



THE GOVERNMENT OF THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE

INVITATION TO BID TO CONDUCT A MULTI-CLIENT SEISMIC SURVEY IN CERTAIN MARINE TERRITORIES OF TIMOR-LESTE

1. INTRODUCTION

The Government of the República Democrática de Timor Leste (“RDTL”) is pleased to invite you to submit technical and commercial proposals to carry out a non-exclusive seismic survey in the territorial waters of Timor-Leste with the object of providing the initial technical data-set for the country’s first exploration licensing round in 2005. The following Request for Proposal reflects the Government’s careful consideration of the feedback received from the invited companies both individually as well as collectively via the International Association of Geophysical Contractors.

2. BACKGROUND

The colony of Timor declared its independence from Portugal on 28 November 1975 and was invaded and occupied by Indonesian forces nine days later. On 30 August 1999, in an UN-supervised popular referendum, the people of Timor voted for independence from Indonesia. East Timor was governed by the UN until 20 May 2002 when it was internationally recognized as an independent state.

On 20 May 2002, RDTL signed the Timor Sea Treaty with Australia, wherein RDTL and Australia agree to jointly develop petroleum resources in an area of the Timor Sea referred to as the Joint Petroleum Development Area (JPDA). Within

the JPDA, RDTL will receive 90% of oil and gas revenues, while Australia will receive 10%.

The JPDA contains two world-class petroleum discoveries, and continues to have potential for adding more oil and gas. The Bayu-Undan field (estimated reserves of more than 400 million barrels of condensate and liquid petroleum gas (LPG) and 3.4 trillion cubic feet (Tcf) of natural gas) is operated by Conoco-Phillips and lies wholly within the JPDA. The Greater Sunrise fields (estimated to contain as much as 7.7 Tcf of gas and almost 300 million barrels of condensate and LPG), lies only partly within the JPDA. In 2003, RDTL and Australia signed a unitization agreement relating to Greater Sunrise in which they acknowledge the fact that both countries have maritime claims in the Timor Sea, including to the part of Greater Sunrise outside the JPDA. The unitization agreement has not yet entered into force, and will not enter into force until both parties have ratified it.

The issue of maritime boundaries with Australia (as well as with Indonesia) remains outstanding and is a subject of high priority for the Government of RDTL.

Although RDTL is commencing its life as a sovereign state with the endowment of a major petroleum development project and potential, the country is faced with a challenging economic situation and a growing population that is living in extreme poverty.

The Petroleum Sector is a key part of the RDTL economy and is considered to be its primary engine for economic growth. Revenues from petroleum operations will provide an overwhelming share expected government income and a large portion of the nation's GDP over the near-to-medium term.

As a result, development of the petroleum resource is a very high priority of the Government. Drafts of the Petroleum Law, pro forma petroleum development contract, Tax Code and other key legal and contractual framework documents are in an advanced stage and are expected to go through a process of public consultation and to be submitted to government bodies for passage before the end of 2004.

In the meantime, RDTL has received expressions of interest from a number of international oil and gas companies interested in acquiring exploration and exploitation rights in RDTL's onshore and offshore areas. In order to make the best possible use of the period until the necessary laws have been promulgated to allow full exploration activity and in recognition of the fact that there is little basic technical information and data on the prospectivity of Timor-Leste areas outside the JPDA upon which to base an exploration licensing round, the Government of RDTL has decided to accelerate the process by inviting qualified

companies to tender for a multi-client geophysical survey. This survey will provide the essential database upon which RDTL plans to launch its first exploration licensing round, currently planned for 2005.

3. OBJECTIVE

The overall objective of the Government of RDTL in this undertaking is the completion of its first exploration licensing round in 2005 with the successful award of areas to qualified companies who have competed in an open and transparent process.

This overall objective should guide the proposals of companies wishing to provide the multi-client survey described herein. Competing companies will consider the result and timing objectives outlined above and within that context make their own proposal of what they believe will best meet the objective. The minimum deliverable is a data package suitable for evaluation of the areas for competitive bidding by the international oil industry.

4. PROPOSALS

4.1 AREA TO BE SURVEYED

The area available for the survey is described on the following map. Generally, the area is confined to Timor Leste's marine territories lying between the island and the JPDA. It is expected that the selected contractor will acquire data as close as possible to the southern coast-line of Timor-Leste.



4.2 PETROLEUM CONTRACT AND FISCAL TERMS

In order for Contractors to evaluate the attractiveness of Timor-Leste's proposed contractual and fiscal regime as it applies to exploration and production activities, a draft pro forma of the Production Sharing Contract is annexed to this Request for Proposal. In addition, a bullet point summary of the key provisions of the Petroleum Taxation Act is also provided as Annex B. It should be noted that these documents are drafts that have not yet undergone the full public consultation process (with both Timor-Leste stakeholders as well as with the international oil companies) nor been approved by the Government of RTDL. They are provided only for the assistance and guidance of prospective

proponents for the non-exclusive seismic survey. It is understood that the terms and conditions detailed therein may change prior to the completion of the first exploration licensing round.

4.3 ACQUISITION PARAMETERS

Given the very limited body of information that is available and based on its conversations with the industry, RDTL expects the initial survey will take the form of a “multi-client” 2D survey and will comprise an expected volume of at least 3,500 line kilometers. In keeping with the objective-based proposals that are being sought, the specific acquisition parameters (line spacing, grid orientation, offsets, etc.) as well as the processing parameters are left to the discretion of the contractors and their views on what will be most useful to prospective explorers in the area.

It is considered essential that the new data set be tied to existing data – wells and petroleum systems evident and prolific in the JPDA as well as older information in Timor-Leste (in particular the Mola #1 well drilled in 1975 by BOCAL)– with selected lines (in this respect, it should be noted that the Government of RDTL is not currently in possession of any subsurface data). Contractors will also note that the JPDA is subject to the Timor Sea Treaty, and therefore under the regulatory jurisdiction of the Designated Authority.

Given the limited information available in the area, acquisition of gravity and bathymetric information is also required as part of survey.

All activities and operations will be conducted to the normal technical and HSE standards prevailing in the international petroleum industry.

4.3 DELIVERABLES

The minimum deliverables for the successful proponent will be:

- a. A 2D data-set of a minimum volume of 3,500 line kilometers suitable as the basis for an exploration bidding round and provided in industry-standard formats and quality.
- b. Bathymetric and gravity contour maps of the surveyed area.
- c. A presentation of the survey results/highlights, etc. in Dili, Timor-Leste in which the key technical issues, indicative play-types, linkages to

the known petroleum systems in the area, overview of prospectivity, recommendations with respect to the delineation of exploration blocks and other aspects that may be relevant to prospective explorers are discussed.

4.4 COMMERCIAL CONSIDERATIONS

- a. All data will be the property of RDTL. The Government will receive complete copies of the data in both raw and processed forms in a timeframe, quantity and format to be determined.
- b. Confidentiality period of 10 years. In the event and to the extent that contractors have not recovered 100% of their proposed "Bid Sum" at the end of this period, the Government of RDTL will allow for an extension of the period up to a maximum of 10 additional years.
- c. Exclusivity – Since there will be only one multi-client survey sanctioned for the first exploration round and purchase of the entire data package will be required of all prospective bidders, no exclusivity periods or provisions are considered necessary.
- d. Contractors' proposals will be evaluated on both their perceived responsiveness to the overall objectives of the Government of RDTL in this offering as well as the commercial proposition.
- e. The commercial propositions will be evaluated based on the total "Bid Sum" being proposed by Contractors as well as the proposed sharing of sales revenues (see f., below). The Bid Sum is the product of two elements: (i) a combined fee per kilometer for both acquisition and processing; and (ii) the total line kilometers of data proposed to be acquired and processed. The level of costs and profit that is included in the proposed fee is at the complete discretion of the Contractors.
- f. Revenue sharing – Contractor will be entitled to 95% of revenue from sales until the "Bid Sum" is received subject to an overall time limitation of 10 years from the date of the agreement. All revenues in excess of the Bid Sum will be shared between Contractor and State on the sliding scale basis as set out in the following table.

Cumulative	Share of Incremental Revenues
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Revenues as Percent of Bid Sum		
	Contractor	Government
Less than 100%	--%	--%
100-115%	--%	--%
115-130%	--%	--%
130-150%	--%	--%
More than 150%	--%	--%

- g. Contractors are requested to make provisions for a limited level of relevant training for up to 3 Timorese nationals in the acquisition and processing activities. If suitable Timorese nationals are not available at the time of activities within Timor-Leste, such training provisions can be completed on similar activities outside of Timor-Leste.

4.5 RDTL UNDERTAKINGS

- a. The Government of RDTL will require that all participants in the first exploration round tender participation fees (which will also allow them access to the acquired data-set).
- b. The Government of RDTL wishes to foster an open and transparent petroleum sector in which a number and variety of companies will operate. Accordingly, it is the Government’s intention that there will be no obstruction to the participation of qualified companies. While the Government has not yet formalized the minimum qualification requirements, it should be understood that any bona fide oil and gas company with demonstrable capacity and experience will be considered qualified for the purposes of participation in the licensing round.
- c. The Government of RDTL will support the promotion of the licensing round through the participation of senior Government officials in “roadshows” in selected venues consistent with normal practice in such undertakings. Additional exposure for the offering is also anticipated via participation in key industry conferences as well as notices/articles in selected industry publications.
- d. The Government of RDTL will award the blocks after an open and competitive offering process.

- e. The cost of the participation fee will be "cost recoverable" for successful bidders under Timor-Leste's pro forma Petroleum Contract.
- f. The Government of RDTL will provide its full reasonable support with respect to any necessary permissions or permitting related to the acquisition of the multi-client survey.
- g. The Government will undertake its best efforts to complete its first exploration licensing round in 2005. To the extent that the Government is unable to complete the round by end-2006, the Government will allow the fees bid by the successful contractor to be uplifted at an annual rate of 10% until its bid compensation level has been achieved.
- h. No underwriting or other guarantees on the part of the Government are contemplated.

4.6 BID REQUIREMENTS

All proposals should contain at least the following:

- a. Indicative base map/acquisition plan of the proposed survey
- b. Proposed acquisition parameters with accompanying rationale
- c. Proposed processing steps with accompanying rationale
- d. Proposed timeline of activities
- e. Amount of seismic proposed to be acquired and processed (subject to a minimum of 3,500 kilometers).
- f. Acquisition and processing fee per kilometer.
- g. Proposed pricing of data packages to prospective explorers
- h. Proposed measures to support an international offering of exploration rights.
- i. A draft contract reflecting the principles outlined above.

Bidders are requested to acknowledge receipt of these documents by email within seven (7) days of receipt of this Request for Proposal and to indicate if they intend to make a proposal in response thereto.

Bidders are requested to submit their proposals by email to the addressees noted in the Section 5 of this Request for Proposal. Bids are due on Friday July 30th at 5pm Dili time.

The Government of RDTL reserves the right to reject any and all proposals made in response to this solicitation.

The Government of RDTL reserves the right to cancel any award if the successful proponent does not make a good faith effort to comply with the timeline outlined herein.

The Government of RDTL does not bind itself to accept the lowest or any Bid or parts thereof submitted and further reserves the right to accept or reject any proposal and to annul the process and reject all proposals at any time prior to award of Contract, without thereby incurring any liability to the affected Bidder or Bidders.

The Government of RDTL is not obligated to disclose to Bidders or other persons not officially concerned with such process, information relating to the examination, clarification, evaluation and comparison of Bids and recommendations concerning the award of Contract.

4.7 EXPECTED TIMING OF PROCESS

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| • Deadline for proposals | July 30, 2004 |
| • Notice of Indicative Award* | August 13 |
| • Seismic acquisition/processing complete | December 2004/January 2005 |
| • Data ready for licensing | First Quarter, 2005 |
| • Exploration Round Roadshow | End First Quarter |
| • Data sets available to industry | March |
| • Bids due | October/November |
| • Contract award | November/December |

*Subject to confirmation of vessel availability and commitment by Contactor within 5 days of notice.

5. CONTACTS

Any further queries may be directed to the Directorate of Energy and Mineral Resources:

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Annex A. Draft Pro Forma Production Sharing Contract

See attached document, Timor-Leste Draft PSC.pdf

Annex B. Summary Terms of Draft Timor-Leste *Petroleum Taxation Act*

- The Timor-Leste *Petroleum Taxation Act* will consist principally of a simple flat-rate tax on corporate profits. The tax has been designed to be creditable in the United States and in other home jurisdictions of companies.
- The tax rate is set at 30% with provisions for deduction and depreciation of capital expenditures.
- The proposed depreciation regime is a “life of asset” system or 10 years, whichever is the less. There will also be an option for small fields with short lives to take depreciation by the units of production method.
- The draft Timor-Leste *Petroleum Taxation Act* also incorporates an additional profits tax only for fields that have achieved specific levels of profitability. The rates will be a 16.5% threshold rate of return, after income tax, for triggering the tax and a net tax rate of 22.5%.
- There will be no branch profits tax or dividend withholding tax in respect of petroleum income.
- There will be a straightforward 5% final withholding tax on supplies to petroleum companies by sub-contractors. Withholding tax on interest, royalties etc will remain as set in the general tax legislation.