AGREEMENT BETWEEN
THE GOVERNMENT OF THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE
AND THE GOVERNMENT OF AUSTRALIA RELATING TO THE
UNITISATION OF THE SUNRISE AND TROUBADOUR FIELDS

The Government of the Democratic Republic of Timor-Leste and the Government of Australia,

Considering that the exploration in the Timor Sea between Timor-Leste and Australia has proved the existence of petroleum deposits which extend across the eastern boundary of the Joint Petroleum Development Area; those deposits being known as the Sunrise and Troubadour deposits (collectively known as ***Greater Sunrise***);

Noting that Timor-Leste and Australia have, at the date of this agreement, made maritime claims, and not yet delimited their maritime boundaries, including in an area of the Timor Sea where Greater Sunrise lies;

Desiring, before production commences, to make provisions for the integrated exploitation of Greater Sunrise;

Acknowledging that Timor-Leste and Australia agreed under Annex E of the Timor Sea Treaty to unitise Greater Sunrise on the basis that 20.1% of Greater Sunrise lies within the JPDA and that production from Greater Sunrise shall be distributed on the basis that 20.1% is attributed to the JPDA and 79.9% is attributed to Australia;

Recalling further the Memorandum of Understanding between the Government of the Democratic Republic of Timor-Leste and the Government of Australia of 20 May 2002 in which they agreed to work expeditiously and in good faith to conclude a unitisation agreement for Greater Sunrise;

Have agreed as follows:

ARTICLE 1

Definitions

For the purposes of this Agreement, unless the context otherwise requires:

(a) "Apportionment Ratio" means the ratio as set out in Article 7 of this Agreement or such other ratio as applies from time to time as a result of any redetermination under Article 8.

(b) "Commercial Sale", in relation to Petroleum, means a transfer of title between parties, whether or not at arm's length.

(c) "Development Plan" means a description of the proposed petroleum reservoirs development and management program that includes details of the sub-surface evaluation and 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 Petroleum from the Unit Reservoirs.

(d) "Export Pipeline" means any pipeline by which petroleum is discharged from the Unit Area.

(e) "Joint Commission" means the Joint Commission of the Joint Petroleum Development Area established under Article 6 of the Timor Sea Treaty.

(f) "Joint Petroleum Development Area" ("JPDA") means the area referred to in Article 3 of the Timor Sea Treaty.

(g) "Joint Venturers' Agreement" means any agreement between all Sunrise Joint Venturers relating to the exploitation of the Unit Reservoirs including a unitisation agreement, a unit operating agreement and any other agreement relating to the exploitation of those reservoirs.

(h) "Marketable Petroleum Commodity" means any of the following products produced from petroleum:

(i) stabilised crude oil;
(ii) sales gas;
(iii) condensate;
(iv) liquefied petroleum gas;
(v) ethane;
(vi) any other product declared by the Regulatory Authorities to be a marketable petroleum commodity.

A marketable petroleum commodity cannot be a product produced from another product of a kind referred to in subparagraphs (i) to (vi) inclusive.

(i) "MPC Point" means that point where each Marketable Petroleum Commodity is produced, and may vary between Marketable Petroleum Commodities.

(j) "Petroleum" means:

(i) any naturally occurring hydrocarbon, whether in a gaseous, liquid or solid state;
(ii) any naturally occurring mixture of hydrocarbons, whether in a gaseous, liquid or solid state; or
(iii) any naturally occurring mixture of one or more hydrocarbons, whether in a gaseous, liquid or solid state, as well as other substances produced in association with such hydrocarbons;

including any Petroleum as defined in subparagraph (i), (ii) or (iii) that has been returned to a natural reservoir.

(k) "Regulatory Authorities" means the competent authority for administering petroleum activities in that part of the Joint Petroleum Development Area within the Unit Area and the competent Australian authority for administering petroleum activities in that part of the Unit Area outside of the Joint Petroleum Development Area.

(l) "Sunrise Commission" has the meaning given in Article 9 of this Agreement.

(m) "Sunrise Joint Venturers" means all those individuals or bodies corporate holding for the time being a licence or contract in respect of an area within the Unit Area under which exploration or exploitation of Petroleum may be carried out.

(n) "Unit Area" means the area described in Annex I.

(o) "Unit Installation" means any structure or device installed or to be installed above, on, or under the seabed of the Unit Area for the purpose of extracting Petroleum from the Unit

Reservoirs in accordance with the Development Plan. Unit Installations exclude any structure or device after the Valuation Point.

(p) "Unit Operator" has the meaning given in Article 6 of this Agreement.

(q) "Unit Petroleum" means all Petroleum contained in or produced from the Unit Reservoirs, up to the Valuation Point.

(r) "Unit Property" means all Unit Installations in the Unit Area.

(s) "Unit Reservoirs" has the meaning given in Annex I.

(t) "Valuation Point" means the point of the first commercial sale of Petroleum produced from the Unit Reservoirs, which shall occur no later than the earlier of
(i) the point where the Petroleum enters an Export Pipeline and
(ii) the MPC point for the Petroleum.

ARTICLE 2

Without prejudice

(1) Nothing contained in this Agreement, no acts taking place while this Agreement is in force or as a consequence of this Agreement and no law operating in the Unit Area by virtue of this Agreement

(a) shall be interpreted as prejudicing or affecting the position of either Timor-Leste or Australia with regard to their respective maritime boundaries or rights or claims thereto; and

(b) may be relied on as a basis for asserting, supporting, denying or limiting the position of either Timor-Leste or Australia with regard to their respective maritime boundaries or rights or claims thereto.

(2) This article applies notwithstanding any other provision of this Agreement including, in particular, Article 4 of this Agreement.

ARTICLE 3

Exploitation of the Unit Reservoirs

(1) The exploitation of the Unit Reservoirs shall be undertaken in an integrated manner in accordance with the terms of this Agreement.

(2) Timor-Leste and Australia shall ensure that the obligations of the Regulatory Authorities contained in this Agreement, with respect to ensuring compliance by the Sunrise Joint Venturers with the terms of this Agreement, shall be fully observed.

ARTICLE 4

Application of Laws

For the purposes of this Agreement but not otherwise and unless otherwise provided in this Agreement:

(a) the Timor Sea Treaty shall be deemed to apply to petroleum activities within the JPDA and petroleum activities attributed to the JPDA pursuant to the Apportionment Ratio;

(b) Australian legislation shall be deemed to apply to petroleum activities attributed to Australia pursuant to the Apportionment Ratio.

ARTICLE 5

Agreements

(1) Timor-Leste and Australia shall require Sunrise Joint Venturers, as comprised at the date on which this Agreement enters into force, to conclude Joint Venturers' Agreements to regulate the exploitation of the Unit Reservoirs in accordance with this Agreement.

(2) Any Joint Venturers' Agreement shall incorporate provisions to ensure that, in the event of a conflict between that Joint Venturers' Agreement and this Agreement, the terms of this Agreement shall prevail. Any Joint Venturers' Agreement requires the prior approval of the Regulatory Authorities.

(3) Any Joint Venturers' Agreement shall incorporate provisions to ensure that, except in so far as the contrary is expressly stated in that Agreement,

(a) any agreed proposal to amend, modify, or otherwise change the Joint Venturers' Agreement, and

(b) any agreed proposal to waive or depart from any provision of the Joint Venturers' Agreement

shall require the approval of the Regulatory Authorities before any such proposal may be implemented. The Regulatory Authorities shall acknowledge receipt of notice of any such proposal and shall specify the date of receipt. Approval shall be deemed to have been given unless the Unit Operator has been notified to the contrary by either Regulatory Authority not later than 45 days after the later of the specified dates.

ARTICLE 6

Unit Operator

A single Sunrise Joint Venturer shall be appointed by agreement between the Sunrise Joint Venturers as their agent for the purposes of exploiting the Unit Reservoirs in accordance with this Agreement

("the Unit Operator"). The appointment of and any change of the Unit Operator shall be subject to prior approval of the Regulatory Authorities.

ARTICLE 7

Apportionment of Unit Petroleum

Production of Petroleum from the Unit Reservoirs shall be apportioned between the JPDA and Australia according to the Apportionment Ratio 20.1:79.9, with 20.1% apportioned to the JPDA and 79.9% apportioned to Australia.

ARTICLE 8

Reapportionment of Unit Petroleum

(1) Technical redetermination of the Apportionment Ratio from the Unit Reservoirs may take place in accordance with the following:

(a) Either Timor-Leste or Australia may request the Unit Operator to undertake a redetermination of the Apportionment Ratio.

(b) Timor-Leste and Australia shall have regard to the desirability of minimising the number of reviews of the Apportionment Ratio.

(c) Any redetermination of the Apportionment Ratio shall not occur within five (5) years of any prior redetermination, except that a redetermination may occur within twelve (12) months of the commencement of production from the Unit Reservoirs.

(d) The Unit Operator shall use only commercially available software in a redetermination of the Apportionment Ratio. Only data that is available to both Governments as at the date the redetermination is requested shall be utilised by the Unit Operator and all data and analyses pursuant to the Unit Operator's proposal for the redetermined Apportionment Ratio shall be provided to both Governments with the proposal. The Unit Operator shall use all reasonable endeavours to complete the redetermination within 120 days.

(e) Any change to the Apportionment Ratio arising from a redetermination requested under subparagraph (a) has effect when it is agreed by the Regulatory Authorities or, if referred to an expert for determination, when the expert makes a final decision.

(f) Any change to the Apportionment Ratio shall be retrospective and past receipts and expenditures shall be adjusted.

(2) Notwithstanding paragraph 1, either Timor-Leste or Australia may request a review of the Apportionment Ratio. Following such a review, the Apportionment Ratio may be altered by agreement between Timor-Leste and Australia.

ARTICLE 9

Administration of the Unit Area

(1) For the purposes of this Agreement but not otherwise and unless otherwise provided in this Agreement, the Regulatory Authorities that will regulate petroleum activities in the Unit Area or in relation to Unit Petroleum shall be those Regulatory Authorities established through application of laws as provided in Article 4.

(2) A Sunrise Commission ("the Commission") shall be established for the purpose of facilitating the implementation of this Agreement and shall consult on issues relating to exploration and exploitation of petroleum in the Unit Area.

(3) The Commission shall facilitate coordination between the Regulatory Authorities to promote the development of the petroleum reservoir as a single entity.

(4) The Commission may review, and make recommendations to the Regulatory Authorities with regard to, a Development Plan.

(5) The Commission shall consider matters referred to it by the Regulatory Authorities, facilitate inspection of measuring systems and coordinate the provision of information by contractors to the Regulatory Authorities.

(6) The Commission may monitor the application of the laws referred to in Annex II and may make recommendations to the Regulatory Authorities concerning the application of such laws.

(7) Regulatory Authorities may refer disputes to the Commission in the first instance for resolution by consultation and negotiation. In the event that the dispute cannot be resolved by the Commission, disputes shall be settled in accordance with Article 26.

(8) The Sunrise Commission shall consist of three members. One shall be nominated by Timor-Leste and two shall be nominated by Australia.

ARTICLE 10

Apportionment of Receipts and Expenditures

All receipts and expenditures up to the Valuation Point shall be apportioned in accordance with the Apportionment Ratio.

ARTICLE 11

Taxation Applying in relation to Unit Property

For the purposes of company taxation, resource taxation, cost recovery and production sharing in relation to Unit Property,

(a) receipts and expenditures for that part of production attributed to the JPDA in accordance with the Apportionment Ratio shall be taxed in accordance with arrangements specified in the Timor Sea Treaty and elsewhere in this Agreement;

(b) receipts and expenditures for that part of production attributed to Australia in accordance with the Apportionment Ratio shall be taxed in accordance with Australia's domestic taxation arrangements.

ARTICLE 12

Development Plan

(1) Production of petroleum shall not commence until a Development Plan for the effective exploitation of the Unit Reservoirs, which has been submitted by the Unit Operator and contains a programme and plans agreed in accordance with Joint Venturers' Agreements, has been approved by the Regulatory Authorities. The Unit Operator shall submit copies of the Development Plan to the Regulatory Authorities for approval.

(2) The Commission may review, and make recommendations to the Regulatory Authorities with regard to, a Development Plan.

(3) The Regulatory Authorities shall approve the Development Plan where:

(a) the project is commercially viable;
(b) the contractor or licensee possesses the competence and resources needed to exploit the reservoir to the best commercial advantage;
(c) the contractor or licensee is seeking to exploit the reservoir to the best commercial advantage consistent with good oilfield practice;
(d) the contractor or licensee could reasonably be expected to carry out the exploitation of the reservoir during the specified period;
(e) the contractor or licensee has entered into contracts for the sale of gas from the project which are consistent with arm's length transactions.

(4) The Regulatory Authorities shall specify their reasons for not approving a Development Plan including identification of the criteria in paragraph (2) that the contractor or licensee has failed to meet.

(5) The Regulatory Authorities shall ensure that the exploitation of the Unit Area shall be in accordance with the Development Plan.

(6) The Unit Operator may at any time submit, and if at any time the Regulatory Authorities so decide may be required to submit, proposals to bring up to date or otherwise amend the Development Plan. All amendments or additions to the Development Plan require the prior approval of the Regulatory Authorities.

(7) Where the Unit Operator has been notified by either Regulatory Authority that the Development Plan or an amendment to the Development Plan has not been approved, the Regulatory Authorities shall consult with each other and with the Unit Operator with a view to reaching agreement.

(8) The Regulatory Authorities shall require the Sunrise Joint Venturers not to change the status or function of any Unit Installation in the Unit Area in any way except in accordance with an amendment to the Development Plan in accordance with paragraph (2).

(9) Where a Sunrise Joint Venturer has entered into contracts for the sale of gas from the project that are part of an approved Development Plan, no action may be taken by the Regulatory Authorities to withhold the supply of that gas.

ARTICLE 13

Abandonment

(1) The abandonment of any or all parts of Unit Property shall be undertaken in accordance with laws that have entered into force as at the date of this Agreement and as amended from time to time as applied by the Regulatory Authorities.

(2) At least two years before the abandonment of any part of Unit Property is undertaken, including the preliminary removal of any large item of machinery or the decommissioning of any installation or pipeline, the Unit Operator shall be required to submit a revised Development Plan, in accordance with the provisions of Article 12, which contains a plan for the cessation of production from Unit Property.

(3) The Sunrise Joint Venturers shall enter into an agreement to share the costs of discharging the abandonment obligations referred to in paragraph (1) above for Unit Property.

(4) The costs of abandonment of any or all parts of Unit Property shall be apportioned in accordance with the Apportionment Ratio.

ARTICLE 14

Structures Located in the Unit Area

(1) The Regulatory Authorities shall require the Unit Operator to inform them of the exact position of every structure located in the Unit Area.

(2) For the purposes of exploiting the Unit Reservoirs and subject to Article 22 and to the requirements of safety, neither Government shall hinder the free movement of personnel and materials between structures located in the Unit Area and landing facilities on those structures shall be freely available to vessels and aircraft of Timor-Leste and Australia.

ARTICLE 15

Point of Sale for Unit Petroleum Attributed to the JPDA

(1) Title to Unit Petroleum attributed to the JPDA shall pass from Timor-Leste and Australia to the contractor acting in the JPDA at the Valuation Point.

(2) This shall be the taxing point and point of valuation of Petroleum for cost recovery and production sharing purposes, for that part of Unit Petroleum apportioned to the JPDA in accordance with the Apportionment Ratio.

ARTICLE 16

Valuation of Unit Petroleum for Cost Recovery and Production Sharing Purposes

(1) Where Timor-Leste and Australia agree that a licensee or contractor has entered into contracts for the sale of Unit Petroleum which are consistent with arm's length transactions as outlined in Annex III, then for that part of Unit Petroleum apportioned to the JPDA in accordance with the Apportionment Ratio, the transacted price will be accepted as the Petroleum valuation for cost recovery and production sharing purposes.

(2) Where Timor-Leste and Australia do not agree that a licensee or contractor has entered into contracts for the sale of Unit Petroleum which are consistent with arm's length transactions, then for that part of Unit Petroleum apportioned to the JPDA in accordance with the Apportionment Ratio, Timor-Leste and Australia shall determine the Petroleum valuation for cost recovery and production sharing purposes in accordance with internationally accepted arm's length principles having due regard to functions performed, assets used and risks assumed, as outlined in Annex III.

ARTICLE 17

Use of Unit Property for non-Sunrise operations

(1) Timor-Leste and Australia recognise that, subject to paragraphs (2) and (3) below, the exploitation of Petroleum other than Petroleum from the Unit Reservoirs is a legitimate use of Unit Property.

(2) Either Regulatory Authority shall, on receipt of a request from the Unit Operator for such use of any part of Unit Property, consult with the other Regulatory Authority with regard to that request. After such consultation, and having consulted the Sunrise Joint Venturers, the relevant Regulatory Authority will allow such use of any part of Unit Property provided that such use does not adversely affect the effective exploitation of the Unit Area and the transmission of Unit Petroleum in accordance with this Agreement and the Development Plan.

(3) In the event that the consultations under paragraph (2) above indicate that any supplementary agreement to this Agreement is necessary to give effect to paragraph (2), Timor-Leste and Australia shall negotiate in order to conclude such agreement after having sought the views of the Sunrise Joint Venturers. In order to facilitate such negotiations, Timor-Leste and Australia shall, subject to Article 25, exchange any relevant information.

(4) Notwithstanding paragraphs (1) to (3) above, neither Timor-Leste nor Australia shall permit a use the subject of this Article until relevant tax authorities of Timor-Leste and Australia have reached agreement regarding the taxation of such use.

ARTICLE 18

Employment and Training

Timor-Leste and Australia shall take appropriate measures with due regard to occupational health and safety requirements, efficient operations and good oilfield practice to ensure that preference is given in employment and training in the Unit Area to nationals or permanent residents of Timor-Leste and Australia.

ARTICLE 19

Safety

(1) Legislation as set out in Annex II as amended from time to time shall apply for the purposes of safety in the Unit Area.

(2) The Regulatory Authorities shall administer the legislation in the Unit Area.

ARTICLE 20

Occupational Health and Safety

(1) Legislation as set out in Annex II as amended from time to time shall apply for the purposes of occupational health and safety in the Unit Area.

(2) The Regulatory Authorities shall administer the legislation in the Unit Area.

ARTICLE 21

Environmental Protection

(1) Legislation as set out in Annex II as amended from time to time shall apply for the purposes of protection of the environment in the Unit Area.

(2) The Regulatory Authorities shall administer the legislation in the Unit Area.

ARTICLE 22

Customs

(1) Timor-Leste and Australia shall consult at the request of either of them in relation to the entry of particular goods and equipment to structures in the Unit Area aimed at controlling the movement of such persons, equipment and goods. Timor-Leste and Australia may adopt arrangements to facilitate such movement of persons, equipment and goods.

(2) Timor-Leste and Australia may, subject to paragraphs 3, 4, and 5, apply customs law to equipment and goods entering their respective territory from, or leaving that territory for, the Unit Area.

(3) Goods and equipment entering the Unit Area for purposes related to petroleum activities shall not be subject to customs duties.

(4) Goods and equipment leaving or in transit through either Timor-Leste or Australia for the purpose of entering the Unit Area for purposes related to petroleum activities shall not be subject to customs duties.

(5) Goods and equipment leaving the Unit Area for the purpose of being permanently transferred to either Timor-Leste or Australia may be subject to customs duties of that country.

ARTICLE 23

Security Arrangements

Timor-Leste and Australia shall make arrangements for responding to security incidents in the Unit Area and for exchanging information on likely threats to security.

ARTICLE 24

Measuring Systems

(1) Before production of Petroleum is scheduled to commence under the Development Plan, the Regulatory Authorities shall require the Unit Operator to submit to them for approval proposals for the design, installation and operation of systems for measuring accurately the quantities of gas and liquids comprising, or deemed by subsequent calculation to comprise, Unit Petroleum, which are used in the operation of the field, re-injected, flared, vented, or exported from Unit Property.

(2) The Regulatory Authorities shall facilitate:

(a) access to any equipment for Unit Petroleum measurement; and

(b) the production of information, including design and operational details of all systems, relevant to the measurement of Unit Petroleum;

to enable inspectors to satisfy themselves that the fundamental interests of Timor-Leste and Australia in regard to measurement of Unit Petroleum are met.

ARTICLE 25

Provision of Information

(1) There shall be a free flow of information between Timor-Leste and Australia concerning the exploration and exploitation of petroleum in the Unit Reservoirs. Confidential information supplied

by either Timor-Leste or Australia to the other shall not be further disclosed, without the consent of the supplying Government.

(2) The Regulatory Authorities shall require the Unit Operator to provide them with

(a) monthly reports recording details of the progress of the construction or decommissioning of Unit Property and project expenditure and contractual commitments entered into;

(b) monthly reports of quantities of gas and liquids comprising, or deemed by subsequent calculation to comprise, Unit Petroleum, which are used in the operation of the field, re-injected, flared, vented, or exported from Unit Property, and;

(c) annual reports setting out:

(i) projected annual production profiles for the life of the field (and referring to the basis for those production profiles)

(ii) the most recent geological, geophysical and engineering information relating to the field, including, without limitation, any information that may be relevant to a redetermination of the Apportionment Ratio; and

(iii) estimates of costs relating to the exploitation of the Unit Reservoirs.

ARTICLE 26

Settlement of Disputes

(1) Any disputes about the interpretation or application of this Agreement shall be, as far as possible, settled by consultation or negotiation.

(2) Subject to paragraph (3), if a dispute cannot be resolved in the manner specified in paragraph (1) or by any other agreed procedure, the dispute shall be submitted, at the request of either Government, to an Arbitral Tribunal set out in Annex IV.

(3) If a dispute arises concerning a proposal for a redetermined Apportionment Ratio pursuant to Article 8(1) or concerning the measurement, pursuant to Article 24, of quantities of gas and liquids, an expert shall be appointed by Timor-Leste and Australia to determine the matter in question. The two Governments shall, within 60 days of notification by either of them of such a dispute, try to reach agreement on the appointment of such an expert. If, within this period, no agreement has been reached, the procedures specified in Annex V shall be followed. The expert appointed shall act in accordance with the terms of Annex V. The expert's decision shall be final and binding on both Governments and on the Sunrise Joint Venturers, save in the event of fraud or manifest error.

ARTICLE 27

Entry into Force, Amendment and Duration

(1) This Agreement shall enter into force upon the day on which Timor-Leste and Australia have notified each other in writing that their respective requirements for entry into force of this Agreement have been complied with.

(2) This Agreement may be amended or terminated at any time by written agreement between Timor-Leste and Australia.

(3) In the event of permanent delimitation of the seabed, Timor-Leste and Australia shall reconsider the terms of this Agreement. Any new agreement shall ensure that petroleum activities entered into under the terms of this Agreement shall continue under terms equivalent to those in place under this Agreement.

IN WITNESS WHEREOF the undersigned, being duly authorised thereunto by their respective Governments, have signed this Agreement.

DONE at Dili, on this sixth day of March, Two thousand and three in two originals in the English language.

[signed]

For the Government of the
Democratic Republic of Timor-Leste

[signed]

For the Government of Australia

ANNEX I

Delineation of Unit Area and Unit Reservoirs

The Unit Area is the area (depicted for illustrative purposes only on the map at Attachment 1) bounded by a line commencing at 9º 50' 00" S, 127º 55' 00" E and running:

(a) successively along the rhumb line to each of the following points in the sequence in which they appear below:

9º 50' 00" S, 128º 20' 00" E
9º 40' 00" S, 128º 20' 00" E
9º 40' 00" S, 128º 25' 00" E
9º 30' 00" S, 128º 25' 00" E
9º 30' 00" S, 128º 20' 00" E
9º 25' 00" S, 128º 20' 00" E
9º 25' 00" S, 128º 00' 00" E
9º 30' 00" S, 127º 53' 20" E
9º 30' 00" S, 127º 52' 30" E
9º 35' 00" S, 127º 52' 30" E
9º 35' 00" S, 127º 50' 00" E
9º 37' 30" S, 127º 50' 00" E
9º 37' 30" S, 127º 45' 00" E
9º 45' 00" S, 127º 45' 00" E
9º 45' 00" S, 127º 50' 00" E
9º 47' 30" S, 127º 50' 00" E
9º 47' 30" S, 127º 55' 00" E;

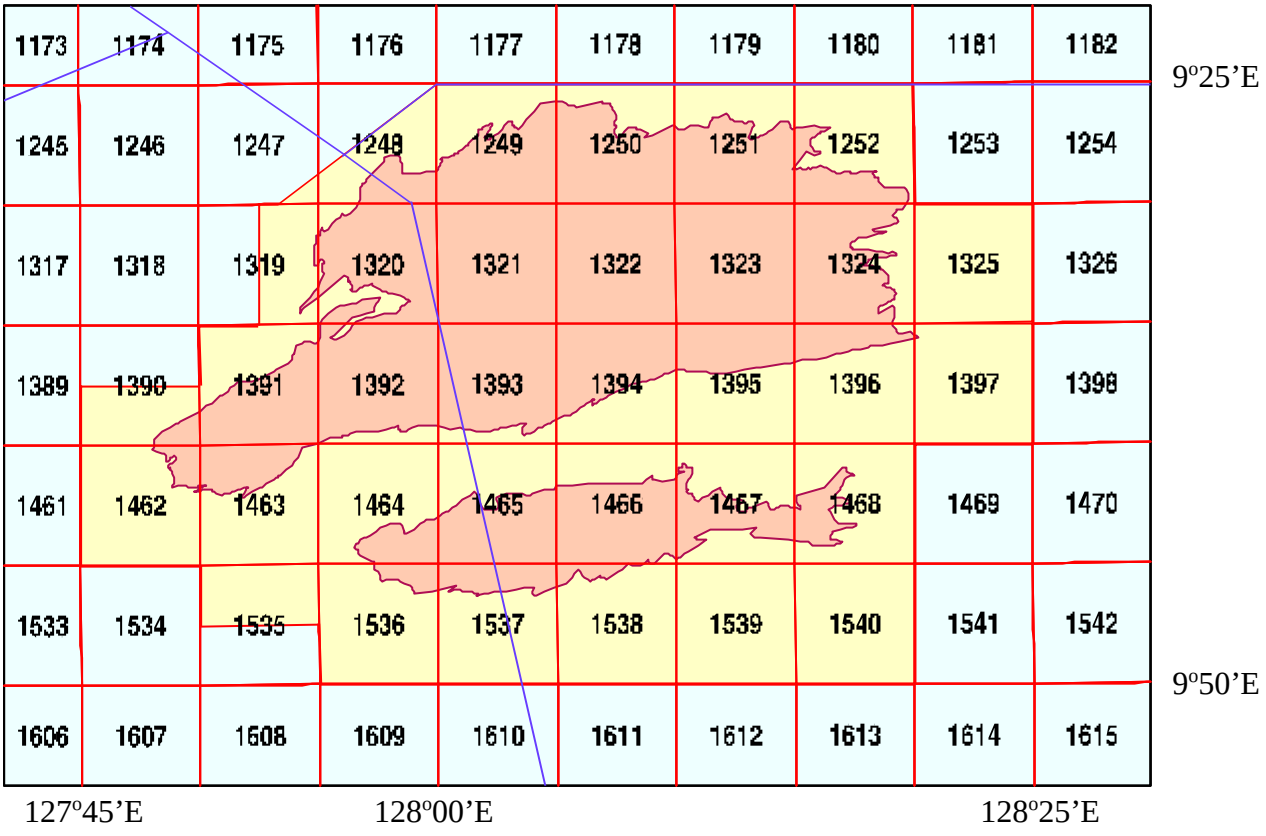
(b) thence along the rhumb line to the point of commencement.

The Unit Reservoirs (illustratively depicted by the darker-shaded area in Attachment 1) are that part of the rock formation known as the Plover Formation (Upper and Lower) that underlies the Unit Area and contains the Sunrise and Troubadour deposits of Petroleum, together with any extension of those deposits that is in direct hydrocarbon fluid communication with either deposit. For purposes of illustration, in the case of the Sunset-1 well this formation is shown by that portion of the Gamma Ray, Neutron/Density, Resistivity and Sonic Logs between the depths of 2128m and 2390m (TVDSS) in Attachment 2.

Where for the purposes of this Annex it is necessary to determine the position on the surface of the Earth of a point, line or area, that position shall be determined by reference to the Australian Geodetic Datum, that is to say, by reference to a spheroid having its centre at the centre of the Earth and a major (equatorial) radius of 6 378 160 metres and a flattening of 1/298.25 and by reference to the position of the Johnston Geodetic Station in the Northern Territory of Australia. That station shall be taken to be situated at Latitude 25º 56' 54.5515" South and at Longitude 133º 12' 30.0771" East and to have a ground level of 571.2 metres above the spheroid referred to above.

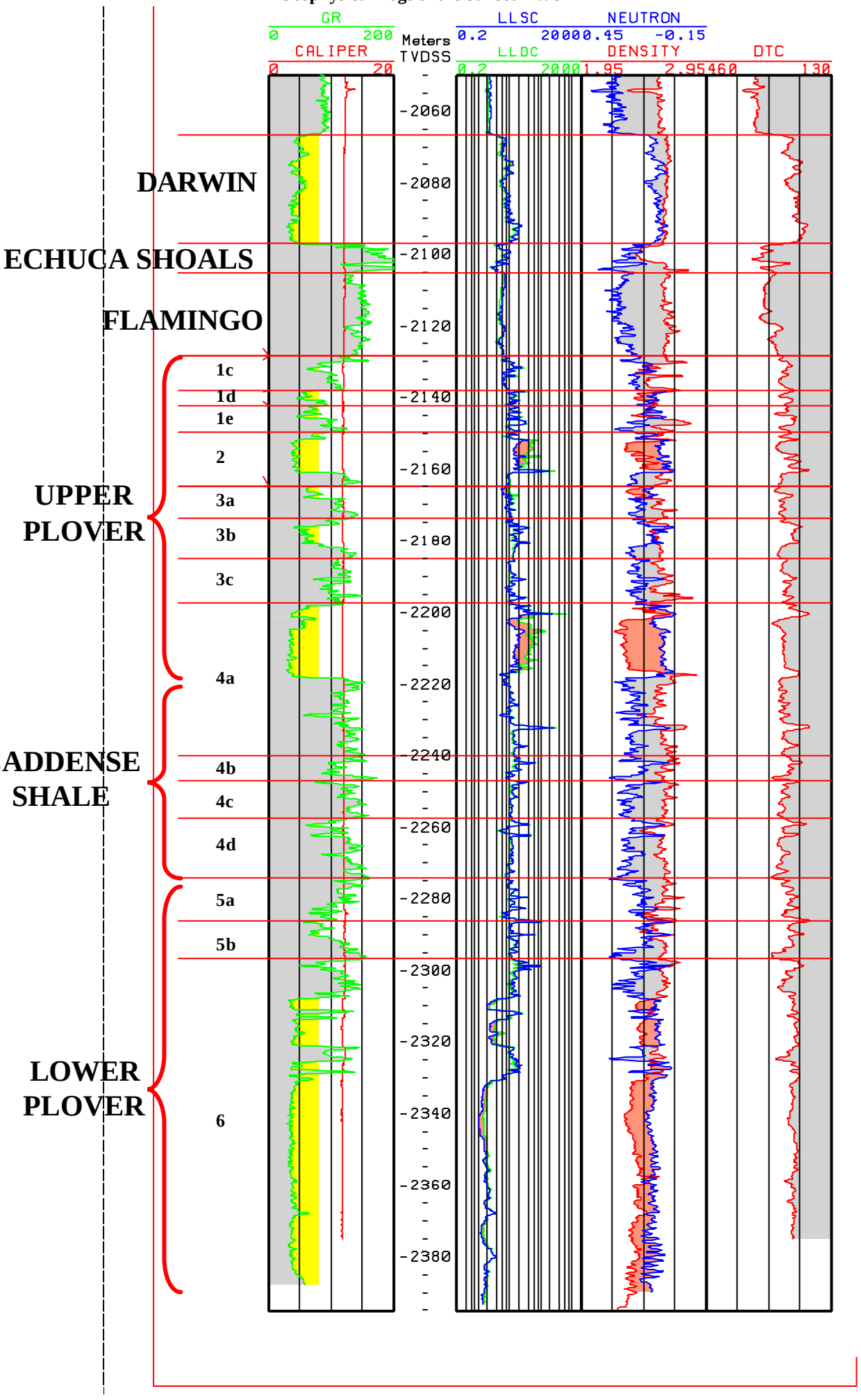
Attachment 1

Map showing outline of the Unit Area and outline of the Unit Reservoirs



Attachment 2

Geophysical Logs of the Sunset-1 Well



ANNEX II

Legislation applicable in the Unit Area as referred to in Articles 19, 20 and 21

Article 19 - Safety

Petroleum (Submerged Lands) (Management of Safety on Offshore Facilities) Regulations
Limitation of Liability for Maritime Claims Act 1989
Navigation Act 1912
Radiocommunications Act 1992
Seafarers Rehabilitation and Compensation Act 1992

Article 20 - Health

Petroleum (Submerged Lands) (Occupational Health and Safety) Regulations
Occupational Health and Safety (Maritime Industry) Act 1993
Navigation Act 1912
Seafarers Rehabilitation and Compensation Act 1992

Article 21 - Environmental Protection

Petroleum (Submerged Lands) (Management of Environment) Regulations 1999
Protection of the Sea (Civil Liability) Act 1981
Protection of the Sea (Oil Pollution Compensation Fund) Act 1993
Protection of the Sea (Imposition of Contributions to Oil Pollution Compensation Fund - Customs) Act 1993
Protection of the Sea (Imposition of Contributions to Oil Pollution Compensation Fund - Excise) Act 1993
Protection of the Sea (Imposition of Contributions to Oil Pollution Compensation Fund - General) Act 1993
Protection of the Sea (Powers of Intervention) Act 1981
Protection of the Sea (Prevention of Pollution from Ships) Act 1983
Protection of the Sea (Shipping Levy) Act 1981

ANNEX III

Petroleum Valuation Principles

1. This Annex sets out the principles to be applied in determining the value of petroleum in non-arm's length transactions under Article 16, for the purposes of cost recovery and production sharing of that part of Unit Petroleum apportioned to the Joint Petroleum Development Area in accordance with the Apportionment Ratio.

2. An arm's length transaction is one where the parties to the transaction are dealing at arm's length with each other in relation to the transaction. Whether the parties are dealing at arm's length is determined not only by the relationship between the parties but also by the nature of the dealings between those parties, even if they are otherwise independent of each other.

3. In determining whether an arm's length transaction has taken place, the Regulatory Authorities shall, amongst other things, have due regard to the functions performed, assets used and risks assumed. In assessing the allocation of risk, and the associated return to those risks, regard shall be had to the outcomes expected of parties acting at arm's length.

4. Where there is no arm's length sale, the petroleum shall be valued with reference to a comparable uncontrolled price (CUP) at the Valuation Point.

5. If no CUP exists petroleum shall be valued by the application of the pricing methodology set out in paragraph 6. In this methodology:

> Calculation Period means the period beginning with the year five years before production of petroleum from Greater Sunrise is scheduled under the Development Plan to commence (t = 0), and ending with the year when production is scheduled under the Development Plan to cease (t = T).
>
> Downstream Facilities means any petroleum processing facilities after the Valuation Point and before the earlier of the first point of arm's length sale and the first available CUP.

6. The petroleum valuation (PV) shall be:

(a) calculated at (and all estimates required therefor shall be calculated as at) the date of commencement of production; and

(b) calculated in United States dollars per unit of undifferentiated hydrocarbons with respect to the following formula:

$NCF_t = VDP_t - ECC_t - OC_t - CDC_t - PV_t \times QH_t$

by substituting and solving for PV the equation

$$\sum_{t=0}^{T} \frac{NCF_t}{(1+r)^t} = 0$$

where:

r = 14% for floating gas-to-liquids technology and 10.5% for an export pipeline;

NCF is net cash flow before tax;

VDP is the total market value of the downstream product, at the first point of arm's length sale, or the first available CUP, in that year;

ECC is expenditures made for items which normally have a useful life of more than one (1) year incurred by the owners of the Downstream Facilities in the year for which NCF is being calculated (including, but not limited to, feasibility and engineering costs and other costs incurred for the purposes of designing and constructing the Downstream Facilities (and in the first year, those costs incurred prior to the start of the Calculation Period)), but only to the extent such are incurred in respect of the Downstream Facilities before the date of commencement of production;

OC is an amount equal to the operating costs (including taxes other than taxes on income, profit or gain and further including expenditures to maintain, repair and replace equipment necessary for the operation of the Downstream Facilities) incurred by the owners of the Downstream Facilities in that year, but only to the extent such are incurred on and from the date of commencement of production in respect of the Downstream Facilities, but does not include:

(a) any cost or provision against the eventual costs of decommissioning the Downstream Facilities;

(b) depreciation of capital costs; and

(c) the cost of natural gas used in the production process;

CDC in the last year of production is the estimated costs of decommissioning the Downstream Facilities, and otherwise is zero;

QH is the quantity of undifferentiated hydrocarbons that, in that year, passed the Valuation Point.

7. Where that part of the undifferentiated hydrocarbon stream which is processed as condensate or LPG is processed under a fixed processing fee arrangement, with those revenues being passed upstream, then the following adjustments shall be taken into account in the calculation in paragraph 6:

(a) VDP shall exclude the value of the condensate or LPG but include the amount of tolling fees paid in that year in respect of the processing services supplied to a Sunrise Joint Venturer in respect of production of that condensate or LPG; and

(b) QH shall exclude the quantity of undifferentiated hydrocarbons which results in production of that condensate or LPG for which tolling fees were paid.

8. All costs and estimates of costs used for the purposes of the calculation in paragraph 6, including any tolling fees charged under paragraph 7, shall be not more than those which

would be directly and necessarily incurred by a reasonable and prudent operator in an arm's length transaction.

9. Where the average realised price for downstream product over the previous two years differs by more than 10% from the average price over that period as included in the calculations under paragraph 6, then either Timor-Leste or Australia may initiate a review of these calculations by the Regulatory Authorities, in accordance with the following:

   (a) Any review shall occur not within two years of any prior review, and the first review shall not occur earlier than five years following the commencement of production from Greater Sunrise.

   (b) The calculations under paragraph 6 shall be re-undertaken from the beginning of the Calculation Period, taking into account actual realised downstream product prices to date, and any new estimates of downstream product prices.

   (c) Where a new petroleum valuation is determined under this review process, this new valuation shall apply prospectively from the date of recalculation.

ANNEX IV

Dispute Resolution Procedure

(a) An arbitral tribunal to which a dispute is submitted pursuant to Article 26 (2) shall consist of three persons appointed as follows:

i. Timor-Leste and Australia shall each appoint one arbitrator;

ii. the arbitrators appointed by Timor-Leste and Australia shall, within sixty (60) days of the appointment of the second of them, by agreement, select a third arbitrator who shall be a citizen, or permanent resident of a third country which has diplomatic relations with both Timor-Leste and Australia;

iii Timor-Leste and Australia shall, within sixty (60) days of the selection of the third arbitrator, approve the selection of that arbitrator who shall act as Chairman of the Tribunal.

(b) Arbitration proceedings shall be instituted upon notice being given through the diplomatic channel by the country instituting such proceedings to the other country. Such notice shall contain a statement setting forth in summary form the grounds of the claim, the nature of the relief sought, and the name of the arbitrator appointed by the country instituting such proceedings. Within sixty (60) days after the giving of such notice the respondent country shall notify the country instituting proceedings of the name of the arbitrator appointed by the respondent country.

(c) If, within the time limits provided for in sub-paragraphs (a) (ii) and (iii) and paragraph (b) of this Annex, the required appointment has not been made or the required approval has not been given, Timor-Leste or Australia may request the President of the International Court of Justice to make the necessary appointment. If the President is a citizen or permanent resident of Timor-Leste or Australia or is otherwise unable to act, the Vice-President shall be invited to make the appointment. If the Vice-President is a citizen or permanent resident of Timor-Leste or Australia or is otherwise unable to act, the Member of the International Court of Justice next in seniority who is not a citizen or permanent resident of Timor-Leste or Australia shall be invited to make the appointment.

(d) In case any arbitrator appointed as provided for in this Annex shall resign or become unable to act, a successor arbitrator shall be appointed in the same manner as prescribed for the appointment of the original arbitrator and the successor shall have all the powers and duties of the original arbitrator.

(e) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Chairman of the Tribunal. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(f) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to any agreement between Timor-Leste and Australia, determine its own procedure.

(g) Before the Arbitral Tribunal makes a decision, it may at any stage of the proceedings propose to Timor-Leste and Australia that the dispute be settled amicably. The Arbitral Tribunal shall reach its award by majority vote taking into account the provisions of this Agreement and relevant international law.

(h) Timor-Leste and Australia shall each bear the costs of its appointed arbitrator and its own costs in preparing and presenting cases. The cost of the Chairman of the Tribunal and the expenses associated with the conduct of the arbitration shall be borne in equal parts by Timor-Leste and Australia.

(i) The Arbitral Tribunal shall afford to Timor-Leste and Australia a fair hearing. It may render an award on the default of either Timor-Leste or Australia. In any case, the Arbitral Tribunal shall render its award within 6 months from the date it is convened by the Chairman of the Tribunal. Any award shall be rendered in writing and shall state its legal basis. A signed counterpart of the award shall be transmitted to Timor-Leste and Australia.

(j) An award shall be final and binding on Timor-Leste and Australia.

ANNEX V

Expert Determination Procedure

1. If no agreement is reached on the appointment of an expert within the period specified in Article 26, each Government shall forthwith exchange with the other a list of not more than three independent experts, putting them in order of preference. In each list, the first shall have three points, the second two points and the third one point. The expert having the greatest number of points from the two lists shall be appointed.

2. If two or more of the experts named on the lists exchanged by the Governments share the greatest number of points, the Governments shall, within 30 days of exchange, by agreement or, failing that, by lot, select which of the experts shall be appointed to decide the matter in question.

3. If the expert to be appointed is unable or unwilling to act, or fails, in the opinion of both Governments, to act within a reasonable period of time to decide the matter in question, then the expert with the greatest number of points among the experts remaining shall be the expert to decide the matter in question. If two or more such experts share the greatest number of points, both Governments shall, by unanimous agreement or by lot, select which expert shall be appointed as the expert to decide the matter in question.

4. If a Government fails to respond to any request or notice within the time specified under this Annex, the Government shall be deemed to have waived its rights in respect of the subject of the request or notice but nevertheless shall be bound by the actions of the other Government in selecting an expert and by the decision of the expert.

5. The task of the expert is to reach an independent determination of whatever matters are in question. Where the matter in dispute is in relation to technical redetermination of the Apportionment Ratio pursuant to Article 8, the expert's decision must be made in accordance with any technical procedures and calculation formula pertaining to redetermination as set out in the relevant Joint Venturers' Agreement.

6. The expert may engage independent contractors to undertake work which is necessary to enable the expert to reach a decision, provided that any contractor nominated by the expert for that purpose is approved by the Governments and gives an undertaking that neither it nor any of its personnel has a conflict of interest which would prevent it from undertaking the work.

7. The fees and costs of the expert shall be paid initially by the Government which first:

   (a) initiated the redetermination of the Apportionment Ratio; or

   (b) disagreed with the measurement, pursuant to Article 24, of quantities of gas and liquids;

   and shall be recoverable from the Unit Operator. The latter shall be required to use best efforts to reimburse the initial payer within 12 months of the payment of those fees and costs.

8. Except as set out in this Agreement, the expert shall establish its own procedures. The expert shall only meet with a Government jointly with the other Government. All communications

between the Governments and the expert outside those meetings shall be conducted in writing and a person making any such communication shall at the same time send a copy of it to the other Government.

9. The expert shall use only commercially available software in a redetermination of the Apportionment Ratio. Only data that was available to both Governments as at the date that the redetermination was requested shall be utilised by the expert and all data and analyses relevant to the expert's preliminary and final decisions for the redetermined Apportionment Ratio shall be provided to both Governments with those decisions.

10. Forthwith upon the appointment of the expert, the Unit Operator shall supply the expert with its data and analyses. Within 30 days of that appointment, each Government will make an initial submission and provide a copy to the other Government. Within 20 days of receiving a copy of that submission, the Government concerned may make a supplementary submission (again providing a copy to the other Government).

11. The expert shall issue a preliminary decision within a period of 90 days, or such other period as the Governments may decide, commencing from the date the expert was appointed. The preliminary decision shall be accompanied by such supporting documentation as is necessary for the Governments to make a reasoned assessment of that decision. Each Government has the right, within 90 days of receipt of the expert's preliminary decision, to seek clarification of that decision and the supporting documentation, to request the expert to review its preliminary decision and to make submissions to the expert for its consideration. If such a request is made, the other Government shall, within a period of 15 days after receipt of a copy of those submissions, have the right to make further submissions. The expert shall issue its final decision on the matter in question no later than 140 days from the date of issue of the preliminary decision. The expert's final decision shall be in writing and the expert shall give detailed reasons for that decision.

12. The Sunrise Joint Venturers shall cooperate fully in supplying information required by the expert and otherwise in facilitating the expert to reach its decision.

13. The Governments shall require the expert and any independent contractor engaged by the expert to give an undertaking to safeguard the confidentiality of any information supplied to the expert.

MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE AND THE GOVERNMENT OF AUSTRALIA RELATING TO THE EXPLOITATION OF THE SUNRISE AND TROUBADOUR PETROLEUM FIELDS IN THE TIMOR SEA

The Government of the Democratic Republic of Timor-Leste and the Government of Australia:

Having signed in Dili on this day the Agreement between the Government of the Democratic Republic of Timor-Leste and the Government of Australia relating to the Unitisation of the Sunrise and Troubadour Fields (the Agreement) and in consideration of the respective undertakings made therein;

HAVE REACHED THE FOLLOWING UNDERSTANDING:

1. The Government of Australia will transfer to the Government of the Democratic Republic of Timor-Leste the sum of one million United States dollars ($US1,000,000) *per annum* in freely disposable United States currency free of exchange and service charges.

2. The transfer of this sum will commence in the later of the calendar year in which installation of facilities in the Unit Area for the purposes of production begins and the calendar year five years before that in which production from the Unit Area is scheduled under the Development Plan to begin, and continue each calendar year thereafter, up to and including the calendar year in which production from the Unit Area begins.

3. The Government of Australia will transfer to the Government of the Democratic Republic of Timor-Leste the sum of ten million United States dollars ($US10,000,000) *per annum* in freely disposable United States currency free of exchange and service charges.

4. The transfer of this sum will commence in the calendar year in which production from the Unit Area begins, and continue each year thereafter up to but not including the calendar year in which production from the Unit Area ceases.

5. The transfer of sums in this Memorandum of Understanding will only occur if the fields are developed using downstream processing facilities located inside the Unit Area.

6. Subject to paragraph 5, the transfer of sums in this Memorandum of Understanding will occur irrespective of any redetermination of the Apportionment Ratio on technical grounds.

7. The commitments of the Government of Timor-Leste and the Government of Australia arising under this Memorandum of Understanding will be read together with the terms of the Agreement.

[signed]

For the Government of
the Democratic Republic of Timor-Leste
6 March 2003

[signed]

For the Government of Australia

6 March 2003