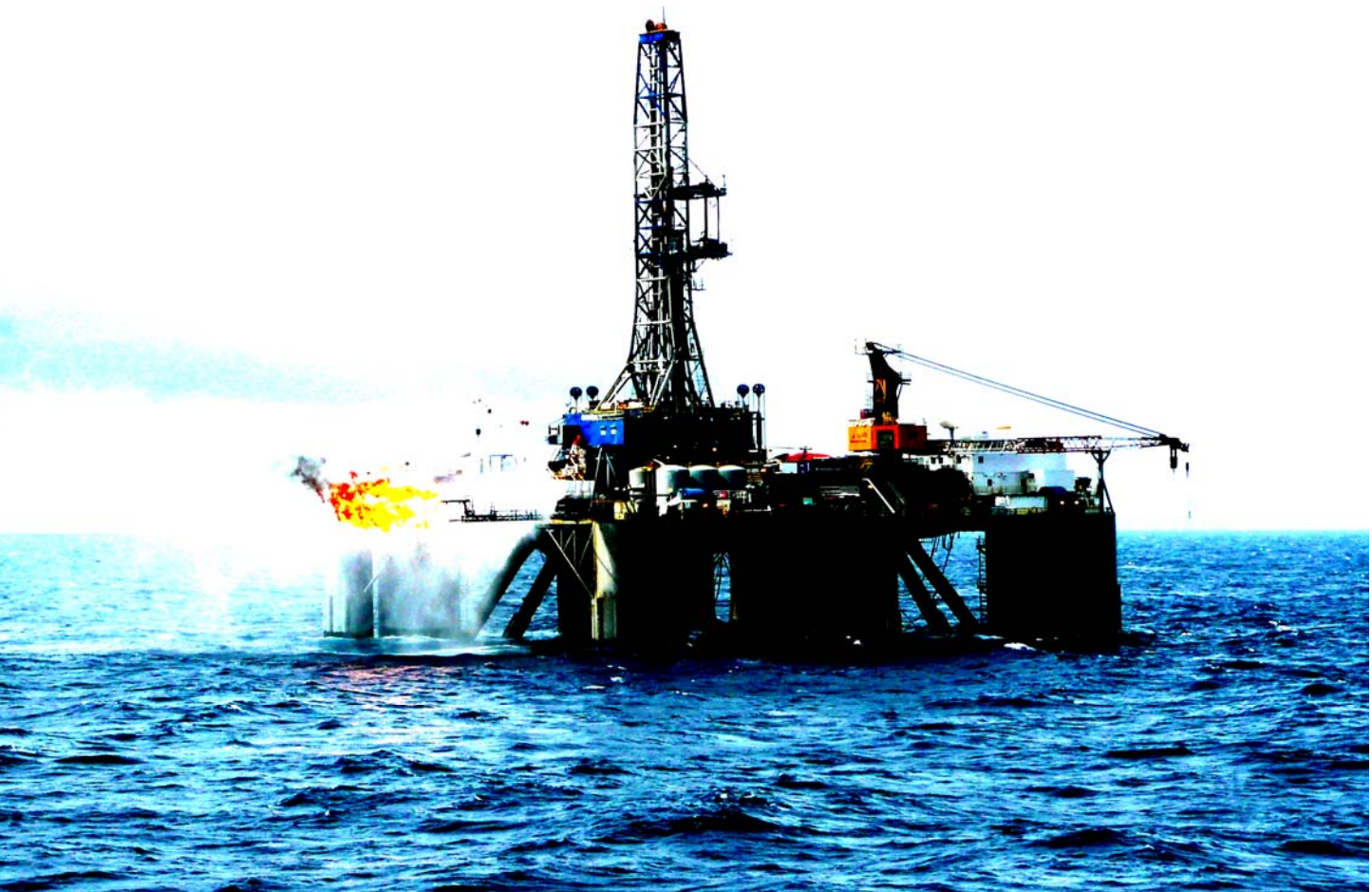


2008 Annual Report



2008 Annual Report



Published by:

Autoridade Nacional do Petróleo

Address:

Ground Floor East Wing of Palácio do Governo

PO Box 113

Dili, Timor - Leste

Tel: +670 332 4098

Fax: +670 332 4082

Email: anpoffice@anp-tl.org

Internet: www.anp-tl.org

From the President of ANP (*Chairman of the Board of Directors*)

The year 2008 has been a very challenging year for the ANP- Timor Leste. The ANP has grown both as an organisation and as a petroleum regulatory authority.

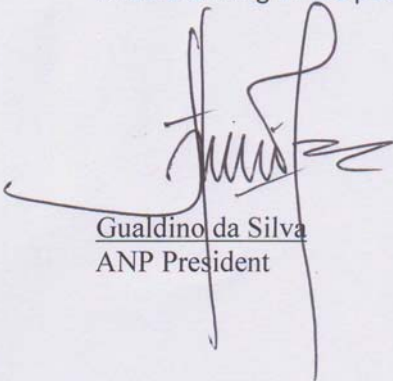
Preparation began in early 2008 for the establishment of the ANP and this included identifying key TL nationals expected to assume higher responsibilities. Upon the establishment of the ANP, challenges mounted to the newly established organisation as only a handful of experienced staff were left to administer highly professional petroleum operations. Further, the relocation of the ANP office to *Palácio do Governo* is another real challenge by its own. Significant resources were then allocated to ensure that all logistical and administration support was available, thus ensuring the smooth functioning of the regulatory authority.

During the year 2008, which is also known to ANP as the transitional year, the ANP maintain all the pre-existing operational activities undertaken both in the JPDA and in the Timor-Leste Exclusive Offshore Areas. It is pleased to share that despite all the hurdles inherited by the institutional change as prescribed above, the ANP managed to ensure that all petroleum activities planned for the year are delivered in accordance with contracts' obligations and other legal framework in place.

ANP is a public institute of Timor-Leste Government enlighten by the National Development Plan of Timor-Leste Government, and the Timor Sea Treaty will continue to make its best endeavour, despite all the challenges, to ensure the petroleum activities undertaken in its areas of jurisdiction are regulated in accordance with world's best practice in the industry, whilst ensuring greater participation of TL nationals in all processes, and maximising benefits to Timor-Leste and Australia(in the case of the JPDA).

On behalf of the Board of Directors of ANP, I would like thank our Secretary of State for Natural Resources, H.E. Mr. Alfredo Pires, for his strong support during the year, the Timor Sea Treaty Joint Commissioners for the continuous guidance on the JPDA matters, and to all our staff and stakeholders whose commitment and enthusiasm ensured smooth transitioning of the ANP throughout the year.

To sum up, in alignment with our continuous effort for improvement in the years to come, we hope that this 2008 Annual Report could serve as one of the references for the better understanding of the petroleum resource management in Timor-Leste and in the JPDA.



Gualdino da Silva
ANP President

Board of Directors



Gualdino do C. da Silva

- Chairman of the Board and President of ANP



Francisco da C. Monteiro

- Non - Executive Director
- Presently TL's Commissioner for JPDA & Sunrise
- Presently Executive Advisor to SERN



Vicente da C. Pinto

- Non - Executive Director
- Director for Geology Mineral Resources
- TL's Alternate Commissioner for JPDA



Angelina B. Branco

- Director - Representing Upstream



Nelson de Jesus

- Director - Representing Downstream

The Single Auditor



Cipriana Tita Sousa

- ANP's Single Auditor

Management Committee – Executive Directors



Gualdino do C. da Silva

- Chairman of the Board and President of ANP



E. Angelo Lay

- Director - Commercial



Dionisio M. Gusmao

- Director – Corporate Services



José M. Gonçalves

- Director - JPDA



Angelina B. Branco

- Director – HS&E



Rui Soares

- Director – Exploration & Production
- Acting Director - Acreage Release



Nelson De Jesus

- Director - Downstream

2008 Annual Report



Published by:

Autoridade Nacional do Petróleo

Address:

Ground Floor East Wing of Palácio do Governo

PO Box 113

Dili, Timor - Leste

Tel: +670 332 4098

Fax: +670 332 4082

Email: anpoffice@anp-tl.org

Internet: www.anp-tl.org

Table of Contents

From the President of ANP (<i>Chairman of the Board of Directors</i>)	1
PART I	5
ANP - OVERVIEW	5
1.1 Our Vision	5
1.2 Our Mission	5
1.3 Our Values	6
1.4 Our Goals	7
1.5 Areas of Jurisdiction, Mandate, and Legislative Structure	7
1.6 Organisation Structure	8
PART II	11
INSTITUTIONAL CHANGE	11
2.1. TSDA and the DNPG Management (Period 1 January – 30 June 2008)	11
2.2. Cessation of the TSDA and Establishment of ANP	12
PART III	13
CORPORATE REPORT	13
3.1. Strategy and Performance	13
3.2. Organisational Governance Structure	13
3.3. Human resources Development	14
3.3.1. Staffing Levels within ANP	14
3.3.2. Training and career development of staff	14
3.3.3. Performance Management	15
3.4. Financial Management and Accountability	16
3.4.1. <i>General</i>	16
3.4.2. <i>ANP 2008 Financial Year</i>	16
Part IV	18
OPERATIONAL REPORTS AND INDUSTRY PERFORMANCE	18
4.1. JPDA (Joint Petroleum Development Area)	18
4.1.1. JPDA 03-12 and 03-13	18
4.1.2. JPDA 06-105	26
4.1.3. JPDA 06-101(A)	27
4.1.4. JPDA 06-102	28
4.1.5. JPDA 06-103	29
4.1.6. JPDA 03-19 & 20	29
4.2. Timor-Leste Exclusive Offshore Area	29
4.2.1. Contract Area S06-01, S06-02, S06-03, S06-04 and S06-05	30
4.2.2. Contract Area S06-06	30
4.3. Other Commercial Activities	32
4.4. PSC and Legal Compliance	34
4.5. Downstream	35
4.5.1. <i>General</i>	35
4.5.2. <i>Activities</i>	35
Part V	36
FINANCIAL STATEMENTS	36
5.1. Audited financial statement for 1 Jan 2008 and 30 June 2008	36
5.1.1. Directors Declaration	36

5.1.2.	Independent Auditor's Report	37
5.1.3.	Income Statement	38
5.1.4.	Balance Sheet.....	39
5.1.5.	Statement of Changes in Equity.....	40
5.1.6.	Cash Flow Statement	41
5.1.7.	Notes to the accounts.....	42
5.2.	Audited financial statement for 1 Jul 2008 and 31 Dec 2008.....	51
5.2.1.	Director's Declaration.....	51
5.2.2.	Independent Auditor's Report.....	52
5.2.3.	Income Statement	53
5.2.4.	Balance Sheet.....	54
5.2.5.	Statement of Changes in Equity.....	55
5.2.6.	Cash Flow Statement	56
5.2.7.	Notes to the accounts.....	57
PART VI	70
OTHER CORPORATE ACTIVITIES	70
6.1.	ANP Promotion and Public Awareness, and Transparency	70
6.2.	ANP 2008 Social activities	71

List of Figures

Figure 1 ANP Organisation Structure.....	8
Figure 2: ANP new office.....	12
Figure 3: ANP HSE awareness training.....	14
Figure 4: ANP professional training (Carbon Capture and Storage Workshop)	14
Figure 5: ANP HSE Secondment with Petronas (Crisis Management & Emergency Response Plan)	15
Figure 6: <i>Bayu Undan Facility</i>	18
Figure 7: <i>Bayu Undan Gas Production 2008 (expressed in Msm³)</i>	20
Figure 8: <i>Bayu Undan Liquid Production 2008 (expressed in Msm³)</i>	21
Figure 9: Bayu Undan Condensate Customers	23
Figure 10: Total FTP/Royalty of LNG sold from January to December 2008	24
Figure 11: Monthly JPDA Revenue Distributed during 2008	25
Figure 12: Discovery of Kitan field with Songa Venus rig	27
Figure 13: ANP participation at national exhibition organised by Ministry of commerce and Industry	70
Figure 14: ANP Green Day.....	71

List of Tables

Table 1: TSDA Financial Result (Jan – Jun 08) 16
Table 2: ANP Financial Result (Jul – Dec 08)..... 17
Table 3: Exploration Costs..... 32

Appendices

Appendix 1: List of Abbreviations 72



PART I

ANP - OVERVIEW

1. AN INTRODUCTION TO AUTORIDADE NACIONAL DO PETRÓLEO (ANP)

Autoridade Nacional do Petróleo (ANP) is the National Petroleum Authority of Timor-Leste, a public institute of Timor-Leste, created under the Decree Law No. 20/2008.

Autoridade Nacional do Petróleo (ANP) is vested with administrative and financial autonomy, a budget and property rights of its own, that abides by the regulatory framework regulating the financial administration of autonomous self-financed institutions.

Autoridade Nacional do Petróleo (ANP) is created to establish and supervise compliance with the enacted rules and regulations covering the exploration, development, production, transportation, and distribution of petroleum and natural gas resources.

Autoridade Nacional do Petróleo (ANP) is created to regulate the petroleum sector prudently and supervising its activities in such a way that all petroleum activities contribute to maximizing the overall benefit to the country and its people while ensuring the best practice of the Health Safety and the Environment.

Autoridade Nacional do Petróleo (ANP) exercises its authority for the JPDA pursuant to the Timor Sea Treaty, the Sunrise International Unitisation Agreement, and the Certain Maritime Arrangements in the Timor Sea.

1.1 Our Vision

To be a leading petroleum regulatory authority in the region and a model for institutional development in Timor-Leste

1.2 Our Mission

- To maximise revenue and multiplier economic benefits;
- To maximise the participation of Timor-Leste in the development of the petroleum sector;
- To promote best Health, Safety and Environment practices;
- To develop the institutional capacity of the Timor-Leste petroleum sector.

1.3 Our Values

The ANP Values are embedded in the word **“COURAGE”**, reflecting what the organization views and upholds as important.

C ollaboration	To conduct efficient and effective collaboration among (i) ANP’s internal Directorates, and (ii) with its stakeholders
O penness	Openness, honesty and transparency – underpinned by a culture of trust and respect
U nity	ANP promotes and displays a high degree of teamwork and integration amongst its employees and directorates. Whilst appreciating and respecting the cultural and intellectual diversity of the individuals that works within it, the ANP is united in its ambition to become a world class organization in Timor-Leste
R esponsibility	As true leaders, ANP members take full responsibility for the results of their actions
A ccountability	ANP and its team members are fully accountable for their ethical standards, behavior and performance – at all times. Furthermore, the ANP is accountable to the Government of Timor-Leste. In performing the task in the JPDA the ANP is accountable for Timor-Leste and Australia, acting on behalf of both countries.
G lobal View	Whilst operations of the ANP reside in Timor-Leste, its view is a global one. It works with and coordinates activities with operators that are multi-national in nature, size and scope.
E xcellence	In line with developing a world class organization, the ANP believes in excellence - in everything that it does.

1.4 Our Goals

- Ensuring petroleum resources are effectively explored, developed, managed and regulated;
- Ensuring revenue and direct/indirect economic benefits are delivered to contracting states;
- Maximising employment opportunities for Timor-Leste nationals;
- Developing organisational excellence;
- Promoting and ensuring best HSE practices;
- Regulating all downstream petroleum activities in Timor-Leste;
- Maximising economic activities of the petroleum sector in Timor-Leste.

1.5 Areas of Jurisdiction, Mandate, and Legislative Structure

Areas of Jurisdiction and Mandate

The ANP is responsible for managing petroleum resources and regulating petroleum activities in onshore Timor-Leste, its exclusive offshore area and in the Joint Petroleum Development Area (JPDA) in the Timor Sea.

The ANP's mandate and authority covers all petroleum related activities within its designated jurisdiction ranging from exploration, development, production, transportation, and decommissioning of upstream petroleum, and the (downstream) distribution of fuels and lubricants (only in Timor-Leste).

The ANP was created by the Decree Law No. 20/2008 following the cessation of the TSDA on 30th June 2008. The law defines ANP's authority within the territory and in areas subject to its jurisdiction; and in its mandate and authority for the JPDA is provided for by the Timor Sea Treaty.

Legislative Structure

The legal regime for areas subject to Timor-Leste's National jurisdiction encompasses the following:

- ✚ Constitution of Timor-Leste;
- ✚ Law of Petroleum Activities;
- ✚ Timor-Leste Taxation Laws;
- ✚ Decree Law on National Petroleum Authority;
- ✚ Production Sharing Contracts;
- ✚ Bidding Rounds for the Award of Petroleum Contracts;
- ✚ Tender Protocol;
- ✚ Administrative decision made pursuant to law.

The legal regime for the JPDA includes:

- ✚ Timor Sea Treaty;
- ✚ Certain Maritime Arrangements in the Timor Sea;
- ✚ Sunrise Unitisation Agreements in the Timor Sea;
- ✚ Sunrise International Unitisation Agreement(SIUA);
- ✚ Timor-Leste Taxation Laws;
- ✚ Interim Petroleum Mining Code(IPMC);
- ✚ Petroleum Mining Code;
- ✚ The Production Sharing Contracts(PSCs);
- ✚ Interim Regulations issued under Art. 37 of the IPMC;
- ✚ Interim Directions issued under Art. 37 of the IPMC;
- ✚ Interim Guidelines issued under Art. 37 of the IPMC;
- ✚ Guidelines for Applications for Production Sharing and Contracts and Criteria for Assessment of Applications.
- ✚ Decisions made by the competent Authorities pursuant to the treaty and law;

1.6 Organisation Structure

The ANP Organisation Structure is established based on the Timor – Leste government decree law Number 20/2008.

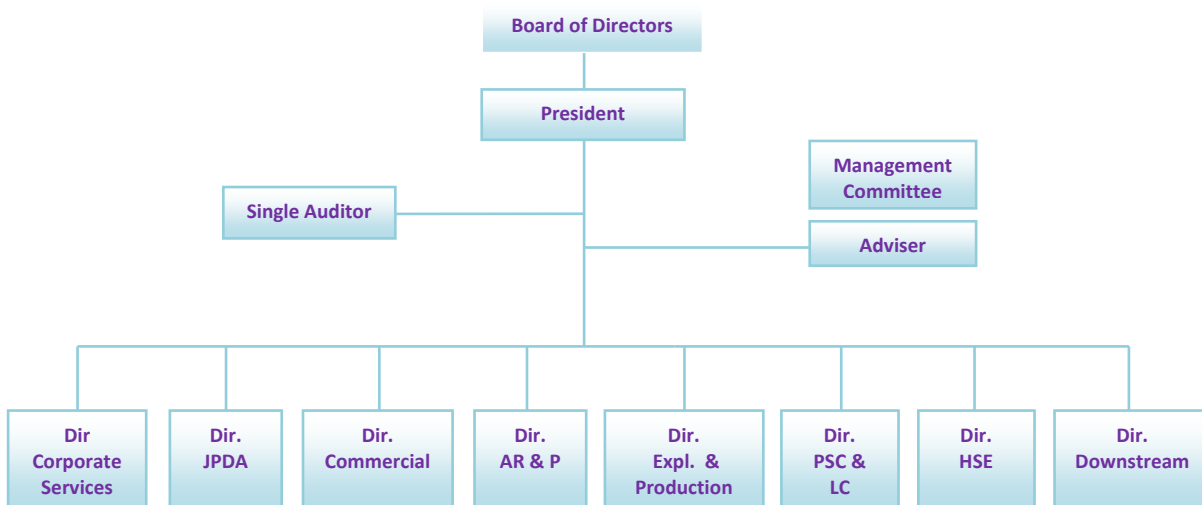


Figure 1 ANP Organisation Structure

Board of Directors and its Activities

Articles 7, 8, and 9 of the Decree Law No. 20/2008 respectively outline the formation of the Board of Directors of the ANP, its powers and functions, and its proceedings.

The elected Board members in 2008 were :

Gualdino da Silva BEng. (GeoEng) Hons. (Chairman)
Francisco da Costa Monteiro, BEng (Hons), MSc (Member)
Vicente Pinto (Member) BEng (Hons)
Angelina Baptista Branco, Bsc (Member)

In 2008, the first year of the establishment of the ANP, the Board of Directors established the necessary framework for the operation of the ANP. Some of the boards activities in 2008 included the development and implementation of :

- Rules and Procedures for the Board of Directors
- ANP Vision, Mission, and Goals
- ANP Organisational Structure with reference to Article 6 of Decree Law No. 20/2008
- ANP Employee Manual
- ANP Employee Salary Scale
- Policy on the Engagement of International Employees
- Values and Code of Conduct Policy
- Recruitment Policy
- Finance Policy
- Travel Policy
- Training Policy
- Leave and Work Hours Policy
- Equal Employment Opportunities

Following the approvals of the policies as described above, numerous standard operating procedures were subsequently established at the executive level catering for day to day operations in more detail fashion.

Timor Sea Treaty Joint Commissioners

Pursuant to paragraph 3 of Article 1 - Decree Law No. 20, ANP acts as the Designated Authority which from time to time accountable to the Timor Sea Treaty Joint Commission. In this capacity the ANP from time to time seeks directions, approvals and consent in dealing with its day to day management related to the JPDA, including the approval for annual estimates of income and expenditures. Further the ANP also prepares and submits annual reports to the Joint Commission.

In 2008 the Joint Commissioners for the Timor Sea Treaty were:

1. Mr. Francisco da Costa Monteiro - Timor-Leste
2. Mr. António José Loyola de Sousa - Timor-Leste
3. Mr. John Hartwell - Australia

Alternate Commissioners who were also appointed are:

4. Mr. Vicente Pinto - Timor-Leste Alternate Commissioner
5. Mr. Bob Pegler - Australia Alternate Commissioner

It is through these commissioners that ANP provides updates and reports of its activities related to the JPDA on quarterly basis to both the governments of Timor-Leste and Australia.

In accordance with the Timor Sea Treaty, the Joint Commissioners meet regularly with the Designated Authority, addressing the implementation of the work program and budget.

For the year 2008, there were three Joint Commission Meetings held interchangeably in Timor Leste and Australia. Below is the list of the three referred meetings:

- 21st JCM held in Canberra on 8th of February.
- 22nd JCM held in Dili, on 9th June,
- 23rd JCM held in Perth on 27th of October.

Single Auditor

Under Article 12 of the Decree Law No. 20/2008 the Single Auditor is the organ responsible for monitoring legality, regularity, and proper financial and patrimonial management of the ANP.

In view of the above, the purpose of the Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the operations of ANP. However, as a new established department, during 2008 the Single Auditor embarked on setting up its policy and procedures and/or guidelines, strategic audit plan as well as developing a systematic internal audit technique, whilst at the same time continue to provide advisory services to management including advice on systems of internal control, processes, procedures and policies.



From TSDA to ANP



Inauguration of the ANP Office, Signing of the ANP's plaque, and the Vowing of the Board of Directors & the Single Auditor



PART II

INSTITUTIONAL CHANGE

The year 2008 is a historical year for the management of petroleum resources in Timor-Leste. It was year that the administration of petroleum resources in two areas of jurisdictions the Timor-Leste Exclusive Areas and the JPDA, were brought together under one management. It was a year that the Timor-Leste nationals took the lead to serve its nations in the areas of natural resource, specifically in managing the nation's petroleum resources and regulating its activities.

This section of the report aimed at briefly summarizing the significance of each change leading to the establishment of the *Autoridade Nacional do Petróleo* on 1st July 2008.

2.1. TSDA and the DNPG Management (Period 1 January – 30 June 2008)

The first half of the year the current portfolio of the ANP was separately managed under two different institutions; the DNPG (*Direção Nacional do Petróleo e Gas*) which was under the Ministry of Natural Resources, and Timor Sea Designated Authority. The former administrated the petroleum activities in the Timor-Leste onshore and the exclusive offshore area, whilst the later was responsible for administering the petroleum activities in the JPDA.

TSDA New Management

Following the appointment of the new Timor-Leste Joint Commissioners in 2007, a new TSDA Executive Director was appointed by the Joint Commission on January, 2, 2008. Mr. Gualdino da Silva was appointed for the position succeeding his predecessor Mr. Jose Lobato. Immediately after his appointment, in February and March 2008, the structure of the TSDA was reformed promoting a handful of professional Timorese nationals pre-existed in the organization for managerial positions and the directorship. The new established structure was later approved by the Joint Commission at the 21st Meeting in Canberra, Australia. The move was aimed at providing the opportunity to the national professionals in senior managerial and strategic decision making positions, whilst working alongside their respective international counterparts. The professional Timorese nationals promoted for directorships at the time were:

- Dionisio Martins, SE - Corporate Services Director
- Angelo Lay, M.Com - Commercial Director
- Angelina Branco, BSc - Technical Compliance Director
- Rui Soares, BEng(PetroEng)(Hons) - Acting Director for Exploration and Production

In addition to the appointment of TL nationals for the senior roles as above, reform were also made to mid-management tier. This includes promotion of the Timorese national officers to Managers' position in some specific areas, particularly in the area of corporate services.

Assistance from the Government of Australia

Following the 22nd JC Meeting in Canberra, a pool of officials of the Directorate of Resources, Environment and Trade (DRET), Ministry of Natural Resource of the Government of Australia were deployed to assist the TSDA management for three months. The team assisted the newly reformed TSDA senior management in reviewing the interim JPDA regulations, reviewing guidelines for acreage bidding process, establishing ranges of corporate policies, and reviewing the corporate governance structure. The team ended its mission on the date of the cessation of the TSDA on 30th June 2008. A number of corporate policies were established, while the reviewed interim regulation was consulted to all stakeholders and public. The review of the JPDA regulation was extensively covered the HSE related provisions, while other operational provisions were not thoroughly reviewed due to time constraints. To this end, the TSDA management decided to continue review the JPDA regulation at later stage.

Assistance from Norwegian Government

Through bilateral cooperation between the Government of Norway(NPAP) and Timor-Leste, a geological advisor was assigned to work with the ANP in late 2008. Emphasis for the advisor was to coach the TL national graduate geologist in place, whilst also taking some active role in assisting the E&P team in the G&G sector.

2.2. Cessation of the TSDA and Establishment of ANP

On the ground of the Article 6 of the Timor-Sea Treaty the Timor Sea Designated Authority the government of Timor-Leste and Australia were pleased to witness the cessation of the TSDA on 30th June 2008. In return the Timor-Leste Government on 1st of July 2008 under the Decree Law No. 20/2008 established the Autoridade Nacional do Petróleo (ANP), the country's first national petroleum authority managing all petroleum resources and regulating all petroleum activities both in its exclusive territory and in the JPDA.

The TST commissioners subsequently agreed that the ANP retains all TSDA assets as at the 30th of June 2008. Also, under the decree law employees for the newly established ANP composed of the former TSDA staff and some selected staff from the DNPNG.



Figure 2: ANP new office

New office with Faces

The new ANP offices are located at the Timor-Leste Government Palace. The premise was previously occupied by the Timor-Leste Foreign Affairs Ministry. Gradually, the ANP resources from the former TSDA office at Farol were transferred to the new offices including soft and hard copy of valuable documents, IT hardware and others.

The new ANP offices were inaugurated on the 4 August 2008.

PART III

CORPORATE REPORT

3.1. Strategy and Performance

Following the institutional change taking place on 1st July 2008, the ANP maintained the strategic plans from both then DNPGE and the TSDA till the year end, and then set about implanting an integrated 3 year strategic planning for ANP which was scheduled to be completed in 2009.

Throughout the second half of the 2008, the ANP ensured continued delivery of the contract operators' committed activities both in the TLEA and the JPDA.

With regards to the corporate matters, the ANP managed to establish all necessary policies and procedures, and supports for the day-to-day operations of the ANP.

In respect of financial performance, two external audits for the two different periods marking the institutional change were completed in 2009.

3.2. Organisational Governance Structure

The governance structure of the ANP is clearly outlined in the Decree Law no 20/2008. Under Articles 10 and 11 the president of the ANP is vested with overall responsibility to report to the Secretary of State for Natural Resources on the annual activities plan and budget, and other operational reports related to the execution of the budget. Equally, the president of ANP is also vested with full responsibility to manage the day-to-day activities at the executive level.

The ANP's Board of Directors, despite having no day-to-day management involvement, possess important roles in ensuring that all policies and directives established are in accordance with the sector related policies issued by the Government of Timor-Leste.

At the executive level the ANP decree law also stipulated the formation of a Management Committee Meeting (MCM). The MCM plays an important role in assisting the president of ANP in implementing the work plans in accordance with all approved policies and directives, whilst considering also the best industry practice. MCM meetings are held monthly, or more if necessary to address all day-to-day operations under the Jurisdictions of the ANP.

3.3. Human resources Development

3.3.1. Staffing Levels within ANP

Since the establishment of the ANP, more staff were employed through open competitive recruitment process. At the end of 2008, ANP has a total of forty eight (48) staff, out of which thirty (30) are males and eighteen (18) are females.

Out of the total there are four International staffs assisting in specific areas such as Health and Safety, Finance and Fiscal Assurance, Legal Commercial, and Drilling and Production.

Further bilateral cooperation between Timor-Leste and the Norwegian Petroleum Assistance Programme to Timor-Leste, a geological advisor was also assigned to the ANP and advised the E&P directorate and other relevant senior management.

3.3.2. Training and career development of staff

Training programs are focused on the Timor-Leste nationals. There are two categories of Training programs; In-House and Professional trainings.

In-House Trainings



Figure 3: ANP HSE awareness training

The In-House Trainings are provided internally with assistance from selected training providers. The in-house trainings target either groups of staff or all ANP staff. In 2008, general English class training was provided by one of the local training providers.

Professional Training

The Professional training is attended by individual staff and targets the requirements of the various departments. In 2008 our records indicated the

following areas of professional trainings attended by individuals:

- Effective Contract Management Training
- Forecasting and Budgeting tools & Techniques for Manager
- Advance Performance Management Training
- Administration Management Training



Figure 4: ANP professional training (Carbon Capture and Storage Workshop)

- Production Sharing Contract & International Petroleum System training
- Partnership Program for Oil Industry Training
- Tools and the Techniques for the beginning Auditors Training

Internship programs

Apart from the aforementioned training, staff secondment to various operators and relevant institutions were tailored for our selected national staff, as a means of increasing their exposure to hands on experience.

Our records indicated that throughout 2008 secondments covered various areas including:

- Crisis Management & Emergency Response Training (CMERT)
- Hazard & Effect Management Process (HEMP)
- HSE - MS Audit (Practical)
- BowTie Analysis
- Aviation Safety
- Introduction to PCSB HSE-MS
- PCSB's Incident Investigation
- Tropical Basic Offshore Safety & Emergency Training (TBOSET)
- Environmental Impact Assessment (EIA)
- Vessel Safety
- Subsurface Integrity,
- Production Data Analysis
- Offshore visit to Gas Process Facility



Figure 5: ANP HSE Secondment with Petronas (Crisis Management & Emergency Response Plan)

3.3.3. Performance Management

All staff undertook a formal Performance Review process at the end of 2008 to measure their performance against key actions and performance indicators set out in their role descriptions.

3.4. Financial Management and Accountability

3.4.1. General

In Consistent with the Timor Sea Treaty, the ANP's budgeting, financial performance, and reporting in the JPDA is subject to the supervision and approval of the Joint Commission. However the overall budgeting, financial performance, report for ANP's operation including the TLEA is subject to the supervision and approval of the ANP Board of Directors.

The ANP must submit its annual estimates of income and expenditure to the Joint Commission and TL government for approval and subsequent actual performance results must be independently audited each year. Copies for the two separate management period for 2008 are provided under PART VI of this report.

3.4.2. ANP 2008 Financial Year

As stated previously the 2008 financial year composed of two separate periods, firstly the TSDA period being January to June 2008 and secondly the ANP period being July to December 2008.

The financial results for the year ended 31 December 2008 are summarized in the table below.

TSDA (Jan – Jun 2008)

	Actual 2008 Jan – Jun	Budget 2008 Jan - Jun
	US\$	US\$
TOTAL INCOME	\$1,942,777.00	\$1,747,202.00
Personal costs	\$1,752,209.00	\$1,568,369.00
General and Administration	\$525,231.00	\$932,050.00
Total expenditure before depreciation	\$2,277,440.00	\$2,500,419.00
Total depreciation	\$81,223.00	\$2,500,419.00
Total expenditure after depreciation	\$2,358,663.00	\$2,500,419.00
Excess income/(expenditure)	(\$415,886)	(\$753,217)

Table 1: TSDA Financial Result (Jan – Jun 08)

ANP (Jul – Dec 2008)

	Actual 2008 Jul - Dec	Budget 2008 Jul - Dec
	US\$	US\$
TOTAL INCOME	\$2,363,954.00	\$2,492,000.00
Employment Costs	\$816,888.00	\$1,071,551.17
Travel & Expenses	\$70,430.00	\$126,114.67
Training & Conference	\$156,792.00	\$254,256.67
Consultants	\$179,684.00	\$191,581.00
Office Lease Related	\$32,555.00	\$36,000.00
Communications	\$62,193.00	\$98,400.00
Organisation Promotion	\$32,093.00	\$9,000.00
Other Costs	\$175,328.00	\$919,670.39
Total expenditure before depreciation	\$1,525,963.00	\$2,706,573.90
Total Depreciation & Foreign Exchange	\$98,697.00	-
Total expenditure after depreciation & foreign exchange	\$1,624,660.00	\$2,706,573.90
Excess income/(expenditure)	\$739,294.00	\$ (214,573.90)

Table 2: ANP Financial Result (Jul – Dec 08)

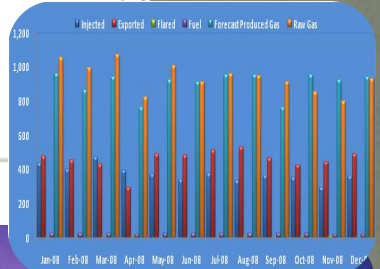
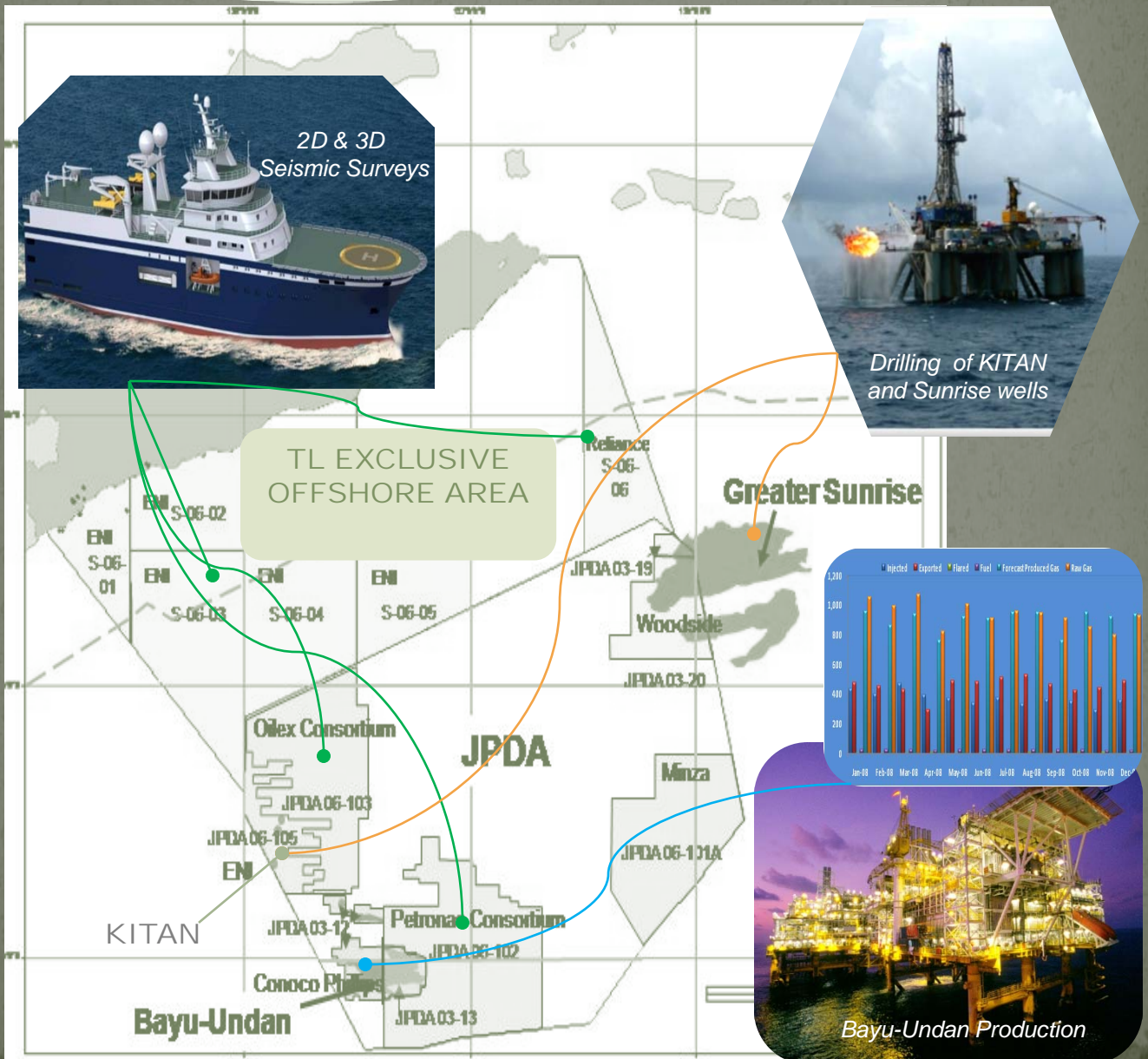
The TSDA budget was approved for a one year term, however as a result of the establishment of the ANP from July 2008 only a portion of the approved budget was implemented in the first half of the 2008 year.

Total expenditure after depreciation during the first half of the year was \$2,358,663.00 from \$2,500,419.00 originally budgeted.

ANP's total expenditure after depreciation & foreign exchange of \$1,624,660.00 was less than budgeted expenditure of \$2,706,573.90. This was mainly due to the delayed recruitment and the associated expenditures.

With the additional income from the government of Timor-Leste starting from the second half of 2008 onwards, ANP continues to be financially sustainable; however the increase of activities and the need to employ more staff becomes the challenge which needs to be skillfully addressed to maintain sustainability.

OPERATIONAL ACTIVITIES AND INDUSTRY PERFORMANCE



Part IV

OPERATIONAL REPORTS AND INDUSTRY PERFORMANCE

4.1. JPDA (Joint Petroleum Development Area)

Projects in the JPDA continue to progress as per commitment under the Operators approved annual work program and budgets. The Sunrise project continued further G&G studies, whilst the four projects awarded in early 2006 are in their second year of the initial phase of exploration. Out of these four projects, one commercial discovery was declared in early April 2008, in Contract Area JPDA 06-105, the KITAN oil field. The discovery has again highlighted the hydrocarbon prospectivity of JPDA and quality of the work of the operators in the area.

At the same time, the only producing field, Bayu Undan, continue to produce at the rate expected throughout the year.

Lastly, the oil field Elang Kakatua and Kakatua North (EKKN) which ceased to produce in late 2007, have been under plan for abandonment. All plug and abandonment are to be undertaken in accordance with the PSC and the Interim Regulations applicable to the JPDA.

Overall, the new projects are progressing well and ready to enter the last year of their first phase of exploration in year 2009. This will be a very busy and exciting year as operators are firming up their studies on the prospects and gearing up for drilling campaigns.

4.1.1. JPDA 03-12 and 03-13

Operator: Connoco Philips JPDA Pty Ltd
Partners: INPEX Sahul Ltd , Eni JPA 03-13 Ltd , Santos 03-12 Pty Ltd, Petroz JPDA Pty Ltd, and Emet Pty Ltd.

Bayu Undan is a gas condensate field located approximately 250km South of Timor Leste. The field is operated by ConocoPhillips on behalf of its Joint Venture Partners.



Figure 6: *Bayu Undan Facility*

Health Safety and Environment

In general, petroleum activities in Bayu Undan have been progressing well. The operator had maintained outstanding performance in meeting HSE requirements.

The HSE Department has been revising vessel documents and providing approvals for a number of vessels that enter the Bayu Undan field. These vessels range from off-take vessels (Condensate & LPG) to ISVs.

In performing its role as part of the regulatory authority, the HSE Directorate also performed an inspection on the FSO Liberdade. The inspection was conducted in August 2008 and it covered several essential scopes based on the Safety Case.

The inspection was completed and a report was further provided to ConocoPhillips in October 2008. Based on the inspection report, ConocoPhillips has been complying with majority of the requirements stated within the Interim Technical Regulations and other legal regimes that applied in the JPDA. Nonetheless, the inspection team identified a number of minor issues, which would require response from ConocoPhillips, recommendation for improvement. Further inspections have been planned for in February and September 2009. Both of these inspections will become routine bi-annual inspections to be performed in Bayu Undan facility and other facilities in the JPDA.

EKKN Field Abandonment

Since the petroleum production in EKKN field had ceased in July 2007, the main activity in this field is the abandonment process.

There process involves the well abandonment and the field abandonment.

A thorough review of the Field Development Plan and other relevant documents required for vessels involved in the abandonment process was completed.

According to Article 27 (1) of the Interim Petroleum Mining Code, which states that *'As Directed by the Designated Authority, the contract operator shall remove all property brought into the contract area and comply with Regulations and directions concerning the containment and clean – up of pollution'*, the Designated Authority reviewed the abandonment plan with the objective of ensuring that all equipment will be removed from the EKKN field.

Nonetheless, in reviewing the Abandonment Plan, the Designated Authority would also need to be open-minded and allow for consideration of other possible solutions, which would be practical but at the same time would not create any negative impact on the environment.

Production

The Bayu Undan field is approximately 25 Km long and 12 Km wide.

GIIP is in the range of 5.6 – 8.8 TCF and 680 MMbbls of condensate.

It straddles across the JPDA 03-12 and 03-13 PSC areas.

Total raw gas produced is approximately 1.2 Bcf per day, and yields about 103,000 Bbls of Condensate and LPG's per day. Approximately 500 MMSCF of gas per day are exported to Darwin LNG plant. The remainder is re-injected back into the reservoir.

The field is currently developed with only eight producing wells, 4 re-injector wells and 1 Water re-injection well.

Operational Activities 2008

The Bayu Undan has performed exceptionally well against forecasted production figures taking into consideration its sophisticated and complex facilities. In April 2008 and again in October 2008 there was a planned rate reduction for major services to rotating equipment and testing of critical functions in the process. In addition to this there were unplanned events that impacted the Bayu Undan production, but production soon recovered to forecast levels.

In May 2008 ConocoPhillips evaluated the field for water production in excess of 15000bbl/day. Working expeditiously they intervened the wells located on the Wellhead Platform 1, which is approximately 7Km North East of the Central Processing Platform namely W01, W02, W05A and W11 setting plugs at the water producing zones decreasing water production to 3000bbl/day.

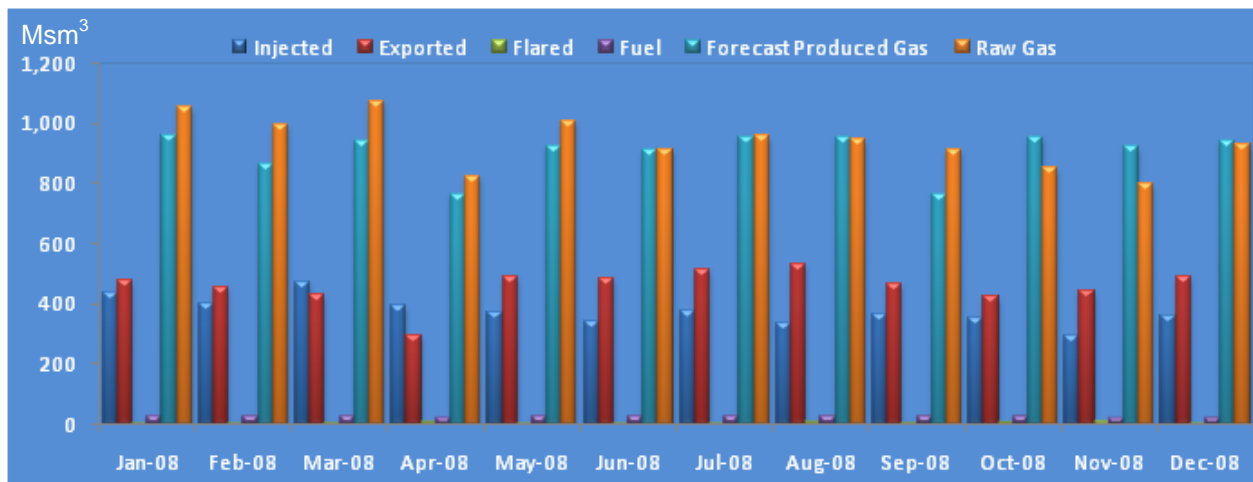


Figure 7: Bayu Undan Gas Production 2008 (expressed in Msm³)

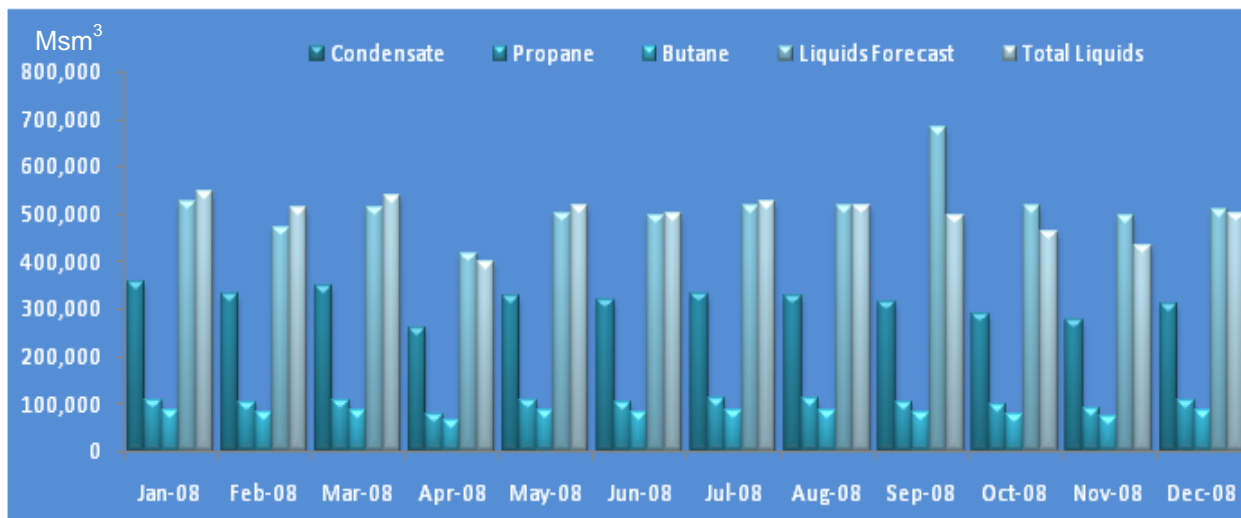


Figure 8: Bayu Undan Liquid Production 2008 (expressed in Msm³)

There are a number of ongoing projects into the future in order to optimize the production operation from the Bayu Undan Field. Some of these projects are the Extend the Edge (ETE) Program; additional Beds on the CUQ, planning for the second phase drilling with objective to drill additional 3 firm producing wells, one firm water injection well, one pilot side-tracked well and potentially two side-tracking of existing wells in the Well Head Platform (WP1).

The ANP is in close cooperation with the operator to ensure that all the preparatory works such as reservoir and production performance reviews are taking place and that all necessary contracts awards to support all the ongoing projects and the Bayu Undan Operations as a whole are in compliance with JPDA regulatory requirement.

Commercial

There were a number of significant contractual and commercial achievements from the Bayu-Undan project. The year of 2008 has been the critical momentum for the ANP and more distinctively the Timor-Leste government where revenue from BayuUndan has fluctuated significantly as a reaction to global energy prices increase in 2008. The high oil price environment in the first half of 2008 has contributed tremendously to the increased of revenue received by the Timor-Leste government. Although towards the last quarter of 2008, the world energy prices have dropped, the fall did not impact strongly because the natural gas price was remain high in relation to the JCC. This gives rise to the overall royalty revenue received in 2008 which increase by 53% in comparison to 2007. Similarly aggregate profit revenues after cost recovery has also increased by 81% in 2008 compared to 2007. This increased was mainly due to high oil price in first half of 2008 coupled with the steady production rate.

ConocoPhillips and its joint venture partners, with the support from the ANP, have managed to secure a Gas Sales Agreement with Power Water Corporation (PWC) at Northern Territory, Darwin Australia to supply gas from its Bayu Undan platform through existing pipeline and interconnecting pipeline of PWC. This gas sale will be on a need basis, for peak shaving purposes. This arrangement will generate extra revenue for the states.

ANP continues its strong support to the operators in marketing of petroleum produced from the contract area, thus several waiver approvals were granted to ConocoPhillips and Inpex Sahul on condensate marketing program and LPG sales by ConocoPhillips to Astomos.

In mid Sept 2008, ConocoPhillips managed to open natural gas price negotiations with current existing buyers of Darwin LNG and whilst the negotiations were not completed in 2008, the buyers agreed to a provisional price adjustment in the 2008 year.

Bayu Undan Marketing

Petroleum products from the Bayu Undan fields are Condensate, LPG and Natural Gas. The marketing of Bayu Undan products in 2008 has undergone two different phases in terms of global oil price environment. World oil price increased to almost \$147 bbl in the first half year and fell to nearly \$40 bbl in the second half of 2008. Since the start of production, the Authority's shares of petroleum products have been marketed by ConocoPhillips.

Following the establishment of the ANP in July 2008, this marketing arrangement continues to be maintained until such time that the government of Timor-Leste has the capacity to organize such marketing arrangements itself.

Sales of products were made through spot cargoes and short term sales contracts for Condensate and LPG, whilst Natural Gas is sold under long term contract with agreed pricing formula.

Natural gas is transported to Darwin, Australia, via a pipeline, where it is liquefied at a processing plant and then sold as LNG to customers; Tokyo Electric Power Company and Tokyo Gas Co. Ltd. in Japan. The sale of Natural Gas has exceeded expectations.

Sales of Products from Bayu Undan

Bayu Undan Condensate

The 2008 year was a challenging time for both Conoco Phillips and Inpex in their marketing of Bayu Undan condensate.

There were numbers of condensate cargoes lifted during 2008. Condensate was sold using both a spot basis and a term contract to buyers in South East Asia and the US West Coast. The following graph shows the various customers that purchased condensate during the year.

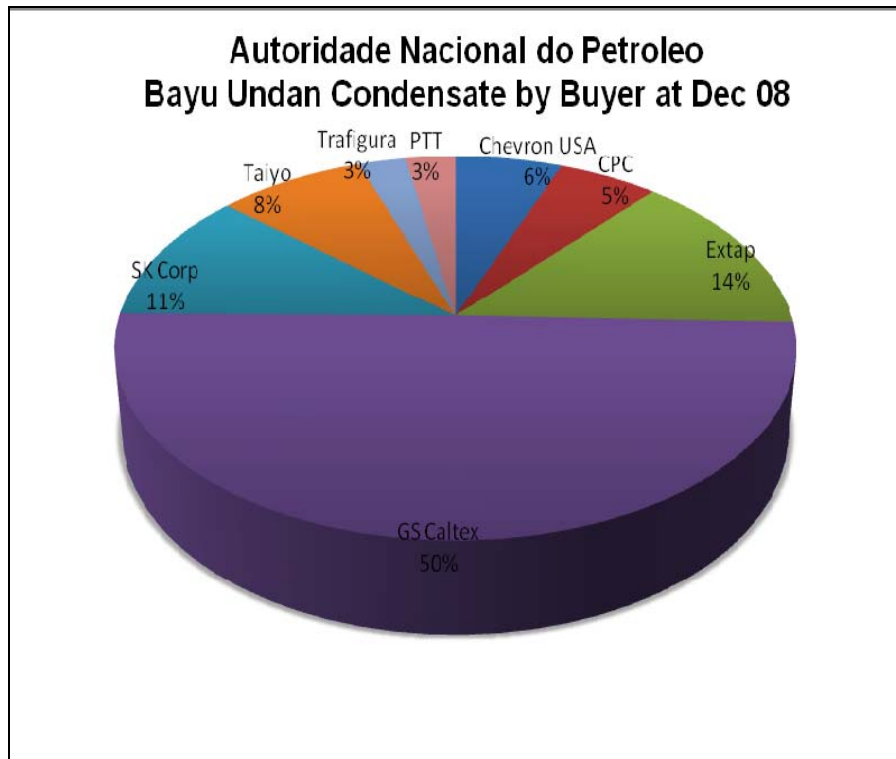


Figure 9: Bayu Undan Condensate Customers

New cargoes from West to East of Suez are certainly the challenge and there is belief that these could emerge further in 2009. Effort has been made by the Operator to actively explore potential markets in the region and the US West Coast.

On the spot market, new customers were introduced to the condensate from the United States of America, Thailand, and Japan and Singapore refiners.

It is important to note that the ability to introduce Bayu Undan condensate to new customers is critical in marketing where global slow down of demand for energy could be continued into the next year.

Bayu Undan Liquefied Petroleum Gas (LPG)

ConocoPhillips International Inc. continued to be the sole marketer of Bayu Undan LPG over the course of 2008. A thorough tender process for the sale of the 2008 Bayu Undan LPG production was conducted and resulted in a 12 month term contract with Astomos.

During the year, 27 liftings took place under the contract totaling around 1,169,315 metric tonnes. This was an increase of 4 cargoes compared to 2007 due to more LPG produced with strong demand from Japan in the first third quarter of the year.

The LPG term contract with Astomos E.C expired on 31 December 2008. ConocoPhillips awarded a further two-year marketing contract with Astomos E.C following a tendering process undertaken in late 2008.

Bayu Undan Liquefied Natural Gas (LNG)

Since the increase of world oil price in 2007 and first half of 2008, most of the long term LNG contracts have been under negotiation or completed their renegotiations for pricing adjustment. In the case of DLNG, both seller and buyers renegotiated their price adjustment on a good faith basis for the benefits of both parties.

Darwin LNG and upstream managed to maintain minimum quantities required under the contract and allowed for an additional cargo at the end of the year.

During 2008, FTP in respect of LNG sold was recorded at over US\$ 54.8 million to the Contracting States. The following table shows the total LNG sold during 2008 and the amount received by the contracting states.

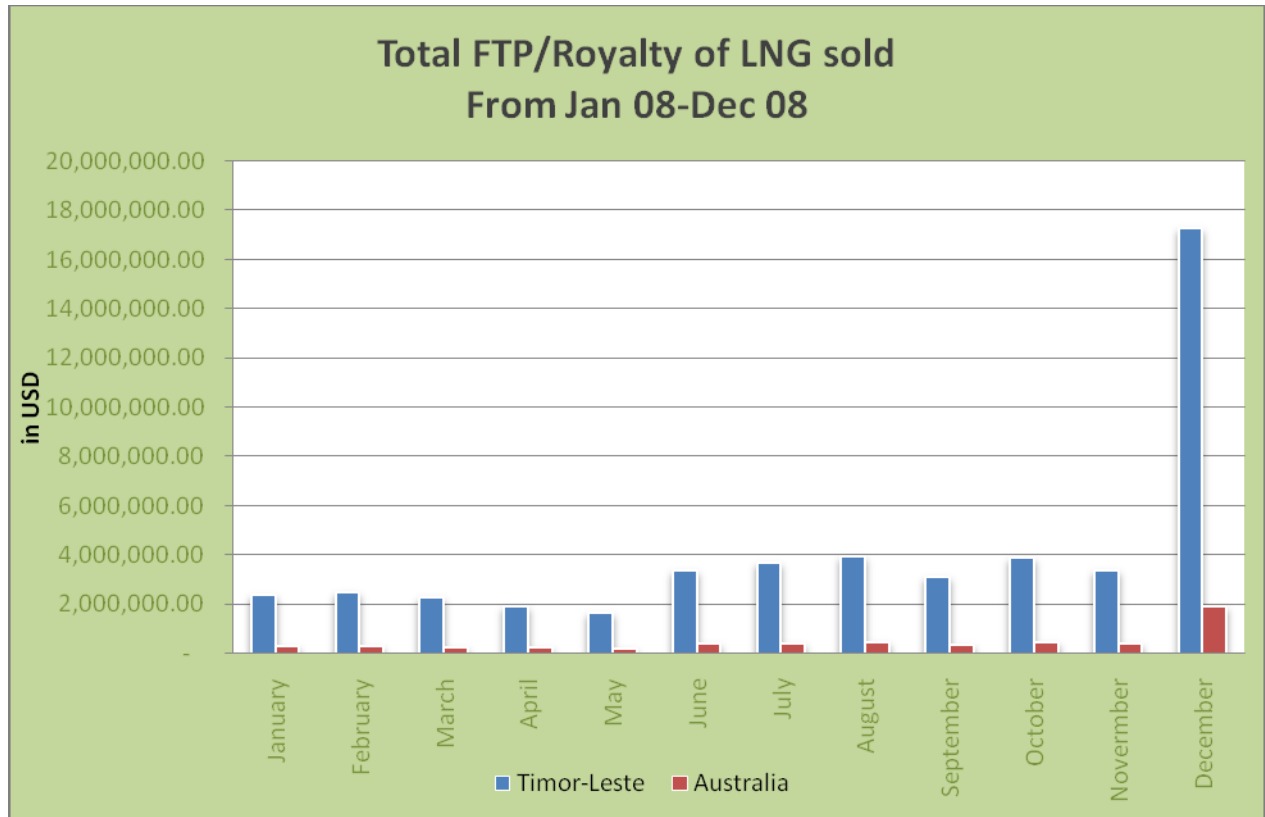


Figure 10: Total FTP/Royalty of LNG sold from January to December 2008

Revenues Distributed to Contracting States

Consistent with the principles of the Extractive Industries Transparency Initiative, the ANP reported its revenue distributions to the Contracting States on its website.

Petroleum revenues and distributions were independently reviewed by the Petroleum Fund auditors, and the EITI auditors.

Petroleum generated revenues distributed during 2008 to Timor-Leste and Australia totaled US\$1,625M.

Total JPDA petroleum revenue distributed is summarised in the graph below.

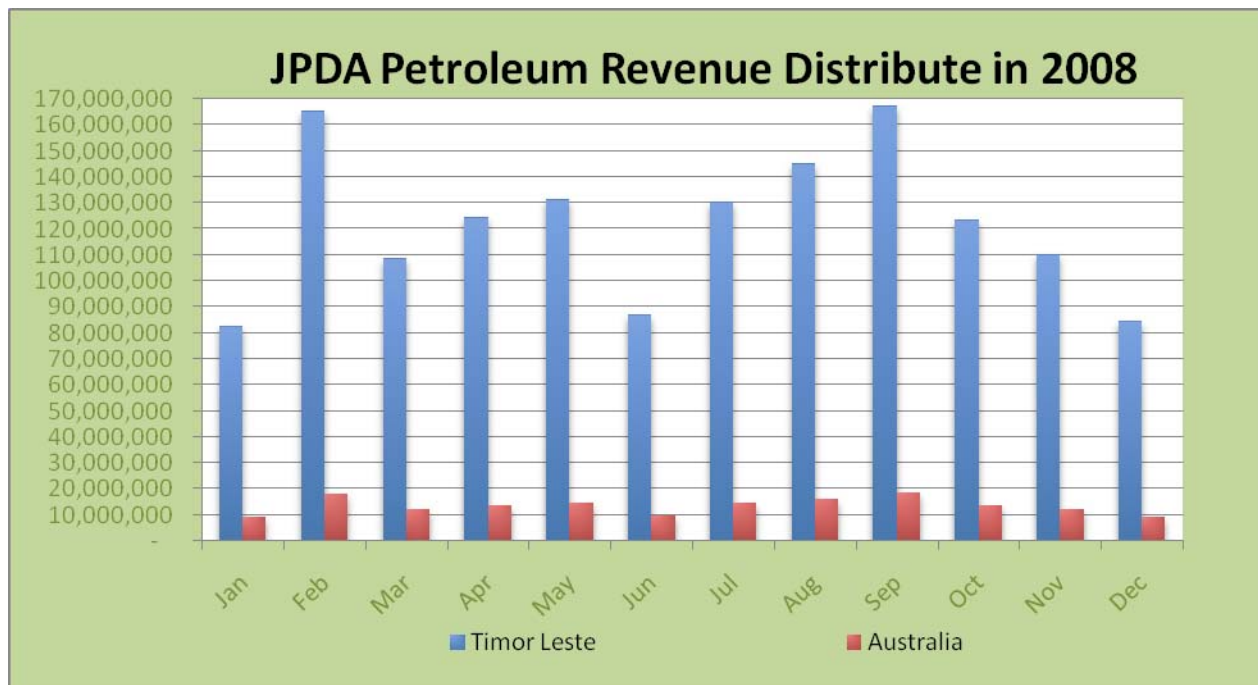


Figure 11: Monthly JPDA Revenue Distributed during 2008

Payments of Petroleum Revenues are distributed base on the actual receipts, therefore resulting in a timing difference between the royalty and profit revenue earned by the ANP during the year and the actual payments made to the Contracting States during the same period.

During the year, FTP increased by US\$54.16M to US\$192.49M whilst the value of Profit Oil & Gas increased significantly by US\$546.05M, from US\$886.34M to US\$1,432.39M.

The ANP is strongly committed to ensuring that success experienced to date continues into the future.

This has been shown with the close coordination and scheduling of offloading ships continues to be performed by ConocoPhillips as the operator of the Bayu Undan field.

During 2008, there were 65 off-takes (collectively sold as Condensate and LPG) of petroleum totaling over 37 mmbbls. In addition, total gross LNG sold was recorded of 45.8 mm BOE.

4.1.2. JPDA 06-105

Contract Area : 1,232KmSq

Operator : Eni JPDA 06-105 Pty Ltd

Partners : Talisman Resources (JPDA 06-105), INPEX Timor Sea

Health Safety and Environment

Since Eni JPDA 06-105 Pty Ltd had purchased the block JPDA 06-105 from Woodside, it was not necessary for Eni to perform any exploration activity. Eni commenced its activity with the geophysical and geotechnical survey. Eni was required to submit several HSE related documents for acceptance and approval by the Designated Authority.

In the process of obtaining approval to perform geotechnical & geophysical survey, based on the JPDA Interim Technical Regulations, Eni was required to submit:

- a) Survey Plan
- b) HSE Plan
- c) Vessel certificates

Eni also performed drilling activities in JPDA 06-105 and based on the Interim Regulation, Eni submitted a number of HSE documents to the ANP for approval as follows:

- a) Drilling rig safety case and bridging document (review by H&S Dept.)
- b) Vessel dossiers for Infield Support Vessels (ISVs) (Review by H&S Dept.)
- c) Environment Management Plan (Review by Environment Dept)
- d) Oil Spill Contingency Plan (Review by Environment Dept)

Eni Pty Ltd decided to use Songa Venus as the drilling rig for drilling activity in JPDA 06-105. After careful revision of the documents mentioned above, the DA was comfortable to provide the approval to use Songa Venus as the drilling rig.

The Designated Authority was invited to inspect the vessel prior to entering the JPDA but due to busy schedule within the HSE department, the DA was unable to perform the inspection.

The drilling campaign went exceptionally well and there were no major incidents or accident events during that period.

Exploration



Figure 12: Discovery of Kitan field with Songa Venus rig

Eni drilled two wells using the Songa Venus jack-up rig in early 2008 to evaluate the Kitan structure within the southern portion of the PSC – Kitan-1 and Kitan-2. Both wells encountered a commercially viable oil accumulation, and accordingly a declaration of a Commercial Discovery was made by Eni and Joint

Venture Partners INPEX Timor Sea Ltd (35%) and Talisman Resources Pty (25%) Ltd on 11 April 2008. Eni is in the process of preparing a Field Development Plan for Kitan which is scheduled to be presented to the ANP for assessment in May 2009. The declaration of

commercial discovery has attracted industrial attention to the JPDA petroleum activity, giving rise to renewed industry interest in the attractiveness of the petroleum prospects in the JPDA and Timor-Leste areas.

4.1.3. JPDA 06-101(A)

Total exploration area: 2,150KmSq

Operator : Minza Oil and Gas Limited

Health Safety and Environment

Minza had not conducted any seismic activities in JPDA 06-101(A).

As stated in the Interim Regulations for the JPDA, Minza would be required to submit a HSE case for the seismic operation based on the activities to be performed and the vessel to be contracted.

The DA will review the documents submitted and provide its comments and approvals after ensuring that all the requirements are fulfilled.

Exploration

In 2008 Minza Oil and Gas Ltd completed geological and geophysical studies in preparation for a 2D seismic survey of at least 500 line kilometres.

The survey is scheduled to be completed in early 2009 with the aim of enhancing the understanding of the Chuditch field and adjacent prospects.

4.1.4. JPDA 06-102

Total exploration area: 4,215KmSq

Operator :PC(Timor Sea 06-102) Ltd

Partners :KOGAS, LG International and Samsung Corp.

Health Safety and Environment

As the operator for JPDA 06-102, Petronas had completed its seismic survey, Environment Impact Assessment (EIA) and Survey Work by the end of 2008.

The Designated Authority had revised all of the HSE related documents submitted by Petronas to ensure that the activities would be conducted safely and were environmentally sound.

The documents reviewed by the DA were:

- a) Health, Safety & Environment Management Plan for 3D Seismic Survey in 06-102
- b) Vessel documents for the 3D seismic survey
- c) Health, Safety & Environment Plan for EIA and Survey Work
- d) Emergency Response Plan (ERP)
- e) All vessel documentation
- f) Documentation for Support Vessel

Upon completing the review of these documents and inspection of the vessel the DA was able to provide approval for the vessels to be utilized in the JPDA.

The DA also continuously monitors the activities through daily, weekly and monthly report from the operator.

In relation to the EIA, the DA would be expecting a final report from Petronas as soon as the survey is completed. The report would assist the DA in reviewing the applications for future drilling activities in JPDA 06-102.

Exploration

Petronas as Operator acquired and processed 645 square kilometres of 3D seismic data over JPDA 06-102 area, targeting the Bayu East and Elang Far East Prospects. Preparations are now underway for a 3 well exploration drilling campaign to be carried out in mid-late 2009.

4.1.5. JPDA 06-103

Total exploration area: 3,741KmSq

Operator : Oilex (JPDA 06-103) Pty Ltd

Partners : Global Energy, Bharat Petroleum and Gujarat State Petroleum Corporation

Health Safety and Environment

As the operator for JPDA 06-103, Oilex had conducted its 3D seismic survey in 2008.

Upon providing approval for Oilex to proceed with the seismic program, Oilex was requested to submit all of the HSE documents as stated in the Interim Regulations for the JPDA.

An approval was given for Oilex to proceed with the 3D seismic survey and the DA would continue to monitor the activities through the daily reports.

Exploration

Oilex, as operator for the block JPDA 06-103, has completed a 3D seismic survey over an area of 2082 square kilometres. Planning for the drilling of four commitment wells for 2009 is in progress.

4.1.6. JPDA 03-19 &20

Total exploration area:

Operator : Woodside Petroleum (Timor Sea 19 & 20) Pty Ltd

Partners : Shell, ConocoPhillips and Osaka Gas

There were not many activities in 2008 in these PSCs. Most of the activities were resumed in late 2008 with some concentration on the review of subsurface studies. None the less it is important to note in this report that an appraisal well, namely Sunrise-3 well, was drilled in late September of the year to better examine the subsurface conditions and the resource estimate. The Sunrise-3 well is located in the eastern part of the greater sunrise field and outside the JPDA.

4.2. Timor-Leste Exclusive Offshore Area

Overview

The Timor-Leste Exclusive offshore Area lies between the southern coast of Timor-Leste and the JPDA, covering an area of some 28,776 square kilometers. In 2006, 6 out of 11 blocks were awarded to 2 different companies, Reliance Exploration and Production DMCC (S06-06) and ENI Timor Leste SpA (S06-01 to S06-05). Of the 6 blocks awarded, 3 wells are scheduled to be drilled by the end of 2009; two from Eni TL SpA and one from Reliance.

Exploration activity in the Timor-Leste Exclusive area is focused on a 'Deep Water Fairway' that lies along the southern side of the Timor Trough, where a number of potential 'Sunrise look-alike' structures have been identified. More recent seismic acquisition indicates prospective petroleum systems within and beneath the 'Timor Accretionary Prism', located directly offshore from the south coast of Timor-Leste.

4.2.1. Contract Area S06-01, S06-02, S06-03, S06-04 and S06-05

Contract Areas : 12,183KmSq
Operator : Eni Timor Leste S.p.A
Partners : GALP Exploração and Kogas

Exploration

Eni TL SpA and Joint Venture Partners GALP (10%) and KOGAS (10%) hold 5 blocks within the Timor-Leste Exclusive Area, covering a total area of some 12,183 square kilometres. In 2008 a 3D seismic survey was completed, covering the majority of the area within S06-03 and S06-04. The data has been fully processed and is presently under interpretation for delineation of prospects.

Eni TL SpA is currently committed to drill two wells within S06-03 by the end of 2009. An extensive 2D seismic survey has been completed within S06-01, S06-02 and S06-05. Initial work program indicates that 1 well will be drilled in each of these Contract Areas towards the end of PSC term (7 years, 2013).

Health and Safety

Health and Safety section became actively involved in exclusive areas after the formation of ANP on 1st July 2008. From July to Dec 2008, there were no activities recorded requiring a Health & Safety input.

4.2.2. Contract Area S06-06

Contract Area : 2,384KmSq
Operator : Reliance E&P DMCC
Partners : Oil India Limited (OIL) and India Oil Company (IOC)

Exploration

Work undertaken within the PSC by Reliance and Joint Venture Partners Indian Oil Corporation (12.5%) and Oil India (12.5%) comprised an infill 2D seismic survey (320 line kilometres) and a 3D seismic survey over an area of 1300 square kilometers. These surveys were approved by the ANP and processing and interpretation of this data is due to be completed in early 2009 with the view of generating prospective drill targets. S06-06 has a work commitment of 1 well, scheduled to be drilled by the end of 2009. The ANP continues to actively monitor progress made by Reliance in obtaining a suitable deep water rig for the 2009 drill program.

Health and Safety

In September 2008 ANP conducted a vessel inspection on Viking II at Dili Port just prior to the vessel sailing to block S06-06 for their 3D seismic survey.

4.3. Other Commercial Activities

4.3.1. Exploration Costs

There was significant Exploration work undertaken by operators during the 2008 year, Including exploration wells in KITAN (JPDA 06-105) and Sunrise (JPDA 03-19 & 03-20) areas, and seismic acquisition and interpretation work in various other PSC areas.

Expenditure by PSC						
JPDA PSC						
	06-105*	03-19	03-20	06-101A	06-102	06-103
Exploration Costs	74,324,385	8,785,994	43,930	286,468	2,746,190	25,044,906
Non Capital Costs						
Operating & Administration	5,428,413	8,703,385	43,412	316,368	819,636	914,170
Other	160,000	160,000	160,000	80,000	80,000	80,000
Capital Costs						
Other Costs						
Miscellaneous Receipts						
Net Expenditure	79,912,798	17,649,379	247,342	682,836	3,645,826	26,039,076
* Formerly PSC 03-01						
Expenditure by PSC						
TL Exclusive Area PSC						
	S-06-01	S-06-02	S-06-03	S-06-04	S-06-05	S-06-06
Exploration Costs	3,581,446	3,301,544	6,337,837	2,728,570	15,095,625	24,373,152
Non Capital Costs						
Operating & Administration						
Other	14,000	20,300	37,840	30,800	18,890	23,840
Capital Costs						
Other Costs						
Miscellaneous Receipts						
Net Expenditure	3,595,446	3,321,844	6,375,677	2,759,370	15,114,515	24,396,992

Table 3: Exploration Costs

4.3.2. Operator Audits

Under the PSCs entered with Operators, there is a requirement for the Operator to provide an Independent Audit Statement on the Annual PSC Reports provided to the ANP.

The PSCs list various reports that the Operator has to present to the ANP on a quarterly basis. The ANP only requires the Annual Report to be audited.

The ANP is in agreement with Operators and their appointed independent auditors have, where possible, provided staff to attend these audits. This initiative is integral in the ANP's commitment to capacity building of the national staff.

In the early part of 2009, staff attended the following Operator audits in relation to the 2008 Annual Reports from operators:

Eni for JPDA 06-105

Oilex for JPDA 06-103

Petronas for JPDA 06-102

Conoco Phillips for JPDA 03-12 and JPDA 03-13 (Bayu Undan)

Woodside for JPDA 03-19 and JPDA 03-20 (Sunrise)

These audits are either full financial audits or AUP (Agreed Upon Procedures).

The AUP are developed through consultation between the Operator's auditors and the ANP, and are designed to adequately ensure the requirements of the PSCs and associated Regulations, Directions and Guidelines are met, whilst ensure compliance of various costs in relation to these requirements.

All Annual Reports and the associated Independent Audit Statements are received and held by the ANP as part of its internal processes and procedures for operations.

There were no adverse Audit Reports received for the 2008 Year Annual Reports from Contractors.

No audits were undertaken for Minza Oil and Gas Limited (JPDA 06-101A), or the Timor-Leste exclusive area PSC's.

4.4. PSC and Legal Compliance

From time to time the ANP seeks to ensure that all contractor operators are in compliance with their contract obligations, which are reiterated in more detail through their respective Work Program and Budgets.

It is pleased to report that most of the contract operators fulfilled their contract obligations which had been plan to be completed by the year end. None the less there are several cases in which contract operators sought for variations due to various operational constraints. These are:

- PSC JPDA 06-103; with prior approval of the Joint Commission the ANP granted its approval to the request of Oilex JPDA 06-103 Pty Ltd and its joint partners on the delay of its two exploration wells to the third year exploration period. Further the ANP also granted its approval to Oilex JPDA 06-103 Pty Ltd and its joint partners the credit of excess seismic survey conducted in year two to the seismic acquisition planned for in year four.
- EKKN Project; following the shut down of the production from these fields in July 2007, various actions were taken to plug and abandon both the wells and the facility. By the end of 2008, three out of five wells (one exploration and four production) were completed plugged and the well heads were successfully retrieved. The other two well heads, Kakatua-1, and Elang Side ST-1, were unsuccessfully retrieved due to failure of the light weight cement slurry to initially pressure test. This situation remained after three consequent campaigns undertaken in 2008. Meanwhile the removal of facilities such as the heat exchangers and the RTM (Riser Turret Mooring) remained as unresolved as the ANP expected the complete removal of the above facilities. The contract operators and the subcontractors for EKKN had submitted proposal to the government of Australia for dumping the RTM in the Australian deep waters but it is yet to receive any response by the year end. There has also been a separate proposal submitted to the government of Timor-Leste seeking its approval to dump it onshore Timor-Leste as the temporary haven. This too, there has not been any response from the TL government by the year end. None the less the ANP granted its approval for the dumping of flow lines, and umbilical, chains and the anchors in situ.

4.5. Downstream

4.5.1. General

In accordance with the Decree Law no.20/2008, the ANP in the downstream sector, shall promote the efficiency and optimal use of installed capacity in petroleum infrastructure such as pipelines, terminal, transports and communication infrastructure, encouraging the share use of equipment and giving access to and enabling the use of existing access capacity. The ANP shall also ensure national energy security and monitor and regulate all petroleum activities so as to guarantee satisfactory supply and quality level of petroleum products to consumers.

The Directorate of Downstream began its staffing in late September 2008, with the appointment of a Director, Mr. Nelson de Jesus.

4.5.2. Activities

Downstream Regulation on Fuel Quality Standard.

The main focus of the downstream department is to establish mechanisms to regulating the fuel qualities provided by the private retailers in the country as well their safety and environmental practices. This is due to the fact that there is only limited petroleum downstream business in the country. Due to the late establishment of the section, not much work was completed, however initial studies and discussions with all relevant government departments and institutions were addressed for further engagement in 2009.

Further, data gathering drawn from the fuel retailers have also been considered as good initial works in the year which will pave the way for better sampling work in 2009.

Database on Petrol Station - Dili

A survey was conducted in December 2008, to collect data from all the petrol stations in Dili, the capital of Timor-Leste. The information gathered include, types of fuel, location and ownerships of the stations. The ANP intends to extend the survey to cover all stations in Timor-Leste.

This data will enable the Directorate to visit and monitor these stations on regular basis in the future.

Part V

FINANCIAL STATEMENTS

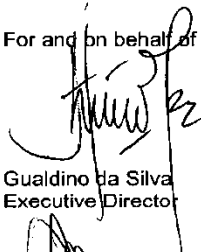
5.1. Audited financial statement for 1 Jan 2008 and 30 June 2008

5.1.1. Directors Declaration

In accordance with a resolution of the directors of the Timor Sea Designated Authority for the Joint Petroleum Development Area ("the Designated Authority"), in the opinion of the directors:

- (a) the financial statements of the Designated Authority are drawn up so as to present a true and fair view of the financial performance and cash flows of the Designated Authority for the six months period ended 30 June 2008, and the financial position of the Designated Authority as at 30 June 2008.
- (b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of the Board



Gualdino da Silva
Executive Director



Dionisio Martins
Director - Corporate Services

DILI

Date: 11/may/09

5.1.2. Independent Auditor's Report

To the Joint Commission of the Timor Sea Designated Authority for the Joint Petroleum Development Area.

We have audited the accompanying financial statements of the Timor Sea Designated Authority for the Joint Petroleum Development Area which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the six months period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Timor Sea Designated Authority for the Joint Petroleum Development Area as of 30 June 2008, and of its financial performance and its cash flows for the six months period then ended in accordance with International Financial Reporting Standards.



Matthew Kennon
Merit Partners
Date: 11/5/2009

Darwin, Australia

Merit Partners Pty Ltd
ABN 16 107 240 522

5.1.3. Income Statement

(Expressed in the United State's US Dollars)

	Note	30 Jun 08 (6 months) \$	31 Dec 07 (12 months) \$
REVENUE			
Contract Service Fees		516,098	1,040,479
Development Fees		1,386,166	2,959,834
Interest		23,256	93,489
Other		17,257	108,417
Foreign Exchange gain		-	1,508
		<u>1,942,777</u>	<u>4,203,727</u>
EXPENSES			
Personnel costs	8	(1,752,209)	(2,955,071)
General and administration		(525,231)	(1,467,396)
Depreciation		(81,223)	(167,486)
		<u>(2,358,663)</u>	<u>(4,589,953)</u>
LOSS FOR THE PERIOD		<u>(415,886)</u>	<u>(386,226)</u>

The above income statement should be read in conjunction with the accompanying notes

5.1.4. Balance Sheet

(Expressed in the United State's US Dollars)

	Note	30 Jun 08 \$	31 Dec 07 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	2,494,726	3,236,247
Trade and other receivables	4	10,708	273,992
Other non financial assets	5	-	5,137
Total Current Assets		<u>2,505,434</u>	<u>3,515,376</u>
NON-CURRENT ASSETS			
Plant and Equipment	6	196,756	250,820
TOTAL ASSETS		<u>2,702,190</u>	<u>3,766,196</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables		102,967	387,265
Provision for annual leave		-	167,724
Prepaid contract service fees	7	446,053	642,151
Total Current Liabilities		<u>549,020</u>	<u>1,197,140</u>
TOTAL LIABILITIES		<u>549,020</u>	<u>1,197,140</u>
EQUITY			
Contribution by Contracting States		3,782,380	3,782,380
Accumulated Losses		(1,629,210)	(1,213,324)
Total Equity		<u>2,153,170</u>	<u>2,569,056</u>
TOTAL EQUITY AND LIABILITIES		<u>2,702,190</u>	<u>3,766,196</u>

The above balance sheet should be read in conjunction with the accompanying notes

5.1.5. Statement of Changes in Equity
(Expressed in the united state's US Dollars)

	Contribution by Contracting States	Accumulated Losses	Total Equity
At 1 January 2007	3,782,380	(827,098)	2,955,282
Loss for the year	-	(386,226)	(386,226)
At 1 January 2008	3,782,380	(1,213,324)	2,569,056
Loss for the period	-	(415,886)	(415,886)
At 30 June 2008	3,782,380	(1,629,210)	2,153,170

The above statement of changes in equity should be read in conjunction with the accompanying notes

5.1.6. Cash Flow Statement
(Expressed in the United States Dollars)

	30 Jun 08 (6 months) \$	31 Dec 07 (12 months) \$
CASH FLOW FROM OPERATING ACTIVITIES		
Fees from Operators	1,967,000	5,457,781
Other income	19,000	114,247
Interest Received	23,256	93,489
Less: Personnel Costs	(1,919,933)	(2,917,650)
Less: Other Operating Expenses	(803,685)	(1,467,842)
	<u> </u>	<u> </u>
Net cash flow from operating activities	(714,362)	1,280,025
CASH FLOW FROM INVESTMENT ACTIVITIES		
Proceeds on disposal of property, plant & equipment	-	12,400
Purchase of property, plant & equipment	(27,159)	(88,829)
	<u> </u>	<u> </u>
Net cash flow (used in) investment activities	(27,159)	(76,429)
Net (decrease) in cash and cash equivalents	<u>(741,521)</u>	<u>1,203,596</u>
Add opening balance carried forward	<u>3,236,247</u>	<u>2,032,651</u>
Cash and cash equivalents ending balance	<u>2,494,726</u>	<u>3,236,247</u>
Comprising:		
Cash on hand and at banks	<u>2,494,726</u>	<u>3,236,247</u>
	<u>2,494,726</u>	<u>3,236,247</u>

The above cash flow statement should be read in conjunction with the accompanying notes

5.1.7. Notes to the accounts

TIMOR SEA DESIGNATED AUTHORITY FOR THE JOINT PETROLEUM DEVELOPMENT AREA NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008

1. NATURE OF OPERATIONS

The Timor Sea Designated Authority is constituted by virtue of the Timor Sea Treaty between the Governments of Australia and Timor-Leste which entered into force on 2 April 2003.

Under Article 6(b) of the Timor Sea Treaty, the Designated Authority has the juridical personality and such legal capacities under the law of both Contracting States as necessary for the exercise of its powers and the performance of its functions. In particular, the Designated Authority has the capacity to contract, acquire and dispose of movable and immovable property and to institute and be party to legal proceedings.

The Designated Authority, subject to directions from a Joint Commission established pursuant to Article 6 of the Timor Sea Treaty, is responsible for the management of activities relating to exploration for and exploitation of the petroleum resources in the Joint Petroleum Development Area in accordance with the Timor Sea Treaty, and in particular the Petroleum Mining Code and with production sharing contracts. This includes the collection and distribution between the Contracting States the proceeds of the Designated Authority's share of petroleum production from production sharing contracts. During the year, the proceeds from the sale of First Tranche Petroleum (FTP) and profit oil were received by the Designated Authority on behalf of the Contracting States. These proceeds are subsequently distributed to Timor-Leste and Australia consistent with the ratio stipulated in Article 4(a) of the Timor Sea Treaty.

During the six months period ended 30 June 2008 the Designated Authority operated from its office at Avenida de Portugal No. 5 Dili, Timor Leste. At the end of the period the Designated Authority employed 36 full time employees (2007 - 44 full time employees).

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Taking into account the diverse geographical nature of the Contracting states, the Joint Petroleum Development Area and the various operators holding Production Sharing Contracts, it was agreed in the inaugural meeting of the Joint Commission that the Financial Statements of the Designated Authority would be denominated in United States dollars and prepared in accordance with the historical cost convention.

The financial statements have been prepared for the six month period 1 January 2008 to 30 June 2008. The Comparative period is the year ended 31 December 2007

b. Accounting policies

The accounting policies adopted are consistent with those of the previous financial period.

c. Income Statement

The Income Statement is prepared on the accrual basis, which requires income and expenditure to be brought to account in the years to which they relate.

d. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Income recognition

Income is brought to account on the following basis:

- i) Development fees - recorded on an accrual basis when the Designated Authority becomes entitled to the revenue.
- ii) Contract service fees - accrual basis on the anniversary of the commencement of the Production Sharing Contract. Contract service fees received in advance are deferred and brought to account as income in the years to which they relate. Contract service fees received on termination of a Production Sharing Contract are brought to account as income in the year in which they are received.
- iii) Interest - accrual basis.

f. Translation of foreign currencies

The Designated Authority maintains its books and records in United States Dollars.

Transactions during the year in currencies other than United States Dollars are recorded at the rates of exchange at the date of the transactions. At balance date, monetary assets and liabilities denominated in currencies, other than United States Dollars, are translated into United States Dollars at the rates of exchange on that date.

All exchange gains and losses and currency translation adjustments are reflected in the statement of income and expenditure in the year incurred.

g. Taxation

The Designated Authority is not subject to income tax in either Timor-Leste or Australia by virtue of Article 6 of the Timor Sea Treaty.

h. Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and annual leave. The liabilities are measured at their nominal amount and are expected to be settled within twelve months.

i. Trade and other receivables

Trade receivables, which generally have 30-90 days' terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An impairment allowance is raised when there is objective evidence that the Designated Authority will not be able to collect the debts. Bad debts are written off when identified.

**TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Property, Plant, and Equipment

Property, Plant and Equipment is valued at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated on a straight line basis over the useful lives of the assets. Depreciation rates are as follows:

	2008	2007
Office furniture	25%	25%
Office and Computer Equipment	25-100%	25-100%
Other	25-50%	25-50%
Leasehold Improvements	20%	20%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

k. Impairment of Assets

The Designated Authority assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Designated Authority makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revaluation amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on systematic basis over its remaining useful life.

3. CASH AND CASH EQUIVALENTS

	30 Jun 08	31 Dec 07
	\$	\$
ANZ Dili USD Account	228,095	226,366
HSBC AUD Account	343,874	215,198
HSBC Singapore USD Account	947,291	947,291
HSBC Perth USD Account	917,340	1,792,406
AMP - Funds on deposit	57,526	54,386
Petty Cash	600	600
Total	2,494,726	3,236,247

4. TRADE AND OTHER RECEIVABLES

	30 Jun 08	31 Dec 07
	\$	\$
Contract Service Fees	-	240,000
Development Fees	-	20,834
Other	10,708	13,158
Total	10,708	273,992

5. OTHER NON-FINANCIAL CURRENT ASSETS

	30 Jun 08	31 Dec 07
	\$	\$
Prepayments	-	5,137
Total	-	5,137

6. PLANT AND EQUIPMENT

(a) Reconciliation of cost and accumulated depreciation

	Cost	Accumulated Depreciation	Written down Value
Office and Computer Equipment	498,134	(442,066)	56,068
Office Furniture	69,860	(56,128)	13,732
Other	118,054	(56,980)	61,074
Leasehold Improvements	163,556	(97,674)	65,882
Total as at 30 June 08	849,604	(652,848)	196,756

6. PLANT AND EQUIPMENT (continued)**(b) Reconciliation of carrying amounts at the beginning and end of the period**

	30 Jun 08 (6 months) \$	31 Dec 07 (12 months) \$
<u>Office and Computer Equipment</u>		
Carrying amount at beginning	102,489	142,285
Additions	5,749	71,894
Depreciation Expense	(52,170)	(111,690)
Carrying amount at ending	56,068	102,489
<u>Office Furniture</u>		
Carrying amount at beginning	19,686	29,744
Additions	705	4,075
Depreciation Expense	(6,659)	(14,133)
Carrying amount at ending	13,732	19,686
<u>Other</u>		
Carrying amount at beginning	52,376	50,322
Additions	20,705	28,000
Disposals	-	(5,040)
Depreciation Expense	(12,007)	(20,906)
Carrying amount at ending	61,074	52,376
<u>Leasehold Improvements</u>		
Carrying amount at beginning	76,269	112,166
Disposals	-	(15,140)
Depreciation Expense	(10,387)	(20,757)
Carrying amount at ending	65,882	76,269
<u>Total Property, Plant & Equipment</u>		
Carrying amount at beginning	250,820	334,517
Additions	27,159	103,969
Disposals	-	(20,180)
Depreciation Expense	(81,223)	(167,486)
Carrying amount at ending	196,756	250,820

7. PREPAID CONTRACT SERVICE FEES

A number of contract service fees (US\$ 446,053) partially relating to the following period, were received in the period ended 30 June 2008 (year ended 31 Dec 07 - US\$ 642,151). These prepaid contract service fees are shown as current liabilities at 30 June 2008, and are to be taken up as income in the following period.

8. PERSONNEL COSTS

	30 Jun 08 (6 months) \$	31 Dec 07 (12 months) \$
Salaries	1,086,674	2,227,150
Employee Benefits	206,317	300,849
Relocation	235,401	66,867
Superannuation	117,233	193,859
Home Leave Travel	91,929	81,604
Evacuation Expenses	-	25,332
Recruitment	186	32,693
Staff Amenities	14,469	26,717
Total	1,752,209	2,955,071

9. COMMITMENTS AND CONTINGENCIES

For the period ended 30 June 2008 the Designated Authority had no capital commitments or contingent liabilities.

10. PETROLEUM REVENUE

Under Article 4 of the Timor Sea Treaty, Australia and Timor-Leste have title to all petroleum produced in the Joint Petroleum Development Area (JPDA).

During the period, the Designated Authority, with the approval of the Joint Commission, collected the net proceeds of the Contracting States share of petroleum from production in the Joint Petroleum Development Area. The petroleum revenue was sourced from the Elang Kakatua Kakatua North field located in Production Sharing Contract area JPDA 03-12 and the Bayu Undan field, unitised across PSC areas JPDA 03-12 and JPDA 03-13.

As title to the petroleum from the JPDA is held by the Contracting States, the Designated Authority is not permitted to expend the funds from the sale of petroleum in any way with the exception of distributing it to Timor-Leste and Australia. Accordingly, the Designated Authority does not show the proceeds or distributions as revenue or expenses as it does not have title to, or control of, the production, and subsequent revenue.

11. SUBSEQUENT EVENTS

On the 1st of July 2008, pursuant to Article 6(b)(ii) of the Timor Sea Treaty, the Designated Authority became part of the Timor-Leste Government.

11. SUBSEQUENT EVENTS (continued)

On that day, the National Petroleum Authority (ANP - Autoridade Nacional do Petróleo) was established after the Decree Law passed on the 19th of June 2008. The ANP is Timor-Leste's body responsible for managing and regulating petroleum activities in Timor-Leste's exclusive jurisdictional areas and in the JPDA in accordance with the Decree Law on the establishment of the ANP, the Timor-Leste Petroleum Activities Law, and the Timor Sea Treaty.

12. RELATED PARTIES

Compensation of Key Management Personnel

	2008 \$	2007 \$
Short Term Employment Benefits	516,996	699,691
	<u>516,996</u>	<u>699,691</u>

13. GOING CONCERN

The financial statements have been prepared on the basis that the Designated Authority is not a going concern. As reported at Note 11, the Designated Authority became part of the Timor-Leste Government on 1 July 2008.

It is the understanding of the Directors of TSDA that the assets and liabilities of the Designated Authority will be transferred to the ANP at their carrying amount. Accordingly no adjustments have been made to the carrying amounts of asset and liabilities in the preparation of these financial statements.

14. FINANCIAL INSTRUMENTS

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and conditions
(i) Financial assets			
Cash and cash equivalents	3	Details are set out in note 2(c).	Interest is earned at the bank's benchmark interest rate.
Trade and other receivables	4	Amounts receivable are carried at full nominal value.	Contract service fees normally settled on 30 day terms.
(ii) Financial liabilities			
Trade and other payables		Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Designated Authority.	Trade liabilities are normally settled on 30 day terms or other negotiated terms.

16. FINANCIAL INSTRUMENTS (continued)

(iii) Interest rate risk

Financial Instruments	Floating Interest Rate		Non-interest Bearing		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	30 Jun 08	31 Dec 07	30 Jun 08	31 Dec 07	30 Jun 08	31 Dec 07	30 Jun 08	31 Dec 07
	\$	\$	\$	\$	\$	\$	\$	\$
<i>(i) Financial assets</i>								
Cash and cash equivalents	2,494,726	3,236,247	-	-	2,494,726	3,236,247	1.38%	3.00%
Trade and other receivables	-	-	10,708	273,992	10,708	273,992	-	-
Total financial assets	2,494,726	3,236,247	10,708	273,992	2,505,434	3,510,239		

Financial Instruments	Non-interest Bearing		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	30 Jun 08	31 Dec 07	30 Jun 08	31 Dec 07	30 Jun 08	31 Dec 07
	\$	\$	\$	\$	\$	\$
<i>(ii) Financial liabilities</i>						
Trade and other payables	102,967	387,265	102,967	387,265	-	-
Total financial liabilities	102,967	387,265	102,967	387,265		

16. FINANCIAL INSTRUMENTS (continued)

(iv) Net Fair Values

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term maturity.

Trade and other receivables and trade and other payables: The carrying amount approximates fair value.

(v) Credit Risk

The Designated Authority's maximum exposure to credit risk at balance sheet date in relation to each class of recognized financial asset is the carrying amount of those assets as indicated in the balance sheet.

(vi) Credit Risk Management

One of the requirements under Production Sharing Contracts entered into between the Designated Authority and exploration companies is that the company must provide adequate security by way of a bank issued Letter of Credit, or other equivalent security. The security document provides additional certainty that the exploration companies will meet their minimum expenditure requirements under the PSC.

(vii) Foreign Exchange Risk

The Designated Authority generally operates using United States denominated currency held in US dollar bank accounts and therefore its exchange rate exposure is considered immaterial. The value of transactions in non US dollar is not considered significant.

(viii) Interest Rate Risk

The Designated Authority invests surplus cash deposits in short term interest bearing deposits. The deposits are only made with reputable financial institutions with maturity dates generally being no more than 30 days.

5.2. Audited financial statement for 1 Jul 2008 and 31 Dec 2008.

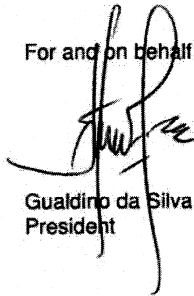
5.2.1. Director's Declaration

DIRECTORS' DECLARATION

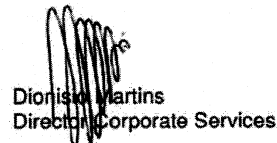
In accordance with a resolution of the directors of the National Petroleum Authority ("the Authority"), in the opinion of the directors:

- (a) the financial statements of the Authority are drawn up so as to present a true and fair view of the financial performance and cash flows of the Authority for the six month period ended 31 December 2008, and the financial position of the Authority as at 31 December 2008.
- (b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of Management



Gualdino da Silva
President



Dionisio Martins
Director Corporate Services

DILI

Date: 27/8/09

5.2.2. Independent Auditor's Report



Tel 61 8 8982 1444
Fax 61 8 8982 1400

Level 2
9-11 Cavenagh Street
Darwin NT 0800

GPO Box 3470
Darwin NT 0801

www.meritpartners.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Autoridade Nacional do Petróleo.

We have audited the accompanying financial statements of Autoridade Nacional do Petróleo which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Autoridade Nacional do Petróleo as of 31 December 2008, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Merit Partners".

Merit Partners

A handwritten signature in black ink that reads "Matthew Kennon".

Matthew Kennon
Director

Darwin, Australia

Date: 2/9/2009

Merit Partners Pty Ltd
ABN 16 107 240 522

Liability limited by
a scheme approved

5.2.3. Income Statement

	Note	2008 \$
INCOME		
Revenue		
Development Fees		1,588,000
Contract Service Fees		523,205
Income from Timor-Leste Government		241,520
Interest		11,229
TOTAL INCOME		2,363,954
EXPENSES		
Employee Benefits	9	(816,888)
General and Administration	10	(709,075)
Depreciation and Amortisation		(51,830)
Net loss in foreign exchange		(46,867)
TOTAL EXPENSES		(1,624,660)
NET PROFIT / (LOSS)		739,294

The above income statement should be read in conjunction with the accompanying notes

5.2.4. Balance Sheet

	Note	2008 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	3	3,445,336
Trade and other receivables	4	19,073
Other non financial assets	5	<u>3,782</u>
Total Current Assets		<u>3,468,191</u>
NON-CURRENT ASSETS		
Property, plant and equipment	6	244,785
Intangibles	7	<u>14,151</u>
Total Non-Current Assets		<u>258,936</u>
TOTAL ASSETS		<u>3,727,127</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables		163,595
Provision for annual leave		28,219
Prepaid contract service fees	8	<u>642,849</u>
Total Current Liabilities		<u>834,663</u>
TOTAL LIABILITIES		<u>834,663</u>
EQUITY		
Initial contribution		2,153,170
Accumulated funds		<u>739,294</u>
Total Equity		<u>2,892,464</u>
TOTAL EQUITY AND LIABILITIES		<u>3,727,127</u>

The above balance sheet should be read in conjunction with the accompanying notes

5.2.5. Statement of Changes in Equity

	<u>Initial Contribution</u>	<u>Accumulated Funds</u>	<u>Total Equity</u>
At 1 July 2008	-	-	-
Initial Contribution ¹	2,153,170	-	2,153,170
Profit / (Loss) for the period	-	739,294	739,294
At 31 December 2008	<u>2,153,170</u>	<u>739,294</u>	<u>2,892,464</u>

1. Initial Contribution represents the closing estate of Timor Sea Designated Authority.

The above statement of changes in equity should be read in conjunction with the accompanying notes

5.2.6. Cash Flow Statement

	2008 \$
CASH FLOW FROM OPERATING ACTIVITIES	
Fees from Operators	2,308,000
Income from Timor-Leste Government	241,520
Interest Received	11,229
Less: Personnel Costs	(788,669)
Less: Other Operating Expenses	(707,460)
Net cash flow from operating activities	1,064,620
 CASH FLOW FROM INVESTMENT ACTIVITIES	
Purchase of intangibles	(13,943)
Purchase of property, plant & equipment	(100,067)
Net cash flow (used in) investment activities	(114,010)
 CASH FLOW FROM CASH FLOW FROM FINANCE ACTIVITIES	
Cash received from preceding Authority ¹	2,494,726
Net cash flow from finance activities	2,494,726
Net (decrease) in cash and cash equivalents	3,445,336
 Add opening balance carried forward	-
Cash and cash equivalents ending balance	3,445,336
 Comprising:	
Cash on hand and at banks	3,445,336
	3,445,336

1. Represents the closing Cash and Cash Equivalents of Timor Sea Designated Authority.

The above cash flow statement should be read in conjunction with the accompanying notes

5.2.7. Notes to the accounts

1. NATURE OF OPERATIONS

The Autoridade Nacional do Petróleo ('ANP') was established on the 1st of July 2008 after the Decree Law was passed on the 19th of June 2008.

The ANP is Timor-Leste's body responsible for managing and regulating petroleum activities in Timor-Leste's exclusive jurisdictional areas and in the Joint Petroleum Development Area (JPDA) in accordance with the Decree Law on the establishment of the ANP, the Timor-Leste Petroleum Activities Law, and the Timor Sea Treaty.

Under Article 6(b) of the Timor Sea Treaty, between the Governments of Australia and Timor-Leste, the Authority has the juridical personality and such legal capacities under the law of both Contracting States as necessary for the exercise of its powers and the performance of its functions.

The Authority, subject to directions from a Joint Commission established pursuant to Article 6 of the Timor Sea Treaty, is responsible for the management of activities relating to exploration for and exploitation of the petroleum resources in the Joint Petroleum Development Area in accordance with the Timor Sea Treaty, and in particular the Petroleum Mining Code and with production sharing contracts. This includes the collection and distribution between the Contracting States the proceeds of the Authority's share of petroleum production from production sharing contracts. During the period, the proceeds from the sale of First Tranche Petroleum (FTP) and profit oil were received by the Authority on behalf of the Contracting States. These proceeds are subsequently distributed to Timor-Leste and Australia consistent with the ratio stipulated in Article 4(a) of the Timor Sea Treaty.

During the six month period ended 31 December 2008 the Authority operated from its office at Ground Floor, East Wing of Palácio do Governo, Dili, Timor Leste. At the end of the period the ANP employed 47 full time employees.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on an accrual basis and are in accordance with historical cost convention.

The financial statements are presented in United States dollars and values are rounded to the nearest dollar unless otherwise specified.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when, and only when, it is probable that future economic benefits will flow and the amounts of the assets and liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Income Statement when, and only when, the flow, consumption or loss of economic benefit has occurred and can be reliably measured.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Significant accounting judgements and estimates

No accounting assumptions or estimates have been identified that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next accounting period

c. Income recognition

Income is brought to account on the following basis:

- i) Development fees - recorded on an accrual basis when the Authority becomes entitled to the revenue.
- ii) Contract service fees - accrual basis on the anniversary of the commencement of the Production Sharing Contract. Contract service fees received in advance are deferred and brought to account as income in the years to which they relate. Contract service fees received on termination of a Production Sharing Contract are brought to account as income in the year in which they are received.
- iii) Income from Government - recognised at the time the Authority becomes entitled to receive the revenue.
- iv) Interest - accrual basis.

d. Translation of foreign currencies

The Authority maintains its books and records in United States Dollars.

Transactions during the year in currencies other than United States Dollars are recorded at the rates of exchange at the date of the transactions. At balance date, monetary assets and liabilities denominated in currencies, other than United States Dollars, are translated into United States Dollars at the rates of exchange on that date.

All exchange gains and losses and currency translation adjustments are reflected in the statement of income and expenditure in the year incurred.

e. Taxation

The Authority is not subject to income tax in either Timor-Leste or Australia by virtue of Article 6 of the Timor Sea Treaty and as a Timor-Leste non business government institution.

f. Acquisition of assets

Assets are recorded at cost on acquisition, except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions from owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Cash and Cash Equivalents

Cash and cash equivalents includes notes and coins held, advances made and any deposits with a bank or financial institution held at call or with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Cash is recognised at its nominal amount.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

h. Trade and other receivables

Trade receivables, which generally have 30-90 days' terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Authority will not be able to collect the receivable

i. Financial assets

Financial assets are categorised as loans and receivables. Financial assets are recognised and derecognised upon trade date. When financial assets are recognised initially, they are measured at fair value. Financial assets are derecognised when the contractual rights to the cash flow from the financial assets expire or the asset is transferred to another entity. In the case of transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Loans and receivables

Financial instruments designated as loans and receivables are bank and other securities, short term deposits with major banks, and trade and other receivables.

j. Property, Plant, and Equipment

Property, Plant and Equipment is valued at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated on a straight line basis over the useful lives of the assets. Depreciation rates are as follows:

	2008
Office furniture	25%
Office and Computer Equipment	25-100%
Other	25-50%
Leasehold Improvements	Lease term - 20%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Property, Plant, and Equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

k. Intangibles

The Authority's intangibles comprise externally acquired software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

All software assets were assessed for indications of impairment as at 31 December 2008 and adjustments made for those determined to be impaired.

Capitalised software is amortised on a straight-line basis over its estimated useful life, as follows:

	2008
Software	33 - 50%

l. Impairment of Assets

The Authority assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Authority makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revaluation amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on systematic basis over its remaining useful life.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Trade and other payables

Trade creditors and other payables are carried at amortised cost. Due to their short term nature they are not discounted. Liabilities are recognised to the extent that the goods and services have been received (and irrespective of having been invoiced). The amounts are unsecured and usually paid within 30 days of recognition.

n. Financial liabilities

Financial liabilities are classified as either financial liabilities “at fair value through profit and loss” or other financial liabilities. Financial liabilities are recognised and derecognised upon trade date.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are initially measured at fair value. Subsequent fair value adjustments are recognised on profit or loss. The net gain or loss recognised in the profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including payables, are initially measured at fair value, net of any transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

o. Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and annual leave. The liabilities are measured at their nominal amount and are expected to be settled within twelve months.

p. Statement of Cash Flows

The Statement shows the sources of cash and how cash was applied during the financial year. Cash flows are included in the Statement on a gross basis. Cash flows also include those relating to payables and receivables of prior periods or in advance for future periods.

3. CASH AND CASH EQUIVALENTS

	2008 \$
ANZ Dili USD Account	428,134
HSBC AUD Account	174,998
HSBC Singapore USD Account	949,185
HSBC Perth USD Account	1,855,705
AMP - Funds on deposit	36,714
Petty Cash	600
Total	<u>3,445,336</u>

4. TRADE AND OTHER RECEIVABLES

	2008 \$
Contract Service Fees	-
Development Fees	-
Other	19,073
Total	<u>19,073</u>

5. OTHER NON-FINANCIAL CURRENT ASSETS

	2008 \$
Prepayments	3,782
Total	<u>3,782</u>

6. FIXED ASSETS

(a) Reconciliation of cost and accumulated depreciation

	2008		
	Cost	Accumulated Depreciation	Written down Value
	\$	\$	\$
Office and Computer Equipment	502,367	(430,540)	71,827
Office Furniture	70,281	(62,859)	7,422
Other	148,454	(71,276)	77,178
Leasehold Improvements	188,629	(100,271)	88,358
Total as at 31 Dec 08	<u>909,731</u>	<u>(664,946)</u>	<u>244,785</u>

6. FIXED ASSETS (continued)

(b) Reconciliation of carrying amounts at the beginning and end of the period

	2008
	\$
<u>Office and Computer Equipment</u>	
Carrying amount at beginning	-
Assets contributed by TSDA	53,180
Additions	35,907
Depreciation Expense	<u>(17,260)</u>
Carrying amount at ending	<u>71,827</u>
 <u>Office Furniture</u>	
Carrying amount at beginning	-
Assets contributed by TSDA	13,732
Additions	420
Depreciation Expense	<u>(6,730)</u>
Carrying amount at ending	<u>7,422</u>
 <u>Other</u>	
Carrying amount at beginning	-
Assets contributed by TSDA	61,074
Additions	30,400
Depreciation Expense	<u>(14,296)</u>
Carrying amount at ending	<u>77,178</u>
 <u>Leasehold Improvements</u>	
Carrying amount at beginning	-
Assets contributed by TSDA	65,882
Additions	33,340
Depreciation Expense	<u>(10,864)</u>
Carrying amount at ending	<u>88,358</u>
 <u>Total Property, Plant & Equipment</u>	
Carrying amount at beginning	-
Assets contributed by TSDA	193,868
Additions	100,067
Depreciation Expense	<u>(49,150)</u>
Carrying amount at ending	<u>244,785</u>

7. INTANGIBLES

(a) Reconciliation of cost and accumulated amortisation

	2008		
	Cost	Accumulated Amortisation	Written down Value
	\$	\$	\$
Computer Software	45,617	(31,466)	14,151

(b) Reconciliation of carrying amounts at the beginning and end of the period

	2008
	\$
<u>Computer Software</u>	
Carrying amount at beginning	-
Assets contributed by TSDA	2,888
Additions	13,943
Amortisation Expense	(2,680)
Carrying amount at ending	14,151

8. PREPAID CONTRACT SERVICE FEES

A number of contract service fees (US\$ 642,849) partially relating to the following period, were received in the period ended 31 December 2008. These prepaid contract service fees are shown as current liabilities at 31 December 2008, and are to be taken up as income in the following period.

	2008
	\$
9. EMPLOYEE BENEFITS	
Salaries	640,828
Superannuation	78,543
Home Leave Travel	37,776
Employee Benefits	28,031
Staff Amenities	23,179
Relocation	5,124
Recruitment	3,407
Total	816,888

AUTORIDADE NACIONAL DO PETRÓLEO
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2008

	2008
	\$
10. GENERAL AND ADMINISTRATION EXPENSES	
Consultants	179,684
Training, Education and Conference expenses	156,792
Travel	70,430
Telephones & Communication	62,193
Office Relocation	47,705
Repairs and maintenance	32,776
Office rental	32,555
Organisational Promotion	32,093
Motor Vehicle expenses	17,019
Security	15,966
Office supplies	11,802
Printing & advertising	5,743
Subscriptions & Memberships	4,588
Minor Equipment	4,112
Bank charges	3,972
Other	31,645
Total	<u>709,075</u>

11. COMMITMENTS AND CONTINGENCIES

For the period ended 31 December 2008 the Authority had no capital commitments or contingent liabilities.

12. PETROLEUM REVENUE

Under Article 4 of the Timor Sea Treaty, Australia and Timor-Leste have title to all petroleum produced in the Joint Petroleum Development Area (JPDA).

During the year, the Authority, with the approval of the Joint Commission, collected the net proceeds of the Contracting States share of petroleum from production in the Joint Petroleum Development Area. The petroleum revenue was sourced from the Bayu Undan field, unitised across PSC areas JPDA 03-12 and JPDA 03-13.

As title to the petroleum from the JPDA is held by the Contracting States, the Authority is not permitted to expend the funds from the sale of petroleum in any way with the exception of distributing it to Timor-Leste and Australia. Accordingly, the Authority does not show the proceeds or distributions as revenue or expenses as it does not have title to, or control of, the production, and subsequent revenue.

13. RELATED PARTIES

Compensation of Key Management Personnel

	31 Dec 08
	\$
Short Term Employment Benefits	<u>204,505</u>

14. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and conditions
(i) Financial assets - Loans and receivables			
Cash and cash equivalents	3	Details are set out in note 2(g).	Interest is earned at the bank's benchmark interest rate.
Trade and other receivables	4	Amounts receivable are carried at full nominal value.	Contract service fees normally settled on 30 day terms.
(ii) Financial liabilities - Loans and receivables			
Trade and other payables		Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Authority.	Trade liabilities are normally settled on 30 day terms or other negotiated terms.

(b) Net income and (expenses) from financial instruments

	2008 \$
Loans and receivables	
Cash and cash equivalents	(35,639)

(c) Financial risk management objectives and policies

The Authority's principal financial instruments comprise receivables, payables and cash and short term deposits.

The Authority manages its exposure to financial risks, in accordance with its policies. The objectives of the policies are to maximise the income to the ANP whilst minimising the downside risk.

One of the requirements under Production Sharing Contracts entered into between the Authority and exploration companies is that the company must provide adequate security by way of a bank issued Letter of Credit, or other equivalent security. The security document provides additional certainty that the exploration companies will meet their minimum expenditure requirements under the PSC.

The Authority's activities expose it to normal commercial financial risk. The main risks arising from the Authority financial instruments are foreign exchange risk, interest rate risk, credit risk and liquidity risk. Risks are considered to be low.

14. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management objectives and policies (continued)

Primary responsibility for the identification and control of financial risks rests with Management under the authority of the ANP Board of Directors.

(d) Net fair value of financial assets and liabilities

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term maturity.

Trade and other receivables and trade and other payables: Their carrying amounts approximate fair value.

(e) Foreign Exchange Risk

The Authority generally operates using United States denominated currency held in US dollar bank accounts. However it is exposed to foreign exchange risk with respect to the Australian dollar arising primarily from cash and short term deposits held in the mentioned currency.

The following table details the Authority's sensitivity to a 5% movement (i.e. increase and decrease) in the Australian Dollar against the US Dollar at the reporting date, with all other variables held constant. The 5% sensitivity is based on reasonable possible changes, over a financial year, using the observed range of actual historical rates for the preceding five year period.

The sensitivity includes only the impact on the balance of financial assets and liabilities at year end.

	Impact on Profit Higher/(Lower) 2008 \$	Impact on Equity Higher/(Lower) 2008 \$
AUD/USD +5%	57,704	57,704
AUD/USD -5%	(57,704)	(57,704)

(f) Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority is exposed to interest rate risk primarily from its cash surpluses invested in short term interest bearing deposits. The deposits are only made with reputable financial institutions with maturity dates generally being no more than 30 days.

As at balance date the Authority had the following financial instruments exposed to variable interest rate risk:

14. FINANCIAL INSTRUMENTS (continued)

(f) Interest Rate Risk (continued)

<u>Financial Assets</u>	<u>2008</u> <u>\$</u>
Cash and cash equivalents	3,444,736

The table below details the interest rate sensitivity analysis of the Authority at the reporting date holding all other variables constant. A 25 basis point change is deemed to be reasonably possible and is used when reporting interest rate risk.

	<u>Impact on Profit</u> <u>Higher/(Lower)</u> <u>2008</u> <u>\$</u>	<u>Impact on Equity</u> <u>Higher/(Lower)</u> <u>2008</u> <u>\$</u>
Interest rate + 0.25%	8,612	8,612
Interest rate - 0.25%	(8,612)	(8,612)

The method used to arrive at the possible risk of 25 basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the Authority's cash rate for the past five years. This information is then revised and adjusted for reasonableness under the current economic circumstances.

(g) Credit Risk

Credit risk arises from the financial assets of the company, which comprises cash and cash equivalents and trade and other receivables. The company's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Authority has a significant concentration to credit risk through its cash and deposits with banks. The main concentration is with two international banks. The Authority ensures that this concentration is managed by the exposure not all being with one particular bank and by utilising banks with high credit ratings.

Trade and other receivables are monitored on an ongoing basis with the result that the Authority's exposure to bad debts is not significant.

14. FINANCIAL INSTRUMENTS (continued)

(h) Liquidity Risk

Liquidity risk arises from the financial liabilities of the entity and the Authority's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The Authority reduces its exposure to liquidity risk by monitoring its cash flows closely through rolling future cash flows and monitoring the ageing of receivables and payables.

The maturity of financial liabilities as at 31 December 2008 is as follows:

	Within 1 year \$	Within 1-5 Years \$	>5 Years \$	Total \$
Trade and other payables	163,595	-	-	163,595

PART VI

OTHER CORPORATE ACTIVITIES

6.1. ANP Promotion and Public Awareness, and Transparency

The evolution of the ANP as a public institution majoring in petroleum sector created increased public interest in all ANP activities. To enhance public awareness on ANP and projects in its areas of jurisdiction, ANP had been actively participating in national and international workshops and exhibitions (with NGOs, members of parliament, member of government and other institutions).

The ANP promotional and public awareness activities in 2008 are as follows:

- OSEA in Singapore,
- Seminar on petroleum activities in Casait organised by national NGO - Luta Hamutuk, As part of parliamentary delegation of ministers as well as opposition MP's and SERN visited PTT in Thailand to promote ANP in international level,
- Updated ANP activities through LABEH radio network,
- National Exhibition in 'Mercado Lama', Dili
- Regularly submitted information related to petroleum activities to be displayed at the 'Casa de Transparencia' or the Transparency House,
- In relation to that ANP also vigorously promoted its activities through circulation of booklets and pamphlets for public information.



Figure 13: ANP's participation at national exhibition organised by Ministry of commerce and Industry

ANP Souvenir Procedure

As the petroleum regulatory body of Timor-Leste ANP staff are discouraged to own any souvenirs/tokens receive from contracts operators and other stakeholders. To this end, a procedure on managing the souvenirs was established in late 2008. Upon the approval of this procedure, Souvenir committee was established and it composed of Single Auditor and appointed administration staff by the Corporate Service Director. To monitor and ensure the transparency of souvenirs received, the committee had been registering all souvenirs received by ANP staff members and they and stored in a designated place at the ANP offices.

Updates are issued to all ANP staff on periodical basis. Upon approval from the committee, the souvenirs will be distributed to selected parties on annually basis.

Involvement with the EITI Forum

In Timor-Leste the EITI (Extractive Industry Transparency Initiatives) forum has been initiated since 2006. This forum is made up of a working group comprising government officials, oil companies (industry), and the civil societies which are represented by the local no-government organizations (NGOs).

In supporting the Timor-Leste governments commitment to EITI program, the ANP has been very actively involved in the process ensuring the smooth progress involving industry, government, and civil society.

In 2008 a number of meetings where held by the secretariat of the EITI addressing the way forward of the plans that had already been established by the working group. By the end of 2008 a draft reporting template had already been addressed, and agreement on the final version of the reporting template is expected to be reached in early 2009.

6.2. ANP 2008 Social activities

Apart from its day-to-day activities, ANP has been initiating social activities as a tool to enhance friendship among employees as well as with other ANP counterparts.

Following are list of social activities initiated by ANP:

- Friendly soccer matches with SERN and Ministry of Solidarity
- ANP Green Day, in cooperation with the ministry of environment planted trees in Taci Tolu area.



Figure 14: ANP Green Day

Appendix 1: List of Abbreviations

JPDA	: Joint Petroleum Development Area
JC	: Joint Commission(ers)
ANP	: Autoridade Nacional do Petróleo
TSDA	: Timor Sea Designated Authority
BU	: Bayu Undan
Bcf	: Billion Cubic Feet
TCF	: Trillion Cubic Feet
m ³	: Meter Cubic
m	: Meter
bbls	: Barrels
SERN	: Secreatria de Estado dos Recursos Naturais
LABEH	: Lalenok ba Ema Hotu
NGO	: Non Governmental Organisation
OSEA	: Offshore South East Asia
DA	: Designated Authority
AUP	: Agreed Upon Procedures
LPG	: Liquid Petroleum Gas
LNG	: Liquefied Natural Gas
NPAP	: Norwegian Petroleum Assistance Programme
CUQ	: Central Utilities and Quarters
EtE	: Extend the Edge
Msm ³	: Million Standard Meter Cubic
EITI	: Extractive Industry Transparency Initiative