

Subsequent press releases from TimorGAP and Timor Resources and articles on following pages. Lusa articles are unofficial translations from Portuguese.

## **Timor Resources will sue Timor oil company for lack of project payment**

DILI, 02 Mar 2023 (Lusa) - The company Timor Resources, involved in the exploration of several wells in the southern interior of the country, will sue the oil company Timor GAP, partner in the project, for failure to pay its financial contribution, according to company sources.

“Lawyers from Timor Resources met this week with lawyers in Timor-Leste and the project will stop when the test drilling is completed while the operator legally sues Timor GAP for non-payment of its contractually demanded contribution,” the company’s official source told Lusa.

In question, according to the same source, is the arrears payment of \$11 million corresponding to what Timor Resources says are contract obligations for financial injection of Timor GAP, a 50% partner in the project consortium.

“Timor GAP has not made the payment for the calendar years 2022 and 2023 and are now at risk of losing their participation in the project,” he explained.

Lusa tried unsuccessfully to get statements from Timor GAP.

The legal process against Timor GAP occurs at a time when Timor Resources informed Lusa that it will have to complete in the coming days drilling up to 3,100 meters of the deepest well onshore in Timor-Leste, known as Lafaek-1, and whose drilling has already reached 3,060 meters.

The company will then move forward with Drill stem tests (DST) which will help determine the available oil and gas resources that the operator anticipates are “very good, due to the recorded high pressure at the well”.

Lafaek-1 is Timor Resources’ third drilling in the area in the last 12 months with data from the first two revealing the presence of petroleum at multiple levels.

“The potential remains very high regarding a significant breakthrough in the Lafaek structure, with hydrocarbon pressures above 8000 psi, indicative of the potential for a significant recoverable reserve,” says a statement sent to Lusa.

“If the current well can be drilled to the bottom of the hydrocarbon range, we are confident that something significant can be tested and quantified, providing certainty regarding the allocation of resources,” explained Perry Aarts, responsible for the drilling.

The company considers seismic work carried out in the area in 2018 was particularly significant to the analysis of potential resources in the area, with Lafaek-1 being “drilled across a large structure”.

Drilling found a 130-meter section with “high gas levels”, work is now underway to determine the full thickness of the range.

“The gas value of this potential reserve is significant. The indications of heavier hydrocarbon in the gas could be a precursor to oil on the bottom and provide significantly increased business revenue,” the company said.

Given the gas content of the well, the operator is using a scoop of just over a centimeter in diameter, “the smallest configuration possible” as DST tests are due to be conducted in the next few days.

The results of the DST testing will be made known, upon completion, in a joint statement with the National Petroleum and Minerals Authority (ANPM), the Timorese regulator of the sector.

The legal process translates a dispute that has been dragging on for several years and in which, according to documents Lusa had access to, TR accuses Timor GAP of not wanting to resolve the matter or even to acknowledge that the dispute exists.

The documents indicate that the dispute has existed since 2019, with TR submitting a formal dispute notification, under the consortium agreement, in August 2021.

Despite the dispute, TR has continued the exploration project, the first on the ground in 50 years, with an investment of \$64 million since 2017.

The company announced last June that it expected to begin production on two of the wells by late 2023, after confirmation of reserves of 24.2 million barrels of oil and 1.3 billion cubic feet of natural gas.

The Timorese government granted Timor Resources the first licenses for exploration and production in the interior of the country, covering an area of about two thousand square kilometers in four municipalities in the south of the country.

Block A - in the municipalities of Covalima and Maliana - and Block C - in the Municipalities of Manufahi and Ainaro - have been awarded under Production Sharing Contracts (PSC) to Timor Resources Pty Ltd, an Australian company which is part of the Nepean Group.

Block B has been awarded to Timor GAP Onshore Block, a subsidiary of the public oil company Timor GAP.

What is in question is the interpretation about the rights and obligations of the consortium partners - Timor Resources, Timor GAP and subsidiaries - namely about financing exploitation on behalf of the parties, despite having an identical joint stake in the consortium.

In the documents, TR is confident in the interpretation that its obligation is limited to the value of its participation in the consortium (50%), up to a maximum of \$27.5 million each, with a total value of \$55 million.

Timor GAP's position, referred to in the documents, is that there is no limit to the value of Timor Resources' obligations in relation to subsidies.

Timor Resources has so far not moved forward for a possible arbitration process, considering that the process could condition the company's ability to raise funding.

The arbitration process, which could be extended over time, could represent high costs with "drastic effects" and the eventual suspension of ongoing exploration, at least until a decision, says TR.

A process of this kind, it is still noted in the documents, could equally "cause damage to the reputation of either Timor Resources or the Timorese State" contributing "to further limit Timor-Leste's ability to attract investors in the future."



## ***TIMOR GAP STATEMENT REGARDING FALSE CLAIMS BY TIMOR RESOURCES PTY LTD***

Dili, 03 March 2023

TIMOR GAP always meets its contractual obligations and completely rejects any false claims by Timor Resources Pty Ltd, a privately owned Australian oil and gas company, that it owes any money under the Joint Operating Agreement.

TIMOR GAP operates with the highest standards of integrity and transparency and remains committed to the rule of law and fulfilling all of its contractual obligations.

In reference to the article published by Lusa, on 2nd of March 2023, titled **“Timor Resources will sue Timorese oil company for lack of payment on project”**. The news contains several statements made by the company Timor Resources that are entirely false and damaging to TIMOR GAP’s good name. Therefore, we hereby clarify the following:

1. Pursuant to the contracts signed by Timor Resources with the State of Timor-Leste (Production Sharing Contracts – PSC) and with TIMOR GAP (Joint Operating Agreements – JOA) for the Blocks A and C (the “Blocks”), Timor Resources has assumed the full obligation to fund 100% of the costs incurred in the referred blocks, including the costs associated with TIMOR GAP’s participating interest (50%) during the exploration and development phase and until the first oil production. This obligation, which is commonly referred to in the oil industry as “Carry”, is usually assumed by foreign oil companies in relation to national oil companies, as is the case of TIMOR GAP.
2. In this respect, Timor Resources is contractually required to cover all costs incurred, and to be incurred, in the referred blocks until first oil production is achieved, should the ongoing exploration activity be successful and result in a declaration of commercial discovery.
3. This Timor Resources’ obligation, and respective Carry, is established in absolutely unequivocal terms in the referred contracts, PSC and JOA.
4. Considering the above, TIMOR GAP has no contractual obligations of paying any exploration and development costs, and therefore, TIMOR GAP is not in default as falsely alleged by Timor Resources.
5. On the contrary, it is Timor Resources that is in serious breach of its contractual obligations by refusing to fund in full the petroleum operations.
6. In addition, as of November 2022, Timor Resources has prevented TIMOR GAP from participating in the Operations Committee meetings, and has blocked TIMOR GAP’s access to any geological, technical, or financial information, which is also a serious breach of its obligations under the JOA.
7. It should be noted that during the negotiation of the referred PSCs and JOAs, Timor Resources made several statements, including by its CEO, assuming the commitment to funding the entire exploration and development operations, claiming to have the financial resources to do so.
8. On the other hand, Timor Resources is obliged before the State of Timor-Leste to continue operations in the said Blocks, pursuant to the provisions set forth in the PSC, regardless of any dispute with TIMOR GAP, and cannot suspend those operations as has been announced by Timor Resources.
9. Any unjustified suspension or interruption of operations would result in a serious breach of the PSC, which may result in the termination of this contract by the State of Timor-Leste.
10. As Timor Resources’ partner, TIMOR GAP expects that Timor Resources manages to gather the financial resources to continue the activities in the Blocks and to honor its obligations as a foreign investor to TIMOR GAP and the State of Timor-Leste.

## **PRESS RELEASE**

**Dili, 7 March 2023**

### **Timor Resources response to TIMOR GAP press release of 3 March 2023**

Timor Resources unilaterally rejects TIMOR GAP's statement of 3 March 2023.

Timor Resources is a family owned company committed to helping the government and people of Timor-Lesté unlock their onshore hydrocarbon resources. The family that owns Timor Resources has over 50 years experience in the mining and resources sector, operating on 4 continents, in 9 countries with over 2,000 staff.

The current leadership of TIMOR GAP and its wholly owned subsidiary TIMOR GAP Onshore Block Unipessoal LDA have put at risk the commerciality of a vital oil and gas exploration project for the people and state of Timor-Leste with their dealings with Timor Resources in relation to this dispute.

Unlike TIMOR GAP, Timor Resources takes its responsibilities as to confidentiality very seriously however we cannot allow allegations that Timor Resources has made "false" claims to go unanswered. Further, Timor Resources categorically and unequivocally rejects any claim that it has been or is now in breach of any of its contractual obligations.

With our duty of confidentiality in mind Timor Resources will limit comments on the contracts between the parties. However, we can confirm Timor Resources has provided TIMOR GAP incontrovertible documentary evidence, signed and executed by TIMOR GAP's senior management and senior management of its subsidiaries absolutely confirming their obligation to fund their 50% share of operations once a "carry limit" had been reached. Despite this overwhelming and incontrovertible evidence TIMOR GAP and its subsidiaries have refused to meet their obligations.

For 3 years, whilst attempting to find a solution to TIMOR GAP's funding crisis, acting in the utmost good faith, Timor Resources continued to fund both their own and TIMOR GAP's share of operational expenses.

TIMOR GAP's current leadership has refused to engage in a constructive solution process leaving Timor Resources with no option but to commence a lengthy and costly legal process to force TIMOR GAP to meet its contractual obligations. Whilst this is an unfortunate development Timor Resources is very confident of a legal decision in our favour.

Timor Resources is the only onshore oil and gas operator in Timor-Lesté. It is our view that TIMOR GAP's complete inability to attract foreign investment capital through onshore blocks expressions of interest campaigns is directly related to the inflexibility of its current leadership.

As always, Timor Resources remains open to finding a mutually acceptable solution. We take this opportunity to thank the many stakeholders in government and business in Timor-Lesté who have provided support and honest advice to Timor Resources throughout this process.

Timor Resources reserves its rights to take action against the senior management of Timor Gap and its subsidiary as and when they see fit without further notice to either parties.

Except in the event Timor Resources is again required to issue a statement protecting its good name and standing we will make no further comment on this matter until the legal action has been completed.

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## Timor Resources

15 March 2023

### News Release

**Timor Resources attains a contingent resource certification of 58.8mm bbls from the first two exploration wells drilled, with certification provided by a Competent Persons Report, issued by Energy Resource Development.**

Timor Resources a privately owned Australian company has invested heavily in the Timor-Leste petroleum sector having drilled three exploration wells, completed 314 km's of seismic onshore and has provided short and long term employment opportunities over the last 7 years for more than 800 Timorese people, at various stages of the exploration projects.

Despite exploration success, recently Timor Resources has come under heavy criticism from TIMOR GAP Executive, CEO Antonio DeSousa, who has taken to criticizing the foreign company over the last 18 months in the media. On National Television in 2022 in a live television address, DeSousa advised the Timorese people he did not want them [Timor Resources] in the country, saying "if you (Timor Resources) came to me now, I would say you are not welcome, you have no experience, and no money". Sovereign risk for the foreign company has been escalating, and the current Government, continues to allow DeSousa as CEO of a State owned enterprise, to antagonize Timor Resources and other potential investors in Timor-Leste.

Timor Resources has been carrying out exploration in Timor-Leste since 2017, and is staffed by a work force that is 95% Timorese. They have successfully drilled 3 wells having discovered oil and gas in each of those wells. Over the years Timor Resources has built a strong reputation. They have not caused any environment impacts to the ground or to the community. They have maintained excellent relationship with all of the stakeholders in the communities where they are operating. They have been working for the national interest, carrying out activities in pursuit of a brighter future for Timorese people, all the while working within the rules set down by ANPM (petroleum sector regulators). All of the USD67 million dollars in exploration costs to date have been provided by the Australian company.

News of a potential third commercial oil discovery at the 3100m deep third exploration well site near Suai on the South Coast should be cause for great celebration for the people of Timor-Leste. From an operational point of view the project is at an exciting stage.

The company is ready to undertake an extended production test, called a drill stem test, where the hydrocarbons will be flowed to surface and measured to attain the production profile for the field. Early indications based on the reservoir profile infers the well will flow at around 2000bbls per day. With international contractors onsite and the test set to commence in the next 14 days, it is a very encouraging time. Timor-Leste's revenue has been heavily dependent on the offshore petroleum sector and with the expected exhaustion of the Bayu Undan field in the near term and the Sunrise project facing delays and contractual issues, these onshore discoveries should be fast tracked in the national interest. Royalties, taxes and ANPM profit shares will create a large revenue stream for Timor-Leste and jobs for the local community.

Despite all of the success in exploration that Timor Resources has demonstrated, TIMOR GAP the state owned entity seems intent on holding the project back. Under their interpretation of the contracts, TIMOR GAP declares they have no obligation to pay their share of funding for the appraisal and development of the new field.

TIMOR GAP have written a statement and published it on their website, stating they are unwilling to fund any of the future costs for the development or for additional drilling as required. They seem intent on picking a fight with Timor Resources and any other foreign investor.

TIMOR GAP are a 50% equity holder, and they have been carried through the first stages of exploration for free with Timor Resources paying 100% of the costs. We have to ask how is it commercially possible for the development to proceed? Questions have been asked as to whether it is the external Portuguese lawyers running the state owned entity TIMOR GAP and not Timorese national people who understand the Petroleum sector.

**TIMOR GAPS legal dispute with Timor Resources, is yet another arbitration matter that will be problematic for the small nation. Arbitration has the potential to bring the project to a standstill for 2 to 3 years. It will damage the reputation of all parties and increase the perception of sovereign risk for any future investment in the country. In the national interest is time for the Government to step in and instruct TimorGap to find a commercially viable solution.**

Timor Gap is pushing the company towards a protracted arbitration, which will cost the State of Timor-Leste a high price both commercially and reputationally. The benefit of the smear campaign TIMOR GAP are running against Timor Resources is unclear. As a 50% equity participant in the project all funds invested in the project are recovered from petroleum revenues produced in the future. TIMOR GAP has to pay upfront their share of the costs to see the project reach its potential. TIMOR GAP policy should not be set by consultants in Houston or lawyers in Lisbon. Damage is being done to the national reputation of Timor-Leste and the fact that the nation has for more than 5 years without any success been trying to attract foreign investment to participate in 11 available onshore PSCs is an indication of systemic failure.

TIMORGAP was set up to advance the petroleum sector and work together with foreign investors and exploration companies to unlock Timor-Leste's resources. It seems to us that TimorGap, under this current government's direction, has completely failed to achieve any of its aims.

When approached for comment CEO Suellen Osborne said "I don't want to comment on the likely legal proceeding but I can say it is a surprise to me that the CEO of TIMOR GAP has not met with me to resolve what is a commercial issue stemming from poorly drafted clause in the Joint Venture Agreement, that was in fact the first petroleum onshore JV Agreement ever signed in the country. To fix the issues we need two willing parties to make a fair and sensible amendment and the problem is solved. We have tried for two years to engage with the current leadership of TIMOR GAP without success. We will always try to work with TIMOR GAP to find an equitable solution but the window for that opportunity is quickly closing."

Sources close to the company commenting on the condition of anonymity stated: "they [Timor Resources] are frustrated. They had a good working relationship with the previous leader of TIMOR GAP, Francisco Monteiro who was the prior CEO at TIMOR GAP, he was replaced after political appointments were made in 2020. The parties under Monteiro's leadership were in the process of resolving the problem commercially and sensibly for the benefit of all parties. Timor Resources has spent 2 years trying to work with the current CEO who has been aggressive and hostile towards them. They have tried to avoid litigation and continued to pay for TIMOR GAP but now it looks like they will start a legal process which will cost the parties millions of dollars and potentially delay the project for 2 -3 years. TIMOR GAP has refused to enter into real commercial negotiations with them. Undoubtedly jobs will be lost and Timor Resources will do the bare minimum until the case is decided but they don't see any other option. Maybe if a new government is elected sanity will prevail and a commercial solution will be found. In the meantime the people suffer."

Exploration activities onshore, have a substantial multiplier effect for the economy. Ongoing investment in the nation's petroleum sector, is vital for the economy and meeting the energy needs of South East Asia.

Continuing exploration for oil and gas in Timor-Leste is central to alleviating poverty in the country. Petroleum sales make up 95% of the GDP of the small nation and onshore revenues could happen within 24 months if the project partners can work together and TIMOR GAP can access funding to pay for their share of capital costs.

# **TIMOR GAP rejects proposal from Timor Resources to resolve dispute**

Timorese oil company TIMOR GAP has rejected a proposal from Timor Resources to settle a dispute that has been dragging on since 2019 and avoid international arbitration, according to documents to which Lusa had access.

Lusa, 17 March 2023 -- On Thursday, TIMOR GAP communicated the total rejection of the proposal by Timor Resources which, according to the Australian company, intended to avoid arbitration that could stop the ongoing exploration in the south of Timor-Leste, according to documents obtained by Lusa.

"We analyzed the 'proposed solution' and the proposed amendments to the Joint Exploration Agreement (JBA) that you initially presented to the Minister of Petroleum. Your terms are unacceptable to TGOB", says Norberta Andrade, executive director of TIMOR GAP Onshore Block (TGOB ), a subsidiary of the oil company, in a letter sent to the management of Timor Resources .

"We regret that you have decided to refer this dispute to arbitration. We will vigorously defend the case and file an appropriate counterclaim, given your various violations of the ACE and other agreements and commitments. You understand that arbitration will affect our consortium irreversibly" , concludes Andrade, in the short letter.

TIMOR GAP responded to a proposal by Timor Resources, which Lusa had access to, and which is based on four points, including amendments to the agreement, taking into account that the initial version "was standardized and not adequately adapted" to the agreement between the two companies.

Timor Resources also proposed the end of the commercial agreement, that TIMOR GAP pay what Timor Resources considers are amounts owed and undertakes to fulfill these payments in the future.

At issue is the interpretation of the rights and obligations of the consortium partners -- Timor Resources, TIMOR GAP and subsidiaries -- namely regarding the financing of exploration, despite having an identical joint participation in the consortium.

Timor Resources defends that its obligation is limited to the value of its participation in the consortium (50%), up to a maximum of 27.5 million dollars each, in a total value of 55 million dollars.

TIMOR GAP's position is that there is no limit to the value of Timor Resources' obligations vis-à-vis subsidiaries and that in the initial exploration phase the investment is up to Timor Resources.

The case has given rise to an exchange of mutual criticism that Timor Resources now says it intends to take to the Singapore International Arbitration Center (SIAC).

"We are preparing a notice of arbitration, in accordance with the SIAC. We hope to have this notice of arbitration presented by March 20", a source from Timor Resources told Lusa.

Timor Resources insists that the overdue payment of US\$11 million (10.33 million euros) is at stake, corresponding to what the company says are contractual obligations of financial injection by TIMOR GAP, a 50% partner in the project consortium.

"TIMOR GAP has not made the payment for calendar years 2022 and 2023 and they are now at risk of losing their stake in the project", he explained.

TIMOR GAP defends its position and accuses Timor Resources of having violated its obligations.

"TIMOR GAP always fulfills its contractual obligations and completely rejects any false claims by Timor Resources Pty Ltd, a private Australian oil and gas company, that it owes any money under the terms of the Joint Operations Agreement", he says.

The Timorese company states that it operates "in accordance with the highest standards of integrity and transparency and remains committed to the rule of law and the fulfillment of all its contractual obligations".

An official source from Timor Resources said that, if the arbitration proceeds, exploration in the area could be stopped for "two or three years", noting that, if the process proceeds normally, "by the end of 2024 we could be extracting six thousand barrels of oil per day".

The company has completed drilling down to 3,100 meters of the deepest well on land in Timor-Leste, known as Lafaek-1, and is expected to proceed later with drilling tests on the column that will help define the oil and gas resources available. , which the operator anticipates to be "very good".

The President of the Timorese Republic has already appealed to the Government and the state oil company TIMOR GAP to act with "extreme speed" to resolve the impasse.

"I ask that you look at this issue with extreme speed, and with total integrity, without favoritism," said José Ramos-Horta, speaking to Lusa.

"I am concerned that if there is no urgent and fair solution, this will discredit Timor-Leste as a destination for investors. Timor-Leste already has a very low international rating in terms of business environment. With this case it will be much more difficult and may even make difficult the negotiations about the Greater Sunrise project and bring the pipeline to Timor-Leste", considered the Head of State.

Fidelis Magalhaes, Minister of the Presidency of the Council of Ministers, confirmed to Lusa that the matter was discussed in last week's meeting of the Council of Ministers, during which the Prime Minister, Taur Matan Ruak, left "clear guidelines" so that a solution may be sought that "does not harm the State or the public interest.

"The guidance is clear that solutions should be sought and that those solutions should not harm the state and the public interest. But TIMOR GAP is a public company, it has its administrative autonomy," Magalhaes told Lusa.

"The information about the case has been transmitted. I will not comment on TIMOR GAP's responses in this dispute. The government maintains confidence in the leadership of the company that will know the best way to act," the minister stressed.

Magalhães said that the company knows "how to respond and the necessary measures to be taken and have experienced services to respond and resolve the situation in the most sensible and best way for the State, for the public interest and for national development.

Lusa tried, without success, to get a comment from TIMOR GAP.