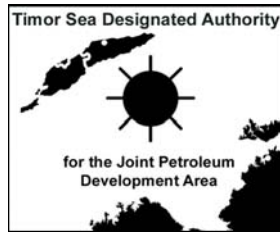




TIMOR SEA DESIGNATED AUTHORITY
FOR THE
JOINT PETROLEUM DEVELOPMENT AREA

ANNUAL REPORT

2003



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1. EXECUTIVE SUMMARY

Mission Statement

“Recognising the benefits that will flow to both Timor-Leste and Australia, the Timor Sea Designated Authority shall manage the development of petroleum resources in the Joint Petroleum Development Area (“JPDA”) in accordance with the Timor Sea Treaty having regard to the health and safety of all personnel, protection of the environment, economic efficiency, transparency, the development of the institutional and human resource capacity of the Timor-Leste petroleum sector, and good oilfield practice.”

The Timor Sea Designated Authority (TSDA) has been established to administer and regulate the petroleum activities in the JPDA until Australia and Timor-Leste have agreed on a maritime boundary between the two countries. Our mission is to ensure that this is achieved in a manner that brings maximum benefit to the population of the two countries, and in particular Timor-Leste, which for many years to come will be totally dependent on income from the Timor Sea.

The Timor Sea Treaty is the legal basis for the petroleum activities in the JPDA, and thereby for the TSDA. During the first nine months of existence, the TSDA conducted negotiations with the Bayu-Undan Joint Venture partners and on that basis approved the development plan for the second phase of the Bayu-Undan project. We have also closely monitored exploration activities in other parts of the JPDA, as well as the production at Elang, Kakatua and Kakatua North (EKKN).

The prime objective of oil and gas exploration, production and development in the JPDA, as in similar areas in oil and gas exporting countries, is to secure the economic well-being of the people of the country. It is therefore important that the development of the petroleum reserves takes place in such a way that the income to the Contracting States is maximised. Economic efficiency is therefore very important, but the economic efficiency cannot and should not be achieved in a vacuum.

These activities have to take place in a manner that takes care of the health and safety of all personnel, and which protects the environment from the negative consequences of an activity which is risky from an environmental and safety point of view, if the necessary precautionary measures are not adhered to.

Already in this short period of time the TSDA has developed a very capable human resource base. The development of human resources and institutional development activities add a different dynamic to the key function of a regulatory and monitoring agency, which has resulted in a strong focus on training Timor-Leste nationals for their future role as managers of the country’s oil and gas activities. The four directorates that have been set up; Finance, Legal, Technical and Information & Logistics, are working well in implementing these key functions.



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The activities of the TSDA do not take place in a political vacuum. The interests of the two Contracting States need to be considered. We are therefore working very closely with both Governments, keeping them regularly informed and acting on their advice. In instances where the Governments do have conflicting interests, and this does happen, it is important to ensure the differences of opinion have as little negative interference with the practical operations in the JPDA as possible.

The sad development we have seen in a number of petroleum producing countries demonstrates the need for transparency. It is of the utmost importance that all activities are carried out in a manner that as much information is available to the public as possible in a meaningful way. The TSDA therefore plays an active role in information dissemination about oil and gas activities in the JPDA, particularly in Timor-Leste.

This year has seen a great deal of activity in establishing the TSDA and creating an environment for the successful development of the petroleum sector in Timor-Leste. With the fundamentals established, we have the opportunity to further build on our achievements in 2004.

A handwritten signature in blue ink that reads "Einar Risa".

Einar Risa
Executive Director

26 March 2004



2. ESTABLISHMENT OF THE AUTHORITY

2.1. Timor Sea Treaty

The Timor Sea Treaty (Treaty) was signed between the Government of Timor-Leste and the Government of Australia on 20 May 2002. Following a process of ratification by the respective Governments, the Treaty entered into force on 2 April 2003.

At the top of the governing structure created by the Treaty is a Ministerial Council with an equal number of Ministers from each government. The ministers currently on the Ministerial Council are His Excellency Mari Alkatiri, Prime Minister and Minister for Development and Environment of Timor-Leste; and The Honorable Ian Macfarlane, the Minister for Industry, Tourism and Resources for Australia.

Upon entry into force of the Treaty, a Joint Commission consisting of commissioners appointed by Timor-Leste and Australia was created pursuant to Article 6(c) of the Treaty with one more commissioner from Timor-Leste than Australia. Jose Teixeira and Einar Risa were appointed by Timor-Leste as the Timor-Leste Joint Commissioners, and John Hartwell was appointed as the Australian Joint Commissioner, with Ian Walker named as the alternate Joint Commissioner for Australia.

On this same day the Timor Sea Designated Authority (TSDA) for the Joint Petroleum Development Area (JPDA) was designated by the Joint Commission at the first Joint Commission meeting in Dili Timor-Leste, pursuant to Article 6 of the Treaty.

The TSDA is a self funded international organisation representing the interests of Timor-Leste and Australia in the area defined in Article 3 of the Treaty as the JPDA. The TSDA is responsible to the Joint Commission.

The TSDA has legal capacity in Australia by virtue of the *Petroleum (Timor Sea Treaty) Act 2003* and in Timor-Leste by virtue of the Constitution which incorporates the Treaty automatically into its domestic law following entry into force of the Treaty.

2.2. Powers and Functions

The key function of the TSDA is to administer and regulate all petroleum activities in the JPDA in accordance with the Treaty and any other instruments entered into under the Treaty, as well as directions given by the Joint Commission. In particular the TSDA is required to conduct its business in accordance with the Interim Petroleum Mining Code (IPMC) as adopted by the Joint Commission on 2 April 2003.

The TSDA has the power to award contracts for petroleum activity in the JPDA. It monitors and approves all petroleum activity in accordance with its regulations and directions, with a particular focus on the health and safety of individuals working in the JPDA, as well as minimising damage to the natural environment. The TSDA can also appoint inspectors to ensure that contract terms and conditions are complied with.

The TSDA acts as an agent for the Governments, collecting revenues from contractors for petroleum produced in the JPDA, and distributing the funds upon request by the



Governments, in accordance with the revenue split of 90:10 to Timor-Leste and Australia as set out in the Treaty.

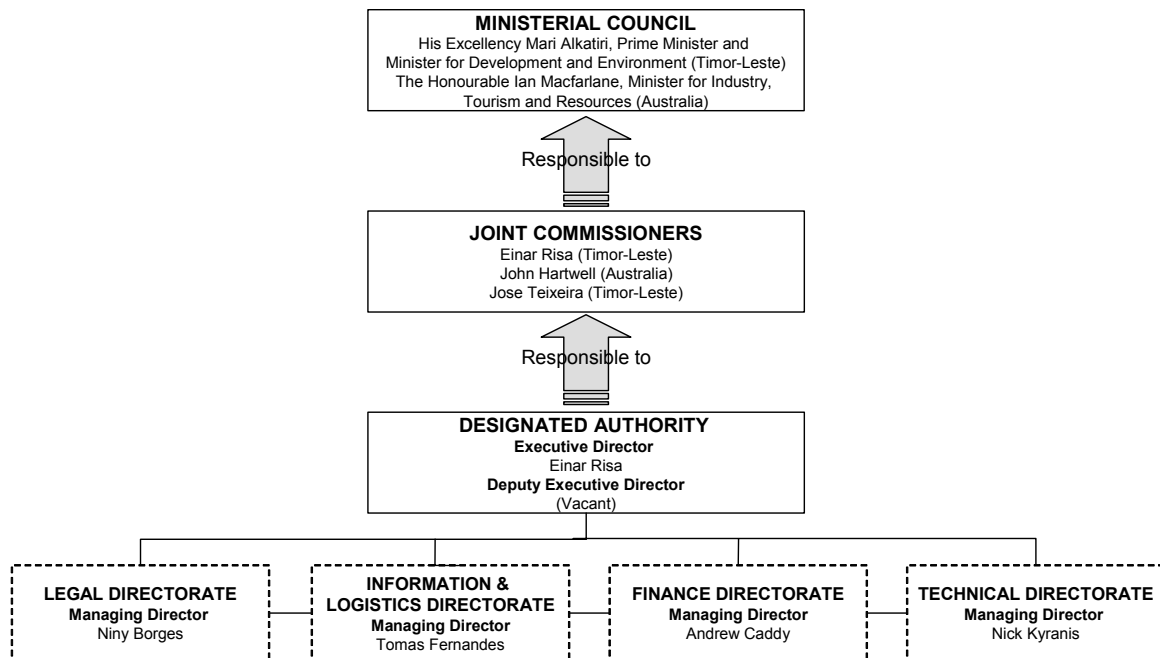
The Treaty states that the TSDA after three years, or for a different period of time if agreed to jointly by the Governments, shall become a part of the Timor-Leste Government Ministry for petroleum activities, or a Timor-Leste statutory authority. A key function of the TSDA has been to conduct its operations in a manner which promotes this aim. TSDA has a strong focus on training and providing employment opportunities for Timor-Leste nationals; ensuring active consideration of Timor-Leste goods and services; and focusing business where possible from the Dili office.

The TSDA is also required to inform the Governments on matters, for example relating to security, criminal activity and taxation in the JPDA.

2.3. Organisation Structure

The TSDA is headed by an Executive Director, and consists of four directorates: Information & Logistics, Legal, Technical and Finance, which are each headed by a Managing Director (MD). The Executive Director is appointed by the Timor-Leste Government. There are twenty employees made up of Timorese and Australian nationals, although currently many of the Timorese employees are still in trainee positions.

The TSDA operates from offices in Dili and Darwin. The Dili office houses the Executive Director and the Information & Logistics Directorate; whilst the Finance, Legal and Technical Directorates are primarily based in the Darwin office. A strong focus has been placed on conducting TSDA business in Timor-Leste where possible.



Refer to the Organisation Chart in [Attachment 1](#).



2.4. Strategic Plan

A Strategic Plan for 2003 to 2006 was presented to the Joint Commission and approved on 3 December. The Strategic Plan is a dynamic tool which provides a clear direction of the TSDA's needs over the next three years to fulfil its mission, and achieve its goals.

It is a statement of the TSDA's shared organisational purpose and direction, and will provide the basis of planning and activities. An annual review of the Strategic Plan is envisaged.

The Strategic Plan had input from all employees giving full ownership of the document to all and promoting a team environment. As a team the aim is to achieve the goals in support of the Mission Statement. The implementation of the Strategic Plan will occur through an Action Plan which is currently being developed.



3. ROLE AND PERFORMANCE

3.1. Information and Logistics

A. Introduction

The Managing Director – Information and Logistics (I&L), holds overall responsibility for the administrative and logistics aspects of the TSDA. This involves the development, coordination and maintenance of office process and controls.

Both Darwin and Dili offices have established document control and correspondence register systems in order to manage the organisation's information resources. As far as possible, the Dili system has been designed to mirror the Darwin system. The main achievement in administration for this year has been to commence the establishment of administrative procedures and processes in the Dili office.

The I&L Directorate also manages the logistics for the offices. Logistics encompasses transport, repair and maintenance of equipment and facilities, and sourcing goods for procurement. There have been renovations in the two offices to cater for the growing number of staff during the year and room for a planned JPDA Information Centre in 2004. Plans for additional office space to cater for the merging of the two offices in Dili are ongoing.

B. Information Technology

Good computer networks for improved information management, information sharing and security have been established in the two offices. Information Technology (IT) support is outsourced. Satellite equipment has been procured to establish a link between the Darwin and Dili Offices. The TSDA webpage is currently under construction.

C. Human Resources

The Training and Human Resources (T&HR) Section under the MD-I&L was established in the Dili office in October 2003. The role of the T&HR staff is to coordinate the training activities of the Timorese trainees and staff within TSDA and to manage the organisation's human resources through the development and implementation of appropriate policies and procedures. The staff also have the responsibility for facilitating the involvement of Timor-Leste nationals in the petroleum sector.

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

Generic skill gap analyses have been done for each employee against position descriptions and a training program has been developed to encompass the training needs identified. Individual programs for future training for technical trainees have been designed by their supervisors, and the present training program aims to have trainees meet pre-requisites to start technical training in 2004/5.

Training in English language has been a priority and this has progressed at a steady rate. Plans are underway to commence computer training and an in-house training program in early 2004. The need for additional Timor-Leste staff has been identified and recruitment is proceeding accordingly.



Performance of staff has been reviewed through the annual Performance Review procedure that was conducted during November and December 2003. Mechanisms for reviews of progress towards achievement of set objectives are scheduled to be designed and promulgated in early 2004.

ii) Human Resources Development in the Timor-Leste Petroleum Sector

Preliminary discussions were held with parties interested in participating in a forum for facilitating the training and employment of Timor-Leste nationals in the oil and gas sector. There is sufficient interest in industry and the government departments in Timor-Leste to coordinate the effort in promoting opportunities and this is scheduled to commence in 2004.

Contact has been made with industry representatives and personnel who have been previously employed offshore in order to identify and compile a list of potential employees in the future. A small database has been started with approximately 30 personnel listed. A broader search is required to populate the database adequately. This task needs to continue in 2004 to enable good coordination of employment of skilled personnel and identification of potential employees.

The development of human resources in the Timor-Leste petroleum sector will require input and action from a number of stakeholders as well as good coordination by the government of Timor-Leste, with support from TSDA. Linkages are being made at the appropriate levels to facilitate this.

D. Team Building Workshop

All Darwin and Dili staff participated in a weekend team building workshop on Atauro Island, Timor-Leste. The retreat provided the optimal environment for discussing issues of communication and understanding that impact on the way the staff works together, particularly given the distance between the two offices and the cultural differences between the two countries.

3.2. Legal

A. Introduction

The Managing Director – Legal is responsible for the Legal Directorate. The main areas of focus in 2003 have been the issue and monitoring of Production Sharing Contracts (PSCs) in accordance with the IPMC and the issue of Regulations, Directions and Administrative Guidelines.

The Legal Directorate is involved in discussions with the Contracting States concerning the drafting of a new PMC and a new fiscal scheme for the JPDA, as well as being responsible for the coordination and preparation of Joint Commission meetings.

Training, employment and education of Timor-Leste nationals was a strong focal point for the Directorate, both internally and in the wider petroleum related institutions in Timor-Leste.



B. Production Sharing Contracts

On 2 April the Joint Commission approved the award by the TSDA of seven PSCs in the JPDA. There was no formal acreage release or bidding process for the award of the PSCs. The PSCs were issued pursuant to Article 7 of the IPMC adopted by the Joint Commission.

For a map of the JPDA refer to [Attachment 2](#) and for a copy of the Register of Contract Operators refer to [Attachment 3](#).

i) JPDA 03-01

Production Sharing Contract JPDA 03-01 was awarded to Woodside Energy Ltd, the Contract Operator, INPEX Timor Sea Ltd and Santos (91-01) Pty Ltd. The Contract is due to expire on 22 January 2022, or six months after the date that the Governments agree a new production sharing contract and PMC, whichever is the earlier.

The Jahal and Kuda-Tasi wells can be found in JPDA 03-01. The TSDA has been involved in discussing development options with the Contract Operator. There were two options presented to the TSDA, the first being a tie back option to a facility outside of the JPDA; and the second being a stand alone option. As these options are still being evaluated by the Contract Operator, no development has been submitted to the TSDA for approval. The recoverable reserves in the Jahal and Kuda-Tasi oilfields are conservatively estimated at 15 million barrels of recoverable oil (notwithstanding the possibility of small oil accumulations in the adjacent acreage).

There was no specified Work Program while a decision on the PSC extension was under review. Nevertheless, the Contract Operator proposed the drilling of a second well on the Kuda-Tasi oil bearing structure for appraisal of the recoverable reserves. The proposed program also included the acquisition of 500 kilometres of 2D seismic data.

ii) JPDA 03-12 and JPDA 03-13

JPDA 03-12

Production Sharing Contract JPDA 03-12 was awarded to ConocoPhillips (91-12) Pty Ltd, the Contract Operator, Emet Pty Ltd, Petroz (Timor Sea) Pty Ltd., INPEX Sahul Ltd, and Santos (JPDA 91-12) Pty Ltd. The PSC is due to expire on 6 February 2022.

The Work Program for JPDA 03-12 focused on construction of Bayu-Undan offshore facilities, hook-up and commissioning, and simultaneous development drilling in this gas/condensate field. The TSDA processed an application to extend the tenure of exploration acreage adjacent to, (and west of) the Bayu-Undan field. In addition the production and offtake operations in the Elang/Kakatua oilfields continued.

The Elang, Kakatua and Kakatua North (EKKN) fields are only located in the JPDA 03-12 area. The Elang/Kakatua oilfields are expected to produce until late 2005, provided that the price of oil stays above US\$30, and provided that production does not fall below 3000 barrels of oil per day.



JPDA 03-13

Production Sharing Contract JPDA 03-13 was awarded to ConocoPhillips JPDA Pty Ltd, the Contract Operator, ConocoPhillips 91-13 Pty Ltd, Eni JPDA 03-13 Limited and Phillips Petroleum Timor Sea Pty Ltd, due to expire on 16 December 2021.

This entire contract area comprises a portion of the wholly unitised Bayu-Undan Development Area, and the Work Program was the same as the Bayu-Undan program in JPDA 03-12.

Bayu-Undan

The Bayu-Undan field is also located in JPDA 03-12 and JPDA 03-13. The area has been unitised with the participating interests for the unit area. The Unit Contract Operator is ConocoPhillips (91-12) Pty Ltd.

Table 1: Unit Participating Interests for Bayu-Undan Contractors

<i>03-12 PSC</i>	<i>INTEREST</i> %	<i>03-13 PSC</i>	<i>INTEREST</i> %
ConocoPhillips (91-12) Pty Ltd (Contract Operator)	23.4149984	ConocoPhillips (91-13) 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	Phillips Petroleum Timor Sea Pty Ltd	10.0795680
Santos (JPDA 91-12) Pty Ltd	11.8275634		
	<u>55.2019200</u>		<u>44.7980800</u>

Development Plan

On 13 June 2003 the TSDA approved the Bayu-Undan Development Plan Amendment which authorised the Bayu-Undan Unit Participants to market, export and sell petroleum produced from the Bayu-Undan field. The approval process involved lengthy negotiations between the TSDA and the Contract Operator.

The approval of the Development Plan also included a separate approval by the Joint Commission for the construction and operation of a 26 inch design standalone pipeline from the Bayu-Undan field to land at Wickham Point outside Darwin, Australia.

The Development Plan included downstream agreements which the TSDA assessed together with the relevant Timor-Leste and Australian Government ministries. These downstream agreements included a Heads of Agreement for LNG Sales and Purchase between Darwin LNG Pty Limited (Seller) and The Tokyo Electric Power Company, Inc. and Tokyo Gas Company, Ltd (Buyers); a Feed Gas Sale and Purchase Agreement between the contractors under the Bayu-Undan PSCs (Sellers) and Darwin LNG (Buyer); and a Gas Transportation



Agreement – Bayu-Undan to Darwin Pipeline between the Contractors under the Bayu-Undan PSCs (Shippers) and various of their affiliates (Owners).

Registered Changes

The following registered changes were recorded for the Bayu-Undan PSCs in Tables 2 and 3. Changes in participating interests were approved on 12 August for the Bayu-Undan PSCs. In JPDA 03-12 INPEX Sahul, Ltd and Santos (JPDA 91-12) Pty Ltd assigned Undan Assets to ConocoPhillips (91-12) Pty Ltd; and in JPDA 03-13, Eni JPDA 03-13 Limited agreed to sell and assign Undan Assets to ConocoPhillips (91-13) Pty Ltd. The changes in participating interests were necessary to align the Unit participating interests.

Table 2: Changes in Unit Participating Interests for PSC 03-12

<i>JPDA 03-12 Contactors</i>	<i>2/4/2003</i>	<i>12/08/2003</i>
ConocoPhillips (91-12) Pty Ltd	42.417	46.7144238
Emet Pty	1.577	1.577
Petroz (Timor Sea) Pty Ltd	13.371	13.371
INPEX Sahul, Ltd	21.209	19.0712244
Santos (JPDA 91-12) Pty Ltd	21.426	19.2663518

Table 3: Changes in Unit Participating Interests for PSC 03-13

<i>JPDA 03-13 Contractors</i>	<i>2/4/2003</i>	<i>12/08/2003</i>
ConocoPhillips (91-13) Pty Ltd	12.5	13.1262893
Eni JPDA 03-13 Limited	27.5	26.8737107
ConocoPhillips JPDA Pty Ltd	37.5	37.5
Phillips Petroleum Timor Sea Pty Ltd	22.5	22.5

Table 4: Name Changes for PSC 03-13 Contractor/s

<i>Date</i>	<i>Existing Name</i>	<i>New Name</i>
10 April 2003	Agip Australia 91-13	Eni JPDA 03-13 Limited
8 September 2003	Phillips Petroleum Timor Sea Pty Ltd	Tokyo Timor Sea Resources Pty Ltd

iii) PSC 03-16

The Production Sharing Contract JPDA 03-16 was awarded to ConocoPhillips (96-16) Pty Ltd, the Contract Operator. It is due to expire on 13 November 2026.

The Contract Operator proposed to undertake a prospectivity review, and re-map the eastern portion of the PSC area; however there was no programmed field work.



iv) JPDA 03-19 and JPDA 03-20

The Production Sharing Contracts JPDA 03-19 and JPDA 03-20 contain parts of the unitised Sunrise and Troubadour gas fields. Woodside is the Contract Operator of the unitised field and is looking at developing and marketing the Sunrise and Troubadour gasfields with recoverable reserves of 7.7 trillion cubic feet.

JPDA 03-19

The Production Sharing Contract JPDA 03-19 was awarded to Woodside Petroleum (Timor Sea 19) Pty Ltd, the Contract Operator, Shell Development (PSC 19) Pty Ltd, ConocoPhillips (95-19) Pty, and OG ZOCA (95-19). The PSC is due to expire on 4 October 2026.

The Work Program for JPDA 03-19 included development and marketing feasibility exercises for the Greater Sunrise Gas resources. The Contract Operator is considering various development options, including piping gas across the Timor trench to Timor-Leste.

JPDA 03-20

Production Sharing Contract JPDA 03-20 was awarded to Woodside Petroleum (Timor Sea 20) Pty Ltd, the Contract Operator, Shell Development (PSC 20) Pty Ltd, ConocoPhillips 96-20 Pty Ltd and OG ZOCA (96-20) Pty Ltd. The PSC is due to expire on 13 November 2026.

A very small part of the Sunrise structure overlaps into this PSC area, and this is covered by the JPDA 03-19 work program.

v) JPDA 03-21

The Production Sharing Contract JPDA 03-21 was awarded to ConocoPhillips (00-21) Pty Ltd (Contract Operator) and Agip ZOCA 00-21 B.V. The PSC is due to expire on 25 March 2031.

The Work Program for this PSC consisted of reprocessing and re-interpretation of 2D seismic data, and subsequent revision of structure contour maps.

Registered Changes

The following change in name was recorded for JPDA 03-21:

Table 5: Name Changes for PSC 03-21 Contractor/s

<i>Date</i>	<i>Existing Name</i>	<i>New Name</i>
5 September 2003	AGIP ZOCA 00-21 BV	ENI JPDA 03-21 B.V

C. Interim Regulations, Directions and Administrative Guidelines

The TSDA submitted for approval to the Joint Commission Interim Regulations, Directions and Administrative Guidelines for Petroleum Activities conducted in the JPDA. These were approved on 16 June by the Joint Commission.



D. Transparency

A key goal and mission for the TSDA is to ensure that activities and decision making processes are conducted in a transparent manner. Efforts have been made to engage in discussions with Government Ministries and Non-Governmental Organisations (NGOs) to allow for free flow of information between the TSDA and interested parties. All TSDA activities are reported to the Joint Commission and consultation for approvals of matters of high impact on the overall interests of the Governments is regularly sought.

E. New Legislation

The TSDA in October commenced discussions on the structure and content of a new PMC and a new fiscal scheme to operate in the JPDA. This exercise is being carried out together with the Timor-Leste Government to ensure that future legislation is consistent between the JPDA and the onshore and offshore areas of Timor-Leste; and in consultation with the Australian Government.

3.3. Technical

A. Introduction

The Technical Directorate comprises three Sections, namely: Production; Health, Safety and Environment; and Exploration and Development. The Technical Directorate staff provide technical expertise and support to the Managing Director; providing advice on exploration, drilling, oil and gas field development, reservoir management, production technology, workovers & well intervention, transportation and pipelines, and field abandonment.

B. Section Reports

i) Health, Safety and Environment

In order to ensure Contract Operators make adequate provision for the protection of the Health and Safety of personnel, and protection of the environment, HSE staff undertake a range of external activities associated with projects in the JPDA. These activities, and a summary of key Contract Operator HSE statistics, are described on a project-by-project basis in the following sections.

In addition to these external activities HSE staff also provide general HSE support to the TSDA, are actively developing specific training programs for HSE trainees, continue to develop key HSE competencies within the TSDA as a whole, and are progressing the HSE elements of the TSDA Management system.

HSE Staff Activities

Elang, Kakatua and Kakatua North

As an established operating facility, the only key assessments conducted in the reporting period were those associated with the Under-Water inspection In-lieu of Dry-docking (UWILD) inspection program including diving and short term Personnel On Board (POB) increase submissions.



During the period fourteen vessels and two helicopters were approved to enter and exit the JPDA and thirty-nine additional chemicals were approved for use in associated with this project.

Taking a risk based approach to resource allocation and the resulting focus on the Bayu-Undan project, no TSDA site visits were made in the reporting period. The reports from Contract Operator audits conducted in the reporting period were reviewed. There were no significant incidents that warranted investigation by the TSDA.

Bayu-Undan

Key assessments conducted were focused on Phase 2 installation and completion works and included Safety Cases, Emergency Response Plans and Environmental Management Plans. Minor amendments to such plans to reflect the changing work sequence were also assessed. A resubmission of the Mobile Offshore Drilling Unit (MODU) Safety Case was assessed as well as modifications to the derrick and an upgrade of the accommodation. A range of amendments to the Certificate of Fitness process and its definitions were also assessed.

The suite of logistics procedures covering the delegation of authority to manage the day-to-day operation of vessels and aircraft and the movement of personnel and chemicals in and out of the JPDA was reviewed and approved. A total of twelve vessels of varying types and eight helicopters were approved to operate in the JPDA in support of the project.

TSDA HSE personnel made five visits to the Bayu-Undan field of which two visits were focused on following up on the outcomes of previous audits, one was both a familiarisation of the installed facilities and review of readiness of key procedural systems, one was as an observer on a Contract Operator Corporate audit and one was for the investigation into a non work related fatality, which was later found to be due to natural causes. Five visits to Contract Operator headquarters were made for project updates, submission related discussions, and audits. Two visits were made to construction sites in South Korea.

Jahal and Kuda-Tasi

A 2D Marine Seismic Survey (Seahorse) was conducted and an appraisal well (Kuda-Tasi – 2) was drilled for this project during 2003.

Key assessments for this project included a MODU Safety Case and bridging document, an Emergency Response Plan, an Oil Spill Contingency Plan, and an Environmental Management Plan and the HSE plan for the seismic survey of the appraisal well. A seismic vessel and personnel were explicitly approved for the seismic survey.

Initial approvals for personnel, three support vessels, a MODU, three helicopters and a range of chemicals required for the project were made in accordance with agreed procedures.

Due to the brief programs (ten days of seismic & one appraisal well), the TSDA did not visit either the seismic vessel or drilling rig during the program. In both cases the vessels had been used in Western Australia immediately prior to coming to the JPDA and associated inspection and audits reports were reviewed by TSDA HSE staff.

There were no significant incidents during either the seismic survey or appraisal well drilling that warranted investigation by the TSDA.



Contract Operator HSE Performance

Elang, Kakatua and Kakatua North

From a jurisdictional perspective the TSDA is interested only in incidents that occur within the JPDA; however for comparative purposes the onshore and project totals are included in Table 6. below. EKKN had one lost time incident during 2003 which resulted in eight days being lost.

Table 6: EKKN Health and Safety Incidents: April to December 2003

	<i>JPDA</i>	<i>Onshore</i>	<i>Total</i>
<i>Hours worked</i>	129,646	34,776	164,422
<i>Incidents</i> (no. reported in year)			
Lost Time Injuries (LTI)	1	0	1
Total Injury Incidents (LTI, ADI, MTI)	1	0	1
Near Miss Incidents	10	0	10
<i>Frequency Rates</i>			
Lost Time Injuries (LTI)	7.71	0	6.08
Alternate Duty Injuries (ADI)	0	0	0
Medical Treatment Injuries (MTI)	0	0	0
First Aid Injuries (FAI)	23.14	28.76	24.33
Total Reportable Injuries (LTI, ADI, MTI)	7.71	0	6.08
<i>Lost Time Injury measures</i>			
Total Days Lost	8	-	8
Average Duration Rate (days per LTI)	8	-	8
Severity Frequency Rate	0.96	-	0.76
<i>Hazard Reports</i> (no. raised in year)	10	0	10

Note: all Frequency Rates are per million person hours for the nominated period.

There were no Environmental incidents reported during the reporting period for the EKKN project.

Planned discharges in the reporting period (quantified in Table 7.) generally reflect the declining production rates (refer to Production section of the report for details). Produced Formation Water (PFW) discharged (either directly from the process or via decanting of the slops tank) also reflects the combination of declining production rates and increasing water-cut. The Oil-In-Water (OIW) content of the PFW discharged is well below the regulatory limit of 25ppm. It should also be noted that although a significant volume of oil was discharged in total, in context each 1kg discharged is diluted into 61,721 litres of water before release into the marine environment.

Table 7: EKKN Planned Discharges: April to December 2003

<i>Discharges</i>	<i>Total</i>	<i>Monthly Average</i>
Hydrocarbons Flared (m3)	16,402,418	1,822,491
Hydrocarbons & IG Vented (m3)	467,093	51,899
PFW Discharged (m3)	1,208,374	134,264
OIW Content (mg/lt)	n/a	16.35
Oil discharged with PFW (kg)	19,578	2,175



Bayu-Undan

From a jurisdictional perspective the TSDA is interested only in incidents that occur within the JPDA, however for comparative purposes the onshore and totals are included in Table 8. below. There were four lost time injuries in the JPDA which resulted in 141 lost days.

Table 8: Bayu-Undan Health and Safety Incidents: April to December 2003

	<i>JPDA</i>	<i>Onshore</i>	<i>Total</i>
		2,211,13	3,808,73
<i>Hours worked</i>	1,597,601	3	4
<i>Incidents</i> (no. reported in period)			
Lost Time Injuries (LTI)	3	1	4
Total Injury Incidents (LTI, ADI, MTI)	16	6	22
Near Miss Incidents	55	11	66
<i>Frequency Rates</i>			
Lost Time Injuries (LTI)	1.88	0.45	1.05
Alternate Duty Injuries (ADI)	2.5	0	1.05
Medical Treatment Injuries (MTI)	5.63	2.26	3.68
First Aid Injuries (FAI)	50.08	2.71	22.58
Total Reportable Injuries (LTI, ADI, MTI)	10.02	2.71	5.78
<i>Lost Time Injury measures</i>			
Total Days Lost	107	34	141
Average Duration Rate (days per LTI)	35.67	34	35.25
Severity Frequency Rate	0.05	0.01	0.03
<i>Hazard Reports</i> (no. raised in year)	334	37	369

Note: all Frequency Rates are per million person hours for the nominated period.

Five environmental incidents occurred in the JPDA in the reporting period. Of the five only three were reportable (one below the threshold and one not causing a discharge to the marine environment). Any impacts from the Drilling Mud spill may be identified during post installation surveys of the sea floor around Wellhead Platform 1 (WP1). The two Therminoil spills were dealt with immediately in terms of breaking up the slicks with fire monitors. These incidents were investigated by the Contract Operator on several fronts to clarify if there were any design issues with the caisson, concluding the root cause was essentially due to a unique combination of activities associated with concurrent drilling and commissioning activities.

Jahal and Kuda-Tasi

The Seahorse Marine Seismic Survey (MSS) was 10 days in duration including tails that were outside of the JPDA. During the survey a single non-work related medical evacuation and three hazards were reported. The Medivac occurred on the way out of the JPDA and the person was sent to the Northern Endeavour for initial treatment.

The Kuda-Tasi-2 appraisal well program consisted of 37 days on location within the JPDA, commencing in October. There was a single First Aid Injury during this well and no Environmental Incidents.

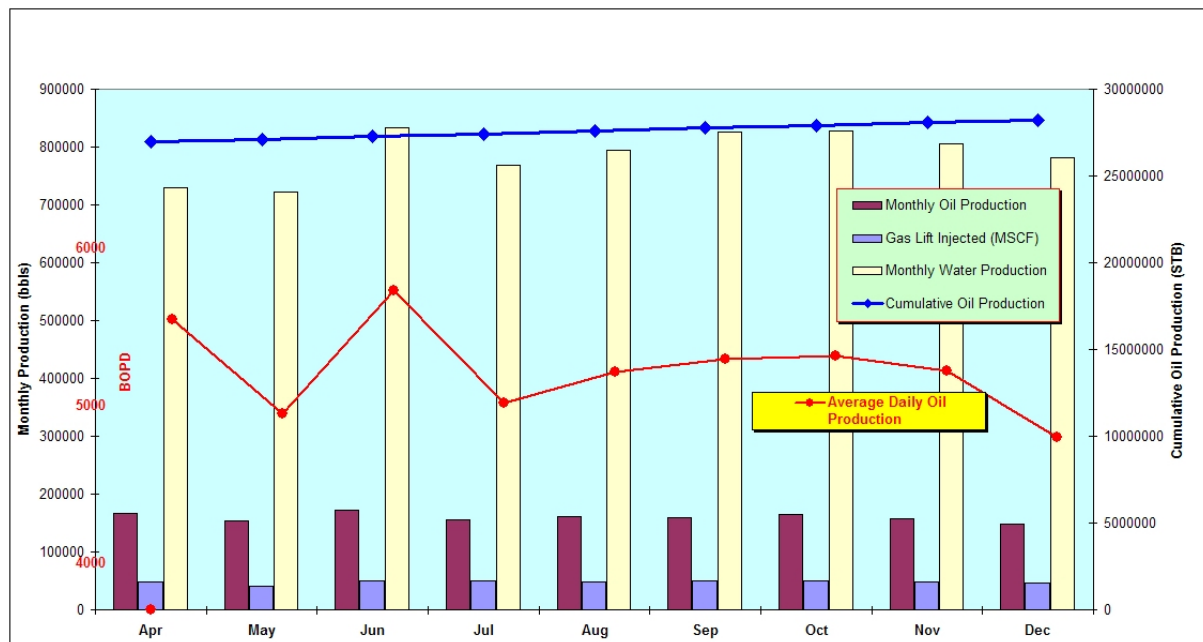
ii) Production

Elang, Kakatua and Kakatua North

Production Performance

Being the only producing field in the JPDA, EKKN production has continued without any major interruption or incidents during 2003. One notable event reported by the Contract Operator was reaching 28 MMSTB production milestones in November 2003, with cumulative Oil+NGLs production reaching 28.2 MMSTB at 31 December 2003.

Figure 1: EKKN Monthly Production and Gas Lift



The actual production for April to December 2003 was 1.437 MMSTB, indicating an 8.5% increase in Oil+NGLs over the planned total production. The field production has gradually declined over the year as expected. Well tests were carried out regularly to monitor the performance of individual wells, and results from all four wells have confirmed declined oil production rates due to increased water cut.

Operating Expenditure

Contract Operator ConocoPhillips reported that operating expenses have been reduced considerably as a result of re-negotiated contract with Modec. The end-of-year actual operating expense was reported at approximately 12% less than the planned operating expenditure for the year. Currency rate fluctuations have favourably contributed to cost savings as budgeted value of Australian dollar (0.55 USD) has reached actual average of 0.6279 USD. Based on the current production forecasts, a cost reduction of 24% would be expected for year 2004 as compared to 2003 operational expenditure.



Manpower and Maintenance

The total number of 50 regular employees of Modec and ConocoPhillips constitute 74% of the total Modec Venture 1 workforce. The average number of maintenance contractors was 18, not including the supply vessels personnel.

The actual maintenance hours recorded was 9406 for April to December 2003; approximately 8.3% more than planned maintenance work. The breakdown maintenance for the same period of the year was reported at 3409 man-hours and five offtakes occurred during the period required 360 man-hours.

Bayu-Undan

Installation and Commissioning

Further to construction and onshore testing of main modules, Compression Utilities and Quarters (CUQ), Drilling, Production and Processing (DPP) and Floating Storage and Offtake Facility (FSO) units were installed and Offshore Hook up and Commissioning work started. Contract Operator ConocoPhillips reported that, as at end of December 2003, cumulative progress on the Bayu-Undan Project was 90.3% actual as against 90.7% planned, and the remaining scope being Drilling and Completions work 8.7% and 1% respectively.

In December 2003 WP1 was commissioned and systems were successfully tested with produced gas.

Drilling

A total of four production wells were drilled and completed at WP1 and drilling rig Ensco-104 moved onto DPP.

A “Batch drilling program” was commenced at DPP, and two stages of the batch drilling program were completed. Design changes for Big Bore wells were submitted by the Contract Operator. The changes were approved and the first Big Bore injection well was drilled to Total Depth (TD) and completion tools ran in hole.

Reviews and Approvals

Approvals were issued for Construction, Installation, Hook Up and Commissioning work at WP1, CUQ, DPP and FSO.

The amendments to “Application To Drill” for the design changes of five Big Bore wells at DPP were reviewed and approved.

Reviews and Investigations

The Kuda-Tasi – 2 well testing program was reviewed and approved for implementation. Further to completion of the drilling and well suspension work, well logs, well testing data and preliminary evaluation reports were also reviewed for potential development option of the Jahal and Kuda-Tasi fields.



iii) Exploration and Development

Work programs and activity associated with exploration was low key for most of 2003.

Seismic data reprocessing and prospectivity studies were performed in all PSCs containing exploration acreage. More substantial exploration and development programs were undertaken in the Kuda-Tasi and Bayu-Undan areas respectively, as outlined below.

Exploration and Appraisal field activity comprised 530 line kilometres of semi-detail seismic data acquisition and processing, and the drilling of the Kuda-Tasi -2 well to appraise the Kuda-Tasi -1 oil discovery.

A wide range of prospectivity-related studies were conducted throughout the year. These included reprocessing of seismic data, mapping revisions, hydrocarbon source and migration path studies and volumetric assessments.

At year's end, the Bayu-Undan Contract Operator had completed the drilling of four Producer wells and one Injector well.

Drilling results have confirmed that the gas-producing reservoir is generally thicker than originally prognosed in the Development Plan.

Bayu-Undan will progressively increase production/processing of condensate and natural gas liquids to a maximum of approximately 100,000 barrels per day derived from 1.1 billion cubic feet of gas per day. The resultant lean gas will be reinjected into the reservoir until the completion of the LNG plant in Darwin and the pipeline from Darwin to Bayu-Undan. Thereafter, approximately half of the lean gas will be piped to the LNG Plant, and the remainder will continue to be reinjected.

C. Petroleum Resources

The total proven Petroleum Resources (*) in the JPDA are as follows:

OIL	:	50.2 million barrels of Oil
GAS	:	5.08 TCF (or 914.4 million barrels of oil equivalent)
NGL + condensate	:	456 million barrels of NGL and condensate

(*) includes 20.1% of Greater Sunrise Field reserves.

JPDA Total Production (end December 2003)

OIL	:	28.2 million barrels of Oil
-----	---	-----------------------------

The petroleum resources in place are expected to grow in the near future through award of new PSCs and implementation of additional work programs. Improved recovery factors and implementation of new technology will also contribute to this growth.



D. Project Milestones

The EKKN project achieved five years production in mid 2003 and produced their 28 millionth barrel of oil in late December. The Modec Venture 1 also underwent a lengthy inspection and remediation program culminating in the classification society issuing certification for another five years.

Key milestones for the Bayu-Undan project in 2003 were the successful installation of the export riser early in the year followed by the two main platforms CUQ followed by DPP and finally the FSO in the third quarter. The completion and commissioning of these facilities is ongoing. Four wells were completed at the Wellhead platform site and drilling at the DPP platform site commence in the third quarter. Hydrocarbons were introduced onto the Wellhead platform in December. Commercial production is currently expected to commence in July 2004.

Activities for the Jahal and Kuda-Tasi project in the year consisted of a short 2D Marine Seismic Survey (ten days) mid year and a single appraisal well (Kuda-Tasi-2) drilling in October. The results of these activities are expected in the first quarter of 2004 when consideration of development proposals will then be made.

3.4. Finance

A. Introduction

The period 2 April to 31 December 2003 was a challenging year for the Financial Directorate in terms of establishing a new system of financial controls and reporting for the TSDA. The growth in business activities as a result of the construction of the Bayu-Undan facilities, together with the ongoing finalisation of commercial arrangements of stage one of the Bayu-Undan project impacted directly on the TSDA and hence the level of expenditure.

A significant program of capital acquisitions commenced to recognise the importance of the Dili office including upgrades to IT infrastructure, stage one of a satellite communications network, modern computer equipment for all employees, acquisition of necessary office equipment and the purchase of a suitable vehicle.

Income exceeded expenditure by USD248,771. This result took into account Contract Service Fees of USD160,000 received in advance and committed expenditure of USD138,088.



Table 9: Financial Results of the TSDA: Period Ended 31 December 2003

	<i>Amended budget Aug 03</i>	<i>Approved budget Jun 03</i>	<i>Actual results to 31 Dec 03</i>	<i>Approved budget v actual</i>
	USD	USD	USD	USD
Income	1,585,624	1,114,744	1,567,682	452,938
Capital costs	291,231	193,680	248,512	(54,832)
Employment costs	582,457	550,638	529,795	20,843
Travel & accommodation	244,090	214,242	216,434	(2,191)
Education, training & conferences	69,277	46,429	69,800	(23,371)
HSE activities	39,691	37,661	0	37,661
General & administration	295,188	233,729	276,282	(42,553)
Contingency	76,439	63,819	0	63,819
Total expenditure	1,598,373	1,340,199	1,340,823	(624)
Excess/(Deficit)	(12,749)	(225,454)	226,859	452,314
2004 Contract Service Fees received in 2003			160,000	
<i>Funds committed but not spent</i>				
Employment costs			20,431	
Capital equipment			72,657	
HSE consultants			30,000	
Communications			15,000	
Net cash movement	(12,749)	(225,454)	248,771	452,314

A continuing forecast of business growth for the TSDA as a result of the completion of stage one and continuing stage two of the Bayu-Undan project, the Jahal and Kuda-Tasi prospect, the rewrite of the PMC and PSCs and the anticipated release of new JPDA acreage will present further challenges for the Financial Directorate in the coming years.

The overall increase in activity is reflected in the budget for the forthcoming year, shown below. Whilst income is presently forecast to remain constant, expenditure is expected to rise to USD2.85M, resulting in a loss of USD1.36M.



Table 10: Budget for TSDA: Period Ending 31 December 2003

	<i>USD</i>
Income	1,495,000
Capital Costs	124,608
Employment Costs	1,099,109
Travel and Accommodation	590,621
Education, Training and Conferences	232,267
Consultants	149,250
Litigation	153,900
Office Lease and Security	135,465
Communications	104,165
General and Administration	181,017
Contingency	83,112
Total Expenditure	2,853,515
Net Loss	(\$1,358,515)

The Directors recognise that the large loss position is unsustainable in the long term and the Financial Directorate is currently progressing strategies to secure the future viability of the TSDA, and its successor organisation.

B. JPDA Financial Activity

The Financial Directorate is responsible for the monitoring of Contract Operators' financial activities in the JPDA.

Table 11: Summary of Results of the Contract Operators

	<i>JPDA PSC</i>						
	<i>03-01</i>	<i>03-12</i>	<i>03-13</i>	<i>03-16</i>	<i>03-19</i>	<i>03-20</i>	<i>03-21</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
<i>Exploration costs</i>	14,018	10	-	164	9	-	154
<i>Non-capital costs</i>							
Operating	411	28,064	-	-	-	-	-
Administration	-	8,207	6,497	40	-	-	24
Production drilling	-	61,092	49,578	-	-	-	-
Other	1,524	357	257	182	258	145	-
<i>Capital costs</i>	-	197,989	160,674	-	-	-	-
<i>Other costs</i>	149	152	123	-	-	-	160
<i>Phoenix prospect</i>	-	10	-	-	-	-	-
<i>Miscellaneous receipts</i>	-	120	-	-	-	-	-
<i>Net Expenditure</i>	2,084	295,759	217,128	386	267	145	339
<i>Investment credits</i>	17,803	251,471	204,056	208	12	-	196



Bayu-Undan

ConocoPhillips reported the forecast final stage one cost of the development as USD1,879.3 MM which includes Timor Leste taxes of USD32.2MM.

Table 12: Bayu-Undan Reported Project Cost Summary

	USD (MM)
Control budget #4	1,813.5
VOWIP to date	1,623.4
Forecast at completion	1,879.3

Taxes of USD10.83MM were reported as paid to Timor Leste for the 2003 year in respect of Bayu-Undan.

ConocoPhillips sales team were actively engaged in marketing the petroleum produced from the field and at 31 December 2003 had progressed a sales contract for all of the LPG produced from Bayu-Undan to one customer. The contract is expected to cover a period of eighteen months, beginning on 1 July 2004 and is being negotiated on behalf of all the Joint Venture Partners. ConocoPhillips has advised the TSDA that it will be seeking approval of the LPG sales contract during January 2004. Marketing of the condensate is continuing however at this stage some of the Joint Venture partners intend to market their own share of the condensate.

Elang, Kakatua and Kakatua North

During the period from 2 April to 31 December 2003, five cargoes were lifted from the Modec Venture. All cargoes were marketed by ConocoPhillips on behalf of the Joint Venture partners and the TSDA.

Total revenue from the field for the period from 2 April 2003 to 31 December 2003 was USD43.3M of which USD3.1M was paid to the TSDA as First Tranche Petroleum. The average price received was USD28.13 per barrel which was consistent with the high oil prices experienced across the globe.

During the year the Contract Operator of the PSC, ConocoPhillips renegotiated the lease arrangement of the Modec Venture which resulted in a significant reduction in operating expenses. The actual operating expenses reported by ConocoPhillips for the year ended 31 December 2003 was USD29.7M, approximately 12% less than the original budget.

Jahal and Kuda-Tasi

During the year the TSDA met with Woodside to discuss the development of the Jahal and Kuda-Tasi prospects located within PSC 03-01. The Kuda-Tasi-2 appraisal well was spudded on 18 October 2003 and the project economics were updated subsequent to the incorporation of the drilling results into the model.

Unfortunately, the interpreted results indicated a level of reserves which would not support a stand alone economic development for Jahal and Kuda-Tasi and the Joint Venture Partners are currently reviewing the field to determine if an economically feasible outcome is achievable.



4. INSTITUTIONAL DEVELOPMENT

4.1. Dili Office

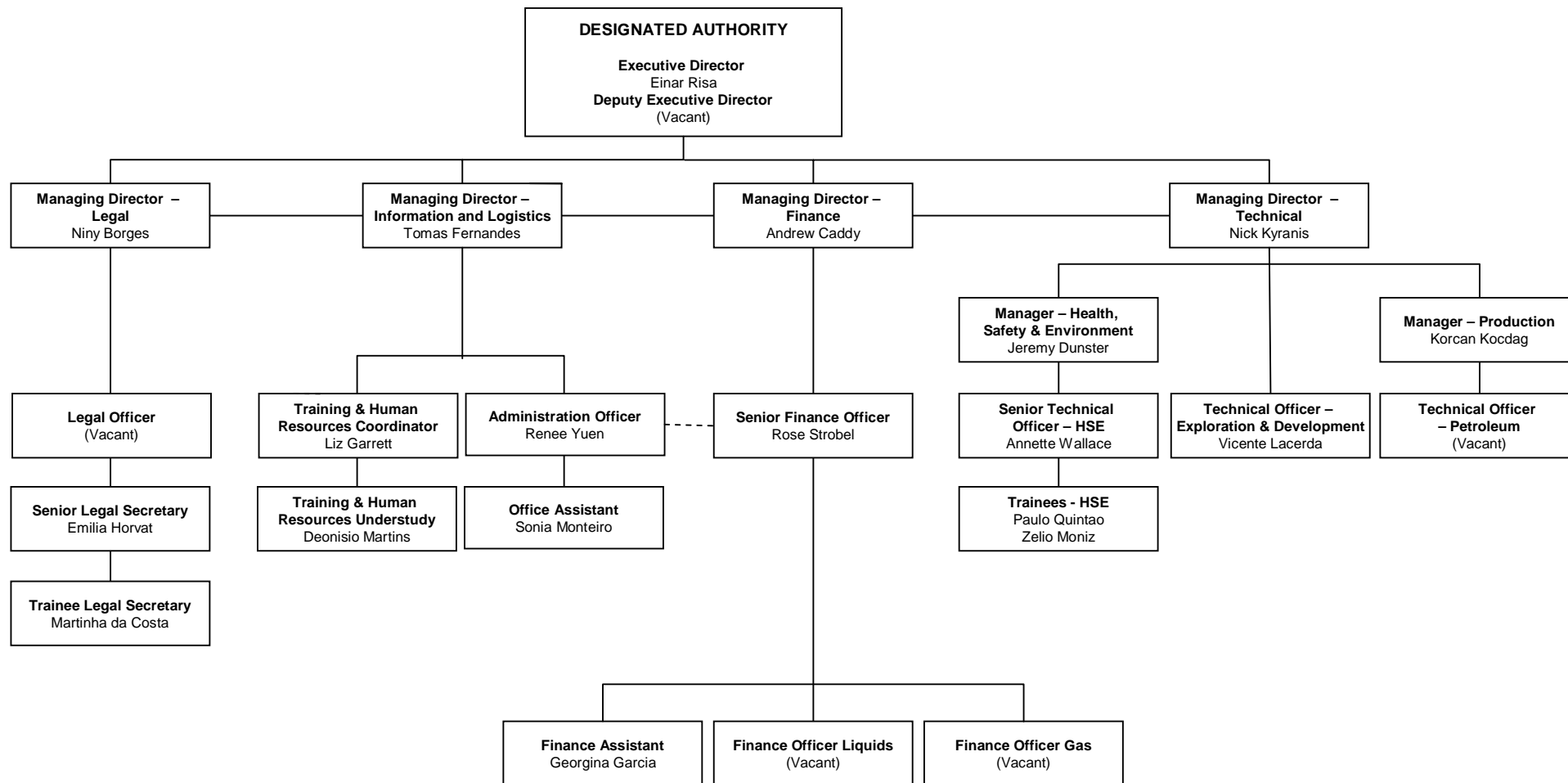
In accordance with the Timor Sea Treaty, after three years or a different period of time if agreed jointly by Timor-Leste and Australia, the TSDA shall be the Timor-Leste Government Ministry responsible for petroleum activities or, if decided by the Ministry, a Timor-Leste statutory authority. This means that the current TSDA has needed to work closely with the Timor-Leste Government's Timor Sea Office (TSO) and/or Department of Energy and Mineral Resources (EMR). As this is part of the overall plan, the TSDA has established good relations with these two offices and their staff, ensuring that activities and training are developed in tandem wherever possible.

TSDA now conducts the majority of its business, especially meetings and negotiations, from the Dili office. This also ensures that TSO and EMR can readily participate and become familiar with the processes involved in being the authority. Initial discussions were held at the end of 2003 with TSO and EMR to be involved in TSDA training activities wherever possible and to share information about human resource issues in order to develop institutional capacity in the petroleum sector appropriately. The training focus for TSDA staff is on language and computer skills initially, leading to training in workplace effectiveness and technical skills. EMR are in the process of institution building and therefore TSDA is continuously working to involve the Ministry in staff development programs. These programs are to be implemented in earnest, in 2004.

The TSDA continues to view its future within the context of a three year plan to shift all functions to Dili, and is developing JPDA activities and human resources in order to ensure a smooth transition to the Timor-Leste Government.

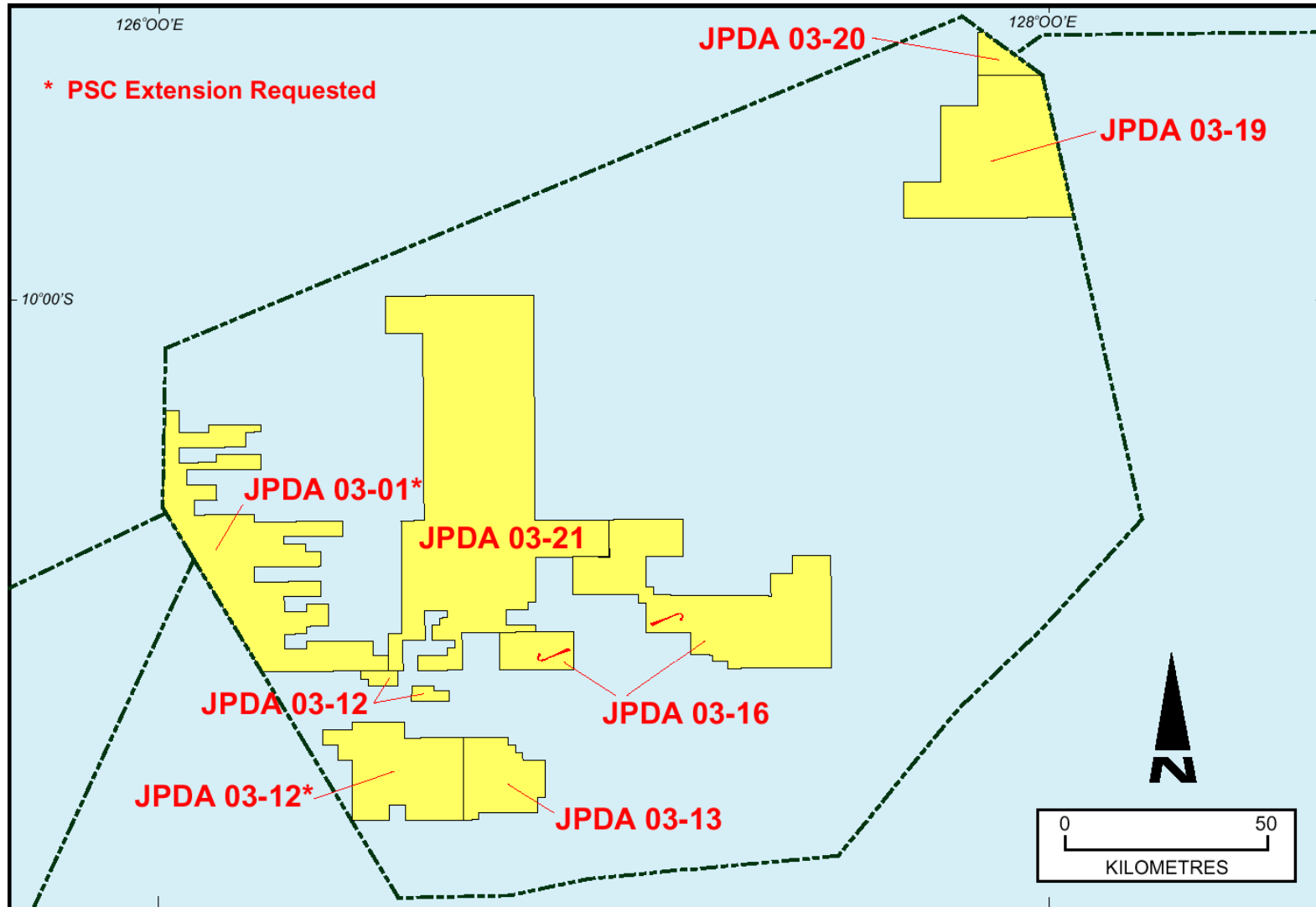


Attachment 1: Organisation Chart





Attachment 2: Map of JPDA

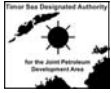




Timor Sea Designated Authority Annual Report 2003

Attachment 3: Register of Contract Operators: As at 31 December 2003

PSC	EFFECTIVE DATE	EXPIRY DATE	CONTRACT OPERATOR	INTEREST %	JVP	INTEREST %
JPDA 03-01	20-May-02	8-Jan-22	Woodside Petroleum (Timor Sea 1) Pty Ltd Woodside Energy Ltd. 1 Adelaide Terrace Perth WA 6000 Fax: +61 8 9348 4273	40	INPEX Timor Sea Ltd Santos (JPDA 91-01) Pty Ltd	35 25
JPDA 03-12	20-May-02	6-Feb-22	ConocoPhillips (91-12) Pty Ltd Level 3, 53 Ord Street West Perth, WA 6872 Facsimile: +61 8 9423 6675	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	37.5	ConocoPhillips (91-13) 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 (96-16) Pty Ltd Level 3, 53 Ord Street West Perth, WA 6872 Facsimile: +61 8 9423 6675	100		
JPDA 03-19	20-May-02	4-Oct-26	Woodside Petroleum (Timor Sea 19) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: (08) 9325 8178	27 2/3	Shell Development (PSC 19) Pty Ltd ConocoPhillips (95-19) Pty Ltd OG ZOCA (95-19) Pty Ltd	32 1/3 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: 08 9325 8178	26 2/3	Shell Development (PSC 19) Pty Ltd ConocoPhillips (96-20) Pty Ltd. OG ZOCA (96-20) Pty Ltd	33 1/3 30 10
JPDA 03-21	20-May-02	25-Mar-31	ConocoPhillips (00-21) Pty Ltd Level 3, 53 Ord Street WEST PERTH WA 6872 Facsimile: +61 8 9423 6675	75	Eni JPDA 03-21 BV	25



Attachment 4: Audited Financial Report: As at 31 December 2003

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

FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2003

**TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
PERIOD ENDED 31 DECEMBER 2003**

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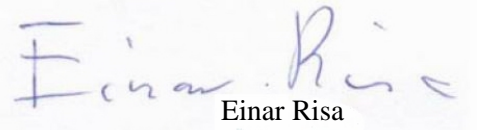
DIRECTOR'S DECLARATION	2
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BALANCE SHEET	5
STATEMENT OF CASH FLOW	6
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DIRECTORS' DECLARATION

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 period ended 31 December 2003 and the financial position of the Designated Authority as at 31 December 2003; and
- (b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of the Board



Einar Risa
Executive Director



Andrew Caddy
Managing Director - Finance

DILI
29 APRIL 2004

INDEPENDENT AUDIT REPORT

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

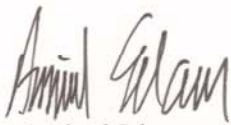
We have audited the financial statements of the Timor Sea Designated Authority for the Joint Petroleum Development Area for the period ended 31 December 2003 as set out on pages 4 to 17. These financial statements are the responsibility of the Designated Authority's directors. Our responsibility is to 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 present a true and fair view, in all material respects, the financial position of the Timor Sea Designated Authority for the Joint Petroleum Development Area as at 31 December 2003, and the results of its operations and its cash flows for the period then ended, in accordance with Financial Reporting Standards.



Merit Partners



Aminul Islam
Partner
Darwin

Date: 29 April 2004

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2003
(Expressed in United States Dollars)

	Note	2003 \$ (9 months)
GENERAL FUND		
REVENUE		
Contract Service Fees		1,105,744
Interest		120
Other		<u>1,392</u>
		<u>1,107,256</u>
EXPENSES		
Personnel costs	8	548,309
General and administration	9	<u>550,996</u>
Foreign exchange losses		1,480
Depreciation		<u>35,262</u>
		<u>1,136,047</u>
NET (LOSS)/PROFIT		<u>(28,791)</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

BALANCE SHEET
AS AT 31 DECEMBER 2003
(Expressed in United States Dollars)

	Note	2003 \$
ASSETS		
CURRENT ASSETS		
Cash and Cash equivalents	3	4,305,272
Trade and Other receivables	4	291,101
Other	5	<u>93,084</u>
Total Current Assets		<u>4,689,457</u>
NON- CURRENT ASSETS		
Property Plant and Equipment	6	<u>119,065</u>
TOTAL ASSETS		<u><u>4,808,522</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accruals		123,725
Provision for annual leave		15,289
Prepaid contract service fees	7	<u>915,919</u>
Total Current Liabilities		<u>1,054,933</u>
NON-CURRENT LIABILITIES		
Provision for long service leave		<u>0</u>
TOTAL LIABILITIES		<u>1,054,933</u>
EQUITY		
Contribution by Contracting States (Loss)/Profit		3,782,380 <u>(28,791)</u>
Total Equity		<u>3,753,589</u>
TOTAL LIABILITIES AND EQUITY		<u><u>4,808,522</u></u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

STATEMENT OF CASH FLOW
FOR THE PERIOD ENDED 31 DECEMBER 2003
(Expressed in United States Dollars)

	2003 \$ (9 months)
CASH FLOW FROM OPERATING ACTIVITIES	
Fees from Operators	1,730,562
Interest Received	
Less: Personnel Costs	(548,309)
Less: Other Operating Expenses	(506,546)
	<hr/>
Net cash flow from operating activities	675,827
	<hr/>
CASH FLOW FROM INVESTMENT ACTIVITIES	
Purchase of plant and equipment	(154,327)
Proceeds from sale of plant and equipment	1,392
	<hr/>
Net cash flow used in investment activities	(152,935)
	<hr/>
CASH FLOW FROM FINANCE ACTIVITIES	
Initial Contribution by Contracting States	3,782,380
	<hr/>
Net cash flow from finance activities	3,782,380
	<hr/>
Net increase/(decrease) in cash and cash equivalents	4,305,272
	<hr/>
Add opening balance carried forward	<hr/>
Cash and cash equivalents ending balance	4,305,272
	<hr/>
Comprising:	
Cash	4,305,272
	<hr/>
	4,305,272
	<hr/>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2003**

	2003
INITIAL CONTRIBUTION BY CONTRACTING STATES	3,782,380
ADD: NET (LOSS) FOR THE PERIOD	<u>(28,791)</u>
EQUITY AT 31 DECEMBER 2003	<u><u>3,753,589</u></u>

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 period, 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 period ended 31 December 2003 the Designated Authority operated from offices at NT House, 22 Mitchell Street, Darwin, Australia and No. 4, Farol, Dili, Timor-Leste. At the end of the period the Designated Authority employed twenty one 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), which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the FASC that remain in effect.

The financial statements are stated in United States Dollars and are prepared in accordance with the historical cost convention.

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 accounts of the Designated Authority would be denominated in United States dollars.

b. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Statement of Cash Flow

The Statement of Cash Flow is prepared on the basis of cash and cash equivalent concepts, using the direct method. Cash equivalents include cash on deposit, which are available for use within three months.

d. Income recognition

Income is brought to account on the following basis:

- i) Application fees - accrual basis.
- 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.
- iv) First Tranche Petroleum ("FTP") – accruals basis at the point of tanker loading.

e. 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.

f. Long Service Leave

The Designated Authority has accrued the cost of long service leave for all employees. The Designated Authority's obligation to pay long service leave arises when an employee achieves seven years service.

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.

TIMOR SEA DESIGNATED AUTHORITY
 FOR THE JOINT PETROLEUM DEVELOPMENT AREA
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Property, Plant, and Equipment

Property, Plant and Equipment are valued at cost and depreciation is calculated using the declining balance method. Depreciation rates are based on the estimated useful lives of the assets as follows:

	2003
Domestic furniture	25%
Office and Computer Equipment	33.3%
Other	25%
Leasehold Improvements	Lease term – 25%

Leasehold improvements are depreciated over the shorter of the lease term or 25%.

Any gain or loss arising from the sale or disposal of fixed assets is credited to, or charged against, income in the year of sale.

3. CASH AND CASH EQUIVALENTS

	2003
	\$
ANZ AUD Account	1,476,991
ANZ USD Account	2,820,123
ANZ Dili USD Account	6,923
Petty Cash	1,235
	<hr/>
Total	4,305,272 <hr/>

4. TRADE AND OTHER RECEIVABLES

	2003
	\$
Contract Service Fees	290,000
Other	1,101
	<hr/>
	291,101 <hr/> <hr/>

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5. OTHER CURRENT ASSETS

	2003 \$
Prepayments	<u>93,084</u>
	<u>93,084</u>

6. FIXED ASSETS

(a)

	Cost	Accumulated Depreciation	Written down Value
Office and Computer Equipment-Cost	107,213	(13,814)	93,399
Office Furniture-Cost	14,786	(1,817)	12,969
Other-Cost	9,743	(942)	8,801
Leasehold Improvements	<u>22,585</u>	<u>(18,689)</u>	<u>3,896</u>
Total	<u>154,327</u>	<u>(35,262)</u>	<u>119,065</u>

(b) Reconciliations

<u>Office and Computer Equipment</u>	2003 \$
Carrying amount at beginning	0
Additions	107,213
Disposals	0
Depreciation Expense	<u>(13,814)</u>
Carrying amount at ending	<u>93,399</u>

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6. FIXED ASSETS (continued)

<u>Office Furniture</u>	2003 \$
Carrying amount at beginning	0
Additions	14,786
Disposals	0
Depreciation Expense	<u>(1,817)</u>
Carrying amount at ending	<u>12,969</u>

<u>Other</u>	2003 \$
Carrying amount at beginning	0
Additions	9,743
Disposals	0
Depreciation Expense	<u>(942)</u>
Carrying amount at ending	<u>8,801</u>

<u>Leasehold Improvements</u>	2003 \$
Carrying amount at beginning	0
Additions	22,585
Disposals	0
Depreciation Expense	<u>(18,689)</u>
Carrying amount at ending	<u>3,896</u>

7. PREPAID CONTRACT SERVICE FEES

A number of contract service fees (US\$ 915,919) partially relating to the following year, were received in the year ended 31 December 2003. These prepaid contract service fees are shown as current liabilities at 31 December 2003, and are to be taken up as income in the following year.

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8. PERSONNEL COSTS	2003 \$
Salaries	371,143
District Benefit	73,366
Employee Compensation	3,215
Home leave travel	1,196
Motor Vehicle	16,967
Personnel Allowance	2,181
Relocation	880
Staff Amenities	10,194
Superannuation	49,876
Training & Conference	19,291
	<hr/>
	548,309
	<hr/> <hr/>

9. GENERAL AND ADMINISTRATION COSTS	2003 \$
Audit and Professional fees	8,191
Bank charges	2,357
Conference fees	65,765
Consultants	67,995
Electricity	7,205
Goods and Services Tax expense	300
Insurance	2,717
Office rental	67,936
Office supplies	8,636
Other	15,087
Printing & advertising	14,579
Repairs and maintenance	16,071
Security	15,727
Telephones & Communication	37,410
Travel	216,434
Web and Intranet	4,586
	<hr/>
	550,996
	<hr/> <hr/>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
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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 period, the Designated Authority, with the approval of the Joint Commission, entered into seven Production Sharing Contracts and collected the net proceeds of the Contracting States share of petroleum from production in the Joint Petroleum Development Area. The petroleum revenue was sourced solely from Production Sharing Contract JPDA 03-12 which was the only producing area.

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	2003 \$
FTP Income	3,662,233
Plus: Other Income	2,789
Less: FTP related expenses	<u>(6,859)</u>
Net FTP Income	<u>\$3,658,163</u>
Distributions to Contracting States for the period	
Timor Leste	0
Australia	<u>0</u>
	<u>0</u>
Net Movement in FTP Funds held on behalf of Contracting States	<u>\$3,658,163</u>
	2003 \$
FTP FUNDS HELD	
Balance at Beginning of Period	0
Net Movement for Period	<u>3,658,163</u>
Balance at End of Period	<u>\$3,658,163</u>
Represented by:	
Cash	1,876,497
Receivables	<u>1,781,666</u>
	<u>\$3,658,163</u>

11. COMMITMENTS AND CONTINGENCIES

- a) At 31 December 2003 the Designated Authority had no capital commitments.
- b) The Designated Authority has commitments under operating leases for office rental as follows:

	2003
	\$
Payable no later than one year	89,904
	=====

12. SUBSEQUENT EVENTS

On the 1st of March 2004, the Designated Authority was named as a defendant in a statement of claim initiated by Oceanic Exploration Company in the United States District Court of Columbia. At the date of signing the Financial Statements, the Designated Authority had not been served with an application.

The Directors of the Designated Authority vigorously deny all of the claims by Oceanic Exploration Company and do not expect any liability to arise.

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 FOR THE JOINT PETROLEUM DEVELOPMENT AREA
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13. FINANCIAL INSTRUMENTS

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and conditions
<u>(i) Financial assets</u>			
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.
<u>(ii) Financial liabilities</u>			
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.

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(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	
		2003 \$		2003 \$		2003 \$		2003 \$
<i>(i) Financial assets</i>								
Cash		4,305,272				4,305,272		
Receivables				291,101		291,101		
Total financial assets		4,305,272		291,101		4,596,373		

Financial Instruments	Non-interest Bearing		Total Carrying Amount as per the Balance sheet	
		2003 \$		2003 \$
<i>(i) Financial liabilities</i>				
Trade creditors & accruals		123,725		123,725
Total financial liabilities		123,725		123,725

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13. 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 Company'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.

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FOR THE JOINT PETROLEUM DEVELOPMENT AREA

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