in accordance with this PSC. Any appoints or changes to the contract operator shall be subject to Designated Authority approval

##### **Beneficiaries Interest**

The beneficiaries' interest of the parties under this contract is as follows:



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<b>Beneficiaries Interest</b>	<b>Percentage</b>
ConocoPhillips (91-12) Pty Ltd	42.4170000% <sup>1</sup>
Emet Pty Ltd	1.5770000%
Petroz (Timor Sea) Pty Ltd	13.3710000%
Inpex Sahul, Ltd	21.2090000% <sup>2</sup>
Santos (JPDA 91-12) Pty Ltd	21.4260000% <sup>3</sup>
<b>Total</b>	100%

### **Production Period**

In case of a commercial discovery in any block or blocks of the contract areas, the Designated Authority shall declare a discovery area and the contract operator shall commence development.

The Designated Authority shall give sympathetic consideration to extending the term of this contract if the petroleum production has not ceased permanently in and from the contract area by the expiration date. 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.

If the 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.

### **Work Program and Expenditure**

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.

<sup>1</sup> in 2010 ConocoPhillips (91-12) Pty Ltd beneficiary interest increased to 46.36%

<sup>2</sup> in 2010 Inpex Sahul, Ltd beneficiary interest decreased to 19.25%

<sup>3</sup> in 2010 Santos (91-12) Pty Ltd beneficiary interest decreased to 19.44%



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## **Rights and Obligations of the Parties**

Subject to Designated Authority approval, The contract operator, shall have the rights accorded to it under the Treaty, including Petroleum Mining Code and taxation code to enter and leave the contract area and move to and from the facilities wherever located at all times.

The contract operator shall comply with all obligations, *inter alia*, give preference to goods and services which are produced in Australia and Timor-Leste, provided by subcontractors operating out of Australia or Timor-Leste, and give preference to the employment of Timor-Leste nationals and permanent residents, having due regard to safe and efficient activities and good oilfield practice.

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 in particularly be jointly and severally liable to meet the obligations imposed on the contract operator, and be subject to the taxation law of the Contracting States

## **Valuation of Petroleum Production and Natural Gas**

Petroleum production sold to third party shall be valued at the net realized price and free on board (f.o.b.) basis, and the petroleum sold shall be valued by using the weighted average per unit price, adjusted as necessary for quality, quantity, grade and specific gravity. In regards to petroleum produced, the Contractor shall be liable to make provisional payment to Designated Authority which equal to estimated value of petroleum entitled to Designated Authority. This payment will be made on the monthly basis in considering the estimate operating cost and the estimate value of sales of petroleum and later will adjust upon the realization of actual operating cost and value of petroleum sale.

Natural Gas shall also be valued at the field export point and the value of natural gas sold by the Contractor shall be determined by a net back mechanism in which gross



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natural gas amount sold shall be deductible to the export cost charge of pipeline and export cost charge of Darwin LNG. Any unrecovered export cost charge due to negative amount of gross revenue sold shall be carried forward and be deductible in the following month of sales.

### **Tender for Petroleum Activities**

Invitation shall be drawn by the contract operator to tender or sub-contracts to the attention of Australian and Timor-Leste sub-contracts. All tenders for petroleum activities called by contract operator shall be subject to Designated Authority approval. The approval or non-approval by the Designated Authority shall be provided within thirty (30) days of receipt of the tender details from the contract operator which is including a summary of tenders compared against the tender criteria and reason for the selection of the preferred tender.

Contract may enter into sub-contracts without the approval of the Designated Authority where:

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

### **Sharing of Petroleum Production**

First Tranche Petroleum (FTP) is shared at 10% of the petroleum production in any calendar year before any cost recovery. The amount of FTP from crude production shall be shared between the Designated Authority and Contractor in accordance with the sharing percentage, where the Designated Authority is entitled to take and receive fifty (50) percent and the Contractor also fifty (50) percent.



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The amount of FTP from gas production shall be shared between the Designated Authority and Contractor in accordance with the sharing percentage, where the Designated Authority is entitled to take and receive forty (40) percent and the Contractor shall take sixty (60) percent.

Revenue remaining after cost recovery will be shared in accordance with the sharing percentage, called the “profit share”. Profit share from crude production between the Designated Authority and Contractor in accordance with the sharing percentage, where the Designated Authority is entitled to take and receive fifty (50) percent and the Contractor also fifty (50) percent, whilst Profit share from gas production shall be shared between the Designated Authority and Contractor in accordance with the sharing percentage, where the Designated Authority is entitled to take and receive forty (40) percent and the Contractor shall take sixty (60) percent.

### **Cost Recoverable**

#### **Operating Costs**

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; current calendar year depreciation of capital costs, and
- c. allowable operating costs incurred in previous calendar year have not been recovered.

Exploration Cost means those operating incurred which relate directly to the current calendar year’s exploration activities in the contract area,

Capital Costs means expenditure made for items directly related petroleum activities in the contract area which normally have a useful life of more than one (1) year

Non Capital Costs means those operating incurred which relate directly to the current calendar year’s exploration activities in the contract area, excluding exploration and capital costs

All exploration and certain capital costs are subject to an investment credit of 127%. In addition, operating costs are recovered immediately in any given calendar year.



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Recovery of investment credit of operator exploration and capital costs shall be allowed first after deducting the FTP payment. Operating costs are recoverable in the respective year if it is less than the value of petroleum produced. If operating costs exceed the value of petroleum produced in any calendar year then the unrecovered of operating costs shall be carried forward and recovered in the following years.

#### **Income Tax and Additional Profit Tax**

Contractor income tax is payable at 30% on Contractor taxable income. If the project is profitable with a rate of return higher than 16.5%, additional profit tax at 22.5% is payable after taking into income tax calculation.

#### **Decommissioning Plan and Cost Reserve**

Decommissioning plan shall include measures to be taken to effect decommissioning in compliance with applicable law, contract and standard generally recognised which will cover the decommissioning of equipment and installation, prevent hazard to human life, property or environment. Decommissioning plan shall be submitted to Designated Authority for its approval at such times as are reasonable having regard to the likelihood that the plan and/or the cost estimates.

Decommissioning cost reserve shall be cost recoverable by the Contractor and shall be calculated by reference to the total decommissioning cost approved by the Designated Authority and it shall be determined by the certain formula as agreed in this PSC.

#### **Dispute Resolution**

In case of disputes between the parties to PSC 03-12, and in the event they cannot be settled amicably, arbitration will be conducted in accordance with the rules of the International Chamber of Commerce. The place of arbitration is Singapore.

# Contract Area for PSC 03 - 12

