Tema Oil Refinery (TOR) Ltd.

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PRESS RELEASE **FOR IMMEDIATE RELEASE**

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Oil Refinery statement addressing the recent letters issued by the Office of The Special Prosecutor and the Attorney General in relation to the proposed TOR Rehabilitation Project

It is with deep regret that the Board of Directors of Tema Oil Refinery finds itself in the position of having to set the record straight in response to letters issued by the Office of the Special Prosecutor (OSP) and the Attorney General, which have been circulated in the public domain.

By way of background, the TOR Rehabilitation Project was tasked to the Board of TOR with a remit to secure a credible solution to return TOR to sustained and profitable refining activity. The refinery has not processed a barrel of oil since April 2021. For several years TOR has been unable to meet its operating costs and has found itself reliant on government to cover its perennial cash flow shortfalls. The proposed rehabilitation project was to ensure that TOR could sustain itself from internally generated funds and restore the infrastructure at the refinery to allow for the resumption of refining activity on a profitable basis.

The Board of Directors of TOR is comprised of highly reputable and experienced individuals fully committed to finding a path to restore activity and profitability at TOR for the benefit of the company and the country. The board has held more than 40 board meetings since its inauguration in March 2022, seized with the determination and responsibility to find a robust and sustainable solution for TOR. The financial health of TOR has been challenged for a number of years and has subjected the workforce to the misery of having to survive on salaries that have been stagnant over the last five years. TOR has witnessed the continual exit of key engineering skills in search of productive opportunities in other parts of the world. The board and management are committed to overcoming these challenges, and to executing a plan that promises to set TOR on a path to sustained recovery. This task is complicated by the fact that the TOR Rehabilitation Project is not one that readily attracts many of the established players in the industry. This is especially not helped by the fact that TOR does not have up to date audited financial statements, is currently unable to meet all of its financial obligations and is carrying debt exposure in excess of US$400 million.

The management of TOR approached several prospective investors to participate in a competitive tender to submit proposals for the TOR Rehabilitation Project. Three proposals were forthcoming and were reviewed in great detail over several weeks, culminating in an invitation for the various parties to present their ideas in person and submit themselves to questions from the board. Two proposals required that TOR take on additional debt, and that such debt be either government guaranteed or supported by a letter of credit. Neither of these proposals were supported by a tolling partner. The third proposal, that of Decimal Capital, proposed a novel lease structure that would not result in any liabilities being imposed on the already heavily indebted TOR balance sheet. This proposal envisaged

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the establishment of a special purpose vehicle (Baybridge Asset Management) to perform the role of the lessee, supported technically and financially by one of the world's leading energy trading companies. The substance of the Decimal Capital proposal, underpinned by the support of a market leading tolling partner, was deemed far superior to any other offer and was selected as the preferred option, subject to confirmation of contractual arrangements between the parties to provide sufficient comfort to the board and its stakeholders.

This proposal was always underpinned by a credible supply of crude oil, a business model that demonstrated their financial capacity to undertake their obligations, and a comprehensive build out of their technical capabilities. It is a fundamental misunderstanding to suggest that the proposal was selected on the basis of the balance sheet of Decimal Capital or Baybridge alone, nor that they were representatives of an international partner. It was rather the case that this innovative structure pulled together the various required components. Following the evaluation process, the Decimal Capital proposal was then shared with various stakeholders for review and comment.

In November 2022, one of the principals of Decimal Capital encountered legal problems related to an incident that had occurred several years earlier, and the Board directed that the individual be eliminated from any shareholding or association with Baybridge Asset Management (Baybridge). In consultation with the stakeholders of TOR, it was deemed preferable to replace Baybridge with a new special purpose vehicle, Torrentco Asset Management (Torrentco), to ensure no historic association with the said individual. Of paramount importance to the board was confirmation of the continued support of the structure by the leading energy trading company. Such support was confirmed, and despite the various challenges encountered in attempting to complete the transaction agreements, the Board has always insisted that Torrentco demonstrate a credible source of crude oil supply, the continued involvement of the leading global energy trader to support both the offtake of the products and the build out of the technical teams. TOR has never waivered from these conditions, and has always maintained this as one of the conditions precedents to the agreement becoming effective.

More recently, Torrentco has established a special purpose vehicle, Tema Energy & Processing Limited (TEPL), with the express objective of broadening the benefit in the transaction beyond the single Torrentco shareholder. In so doing, Torrentco sought to establish an entity for the benefit of all the workers of TOR to secure an interest in the lease agreement through a minority shareholding in TEPL. The establishment of this Workers' entity appears to have been done in haste, and the board of TOR has instructed the management of TOR to supervise an engagement between the various workforce stakeholders in a bid to establish clear rules and a governance structure for the proposed Workers' entity. It is envisaged that proceeds from its shareholding will be applied to various initiatives such as the refurbishment of the TOR medical facilities,

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TOR clubhouse, purchase of new company buses, worker training and development, and other broad-based benefits to be identified.

Key financial highlights of the proposed lease agreement are as follows:

TEPL pays:

- Annual Rent US$1 million per annum
- Additional Rent US$1.107 million per month (US$13.28 million per annum)
- Fixed Maintenance Fee US$423,000 per month (US$5.08 million per annum)
- Variable Maintenance Fee US$3.2 million per annum (based on 8 million barrels of crude oil processed)
- Bonus payment US$0.5/barrel processed beyond 8 million barrels
- Annual utilities/insurance premium US$8 million
- One off payment of US$2.5 million into the TOR provident fund
- If the Lessee fails to meet its ongoing obligations TOR may terminate at its own option
- TOR reserved the right to Early Termination at its own option

It is important to note that this transaction requires demonstration of significant financial commitments and payments by TEPL even before they have a chance to generate profit from the lease agreement. A significant amount of maintenance and refurbishment work will need to be concluded at the refinery to allow for operations to commence. It is estimated that in excess of US$20 million will be disbursed by TEPL as advance payment of the Fixed Maintenance Fee to enable TOR to conduct the necessary works during the early months of the lease. Over the life of the lease, it is estimated that approximately US$50 million will have been invested in the maintenance and refurbishment of the plant and infrastructure, and TOR will have received in excess of US$170 million in lease rental and maintenance fees from TEPL.

In spite of the proposed transaction, the board of TOR has continued to motivate management to seek and welcome alternative proposals to ensure that all avenues continue to be pursued. Indeed, TOR has negotiated the right to terminate the proposed lease agreement with TEPL at any point during the proposed six-year lease term by exercising its Early Buyout Option per the terms of the Lease Agreement, ensuring maximum flexibility for TOR throughout the period, and eliminating the prospect of any "seller's remorse".

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Indeed, management has received visits and proposals from two such alternative prospective investors during the course of the past year but neither has, so far, matured much beyond the early engagement with those investors. The door remains open for them and others to advance credible and robust proposals for the consideration of the company.

Prior to the closing of the lease agreement, several **conditions precedent** remain to be completed including the following:

- Upfront payment by TEPL of US$2.107 million
- Approval of NPA Refiner License
- Approval of the transaction by TOR stakeholders (SIGA, MoE, MoF)
- Funding of a maintenance reserve account with US$800,000 (this account has already been established and TEPL is currently poised to deposit US$ 1 million to assist with necessary early remedial works at the refinery)
- Completion of the final due diligence report to the satisfaction of TOR stakeholders

The Board is saddened and disappointed by the precipitous action taken by the leaders of the GTPCWU, both nationally and at TOR, who have taken it upon themselves to jump to baseless and, frankly, insulting conclusions without engaging management or the Board to ascertain the facts. It is unclear what has motivated such behaviour by the leaders of GTPCWU, but the board and management will conduct an internal process to understand and deal with this. They continue to express concerns about the impact of the lease on the rights of the workers, but even this has not been articulated. Enquiries at the refinery indicate that the vast majority of workers are hopeful for the conclusion of the proposed transaction, in direct contrast to the assertions made by leaders of the GTPCWU. Their other callous allegations are completely without merit and thoroughly refuted by the board. The Board would have hoped for the opportunity to engage both the Office of The Special Prosecutor and the Attorney General prior to the publication of their letters. These letters which have been widely circulated by the media, and consumed by well-intentioned members of the public, have naturally caused a degree of consternation in the public domain.

The Board and management of TOR will avail to the OSP any and all documentation required, and we are certain that a better understanding of the issues and processes will allow for this important project to have a chance of being implemented. The alternative would require that TOR continues its ongoing search for viable options in a very difficult market. The issues raised in the Attorney General's letter are well understood by the board and management of TOR but happen to be items that are expected to be confirmed as part of the final due diligence and the completion of the various conditions precedent to the transaction.

The Board of TOR is committed to maintaining the highest standards of integrity, ethics and governance in the discharge of its duties, and in keeping with the personal values of its members. The return to a thriving work environment where the staff can once again be proud to be employed by TOR, and the general upliftment of staff morale is also a key priority for the board.

TOR is an important national asset that has the potential to make a positive contribution to the economy of our dear country, and the Board is determined to discharge its responsibility to the best of its collective capability. An important outcome of the transaction will be the ability for the company to put in place a concrete repayment plan to settle its current outstanding statutory debts, and then to use the period of stability in TOR to allow management, under a separate exercise, to develop a broader restructuring plan for the residual significant commercial debt liabilities. The proposed lease agreement offers the prospect of returning TOR to profitability, ensuring rehabilitation of its equipment and securing the consistent processing of crude oil, ultimately positioning the company with a wider range of longer-term strategic options.

The Board of Directors, Tema Oil Refinery.

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