



Timor Sea Designated Authority

for the Joint Petroleum
Development Area

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Annual Report

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PO Box 113, Dili, Timor-Leste

Tel: + 670 332 4098

Email: dilioffice@timorseada.org

Internet: www.timorseada.org

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1 EXECUTIVE SUMMARY

Fulfilling its Mission Statement in 2005, the Timor Sea Designated Authority (TSDA) has continued to manage the development of petroleum resources and to regulate petroleum operations in the Joint Petroleum Development Area (JPDA) on behalf of Australia and Timor-Leste in accordance with the *Timor Sea Treaty*. In addition to our regulatory role, we are also a contract partner with the companies that operate in the JPDA under Production Sharing Contracts (PSCs).

This year has been a productive and rewarding one and our organisation has continued to build upon the achievements of 2004. Consistent with the *Timor Sea Treaty*, we have invested considerable time and effort in the development of the skills and expertise of our Timor-Leste staff. Coupled with the employment of additional staff, this has contributed to the further improvement of the TSDA as an institution.

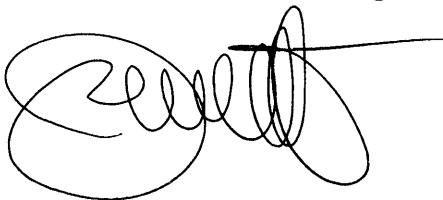
It has also been a significant year at a commercial level. The year saw the approval by the TSDA of the natural gas contracts negotiated by ConocoPhillips. The contractual negotiations were complex because of the inextricable link between the *Timor Sea Treaty*, the PSCs and the sales contracts to our final Japanese customers, Tokyo Electric Power Company, Inc and Tokyo Gas Company Ltd. All parties should be commended for the final result, which will ensure the delivery of JPDA natural gas for many years to come. The first shipments of Liquefied Natural Gas (LNG) under these agreements are expected to take place from Wickham Point in Darwin in the first quarter of 2006.

Progress towards the implementation of a new Petroleum Mining Code (PMC) and model PSC continued during the year with approval received by the Timor-Leste Government in late June. Formal approval from the Australian Government is expected soon. Notwithstanding, the TSDA's inaugural acreage release based on the new PMC and PSC took place in September 2005 with marketing presentations made in Singapore, London, Calgary and Houston. The presentations proved to be a success with more than 100 companies attending.

I would like to acknowledge the efforts of each of the Directors and all staff members of the TSDA during the year. We would not have met our goals without the strong team spirit and the ability of the staff to meet all the challenges head on.

Finally, I must pay tribute to Einar Risa who was the Executive Director of the TSDA from 2003 to 2005. Einar has returned to Norway but continues as a Timor-Leste Commissioner on the Timor Sea Joint Commission. Einar has made a unique contribution to the development of the TSDA and Timor-Leste's petroleum sector. His commitment to the organisation will have a lasting impact on us.

I look forward to the challenges of 2006 with excitement.



Jose Lobato
Executive Director

2 CORPORATE GOVERNANCE

2.1 Executive Role

The TSDA is headed by an Executive Director. The Executive Director is responsible for managing and maintaining the strategic direction and effectiveness of the organisation.

There are three Managing Directors that report to the Executive Director. Each Managing Director manages one of the following Directorates: Legal and Corporate Services, Technical and Finance. In order to streamline functions the Legal and Information and Logistics Directorates merged in 2005 to form a Legal and Corporate Services Directorate.

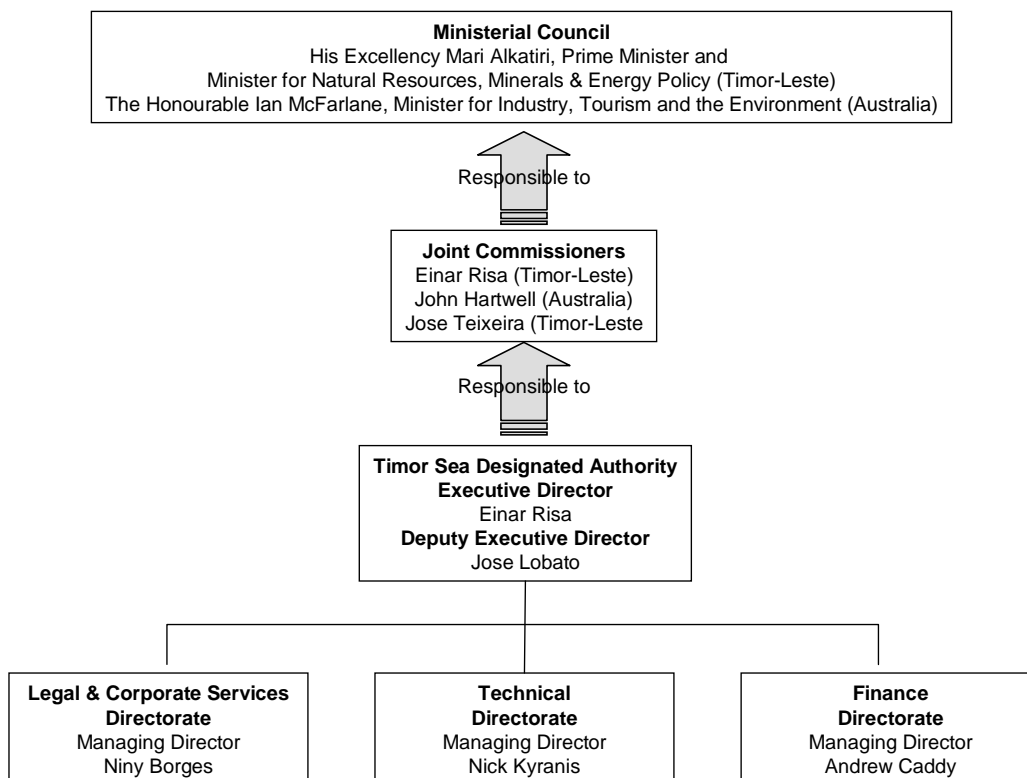
2.2 Reporting to the Joint Commission

The TSDA is responsible to a Joint Commission which consists of two Commissioners from Timor-Leste, namely, Jose Teixeira and Einar Risa, and one Commissioner from Australia, John Hartwell.

The Directors report regularly to the Joint Commission and are required to submit a budget for approval for each calendar year, as well as annual reports for the previous calendar year. This year the Commissioners met four times to discuss and consider various issues including the 2005 acreage release, approval of new contract service fees and other regulatory operational matters.

The Joint Commission may in turn refer matters to a Ministerial Council (which consists of a Minister from Timor-Leste and a Minister from Australia) for resolution, although to date the Joint Commission has not needed to do so and the Ministerial Council has not met.

Profiles for each of the Managing Directors are provided at Appendix 2 and the organisational structure is outlined below.



2.3 Strategic Plan

The Strategic Plan 2003-2006 represents the core aims of the organisation. The Strategic Plan was reviewed at the annual TSDA retreat by all staff in order to identify some of the key achievements for the year and to consider those areas that required greater work. The following provides a summary of the progress achieved during 2005 against the goals of the Strategic Plan:

Goal 1: Promotion of JPDA

Through the active and positive promotion of the JPDA, enter into PSCs over vacant acreage.

The TSDA's inaugural acreage release occurred in the latter part of 2005. Four contract areas were released for competitive bidding.

Goal 2: Exploration and Appraisal

Ensure that work programs are consistent with the goals of the TSDA and Contracting States and performed accordingly.

There was only a very small amount of exploration and appraisal work done during the year. It is anticipated that exploration and appraisal work will increase in 2006 once new PSCs are finalised over the newly released contract areas.

Goal 3: Field Development and Management

Ensure that field development and pipeline plans are designed, implemented and operated consistent with the interests of the TSDA and Contracting States.

The TSDA continued to regulate the diverse activities undertaken at Elang, Kakatua and Kakatua North (EKKN) and Bayu-Undan during the year. The Bayu-Undan project began to generate significant revenue for the Contracting States from the sale of condensate and Liquefied Petroleum Gas (LPG). Sales arrangements were agreed and reviewed by the TSDA. The contractual obligations to allow the export of natural gas to the Darwin LNG facility were finalised and approved by the TSDA.

Goal 4: Health Safety & Environment (HSE)

Ensure fields and pipelines are operated consistent with the HSE requirements of the TSDA and in the interests of the Contracting States.

Please refer to section 4.2B of this Annual Report for further details of the work undertaken in this area by the TSDA.

Goal 5: Timor-Leste Petroleum Sector Capacity

Develop human resources in the Timor-Leste petroleum sector. Manage the successful transfer of the TSDA from Australia to Timor-Leste.

Significant resources and efforts have been directed to the training of the TSDA Timor-Leste employees. Further details are provided in section 4.1B of this Annual Report.

The TSDA has monitored the employment and training of Timor-Leste nationals by Contract Operators in the JPDA to ensure ongoing development.

The downsizing of the Darwin Office commenced with two of the eight staff members moving to the Dili Office. The TSDA will close the office in Darwin on 31 December 2006.

Goal 6: TSDA operation and administration

Conduct the business of the TSDA in a responsible and efficient manner and consistent with the JPDA Legal Framework.

An employee manual was finalised as well as procedures for good governance. The TSDA reports to the Joint Commission as required by the JPDA legislation.

Goal 7: Transparency

Ensure that activities and decision making processes are conducted in a transparent manner.

The TSDA publishes information on the TSDA website and Government Gazettes and conducts information sessions for the public on the functions and role of the TSDA.

3 JPDA ACTIVITY OVERVIEW

In order to put the activities of the TSDA and the performance of the Contract Operators, captured in the remainder of this report, into context, the following provides an overview of the main activities associated with the JPDA PSC areas in 2005. Refer to the map at Appendix 3 for contract areas.

3.1 JPDA 03-01

A. Jahal & Kuda-Tasi

The Contract Operator, Woodside Petroleum (Timor Sea 1) Pty Ltd, continued appraisal of the Kuda-Tasi structure during 2005 with the assistance of new 3D seismic data derived from the IKAN 3D survey. Better visualisation of the main fault trends and, in particular, seismic velocity modelling, was used to re-define the structure with the aim of finalising a Kuda-Tasi-3 well location. This work was ongoing at the end of 2005.

Discussions also continued throughout 2005 with the Contract Operator, in relation to possible development options for the Jahal and Kuda-Tasi fields and in relation to the terms and conditions of the PSC that would replace the Interim PSC.

3.2 JPDA 03-12

A. Elang, Kakatua and Kakatua North (EKKN) Project

The EKKN Project consists of a Floating Production Storage and Offloading facility (FPSO), the *Modec Venture 1 (MVI)*, producing oil and gas from four wells via sub-sea completions and flexible flowlines located in the JPDA 03-12 contract area.

The EKKN Project is a mature project with production now well into decline averaging approximately 3500 BOPD. The *MVI* was primarily in steady state production operations mode during 2005.

B. Exploration – Phoenix/Firebird Prospect

In February 2004 the TSDA approved an extension in the tenure of part of the JPDA 03-12 contract area (this part of the contract area was otherwise due to be relinquished) to enable the Contract Operator to drill a well near the 1972 Flamingo Well which had encountered hydrocarbon shows.

The well 'Firebird-1' was spudded on 7 November 2005 and plugged and abandoned at 3675m on 21 December 2005 as a dry hole.

3.3 JPDA 03-12 & 03-13

A. Bayu-Undan Project

The Bayu-Undan project consists of two large, bridge-linked, fixed platforms (a Drilling, Production & Processing Platform (DPP) and a Compression, Utilities & Quarters platform (CUQ)), a Well-Head platform (WP1) and a Floating Storage and Offloading facility (FSO), *Liberdade*, that produces propane, butane and condensate and recycles dry gas from wells at WP1 and DPP with a series of associated infield pipelines. The Bayu-Undan field straddles the JPDA 03-12 & 03-13 contract areas.

The drilling program was finished in April 2005.

The Bayu-Undan to Darwin Pipeline arrived at the JPDA boundary at the end of December 2004, and the pipe lay was completed in early January 2005. Tie-in of the pipeline took place in the second quarter of 2005 during the planned Bayu-Undan facilities shutdown.

3.4 JPDA 03-16

The Contract Operator, ConocoPhillips (03-16) Pty Ltd, did not undertake any exploration activities in the block during 2005. Existing data was evaluated and options were considered relating to attracting further companies to participate in the PSC.

3.5 JPDA 03-19 & 03-20

The Contract Operator, Woodside Petroleum (Timor Sea 19), found there to be insufficient fiscal, legal and regulatory certainty to justify any significant work in these areas during 2005, due to the *Agreement between the Government of the Democratic Republic of Timor-Leste and the Government of Australia Relating to the Unitisation of the Sunrise and Troubadour Fields* (Sunrise Unitisation Agreement) not being ratified. It is the Contract Operator's position that the project is officially "stalled" until such time the issues are resolved by the governments.

3.6 JPDA 03-21

The Contract Operator, ConocoPhillips (03-21) Pty Ltd, did not undertake any exploration activities in the block during 2005. Existing data was evaluated and options were considered relating to attracting further companies to participate in the PSC.

4 ROLE AND PERFORMANCE

4.1 Legal and Corporate Services

A. Introduction

The Legal and Corporate Services Directorate is responsible for the management of legal issues, projects, administration, information technology and human resources and training. In 2005 the Legal Directorate merged with the Information and Logistics Directorate to form the Legal and Corporate Services Directorate. This enabled more streamlined management which was facilitated by having the two directorates primarily functioning from the Dili office.

B. Legal

i) Overview

The Legal Department provides expert in-house legal advice and services on the array of issues that confront the organisation. Its main responsibilities include providing advice in relation to the *Timor Sea Treaty* and related instruments, drafting, reviewing and negotiating PSCs and other commercial agreements, as well as legal research, public consultations and strategic policy advice. In areas where internal expertise is not available, the department manages the outsourcing of external legal advice. The Legal Department is also required to provide support to the Joint Commission.

ii) Approval of Feed Gas Sales and Purchase Agreement

The key responsibility for the Legal Department during the 2005 year was assisting the TSDA in its approval of the *Feed Gas Sales and Purchase Agreement* in relation to sale of gas from the Bayu-Undan field by the upstream Contractors to *Darwin LNG Pty Ltd*.

iii) Interim Regulations and Directions

The TSDA has continued to progress the development of new regulations which will accompany the new PMC. The TSDA plans to finalise its review of the existing regulations and directions in 2006.

iv) Production Sharing Contracts

There were no new PSCs entered into in 2005. Please refer to Appendix 5 for the Register of Contract Operators and Appendix 6 for Unit Participating Interests for the Bayu-Undan Contractors.

The following variations to the existing PSCs within the JPDA were noted:

Registered Changes

Table 1: Name Changes for PSC 03-01 Contractor/s

Date	Existing Name	New Name
25 October 2005	Santos (JPDA 91-01) Pty Ltd	Paladin Resources (JPDA 03-01) Pty Ltd

v) Litigation

The TSDA is a named defendant in the *Oceanic Exploration Company and Petrotimor Companhia de Petroleos, S.A.R.L v. ConocoPhillips INC, et. al.* proceedings ('Petrotimor Litigation') in the United States District Court of Columbia on 1 March 2004.

The TSDA vigorously denies all claims made against the TSDA by the plaintiffs and is currently defending these claims in the District Court of Columbia.

C. Corporate Services

i) Education and Employment of Timor-Leste Nationals within the TSDA

The organisation has seen a small growth in the number of personnel since the end of 2004, with an increase from 30 to 32 employees and plans for three additional technical staff to join in early 2006 following the recruitment and selection process that was conducted in 2005. Two thirds of the employees are Timor-Leste nationals, which highlights the organisation's commitment to fulfil one of the key requirements under the *Timor Sea Treaty*, namely, '*to facilitate, as a matter of priority, training and employment opportunities for East Timorese nationals and permanent residents*'.

Some employees attended industry specific courses such as first aid training and Helicopter and Underwater Escape Training (HUET).

The TSDA commenced its Certificate in Business Skills course in 2005 as part of an emphasis on professional skills development for Timor-Leste nationals. The course comprises twelve units, such as customer service, communication, manage information, writing procedures, setting goals and planning work, solving problems and writing reports. There was also a strong focus on coaching skills and cross cultural training for all employees.

ii) Staff and Organisational Development

In addition to demonstrating progress through the training and education opportunities provided by the TSDA, all employees are assessed through a process of performance reviews throughout the year. The aim of the reviews is to provide guidance and feedback to all employees on their performance and verification of individual goals that contribute to the achievement of the TSDA's goals.

To help give employees ownership of the TSDA's forward planning and aspirations, the TSDA encourages a participative environment which includes an annual retreat. The 2005 retreat was held in Maubara, Timor-Leste, and gave all employees the opportunity to discuss relevant issues in an open forum and build teamwork away from the office environment.

4.2 Technical

A. Introduction

The Technical Directorate is primarily responsible for monitoring, evaluating, approving and reporting on HSE, exploration and development, and production activities that are planned and undertaken in the JPDA. This responsibility applies to all phases of a project from conceptual design and development planning through to decommissioning and abandonment. The Directorate also provides technical advice and assistance to the organisation as required.

B. Health Safety and Environment

i) JPDA Summary

Statistics

JPDA-wide HSE statistics for activities associated with production are presented in Table 2 and Table 3 below. Bayu-Undan data dominates the safety statistics in terms of hours worked (almost 93% of the hours worked in the JPDA) and as such skews the data. There have been significant improvements in all measures although the Total Injury Incidents (TII) frequency rate remains high.

Table 2: 2005 JPDA Safety Statistics

	2005 Total	% Change since 2004
Hours worked	1,414,151	-0.0%
Incidents (no. reported in year)		
Lost Time Injuries (LTI)	2	-33.3%
Total Incidents (LTI, ADI, MTI)	12	-11.6
Frequency Rates		
Lost Time Injuries (LTI)	1.4	-33.3
Total Injury Incidents (LTI, ADI, MTI)	8.5	-7.6

Environmental data is also skewed given the Bayu-Undan contribution. There was a significant reduction in the amount of gas flared compared with 2004. This can be explained by the fact that in 2004 during the ramp-up phase of Bayu-Undan the majority of the gas produced was flared. The amount flared in 2005 was within the limits in the approved Environmental Management Plan (EMP).

EKKN dominates statistics of Produced Formation Water (PFW) because its PFW is discharged whereas Bayu-Undan disposes of its PFW down-hole. In 2005 there was a slight reduction in the volume of discharged PFW primarily due to the fact that EKKN was only in production for nine months of the year.

Table 3: 2005 JPDA Environment Statistics

	2005 Total	% Change since 2004
Gas production and Flaring		
Gas Produced (m3)	9,336,743,486	56.8%
<i>Proportion flared</i>	1.8%	-82.2%
Gas Flared (m3)	170,270,209	-72.0%
Produced Formation Water Discharged		
PFW Discharged (m3)	1,169,177	-4.6%
<i>Average OIW Content (mg/l)</i>	15.80	0.1%
Oil discharged with PFW (kg)	18,460	-4.5%

ii) Elang Kakatua / Kakatua North

Health and Safety Performance

The TSDA only has jurisdiction over incidents that occur within the JPDA. However for completeness of data, onshore statistics are included in Table 4 below.

EKKN had no Lost Time Injuries (LTI) during 2005. There was one Alternative Duty Injury (ADI) resulting in five days being lost. The records show some improvement during 2005 although, given the already low incident rates recorded for this project, ongoing improvements in terms of these lagging indicators present a significant challenge to the Contract Operator.

Table 4: EKKN Health and Safety Incidents

	JPDA 2005	% change from 2004	Onshore 2005	Total 2005
Hours worked	118,752	-14.3	32,008	150,760
Incidents (no. reported in year)				
Lost Time Injuries (LTI)	0	-100%	0	0
Total Injury Incidents (LTI, ADI, MTI)	1	-50%	0	1
Near Miss Incidents	15	67%	0	15
Frequency Rates				
Lost Time Injuries (LTI)	0	-100%	0	0
Alternate Duty Injuries (ADI)	7.3	0%	0	7.3
Medical Treatment Injuries (MTI)	0	-100%	0	0
First Aid Injuries (FAI)	29.2	-48%	0	29.2
Total Reportable Injuries (LTI, ADI, MTI)	7.3	-47%	0	7.3
Lost Time Injury measures				
Total Days Lost	5	0	0	8
Average Duration Rate (days per LTI)	0	0	0	8
Severity Frequency Rate	0	-100%	0	0

Note: all Frequency Rates are per million person hours on a 12 month rolling average basis

The Total Recordable Injuries Frequency Rate (TRIFR) and LTI Frequency Rate (LTIFR) for this project are to a large extent as a result of the small crew and therefore low number of hours worked per month. No hours were recorded in November and December because the *MVI* was not in the JPDA.

Key Assessments

As an established operating facility, the key assessments conducted in the reporting period were the updated Facility Safety Case and diving activities associated with the Riser Turret Mooring (RTM) inspection. During 2005, the TSDA approved the extension for the *MVI* to operate.

Audits, Reviews & Investigations

Taking a risk based approach there were no significant incidents that warranted investigation by the TSDA.

HSE Issues

The presence of significant levels of Naturally Occurring Radioactive Material (NORM) was identified in a number of production vessels and during 2005 NORM was removed from the *MVI*.

iii) Bayu-Undan

Health and Safety Performance

Statistics (including onshore data) for Bayu-Undan are included in Table 5 below. There were two lost time injuries in the JPDA which resulted in a total of 168 lost days.

The project started well in 2005, although the full year incident numbers show that the performance plateaus (comparable with the end of 2004). There is a 15% increase in the LTI and TRI frequency rates due to the reduction of hours worked.

Table 5: Bayu-Undan Health and Safety Incidents

	JPDA 2005	% Change from 2004	Onshore 2005	Total 2005
Hours worked	1,097,272	-13.6%	166,119	1,263,391
Incidents (no. reported in year)				
Lost Time Injuries (LTI)	2	0.0%	0	2
Total Injury Incidents (LTI, ADI, MTI)	11	0.0%	0	11
Near Miss Incidents	50	-54.1%	0	50
Frequency Rates				
Lost Time Injuries (LTI)	1.8	15.8%	0	2
Alternate Duty Injuries (ADI)	0.9	-42.1%	0	1
Medical Treatment Injuries (MTI)	7.3	32.3%	0	7
First Aid Injuries (FAI)	39.2	-11.1%	6	34.8
Total Reportable Injuries (LTI, ADI, MTI)	10.0	15.8%	0	10
Lost Time Injury measures				
Total Days Lost	168.0	223.1%	0	168
Average Duration Rate (days per LTI)	84.0	223.1%	0	84
Severity Frequency Rate	0.1	97.1%	0	0.1

Environmental Performance

Incidents

There were a total of twelve spills of hydrocarbons in 2005, none exceeded the 80 litre discharge to the sea reportable threshold. The cumulative spill volume for 2005 was 1,183 litres of which 1,177 litres were recovered prior to reaching the marine environment. Three incidents account for over 90% of the total spill volume.

Gaseous Emissions (Flaring & Venting)

Flared and vented volumes in 2005 (quantified in Table 6) are inclusive of the first full year of production. Flaring has remained consistently below 2% of the total raw gas produced.

Table 6: Bayu-Undan Flaring & Venting Volumes

Emission	2005 Total	Median Monthly
Hydrocarbons Flared (km3)	163,906	10,886
<i>Proportion of raw gas produced (%)</i>	<i>1.8%</i>	<i>1.4%</i>
Hydrocarbons Vented (CPP & WP1) (km3)	22	0
Hydrocarbons Vented (FSO) (km3)	2,373	220

Discharges to the Marine Environment

PFW is primarily re-injected. If the re-injection system is unavailable, discharge to the sea occurs via a dedicated PFW caisson. The facility also has a number of drain caissons designed to separate out hydrocarbons for recovery and allow the discharge of waste water. There was only one discharge of hydrocarbons above the regulatory limit during 2005. The discharge occurred for less than two hours.

Key Assessments

The key assessments conducted were:

- the planned shutdown in May 2005 for the installation of a process mercury removal skid
- pressure vessel inspections
- the hook-up and hydrotest of the pipeline from the Bayu-Undan Field to Darwin.

Logistics Approvals

A total of 45 vessels were approved to operate in the JPDA in support of the project including seven supply/guard vessels, two special purpose vessels and 36 offtake vessels. A total of ten helicopters were approved to operate in the JPDA in support of the project.

HSE issues

One survey vessel entered the JPDA during 2005, namely, the Research Vessel *Polar Duke*. This vessel performed a 2D marine seismic survey in vacant acreage within the JPDA. The key assessments conducted in relation to the vessel focused on the EMP.

C. Production

i) Elang, Kakatua and Kakatua North

Production Performance

Production results during 2005 were relatively steady for the first three quarters, but EKKN did not produce for most of the last quarter. An annual production of 0.95 million barrels of oil (MMBO) production was reported by the Contract Operator for the 2005 year bringing cumulative production from the field to 30.22 MMBO as at 31 December 2005.

Figure 1 compares the cumulative and monthly oil production for 2004 and 2005. Figure 2 summarises the 2005 monthly oil and water production.

Figure 1: EKKN Cumulative and Monthly Oil Production

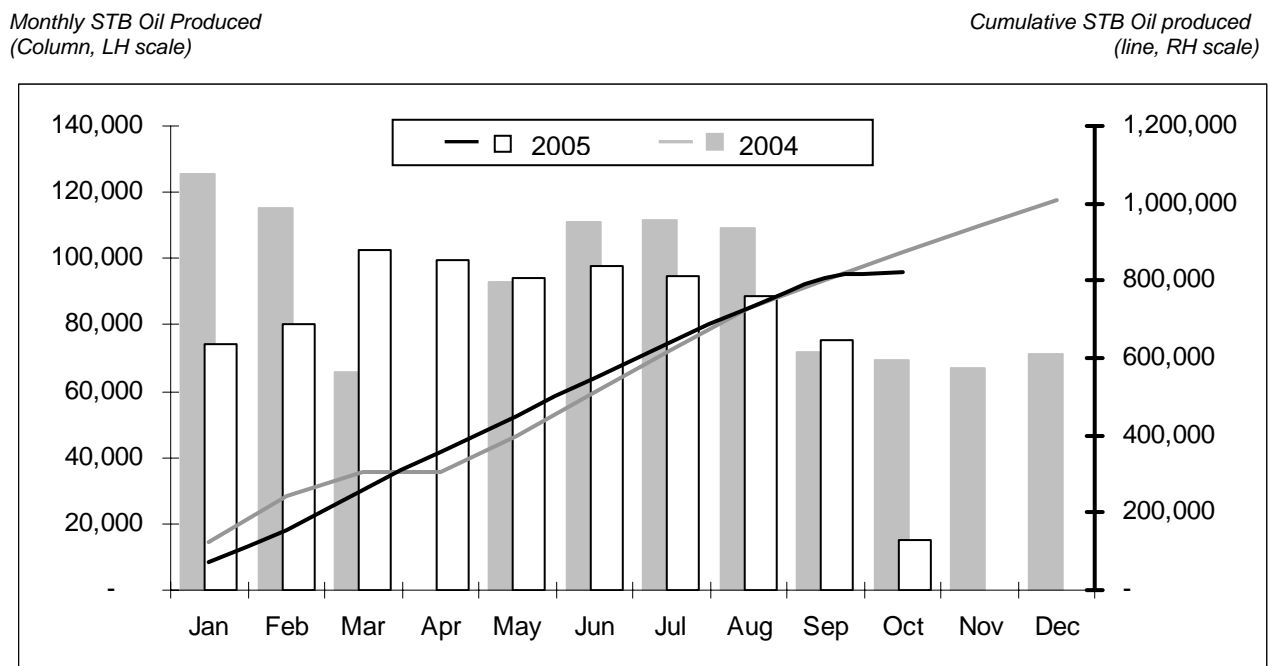
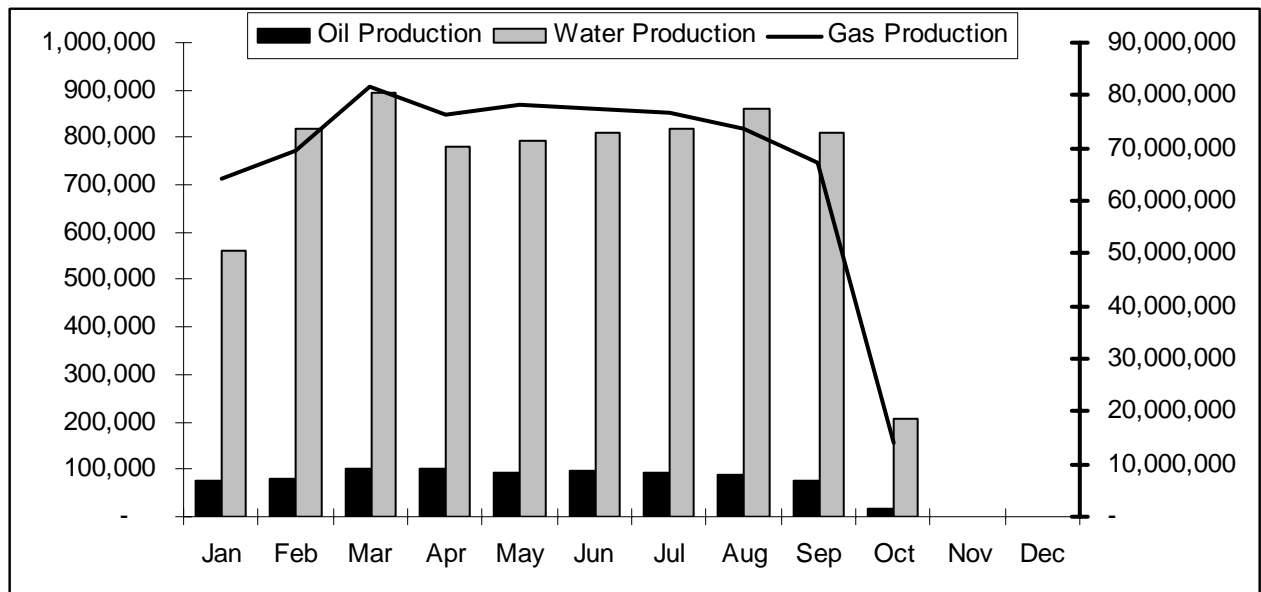


Figure 2: EKKN Monthly Production

Water/Oil STB produced
(Columns, LH scale)

Gas SCF Produced
(line, RH scale)



In 2005 there were a number of occasions when full production was not achieved. In January, a Dive Support Vessel (DSV) performed umbilical repairs and there was some well intervention. Following the intervention, a period of two months was required for well clean-up operations. In May, work was undertaken on a gas lift compressor, which limited the rates of production from two wells. In June 2005, two wells were shut-in to allow repairs to the production header. From 8 October 2005 the EKKN production facility was shut down and the *MVI* proceeded to Singapore for shipyard and dry-dock activities.

Well tests were carried out regularly to monitor the performance of individual wells. Water cut and production decline rates remained within expected parameters.

Five off-takes were completed during the year lifting 1.29 million barrels of oil from the facility.

Operating Expenditure

The reported year-to-date operating expenses at the end of October were approximately 13% more than the planned operating expenditure for the year, however, this was 6% less than the full year budgeted amount.

Reviews and Approvals

Applications for the DSV *CSO Venturer* to perform the Elang-1/ST1 rigless Well Intervention Work and Umbilical Repairs Project, and for the *MVI* to depart from the EKKN field, were assessed and approved.

Manpower and Maintenance

The actual maintenance hours recorded were 14,375 for the year; this was 51% more than the planned maintenance work (9,794 hours). The breakdown maintenance for the year was reported at 4,498 man-hours and the five off-takes that occurred during the year required 360 man-hours.

ii) Bayu-Undan

Drilling

Three wells were drilled and completed during the year; two production wells and one water-disposal well. Each well was tested and handed over to operations. This completed the drilling program for the Bayu-Undan project and the Mobile Offshore Drilling Unit (MODU) *Ensco 104* departed the field on 7 April 2005.

Production Performance

Based on the predicted pressure and flow characteristics of the production and injection wells, the performance of all wells was found to be satisfactory. The performance of the Big Bore wells continued to exceed expectations, particularly after the shutdown in May.

Bayu-Undan had its first full year of capacity production in 2005. The amount of raw gas production was 329 BSCF and actual total liquids production reached 32.21 million of barrels of oil equivalent (MMBOE), compared with the production forecast 31.03 MMBOE. From the commencement of gas recycling in April 2005, 89.1% of dry gas was injected back into the reservoir after extracting the liquids from the raw gas. The Contract Operator reported that in line with plant capacity, the production design rates of 1,019 million of standard cubic feet per day (MMSCFD) raw gas and 908 MMSCFD of dry gas re-injection were achieved during 2005.

Figure 3: Bayu-Undan Monthly and Cumulative Liquids Production, 2005 and 2004

*thousands of STB produced Monthly
(columns, LH scale)*

*thousands of Cumulative STB produced
(line, RH scale)*

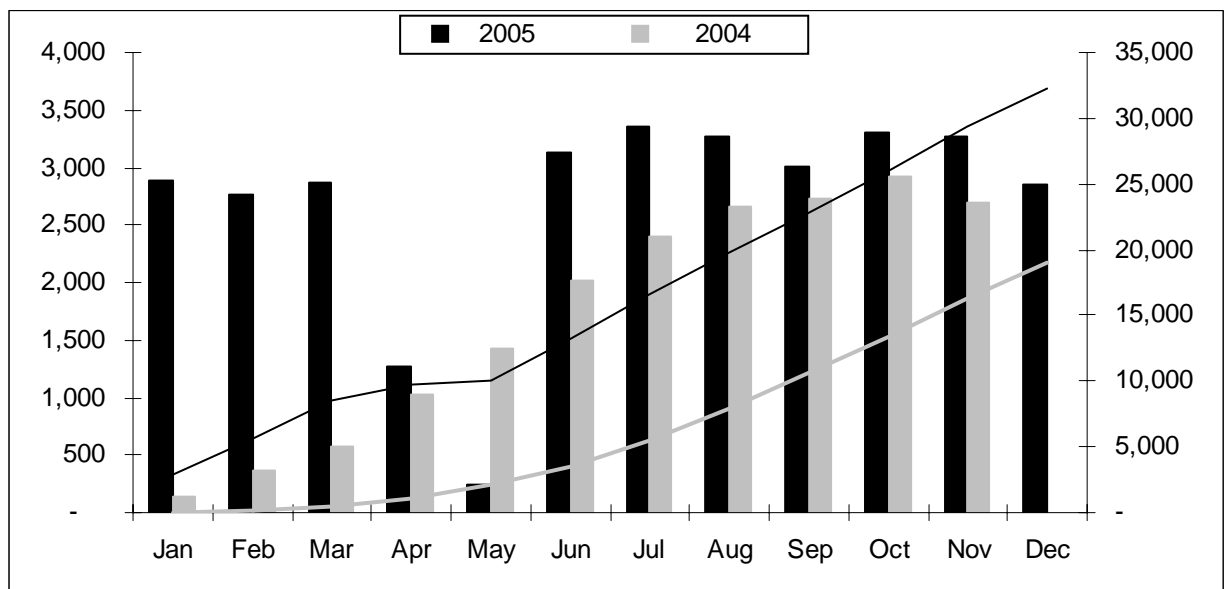
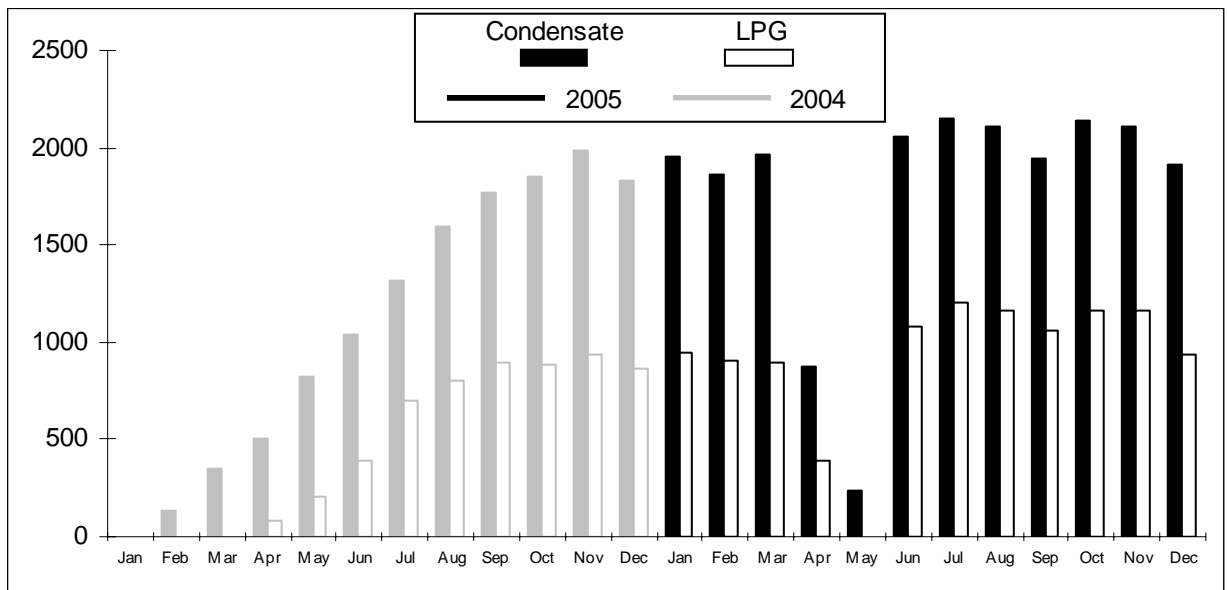


Figure 3 summarises the cumulative production for the raw gas and total liquids for 2005 compared with 2004.

Figure 4: Bayu-Undan Monthly Liquids Production, 2005 and 2004

*thousands of STB produced
(columns, LH scale)*



A total of 36 condensate off-takes were completed during the year, lifting 21.3 million of stock tank barrels of oil (MMSTB) of condensate. A total of 23 LPG off-takes were completed during the year, lifting 10.9 MMSTB of butane and propane. Of the LPG lifted during the year, 55.4% of the LPG product was propane and 44.6% was butane.

In May 2005 the Bayu-Undan production and processing facility was shut down for six weeks. The maintenance and modification work included the installation of a mercury removal unit and the modification to the de-ethaniser units. As can be seen in Figure 4, the production rates following the shutdown were improved.

Operating Expenditure

Reported operating costs were approximately 6.2% lower than the revised budgeted expenditure for the year and 4.5% higher than the original budget figure.

Reviews and Approvals

Applications for review and approval were made for: improving the flare tip; package spares; production equipment; shutdown activities; and subcontracts for drilling related activities.

Manpower and Maintenance

A number of maintenance activities were performed during the May shutdown increasing the facility uptime for the remainder of the year. Maintenance expenditure for 2005 amounted to USD40.8m.

D. Exploration & Development

i) General

In addition to routinely assessing, monitoring, and reporting on ongoing exploration activities, TSDA evaluated the vacant acreage in the JPDA and prepared information on four areas for a competitive work program bidding round. Draft guidelines for the application for PSCs and criteria for the assessment of applications for PSCs were prepared in preparation for the assessment of bids in 2006.

The acquisition of significant new seismic data within the JPDA in 2005 provided the impetus for international interest in the exploration prospects existing in the JPDA, and in November 2005 an international conference was held in Dili in conjunction with the Timor-Leste Government to promote exploration in the region. In September 2005, senior staff from TSDA participated in a global tour to promote JPDA acreage, with applications closing on 26 May 2006.

The four released areas that were the subject of the tour are shown at Appendix 4.

4.3 Finance

A. Introduction

The Finance Directorate is responsible for ensuring the exploitation of the petroleum resources in the JPDA maximises the revenue of the contracting states. This function includes marketing of JPDA petroleum and monitoring JPDA expenditures. The Finance Directorate achieves the above through marketing agreements with the contractors and by conducting audits to ensure the expenditures of the Contract Operators are in accordance with work programs and are necessary for the proper conduct of petroleum operations.

In accordance with the *Timor Sea Treaty*, the TSDA is financed by fees collected from JPDA Contract Operators. The Finance Directorate ensures these fees are collected and expended in accordance with annual estimates of income and expenditure approved by the Joint Commission. The financial operations of the TSDA are subject to an annual audit, a copy of which is included at Attachment 1.

B. TSDA Results for the 2005 Financial Year

The TSDA derived a net profit of USD21,525 from revenues of USD3.27m (after depreciation & foreign exchange losses).

The TSDA continues to practice responsible financial management and this is reflected in the results compared to budget. The TSDA's actual costs of USD3.03m were USD1.02m less than budgeted expenditure of USD4.05m.

The financial results for the year ended 31 December 2005 are summarised as follows:

Table 7: Financial Results for the Year Ended 31 December 2005

	Actual 2005	Budget 2005
	USD	USD
Total Income	3,283,262	3,211,460
Expenses		
Employment costs	1,521,350	1,580,642
Travel & accommodation	528,596	632,431
Training & education	132,993	269,332
Consultants	114,582	263,241
Legal Costs	193,843	668,400
Office lease and related	125,412	143,408
Satellite & communications	171,997	98,676
Other costs	243,524	346,147
Contingency	0	50,000
Total expenditure before depreciation & forex	3,032,297	4,052,276
Total depreciation & forex	219,797	0
Total expenditure after depreciation & forex	3,252,094	4,052,276
Profit/(Loss)	21,525	(840,816)

The TSDA's audited financial statements are shown at Attachment 1.

C. 2006 Approved Budget

The TSDA's budget for the year ending 31 December 2006 has been approved by the Joint Commission. The budget reflects increased operational activity associated with the ongoing Bayu-Undan project together with the award of new JPDA exploration areas.

Table 8: TSDA Approved 2006 Budget

	USD
Total income	4,164,000
Expenses	
Employment costs	2,674,714
Travel & related costs	449,603
JPDA Acreage release & promotion	42,152
Education and training	186,227
Consultants	226,985
Legal costs	395,000
Telephone & communications	162,481
Office & related costs	103,514
Other overhead	266,474
Total operating expenditure	4,507,150
Capital	429,833
Contingency	0
Total expenditure	4,936,986
Deficit (before depreciation and forex)	(772,983)

The above deficit includes anticipated legal costs by the TSDA defending litigation in the United States District Court of Columbia.

Capital costs include consultant fees of USD342,000 for the design and supervision of the TSDA's new office in Dili, Timor-Leste.

As reported in 2004, the TSDA has secured additional revenue to ensure it is financially viable into the future.

D. JPDA Financial Activity

Under the JPDA PSC regime, Contract Operators incur costs in exploring and developing petroleum resources. In the event a discovery of petroleum results in a commercial development, the revenue is divided so that the contracting states receive a 'royalty' stream, the contractor is able to recover its costs, and remaining petroleum is shared between the TSDA and the contractor. Under PSC 03-12 and 03-13, the royalty stream is referred to as First Tranche Petroleum (FTP).

As requested by the Governments of Australia and Timor-Leste, the TSDA makes regular monthly payments of FTP to the bank accounts nominated by them. For Timor-Leste, all FTP payments are made to the Timor-Leste Petroleum Fund as required by the *Petroleum Fund Law 2005*. Consistent with the concept of transparency, all payments made by the TSDA are published on its website.

Timor Sea Designated Authority Annual Report 2005

Petroleum revenue earned during 2005 by the TSDA is summarised as follows:

Table 9: JPDA Petroleum Revenue

	2005	2004
First Tranche Petroleum	USD	USD
Elang Kakatua Kakatua North	6,778,137	4,668,102
Bayu-Undan		
Condensate	56,514,709	28,850,281
LPG (Propane & Butane)	17,394,600	7,731,499
Other income	285	3,554
Less: related expenses	(181,700)	(31,283)
	80,506,031	40,806,054
<i>Timor Sea Treaty Allocation</i>		
Australia (10%)	8,050,603	4,080,605
Timor-Leste (90%)	72,455,428	36,725,449
	80,506,031	40,806,054
Opening cash and receivables	39,267,091	3,658,163
Net FTP	80,506,031	40,806,054
Distributions		
Australia	9,102,796	1,902,647
Timor-Leste	95,749,774	3,294,479
Closing cash and receivables	14,920,552	39,267,091

During the year, net FTP increased by USD39.7m, from USD40.8m to USD80.5m. The increase in FTP was due to greater production from the Bayu-Undan field, which was still in a commissioning phase during 2004, and higher world prices for petroleum products. Production data is summarised in Table 10.

Table 10: JPDA Petroleum Production

	2005	2004
	bbls	bbls
Elang Kakatua Kakatua North	954,782	1,175,855
Bayu-Undan		
Condensate	21,325,467	13,210,555
Propane	6,035,911	2,990,070
Butane	4,878,968	2,778,074
	33,195,128	20,154,554

For more detailed production data, refer to the Technical information in Section 4.2.

Condensate and LPG produced in the JPDA are stored initially in floating storage vessels before being shipped to buyers using shuttle tankers. The safe and efficient operation of petroleum offtakes is critical in terms of the on-going success of the Bayu-Undan and EKKN projects and the revenues which correspondingly flow to Timor-Leste and Australia. The TSDA is committed to ensuring that the success experienced to date continues into the future.

The coordination and scheduling of offloading ships continues to be performed by ConocoPhillips as operator of the EKKN and Bayu-Undan fields. During 2005 there were 64 offtakes of petroleum totaling over 33 MMBOE. The data is summarized in Table 11.

Table 11: JPDA Cargoes

	2005		2004	
	Liftings	Gross bbls	Liftings	Gross bbls
Elang Kakatua Kakatua North	5	1,294,040	4	1,069,829
Bayu-Undan				
Condensate	36	21,303,604	23	12,979,554
LPG	23		11	
Propane		5,321,302		2,789,616
Butane		5,531,490		2,619,186
	64	33,450,436	38	19,458,185

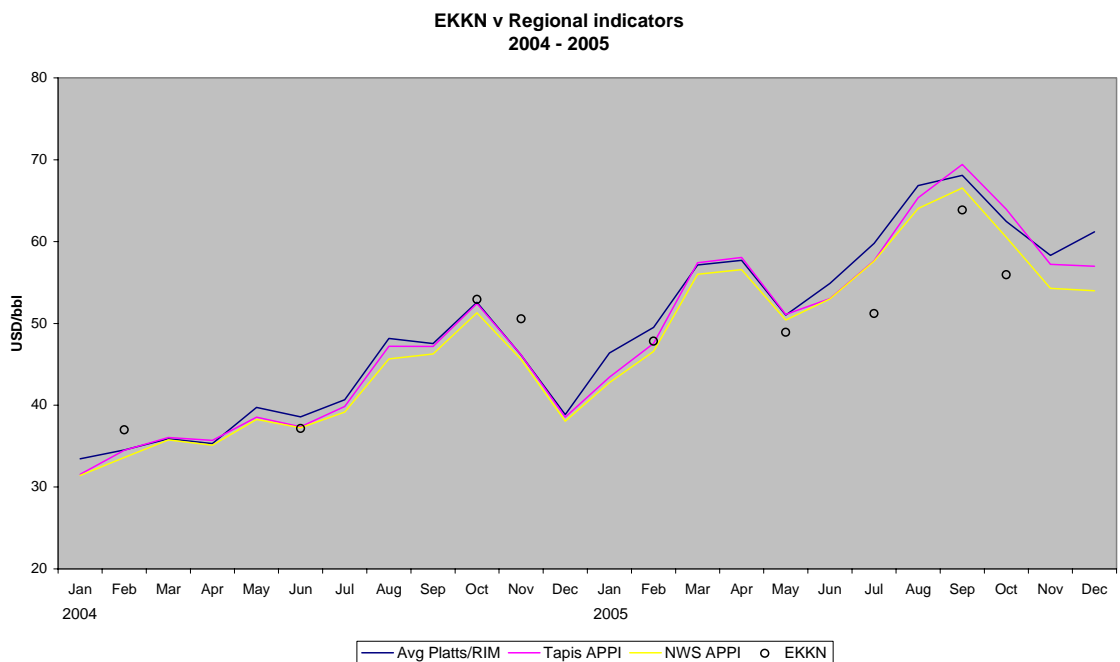
E. Marketing of TSDA’s Petroleum under Bayu-Undan

During 2005 the TSDA continued its marketing arrangements with both ConocoPhillips and Inpex to market the TSDA’s share of petroleum from PSC 03-12 and PSC 03-13 which include both the EKKN and Bayu-Undan developments.

EKKN

The EKKN field entered its seventh year of production. The properties of the crude oil produced from the reservoir are well known in the market and despite the low production rate the pricing achieved for the year was consistent with that generally achieved for similar products in the market.

Figure 5: Pricing Achieved by EKKN Compared with Regional Indicators



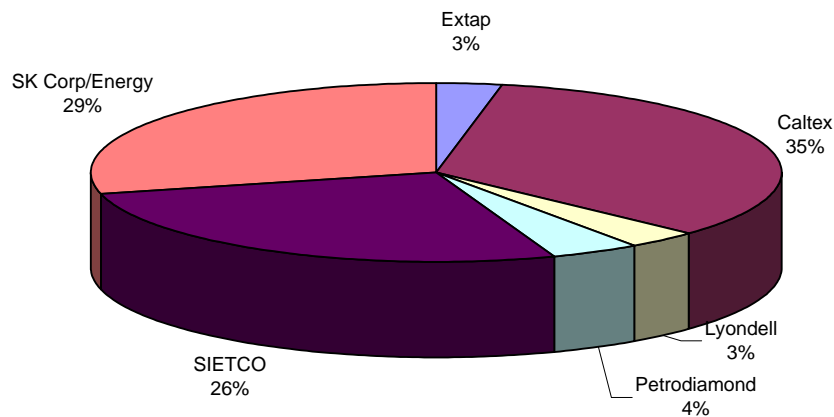
Bayu-Undan

The Bayu-Undan field produces condensate, propane and butane (collectively sold as LPG) and natural gas. The condensate and LPG is processed at the offshore facilities and stored on board the FSO *Liberdade* before being sold and shipped to market using shuttle tankers. The natural gas is currently being re-injected into the reservoir but will be exported through an underwater pipeline to Australia in 2006. Condensate and LPG are marketed separately and the results are reported below.

Condensate

There were 36 condensate cargoes delivered during 2005. The condensate was sold on a spot basis to buyers, generally in South East Asia. The following graph shows the various customers that purchased condensate during the year.

Figure 6: Condensate Customers



The price of Bayu-Undan condensate increased over the 2005 year consistent with world oil prices. The per barrel price increased by about USD20 over the twelve months, with an average price of USD54 per barrel being recorded.

Figure 7: Pricing Achieved by Bayu-Undan Condensate Compared with World Indicators

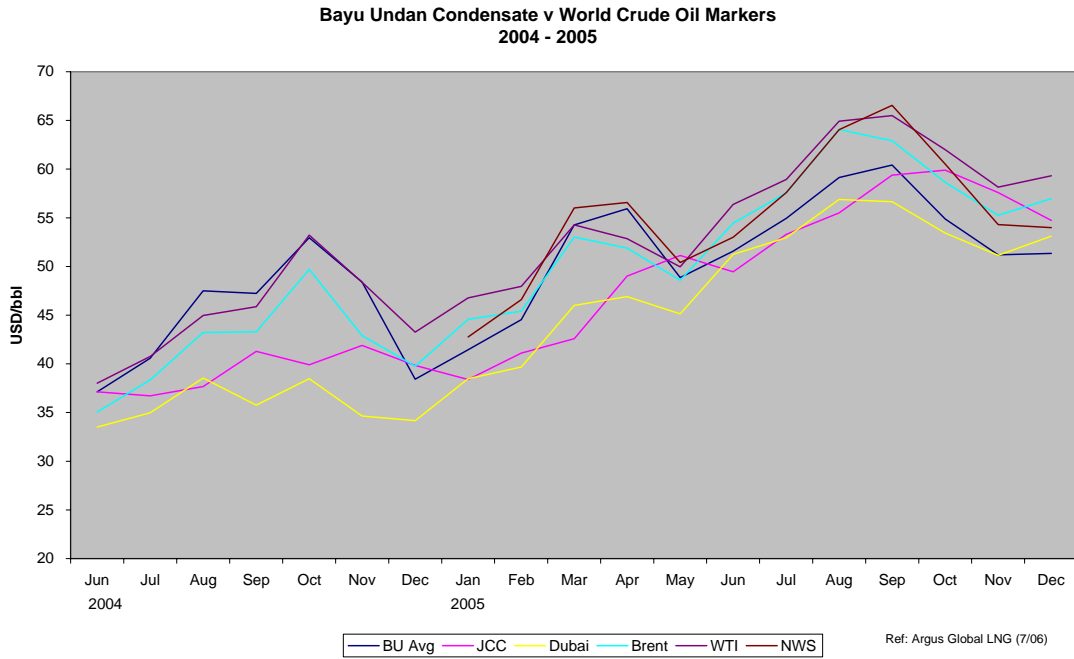
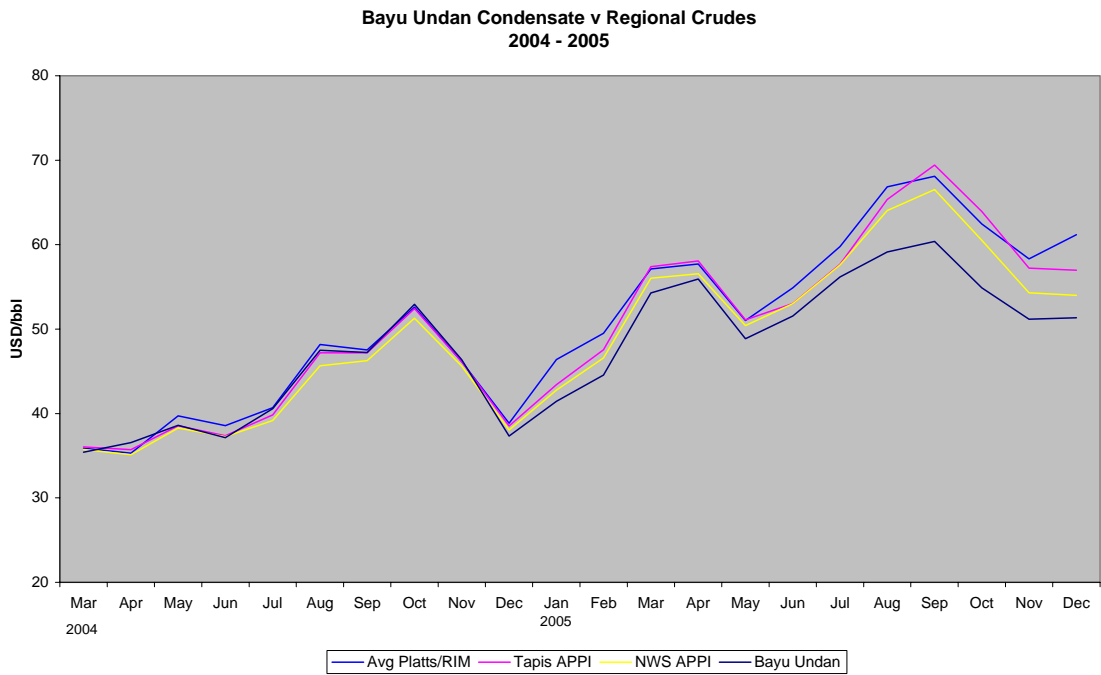


Figure 8: Pricing Achieved by Bayu-Undan Condensate Compared with Regional Indicators



LPG

All Bayu Undan LPG was sold under a term contract to Chevron Texaco. The contract included a market based pricing formula indexed to the Argus Far East Index. The LPG performed very well in the market, regularly out pricing the Saudi Aramco CP.

Figure 9: Pricing Achieved by Bayu-Undan Butane Compared with Market Indicators

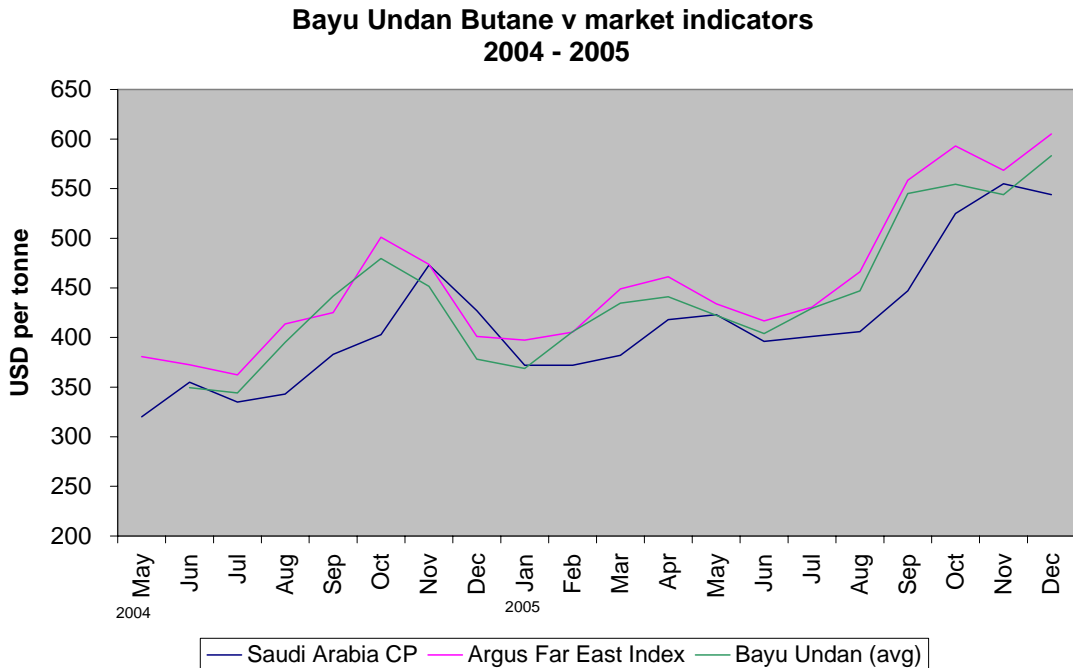
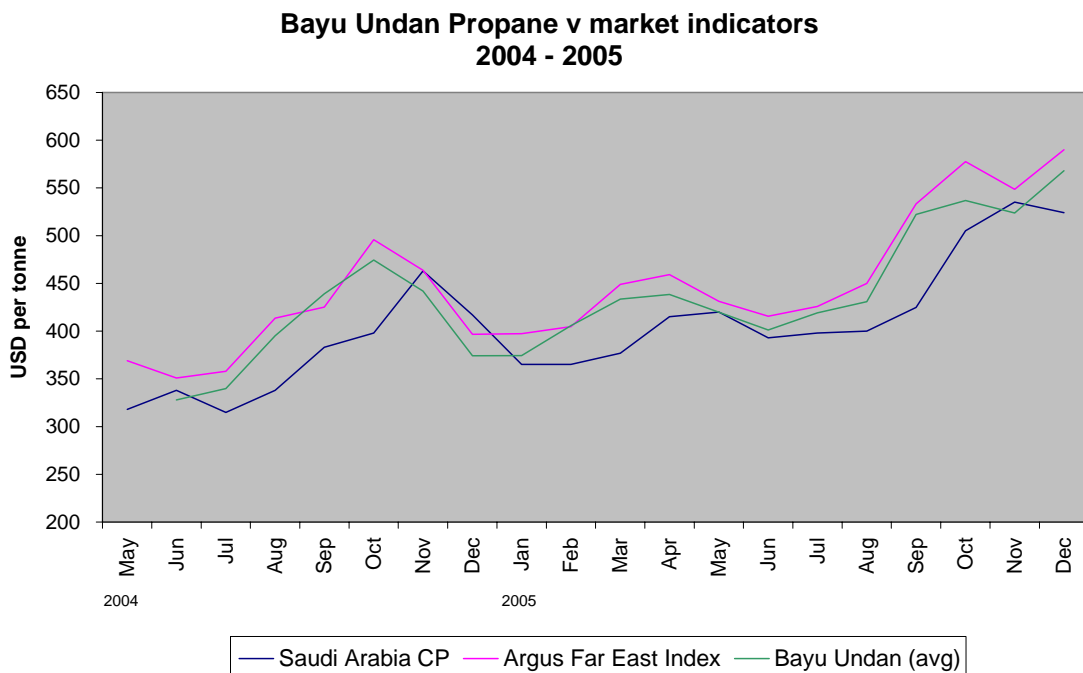


Figure 10: Pricing Achieved by Bayu-Undan Propane Compared with Market Indicators



The LPG term contract with Chevron Texaco expired on 31 December 2005 and ConocoPhillips have negotiated a new twelve month term deal for all LPG cargoes with Vitol S.A. for the 2006 year.

F. JPDA Exploration & Operating Expenditure

The most significant expenditure came from the Bayu-Undan development. Total exploration, operational and development costs by PSC are summarised below.

Table 12: Expenditure by PSC

	JPDA PSC						
	03-01*	03-12	03-13	03-16	03-19	03-20	03-21
Exploration Costs	6,489,460		-	2,738		-	2,585
Non capital costs							
Operating & administration	1,597,742	120,694,012	76,266,062	7,561	25,680	9,043	11,768
Production drilling	-	-	-				
Other	160,000	160,000	160,000-	160,000	160,000	160,000	(80,000)
Capital costs	-	48,259,800	39,164,333				
Other costs	-		-				
Miscellaneous receipts	-	5,895,077	1,995,987				
Net expenditure	8,247,202	163,218,735	113,594,408	170,299	185,680	169,043	(65,647)

* For the 11 months ended 30 November 2005.

5 ORGANISATION CHANGES

5.1 Relocation Project

The *Timor Sea Treaty* states that after 2 April 2006 (or such other period as agreed to by both Governments) the TSDA shall be the Timor-Leste Government Ministry responsible for petroleum operations, or a Timor-Leste statutory authority. In these circumstances, the relocation from Darwin to Dili has been a key part of the organisation's Strategic Plan for 2003-2006.

The relocation project will be carried out in three phases. The first phase of the project is the expansion of the current Dili office to provide for short term growth needs. Small expansions have taken place this year.

The second phase of the relocation project is the construction of new office facilities that will house the TSDA in Dili. The TSDA has been granted a lease to rehabilitate the *Mercado Municipal* building located in the centre of town. Construction is due to be completed in 2007.

Phase 3 is the closing down of the Darwin office, which is anticipated to be finalised by December 2006.

Appendices

Appendix 1: Abbreviations

ADI	Alternative Duty Injury
ASV	Accommodation Support Vessel
BOPD	Barrels of Oil per Day
BSCF	Billion of Standard Cubic Feet
BSCFD	Billion of Standard Cubic Feet per Day
CUQ	Compression, Utilities & Quarters platform
DPP	Drilling, Production & Processing platform
DSV	Dive Support Vessel
EMP	Environmental Management Plan
FAI	First Aid Injury
FAIFR	First Aid Injury Frequency Rate
FTP	First Tranche Petroleum
HSE	Health, Safety and Environment
HUET	Helicopter Underwater Escape Training
JPDA	Joint Petroleum Development Area
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LTI	Lost Time Injury
LTIFR	Lost Time Injury Frequency Rate
MMBO	Millions of Barrels of Oil
MMBOE	Millions of Barrels of Oil Equivalent
MMSTB	Millions of Stock Tank Barrels of Oil
MMSCFD	Millions of Standard Cubic Feet per Day
MODU	Mobile Offshore Drilling Unit
MTI	Medical Treatment Injury
MV1	Modex Venture 1
OIW	Oil in Water
NDT	Non-destructive testing
NOPSA	National Offshore Petroleum Safety Authority
NORM	Naturally Occurring Radioactive Material
OHS	Occupational Health and Safety
PFW	Produced Formation Water
PMC	Petroleum Mining Code
PSC	Production Sharing Contract
PSD	Process Shutdown
RTM	Riser Turret Mooring
SSSV	Subsurface Safety Valve
TBOSIET	Tropical Basic Offshore Safety Induction and Emergency Training
TRIFR	Total Recordable Injury Frequency Rate
TSDA	Timor Sea Designated Authority
USD	United States Dollars
WP1	Wellhead Platform 1

Appendix 2: TSDA Directors



Einar Risa | TSDA Executive Director

Einar Risa was appointed as Executive Director on 2 April 2003 by the Timor-Leste Government. He has a MA in Political Science from the University of Wisconsin. Prior to the appointment he was Petroleum Advisor at the T-L Prime Minister's Office. Other experience includes the Norwegian national oil company Statoil, where he among other functions was Natural Gas Sales Manager, the Norwegian Trade Council and the Norwegian Diplomatic Service. He has also been State Secretary for Development Cooperation in the Norwegian Ministry of Foreign Affairs. Einar completed his tenure at the TSDA on 20 December 2005.



Jose Lobato | TSDA Executive Director

Jose Lobato was appointed Deputy Executive Director on 15 October 2005 and Executive Director on 20 December 2005 after being nominated by the Timor-Leste Government and approved by the Joint Commission. He has a Graduate Diploma in Business Studies from Charles Darwin University. Prior to his appointment he served as a Timor-Leste Member of Parliament for four years. He was previously the Deputy CEO of Timor Aid, a Non-Governmental Organisation. He is also on the Board of Directors of Timor Aid.



Andrew Caddy | Managing Director - Finance

Andrew Caddy was appointed as Managing Director – Finance on 2 April 2003, by the Joint Commission. Andrew has a Bachelor of Business from the Northern Territory University and is a member of the Institute of Chartered Accountants in Australia. Prior to his appointment with the TSDA, Andrew worked as Director and Financial Controller both within government and private enterprise in Australia and Asia.



Niny Borges | Managing Director – Legal and Corporate Services

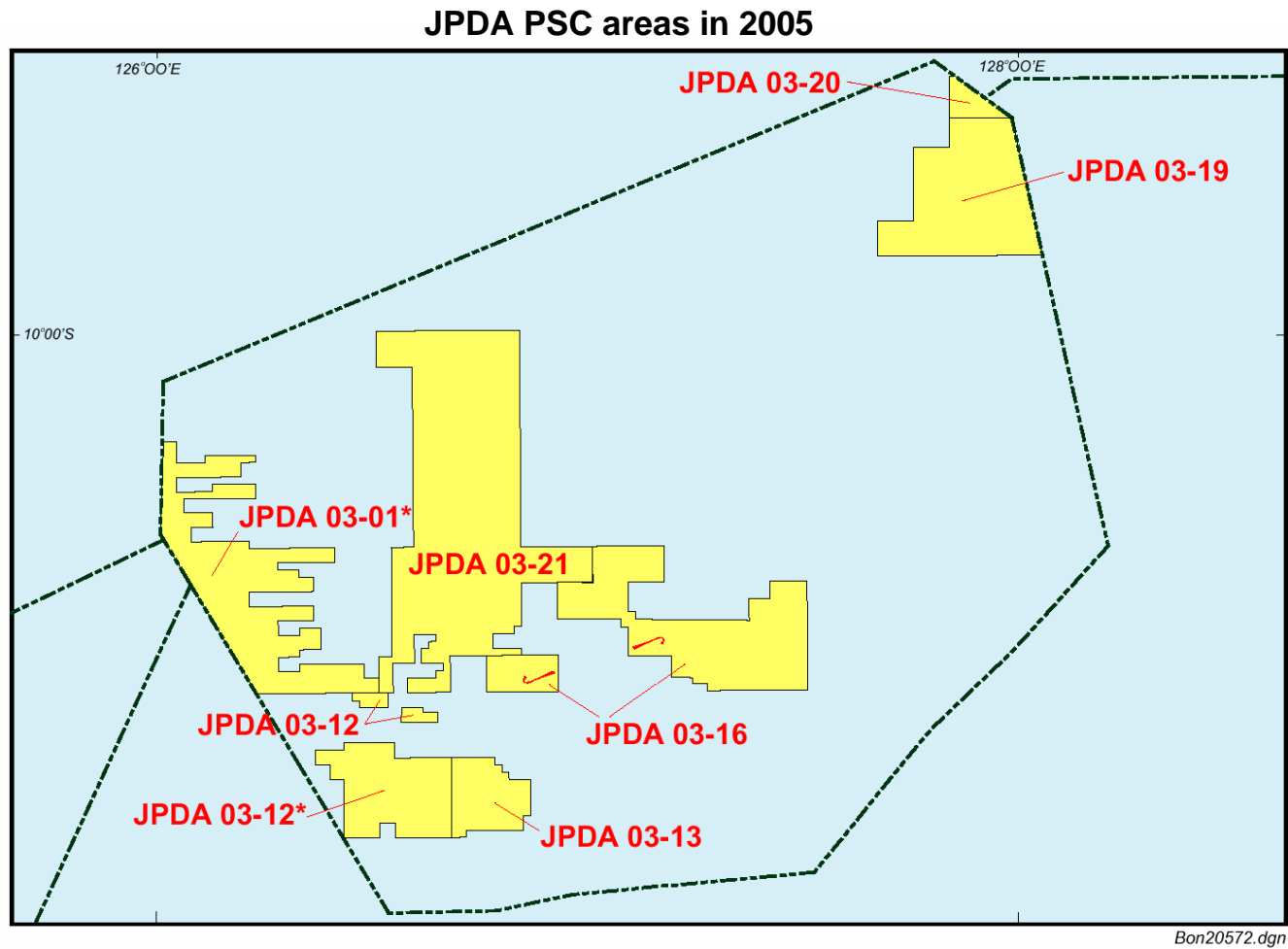
Niny Borges was appointed Managing Director – Legal on 2 April 2003, by the Joint Commission and in 2005 she also was also appointed as the responsible Director for the Corporate Services Directorate. Niny holds a Bachelor of Laws from the University of Sydney and a Bachelor of Arts (Honours) in Political Science from the University of Wollongong. Niny was admitted to practise in the Supreme Court of New South Wales in 2002 and the Northern Territory of Australia in 2005. Prior to her appointment Niny has worked in development and regulatory organisations in Timor-Leste and Australia.



Nick Kyranis | Managing Director – Technical

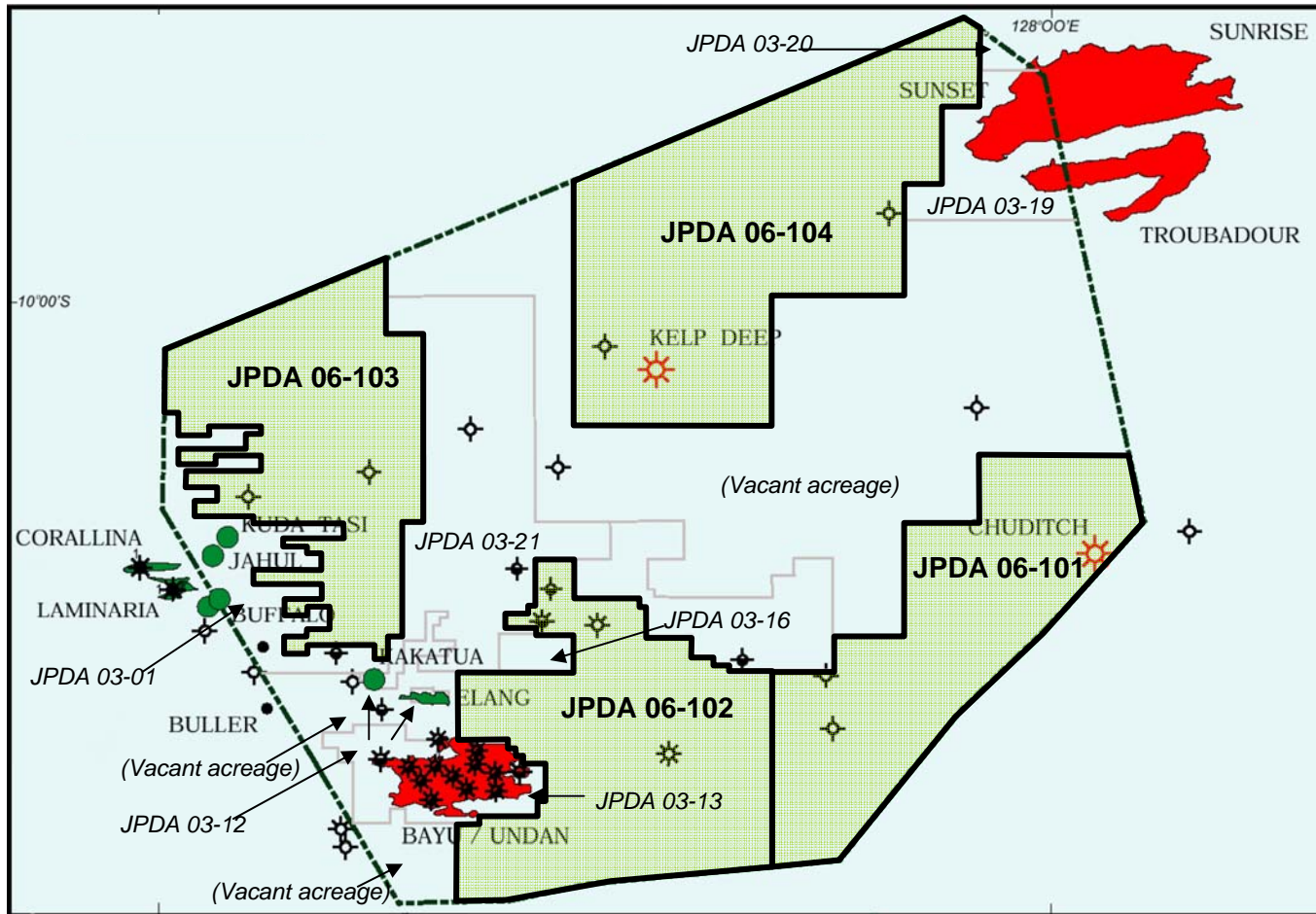
Nick Kyranis is a Science graduate of the University of Queensland, and was appointed Managing Director – Technical on the 2nd April 2003 by the Joint Commission. Prior to his appointment he served as Technical Manager and Director in government and private enterprise, gaining wide-ranging experience from assignments in Southeast Asia, the Middle-East, Europe and North America.

Appendix 3: Map of JPDA as at 31 December 2005



Appendix 4: 2005 PSC Areas and Areas for Release in 2006

JPDA 2005 PSC Areas and Released Areas



Timor Sea Designated Authority Annual Report 2005

Appendix 5: Register of Contract Operators as at 31 December 2005

PSC	Effective Date	Expiry Date	Contract Operator	Interest %	Joint Venture Partners	Interest %
JPDA 03-01	20-May-02	8-Jan-22	Woodside Petroleum (Timor Sea 1) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: + 61 8 9325 4273 Contact: Adrian Wilks	40	INPEX Timor Sea Ltd Paladin Resources (JPDA 03-01) Pty Ltd	35 25
JPDA 03-12	20-May-02	6-Feb-22	ConocoPhillips (03-12) Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Laura Sugg	46.7144238	Emet Pty Ltd Petroz (Timor Sea) Pty Ltd INPEX Sahul, Ltd Santos (JPDA 91-12) Pty Ltd	1.577 13.371 19.0712244 19.2663518
JPDA 03-13	20-May-02	16-Dec-21	ConocoPhillips JPDA Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Laura Sugg	37.5	ConocoPhillips (03-13) Pty Ltd Eni JPDA 03-13 Limited Tokyo Timor Sea Resources Pty Ltd	13.1262893 26.8737107 22.5
JPDA 03-16	20-May-02	13-Nov-26	ConocoPhillips (03-16) Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Australia Facsimile: +61 8 9423 6675 Contact: Laura Sugg	100		
JPDA 03-19	20-May-02	4-Oct-26	Woodside Petroleum (Timor Sea 19) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: +61 8 9325 8178 Contact: Adrian Wilks	27.6666667	Shell Development (PSC 19) Pty Ltd ConocoPhillips (03-19) Pty Ltd OG ZOCA (95-19) Pty Ltd	32.3333333 30 10
JPDA 03-20	20-May-02	13-Nov-26	Woodside Petroleum (Timor Sea 20) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: +61 8 9325 8178 Contact: Adrian Wilks	26.6666667	Shell Development (PSC 20) Pty Ltd ConocoPhillips (03-20) Pty Ltd. OG ZOCA (96-20) Pty Ltd	33.3333333 30 10
JPDA 03-21	20-May-02	25-Mar-31	ConocoPhillips (03-21) Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Laura Sugg	75	Eni JPDA 03-21 BV	25

Appendix 6: Unit Participating Interests for Bayu-Undan Contractors

03-12 PSC	Interest %	03-13 PSC	Interest %
ConocoPhillips (03-12) Pty Ltd (Contract Operator)	23.4149984	ConocoPhillips (03-13) Pty Ltd	5.5997600
Emet Pty Ltd	0.8705343	ConocoPhillips JPDA Pty Ltd (Contract Operator)	16.7992800
INPEX Sahul Ltd	11.7077752	Eni JPDA 03-13 Limited	12.3194720
Petroz (Timor Sea) Pty Ltd	7.3810487	Tokyo Timor Sea Resources Pty Ltd	10.0795680
Santos (JPDA 91-12) Pty Ltd	11.8275634		
	<u>55.2019200</u>		<u>44.7980800</u>

Attachment 1: Audited Financial Report as at 31 December 2005

**TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA**

**FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2005**

**TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
YEAR ENDED 31 DECEMBER 2005**

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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 operating results and cash flows of the Designated Authority for the year ended 31 December 2005 and the financial position of the Designated Authority as at 31 December 2005; and
- (b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of the Board



Jose Lobato
Executive Director



Andrew Caddy
Managing Director - Finance

DILI

Date: 5 May 2006

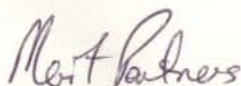
INDEPENDENT AUDIT REPORT

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

We have audited the financial statements of the Timor Sea Designated Authority for the Joint Petroleum Development Area which comprises the balance sheet as at 31 December 2005 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Designated Authority's directors. 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. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 at 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.



Merit Partners
Partner
Darwin, Australia

Date: 9 MAY 2006

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005
(Expressed in United States Dollars)

	Note	2005 \$	2004 \$
REVENUE			
Contract Service Fees		1,074,750	1,465,704
Development Fees		2,154,000	0
Interest		40,507	29,592
Other		4,362	0
		<u>3,273,619</u>	<u>1,495,296</u>
EXPENSES			
Personnel costs	8	1,531,664	1,070,326
General and administration	9	1,500,633	1,322,696
Foreign exchange losses		40,253	53,214
Depreciation		179,544	74,087
		<u>3,252,094</u>	<u>2,520,323</u>
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES		<u>21,525</u>	<u>(1,025,027)</u>
NET PROFIT/(LOSS)		<u>21,525</u>	<u>(1,025,027)</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

BALANCE SHEET
AS AT 31 DECEMBER 2005
(Expressed in United States Dollars)

	Note	2005 \$	2004 \$
ASSETS			
CURRENT ASSETS			
Cash and Cash equivalents	3	2,889,239	2,909,638
Trade and Other receivables	4	524,381	471,248
Other	5	<u>22,450</u>	<u>44,550</u>
Total Current Assets		<u>3,436,070</u>	<u>3,425,436</u>
NON- CURRENT ASSETS			
Property Plant and Equipment	6	<u>278,832</u>	<u>285,400</u>
TOTAL ASSETS		<u><u>3,714,902</u></u>	<u><u>3,710,836</u></u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade creditors and accruals		293,564	191,509
Provision for annual leave		80,785	35,550
Prepaid contract service fees	7	<u>590,466</u>	<u>755,215</u>
Total Current Liabilities		<u>964,815</u>	<u>982,274</u>
TOTAL LIABILITIES		<u>964,815</u>	<u>982,274</u>
EQUITY			
Contribution by Contracting States		3,782,380	3,782,380
Accumulated Losses		<u>(1,032,293)</u>	<u>(1,053,818)</u>
Total Equity		<u>2,750,087</u>	<u>2,728,562</u>
TOTAL EQUITY AND LIABILITIES		<u><u>3,714,902</u></u>	<u><u>3,710,836</u></u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2005**

	Contribution by Contracting States	Accumulated Losses	Total Equity
At 1 January 2004	3,782,380	(28,791)	3,753,589
(Loss)/Profit for the year	0	(1,025,027)	(1,025,027)
At 1 January 2005	3,782,380	(1,053,818)	2,728,562
Profit for the year	0	21,525	21,525
At 31 December 2005	3,782,380	(1,032,293)	2,750,087

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2005
(Expressed in United States Dollars)

	2005 \$	2004 \$
CASH FLOW FROM OPERATING ACTIVITIES		
Fees from Operators	3,015,229	1,124,853
Interest Received	40,507	29,592
Less: Personnel Costs	(1,486,430)	(1,050,065)
Less: Other Operating Expenses	(1,416,728)	(1,259,592)
	<hr/>	<hr/>
Net cash flow from operating activities	152,578	(1,155,212)
CASH FLOW FROM INVESTMENT ACTIVITIES		
Purchase of plant and equipment	(172,977)	(240,422)
	<hr/>	<hr/>
Net cash flow used in investment activities	(172,977)	(240,422)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	(20,399)	(1,395,634)
	<hr/>	<hr/>
Add opening balance carried forward	2,909,638	4,305,272
	<hr/>	<hr/>
Cash and cash equivalents ending balance	2,889,239	2,909,638
	<hr/> <hr/>	<hr/> <hr/>
Comprising:		
Cash	2,889,239	2,909,638
	<hr/> <hr/>	<hr/> <hr/>
	2,889,239	2,909,638
	<hr/> <hr/>	<hr/> <hr/>

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) were received by the Designated Authority on behalf of the Contracting States. Payments of FTP are made to Timor-Leste and Australia consistent with the ratio stipulated in Article 4(a) of the Timor Sea Treaty.

For the year ended 31 December 2005 the Designated Authority operated from offices at NT House, 22 Mitchell Street, Darwin, Australia and Avendia de Portugal No. 5 Dili, Timor Leste. At the end of the year the Designated Authority employed thirty one full time employees (2004 – 28 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.

b. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Designated Authority has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2005.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 3 Business Combinations, IAS 36 (revised) Impairment of Assets and IAS 38 (revised) Intangible Assets
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IAS 16 (revised) Property, Plant and Equipment
- IAS 19 (revised) Employee Benefits
- IAS 21 (revised) The Effects of Changes in Foreign Exchange Rates

The adoption of the revised standards has had no effect on the financial statements at 31 December 2005.

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 these relate.

d. Cash and Cash Equivalents

Cash and Cash Equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

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.

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 - accruals 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Provision is made when there is objective evidence that the Designated Authority will not be able to collect the debts. Bad debts are written off when identified.

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:

	2005	2004
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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	2005	2004
	\$	\$
ANZ AUD Account	82,808	57,613
ANZ USD Account	2,658,722	2,710,864
ANZ Dili USD Account	107,854	101,371
AMP - Funds on deposit	38,806	38,320
Petty Cash	1,049	1,470
	<hr/>	<hr/>
Total	2,889,239	2,909,638
	<hr/>	<hr/>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

4. TRADE AND OTHER RECEIVABLES

	2005 \$	2004 \$
Contract Service Fees	480,000	450,000
Other	44,381	21,248
	<u>524,381</u>	<u>471,248</u>

5. OTHER CURRENT ASSETS

	2005 \$	2004 \$
Prepayments	<u>22,450</u>	<u>44,550</u>
	<u>22,450</u>	<u>44,550</u>

**6. FIXED ASSETS
(a)**

	Cost	Accumulated Depreciation	Written down Value
Office and Computer Equipment	386,892	(190,312)	196,580
Office Furniture	64,203	(18,680)	45,523
Other	38,318	(17,073)	21,245
Leasehold Improvements	77,324	(62,286)	15,038
Dili Office Refurbishment in Progress	447	0	447
Total	<u>567,184</u>	<u>(288,352)</u>	<u>278,832</u>

(b) Reconciliations

<u>Office and Computer Equipment</u>	2005 \$	2004 \$
Carrying amount at beginning	256,400	93,399
Additions	53,160	227,060
Depreciation Expense	(112,980)	(64,059)
Carrying amount at ending	<u>196,580</u>	<u>256,400</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

6. FIXED ASSETS (continued)

<u>Office Furniture</u>	2005 \$	2004 \$
Carrying amount at beginning	10,286	12,969
Additions	48,350	1,068
Depreciation Expense	(13,113)	(3,751)
Carrying amount at ending	<u>45,523</u>	<u>10,286</u>

Other

Carrying amount at beginning	14,744	8,801
Additions	17,775	11,324
Depreciation Expense	(11,274)	(5,381)
Carrying amount at ending	<u>21,245</u>	<u>14,744</u>

Leasehold Improvements

Carrying amount at beginning	3,970	3,896
Additions	53,245	970
Depreciation Expense	(42,177)	(896)
Carrying amount at ending	<u>15,038</u>	<u>3,970</u>

7. PREPAID CONTRACT SERVICE FEES

A number of contract service fees (US\$ 590,466) partially relating to the following year, were received in the year ended 31 December 2005 (2004 US\$ 755,215). These prepaid contract service fees are shown as current liabilities at 31 December 2005, and are to be taken up as income in the following year.

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

8. PERSONNEL COSTS	2005 \$	2004 \$
Salaries	1,033,950	742,670
District Benefit	144,272	127,435
Employee Compensation	43,930	993
Home Leave Travel	54,083	31,313
Motor Vehicle	25,357	24,738
Personnel Allowance	0	2,296
Relocation	61,982	25,881
Staff Amenities	18,778	14,196
Superannuation	149,312	100,804
	<u>1,531,664</u>	<u>1,070,326</u>

9. GENERAL AND ADMINISTRATION COSTS	2005 \$	2004 \$
Audit and Professional fees	28,382	4,751
Bank charges	3,614	2,709
Training, Education and Conference expenses	132,994	232,973
Consultants	114,582	68,971
Electricity	14,346	15,653
JPDA Marketing	43,041	11,900
Insurance	9,504	8,399
Legal costs	193,843	243,591
Minor Equipment	8,785	12,762
Motor Vehicle expenses	6,786	9,277
Office rental	125,412	104,820
Office supplies	13,952	17,127
Other	31,462	17,702
Printing & advertising	1,380	1,777
Repairs and maintenance	42,585	62,780
Security	29,216	26,923
Telephones & Communication	171,793	126,946
Travel	528,956	353,635
	<u>1,500,633</u>	<u>1,322,696</u>

10. FIRST TRANCHE PETROLEUM

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

During the year, 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.

INCOME & EXPENDITURE	2005 \$	2004 \$
FTP Income	80,687,446	40,833,783
Plus: Other Income	285	3,554
Less: Related expenses	<u>(181,700)</u>	<u>(31,283)</u>
Net Income	<u>80,506,031</u>	<u>40,806,054</u>
Distributions to Contracting States for the year		
Timor-Leste	95,749,774	3,294,479
Australia	<u>9,102,796</u>	<u>1,902,647</u>
	104,852,570	5,197,126
Net Movement in FTP Funds held on behalf of Contracting States	<u>(24,346,539)</u>	<u>35,608,928</u>
Opening balance of FTP funds held on behalf of Contracting States	39,267,091	3,658,163
Closing balance of FTP funds held on behalf of Contracting States	<u>14,920,552</u>	<u>39,267,091</u>
Allocation of closing balance:		
Timor-Leste	13,428,496	36,723,306
Australia	<u>1,492,056</u>	<u>2,543,785</u>
	<u>14,920,552</u>	<u>39,267,091</u>
Represented by:		
Cash	7,039,289	34,347,223
Receivables	<u>7,881,263</u>	<u>4,919,868</u>
	<u>14,920,552</u>	<u>39,267,091</u>

11. COMMITMENTS AND CONTINGENCIES

a) At 31 December 2005 the Designated Authority had no capital commitments.

b) Contingent Liability

In March of 2004, Oceanic Exploration Company and Petrotimor Companhia De Petroleos, S.A.R.L. ("Oceanic") filed suit in the U.S. District Court for the District of Columbia against the Timor Sea Designated Authority for the Joint Petroleum Development Area and other defendants, alleging that they had been deprived of an oil concession granted to Petrotimor by Portugal. The plaintiffs claimed damages of \$30 billion. Defendants, including the Designated Authority, moved to dismiss the complaint.

In February of 2005, the U.S. District Court for the District of Columbia dismissed Oceanic's complaint without prejudice, and allowed the plaintiffs to file an amended complaint. The plaintiffs filed an amended complaint in March of 2005, abandoning their claim based on the deprivation of an oil concession, and instead claiming that they were disappointed bidders for production sharing contracts in the Joint Petroleum Development Area. Defendants, including the Designated Authority, moved to dismiss the amended complaint.

The Directors of the Designated Authority vigorously deny all allegations made by the plaintiffs and continue to be represented by the law firm Baker and Mackenzie.

12. SUBSEQUENT EVENTS

As disclosed in Note 11(b) the Designated Authority is a defendant in a claim lodged by Oceanic Exploration Company and Petrotimor Companhia De Petroleos S.A.R.L in the U.S. District Court for the District of Columbia. On March 30, 2006, the court denied the plaintiffs' motions for an oral hearing on the defendants' motions to dismiss. This indicates that the court is ready to decide the pending motions to dismiss, of the Designated Authority and other defendants.

13. RELATED PARTIES

Compensation of Key Management Personnel

	2005 \$	2004 \$
Short Term Employment Benefits	497,820	386,653
	<u>497,820</u>	<u>386,653</u>

14. BUDGET IN COMPARISON TO ACTUAL EXPENDITURES

The annual budget is prepared on a cash basis and is subject to approval by the Joint Commission.

	Expenditure \$	Budget \$	Expenditure (in excess) /under Budget
Salary & Wages	1,033,950	1,090,947	56,997
Superannuation	149,313	210,189	60,876
District Benefit	144,272	145,067	795
Employee Insurance	43,930	12,163	(31,767)
Motor Vehicle Allowance	25,357	26,653	1,206
Home leave travel	54,083	48,227	(5,856)
Relocation	61,982	31,400	(30,582)
Workers compensation premium	8,463	0	(8,463)
Travel & Expenses	528,956	632,189	103,233
Training, Education & Conference Expenses	132,993	326,890	193,897
Consultants	114,582	316,241	201,659
Legal Costs	193,843	615,400	421,557
Office Lease & Related	125,412	143,408	17,996
Security	29,216	36,000	6,784
Contingency	0	50,000	50,000
Office expenses	385,945	367,592	(18,353)
<hr/>			
Total Expenditure before Depreciation & foreign exchange gain/(loss)	3,032,297	4,052,276	1,019,979

15. FINANCIAL INSTRUMENTS

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and conditions
(i) Financial assets			
Cash	3	Details are set out in note 2(c).	Interest is earned at the bank's benchmark interest rate.
Receivables	4	Amounts receivable are carried at full nominal value.	Contract service fees normally settled on 30 day terms.
(ii) Financial liabilities			
Trade creditors and accruals		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.

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	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
(i) Financial assets								
Cash	2,889,239	2,909,638	-	-	2,889,239	2,909,638	2.80%	0.85%
Receivables	-	-	524,381	471,247	524,381	471,247	-	-
Total financial assets	2,889,239	2,909,638	524,381	471,247	3,413,620	3,380,885		

Financial Instruments	Non-interest Bearing Rate		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
(ii) Financial liabilities						
Trade creditors & accruals	293,564	191,509	293,564	191,509	-	-
Total financial liabilities	293,564	191,509	293,564	191,509		

15. FINANCIAL INSTRUMENTS (continued)

(iv) Net Fair Values

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

Receivables and Payables: The carrying amount approximates fair value.

(v) Credit Risk Exposures

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.

Timor Sea Designated Authority

for the Joint Petroleum
Development Area

www.timorseada.org

DILI OFFICE

No 5 Avenida de Portugal

PO Box 113

Dili, Timor-Leste

Tel: +670 332 4098

Fax: +670 332 4082

dilioffice@timorseada.org