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Oilex Facing USD1.7 Million In Penalties For Timor Leste Contract

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LONDON (Alliance News) - Oilex Ltd Thursday said authorities in Timor Leste have informed the company and its partners their production sharing contract will be terminated, claiming that they owe USD17 million in penalties, as the companies counter that they actually are owed USD56 million in over-expenditure.

Of that USD17 million figure that is being demanded by authorities, Oilex would obligated to contribute USD1.7 million of that amount, in line with its 10% interest.

Oilex shares were down 7.4% on Thursday morning to 3.12 pence per share.

On Wednesday, Oilex had said it had made a request on behalf of its joint venture partners in the joint petroleum development area in the Timor Sea to terminate the production sharing contract by mutual agreement and at no cost to the company and without penalty after security concerns about the contract.

That request was rejected by the authority, the Autoridade Nacional do Petroleo, as it looked to penalise the company for wanting to terminate the contract with its partners.

Instead, the authority awarded a second three month suspension of the contract whilst it prepared a notice to terminate, which it would send to Oilex to cancel the contract. On Thursday, Oilex said it had received this notice from the authority.

Within the notice, the authority has claimed payment is owed from the partners for the estimated cost of drilling in the joint petroleum development area in the Timor Sea in 2013 which was not carried out, alongside claims they failed to meet local content obligations.

In total, Autoridade Nacional do Petroleo is seeking USD17 million from the partners, of which Oilex would have to contribute USD1.7 million.

"The company has not provided for a monetary settlement in its accounts and given the significant overpayment in the work programme would not anticipate making such a provision," said the company on Thursday.

Oilex and the joint venture partners have argued the claim, and have previously requested USD56 million in credit for excess expenditure on the approved work programme, but said the issue "remains unresolved".

"The notice (from authorities) does not include any reference to, nor allowance for, credit for excess monies which have been spent by the joint venture during the production sharing contract term. Oilex considers such excess expenditure should be included as part of any financial assessment incorporated in the termination process," said Oilex.

The authority has now asked Oilex and its partners to submit a written response to the notice before June 12. The production sharing contract remains suspended during this time.

Oilex's partners for the joint petroleum development area production sharing contract are Japan Energy E&P JPDA Pty Ltd and Pan Pacific Petroleum (JPDA 06-103) Pty Ltd with a 15% stake each and GSPC (JPDA) Ltd, Videocon JPDA 06-103 Ltd and Bharat PetroResources JPDA Ltd, which all hold a 20% stake each. Oilex holds the remaining 10%.

The partners wanted to terminate the contract over concerns about the security of the production sharing contract as a result of developments within the joint petroleum development area that are "outside the control and influence" of the partners.

The security concerns relate to a disagreement between the government of Timor Leste and the government of Australia about certain maritime arrangements in the Timor Sea, which have led to Timor Leste filing arbitration proceedings against Australia.

Timor Leste is trying to make certain maritime arrangements in the Timor Sea void, something that Australia has argued against.

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