Timor Sea Designated Authority

for the Joint Petroleum Development Area

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2007

Annual Report

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Timor Sea Designated Authority for the
Joint Petroleum Development Area
No.5 Avenida de Portugal, Farol, Dili
PO Box 113, Dili, Timor-Leste
Tel: + 670 332 4098
Email: dilioffice@timorseada.org
Internet: www.timorseada.org

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1. Message from the Executive Director

This year of 2007 has been a year with a mixture of excitement as well as challenges for the TSDA both as an organisation and as a petroleum regulatory authority. Under all circumstances the TSDA was committed to diligently managing all petroleum activities in the JPDA and ensuring the sustainability of distribution of the petroleum revenues from the JPDA to the governments of Timor-Leste and Australia. With that message in mind, on behalf of the board of directors of the TSDA, I am pleased to present to you the TSDA Annual Report for the year 2007.

As an institution, the TSDA established its own strategic plans in order to accomplish its vision and mission. Through a series of thorough discussions the TSDA was able to map out its plans for the next three years reflecting its powers and functions stated under the Timor Sea Treaty. These include developing organisational and operational excellence, better administration of all petroleum exploration and exploitation in the JPDA, with great emphasis on the use of goods and services in Timor-Leste, ensuring their fulfilment with the Health, Safety, and Environment requirements, and enhancing the capacity of the Timor-Leste nationals.

Training programs and transfer of skills to Timor-Leste nationals have been some of the important TSDA highlights. Apart from attending internal management training, national staff also attended specialised training in other fields of expertise in the well established foreign countries such as Australia, Singapore and Malaysia in the region. In addition, transfer of skills from the most experienced international staff to the nationals was also implemented through several methods including coaching and mentoring, and periodic presentations in various fields of expertise by the internationals. These efforts were aimed to ensure that the nationals are exposed to various dimensions of the highly professional petroleum industry.

In the area of petroleum exploration, the completion of 3D seismic acquisition in PSC 06-102 has been the only field activity. In other exploration blocks, preparatory work such as reassessment of geo-scientific data, and other geological and geophysical studies have been the main highlights. Meanwhile the operator of PSC 03-12 relinquished the exploration area due to the sub-economic flow rates obtained in its Firebird-1 exploration well. In essence, exploration activities in the JPDA remain competitive as all the new PSC operators have committed to undertaking significant exploration activities in their respective areas.

Overall petroleum production reduced in the JPDA due to the cessation of production at the EKKN field. This oil producing field ceased production on 1 July 2008 following continuous decline of production rate and the increase of water production.

In the area of JPDA commercial, excitement began in the 2007. The encouraging factor for this was the increasing price for all petroleum products of the Bayu-Undan in accordance with global oil price. One of the important highlights to note in 2007 is the marketing of the Bayu-Undan Condensate which reached the most significant increase since 2004.

Lastly, 2007 has been a year in which the TSDA inspired itself to be a true professional petroleum regulatory authority. We are committed to overcome challenges and difficulties in order to provide better management for all petroleum activities in the JPDA, and to ensure the sustainability of petroleum revenue distributions to both the Timor-Leste and Australian governments.

Gualdino da Silva

2. Strategic Direction

2.1. Vision

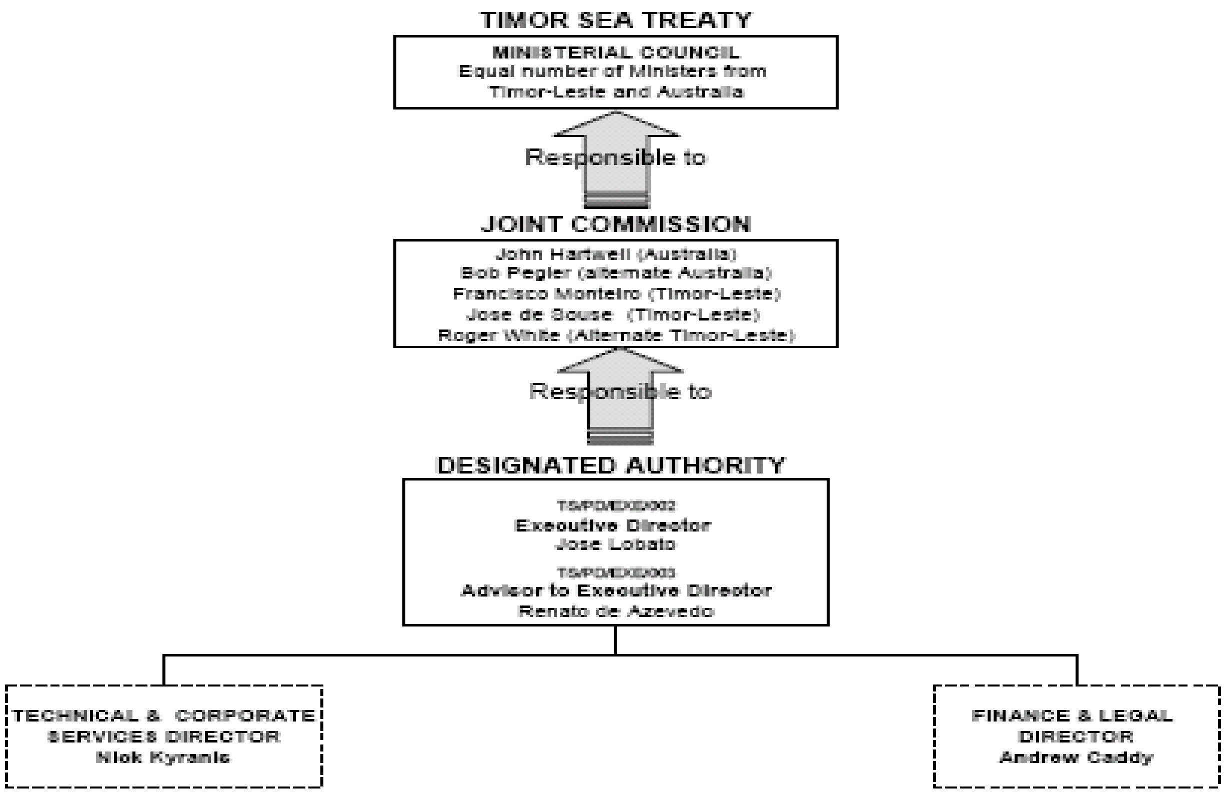
To be a benchmark for Timor-Leste organisations and a model for oil and gas regulators.

2.2. Mission

The Timor Sea Designated Authority (TSDA) shall regulate and manage petroleum resources in the Joint Petroleum Development Area (JPDA) on behalf of Timor-Leste and Australia in accordance with the *Timor Sea Treaty* by:

- Maximising economic benefits
- Promoting best health, safety and environmental practices; and
- Developing the institutional and human resource capacity of the Timor-Leste petroleum sector.

2.3. Profile



2.4. New Commissioners

During September 2007, Timor-Leste appointed Mr Francisco Monteiro and Mr Antonio Jose Loyola De sousa as its Commissioners to replace Mr. Einar Risa and Mr. Manuel de Lemos. Mr John Hartwell is the Australian Commissioner. Mr Roger White and Mr Robert Pegler are the alternate Commissioners for Timor-Leste and Australia respectively.

2.5. Future Structure of the "Designated Authority"

The TSDA was established under the Timor Sea Treaty. On 2 April 2003, the Joint Commission designated the TSDA responsible for regulating and managing petroleum activities in the JPDA for a specified period. On 2 April 2006, the powers and functions of the TSDA were due to be taken over by the Timor-Leste Ministry responsible for petroleum activities, or a Timor-Leste statutory authority resulting in the cessation of the TSDA as an international organisation.

During 2007, extensions were granted by the governments of Timor-Leste and Australia allowing the Joint Commission to designate the TSDA as regulator of the JPDA for a further period until 30 June 2008.

Both governments are actively working toward achieving a common position regarding the creation of the new authority. This cooperation between the governments led to a restructuring of the TSDA in early 2008 which saw the appointment of several new Timor-Leste Nationals as Directors under an expanded organisational structure which was approved on 2 January 2008.

3. Institutional Development

3.1. 2007 – 2010 Action Plan

During February 2007, the TST Joint Commission approved the TSDAs Strategic Plan for the 2007 – 2010 period. Contained within the Strategic Plan is the TSDAs vision for 2010 which is "To be a benchmark for Timor-Leste organisations and a model for oil and gas regulators.

The Strategic Plan highlights the goals and strategies for the TSDA to achieve its Vision and is supported by the organisation's Action Plan. Underpinning the Vision is the TSDA's Mission:

> *The Timor Sea Designated Authority (TSDA) shall regulate and manage petroleum resources in the Joint Petroleum Development Area (JPDA) on behalf of Timor-Leste and Australia in accordance with the Timor Sea Treaty by:*

- *Maximising economic benefits*
- *Promoting best health, safety and environmental practices; and*
- *Developing the institutional and human resource capacity of the Timor-Leste petroleum sector.*

To achieve its Mission, the TSDA has 6 goals as follows:

- Goal 1: Facilitate exploration and development of petroleum resources
- Goal 2: Plan and achieve financial deliverables
- Goal 3: Contribute to Sunrise development
- Goal 4: Increase capacity of Timor-Leste nationals
- Goal 5: Facilitate development of Timor-Leste suppliers of goods and services
- Goal 6: Develop organisational and operational excellence

The Strategic Plan is included at Attachment 2.

3.2. Human Resource Development

A. Staffing Levels within the TSDA

HR recruited a total of ten new employees during 2007; three international and seven Timor-Leste nationals. The total number of personnel for the year 2007 grew from 36 to 44 employees. Of the 44 employees, 32 are Timor-Leste nationals.

B. Education and Training of Timor-Leste Nationals

After the success of the Certificate in Business Skills course conducted during 2006, the TSDA decided to offer the training again in 2007 and this commenced during March. The emphasis of the Certificate is on professional skills development, setting goals, planning work and, coaching skills for supervisors. The course consisted of 12 units, including customer service, communication, prioritising work and report writing. The success of the Certificate Course during 2006 led the decision to offer it to personnel of DNPG as well as the TSDA.

In addition, many TSDA employees attended in-house management training programs, such as Cross Culture Training, Introduction to Oil and Gas Training, Senior First Aid Training, People Management Training and Effective Project Management Training. All staff, who attended these courses, successfully completed the programs.

People Management Training TSDA Staff attending Fortnightly Seminar provided by Brain Power Sydney - Australia

English, Tetum and Portuguese language classes continued.

As part of the TSDA's professional development program, HR initiated fortnightly seminars to be presented by individual staff with the aim to share knowledge, skills and experience. Topics included: Key Performance Indicators, Volcano on the Beach and Volcano in the Snow, Health, Safety and Environment, Introduction to the Sunrise Fiscal Regime and Deepwater Development Technology.

C. Performance Management

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.

D. Organisational Development

The TSDA continued to develop its internal administration through development of policies and procedures, including: the PSC Application Procedure, a Security Policy, Hazard Reporting, and Registration of Correspondence. HR also conducted a review of the Performance Review process and documents.

E. TSDA Website

On 1 March 2007 the TSDA launched its new website with a substantially changed look that facilitated navigation for users.

The TSDA believes that these changes will make the organisation more accessible to the wider community and aims to increase the understanding of the activities of the organisation and its people. New innovations included pages such as "About Us", "Public Information", "JPDA" "Publish What You Pay", "Laws/Regulations/Treaties", "Employment Opportunities" and the novel "Explain This", which can be used as a teaching tool to increase awareness on petroleum related issues.

4. Regulations

In 2007 the TSDA worked towards drafting new Regulations to provide the framework and parameters for regulating Petroleum Operations in the JPDA. The new regulations will be objective based in line with the global movement away from prescriptive methods of regulation. The regulations are expected to be completed during the first half of 2008.

5. Areas Under Contract – a snapshot

Production Sharing Contracts in the JPDA are classified as **Annex F** and **non-Annex F PSCs**.

The Timor Sea Treaty specifies that contracts offered to the ConocoPhillips led joint venture for the Bayu-Undan project (JPDA PSCs 03-12 & 03-13) as well as contracts offered to the Woodside led joint venture for Sunrise (JPDA PSCs 03-19 & 03-20) would continue with the same terms, but modified to the extent that these contracts had to take into account the administrative structure under the Timor Sea Treaty. These contracts are known as Annex F PSCs and are governed by the Interim Petroleum Mining Code, Interim regulations and Interim directions.

PSCs signed after the conclusion of the Petroleum Mining Code in February 2006 are known as non-Annex F PSCs.

In order to put the activities of the TSDA and the performance of the 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 2007.

5.1. JPDA PSC 03-12 Elang, Kakatua and Kakatua North (EKKN) Project

The Operator, ConocoPhillips (03-12) Pty Ltd decided to cease production from the EKKN field. The TSDA took the view that commercial production may still be viable and sought expressions of interest from industry for enhanced oil recovery.

5.2. JPDA PSC 03-12 & 03-13 Bayu-Undan Project

The shutdown was completed in October 2007 and ConocoPhillips (03-13) Pty Ltd is continuing with the ‘Extend the Edge’ project, which aims to maintain production levels in the Bayu-Undan field.

As required by the PSCs, on 15 October 2007, the Operator submitted the Bayu-Undan Decommissioning Plan and Cost Reserve to the TSDA for approval and it is currently being assessed.

5.3. JPDA PSC 03-19 & 03-20 Greater Sunrise

On 26 September 2007, the TSDA declared the Greater Sunrise discovery area in accordance with the Production Sharing Contracts JPDA 03-19 and 03-20. Following this, Woodside then commenced screening studies for development of the unitised area.

5.4. JPDA PSC 06-105

On 7 September 2007, ENI International B.V. acquired from Woodside Petroleum Limited all of the shares in ENI JPDA 06-105 Pty Ltd (formerly Woodside Petroleum (Timor Sea 1) Pty Ltd).

ENI opened its office on 3 October 2007 at Vila–Verde. The office will support the development of the company’s exploration activities and the Timor-Leste petroleum sector.

At the Management Committee Meeting (MCM) held on 7 December 2007, ENI JPDA 06-105 Pty Ltd proposed that Kitan-1 well be spudded early January 2008. Plans for secondment of TSDA legal and HSE Timor-Leste staff to ENI Perth offices were also discussed and agreed.

5.5. JPDA PSC 06-101(A)

Preliminary exploration activities commenced with several studies and reviews being conducted.

At the MCM held on 23 November 2007, the Operator, Minza Oil and Gas Limited as part of their Timor Content commitment proposed employment and training of a national geologist and a potential project of mapping in the Suai Basin, onshore Timor-Leste to gain knowledge of onshore hydrocarbons.

Minza Oil and Gas Limited share office space with an established legal firm in Dili.

5.6. JPDA PSC 06-102

The Operator, PC (Timor Sea 06-102) Ltd, established its office in Timor-Leste on 1 April 2007.

PC (Timor Sea 06-102) acquired 648 square kilometres of 3D seismic.

The survey covered 2 main prospects within the PSC, Bayu East and Elang Far East and indicated that the new 3D data would be used to focus on where faulting of the structures and definition of the critical saddle area between the Bayu-Undan field and Bayu East prospect.

5.7. JPDA PSC 06-103

Oilex (JPDA 06-103) Ltd was the first Operator to establish its office in Dili on 22 January 2007.

The operator began its preliminary exploration activities including the planning for the acquisition of seismic information in order to support its future drilling program.

6. Health, Safety and Environment

6.1. JPDA PSC 03-12 & PSC 03-13 – Bayu-Undan Project

There were two Lost Time Incidents reported in May and October 2007. A total of 9 hydrocarbon spills and 5 non-hydrocarbon spills reported in 2007. A planned shutdown of the Bayu-Undan facility for maintenance, which also incorporated the Extend-the-Edge (EtE) campaign, occurred from 11 September 2007 to 16 October 2007. Engineering dossiers and vessel information were sent to HSE for review and approval prior to the work being carried out.

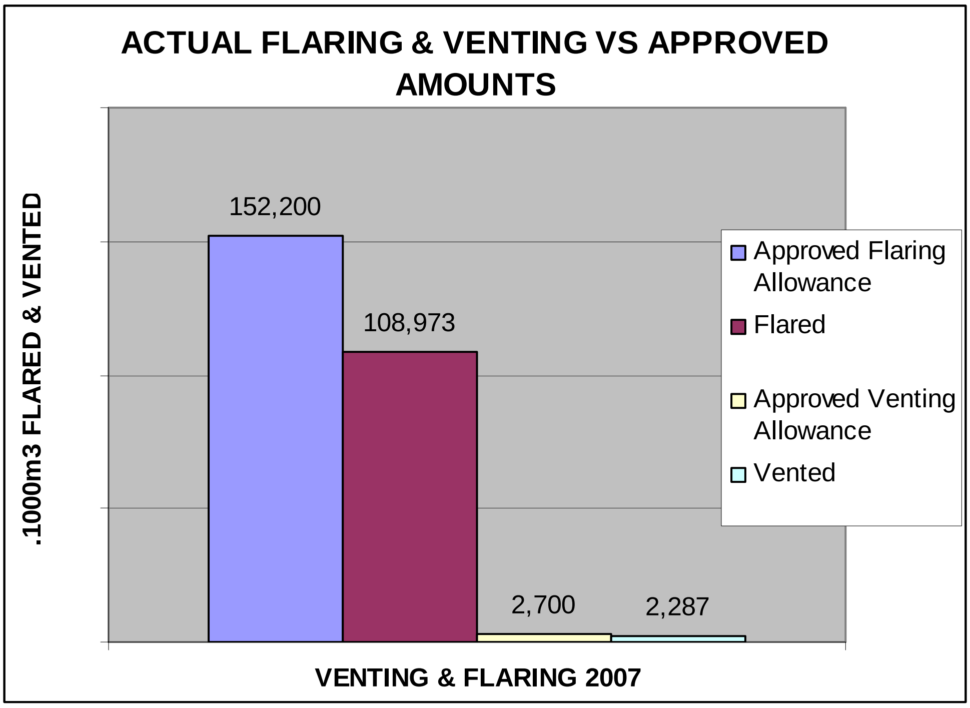
The graphs below provide a general overview of the HSE performance of ConocoPhillips in Bayu-Undan.

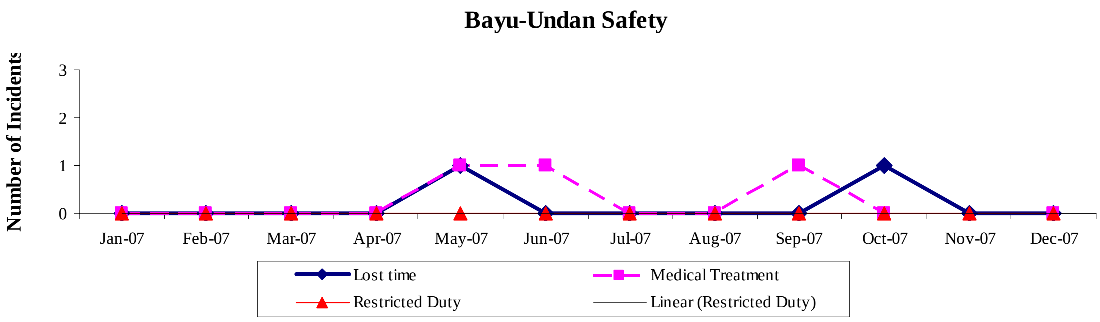
Bayu-Undan Safety Stats

		Incidents			Frequency Rates		
Month	Hours Worked Offshore	Lost time	Medical Treatment	Restricted Duty	Lost time	Medical Treatment	Restricted Duty
Jan 07	56,960	0	0	0	0.00	0.00	0
Feb 07	52,380	0	0	0	0.00	0.00	0
Mar 07	55,976	0	0	0	0.00	0.00	0
Apr 07	52,762	0	0	0	0.00	0.00	0
May 07	55,935	1	1	0	3.65	3.65	0
Jun 07	54,939	0	1	0	3.04	6.08	0
Jul 07	58,356	0	0	0	2.58	5.16	0
Aug 07	47,576	0	0	0	2.30	4.60	0
Sep 07	155,240	0	1	0	1.69	5.08	0
Oct 07	118,859	1	0	0	2.82	4.23	0
Nov 07	46,356	0	0	0	2.65	3.97	0
Dec 07	45,252	0	0	0	2.50	3.75	0
Total	**800,591**	**2**	**3**	**0**	**2.50***	**3.75***	**0***

*Frequency rates are calculated per million person hours worked.

The TSDA approves the annual venting & flaring allowance for ConocoPhillips and any other operators within the JPDA. During 2007, ConocoPhillips was the only operator of projects within the area and as indicated in graph 1, the company continuously vented & flared lower than the annual allowance.





The graph represents two lost time incidents which occurred at Bayu-Undan facility in May and October 2007. There were also three restricted duties incidents reported in May, June and September 2007 respectively.

6.2. JPDA PSC 03-12 Elang, Kakatua and Kakatua North (EKKN)

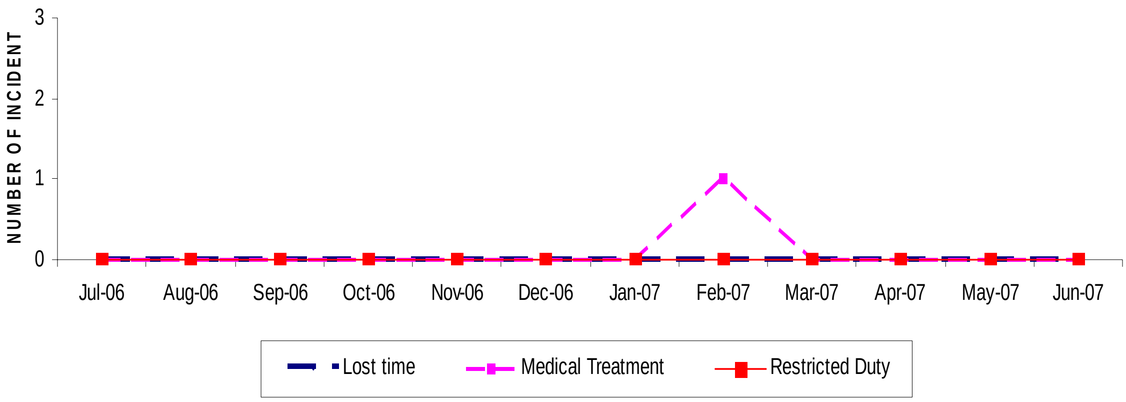
The EKKN field was shut-in during July 2007. In connection with this, an abandonment proposal was submitted to the TSDA for consideration. Among the highlights of the abandonment project were the removal of the FPSO from the field, the flushing of flow lines and the deployment of a vessel to perform guard duties at the Riser Turret Mooring. Full decommissioning of the field and removal of sub-sea structures is expected to take place in 2008.

EKKN Safety Stats

		Incidents			Frequency Rates		
Month	**Hours Worked Offshore**	**Lost time**	**Medical Treatment**	**Restricted Duty**	**Lost time**	**Medical Treatment**	**Restricted Duty**
Jul 06	10,824	0	0	0	0.0	0.0	0.0
Aug 06	12,576	0	0	0	0.0	0.0	0.0
Sep 06	11,520	0	0	0	0.0	0.0	0.0
Oct 06	12,948	0	0	0	0.0	0.0	0.0
Nov 06	11,748	0	0	0	0.0	0.0	0.0
Dec 06	11,784	0	0	0	0.0	0.0	0.0
Jan 07	11,448	0	0	0	0.0	0.0	0.0
Feb 07	11,304	0	1	0	0.0	10.6	0.0
Mar 07	11,520	0	0	0	0.0	9.5	0.0
Apr 07	11,892	0	0	0	0.0	8.5	0.0
May 07	11,448	0	0	0	0.0	7.8	0.0
Jun 07	11,512	0	0	0	0.0	7.1	0.0
Totals	**140,524**	**0**	**1**	**0**	**0***	**7.1***	**0***

*Frequency rates are calculated per million person hours worked.

EKKN SAFETY INCIDENTS



6.3. JPDA PSC 06-102

HSE staff conducted an inspection on board the seismic vessel MV Orion on 11 October 2007, when it docked at Dili port en route to the JPDA. Petronas contracted the vessel to perform 3D seismic studies in JPDA block 06-102.

7. Exploration

The creation of new PSC's in late 2006 and their associated Exploration Work Programs laid the basis for exploration activity in the JPDA through 2007.

In general operator activity was focussed on assembling geoscientific data for each PSC, creating exploration teams, undertaking regional and PSC specific geological and geophysical studies, opening representative offices in Dili and planning and preparation prior to the start up of exploration programs.

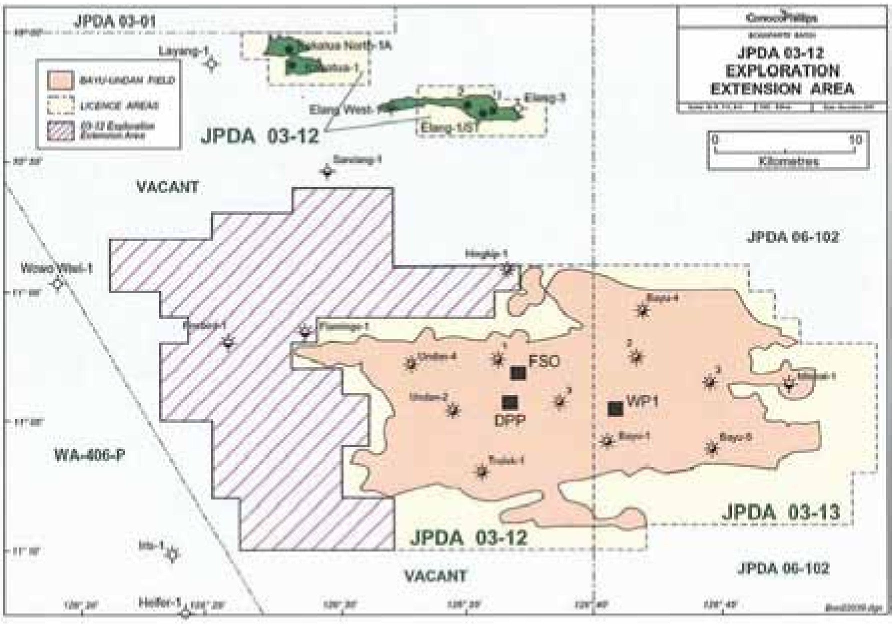
7.1. PSC activity

As a result of the 2006 JPDA Acreage Release, new PSC contracts were signed with Minza Oil and Gas Ltd (JPDA PSC 06-101[A]), a Petronas Consortium (JPDA PSC 06-102) and with an Oilex Consortium (JPDA PSC 06-103).

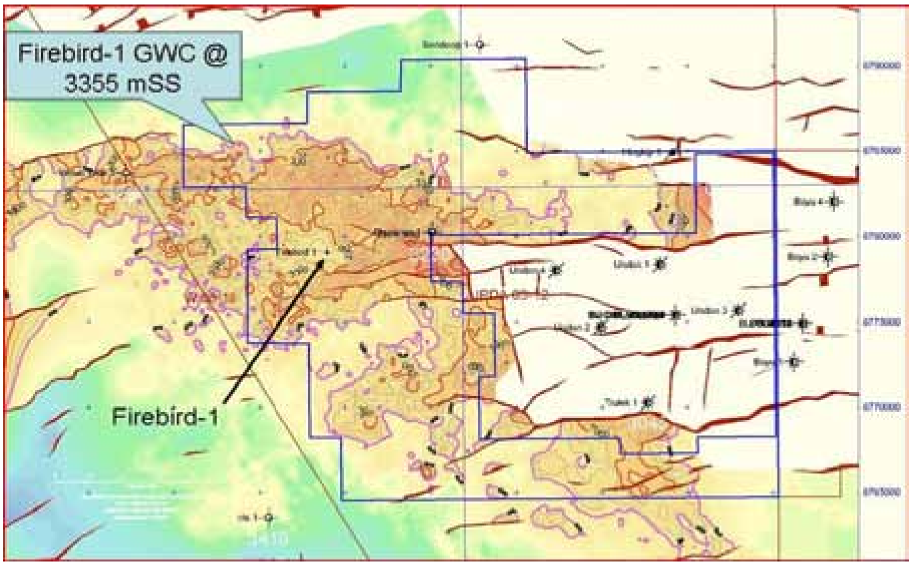
In April 2007 ENI JPDA 06-105 Pty Ltd purchased Woodside's 40% share of the JPDA 06-105 PSC and thereby took over as the Operator for this PSC.

7.2. Relinquishments

On 15 November 2007, ConocoPhillips, in conjunction with and on behalf of the joint venture parties Santos (JPDA 91-12) Pty Ltd and Inpex Sahul Ltd, relinquished the JPDA PSC 03-12 Exploration Extension Area as shown below:



- The well Firebird-1 had been drilled to 3675mRT in October to December 2005.



- Two Firebird-1 DST's clearly demonstrated the reservoir was not capable of economic flow rates.
- As a result no reserves could be attributed to the structure.

7.3. Projects

A. JPDA PSC 03-12 & PSC 03-13

The contract operator, ConocoPhillips undertook no exploration activities in the block through 2007.

B. JPDA PSC 03-19 & PSC 03-20

The contract Operator, Woodside Petroleum (Timor Sea 19 + 20), following on from the coming into force of the International Unitisation Agreement (IUA) and Certain maritime Arrangements in the Timor Sea (CMATS) Treaties, on the 23rd of February 2007, decided that there existed sufficient legal and regulatory certainty to progress the Sunrise LNG Development.

Accordingly a Sunrise exploration team was re-established. This team focussed on a geological and geophysical sub-surface review of the field, supported by re-processing the Mescal 3D seismic volume, and on a Concept Screening of potential development scenarios for the Sunrise Field.

C. JPDA PSC 06-101(A)

Contract Operator, Minza Oil & Gas Limited, commenced assembling geoscientific data for the PSC, undertaking regional and PSC specific geological and geophysical studies, and planning for seismic acquisition of 500 Km of 2D seismic data within the first 3 year period of the PSC.

Studies were to enhance understanding of the Chuditch gas field and ascertain further understanding of similar structures such as Chuditch West and Wombat which may be brought up to be potential drilling targets in the second phase of the PSC.

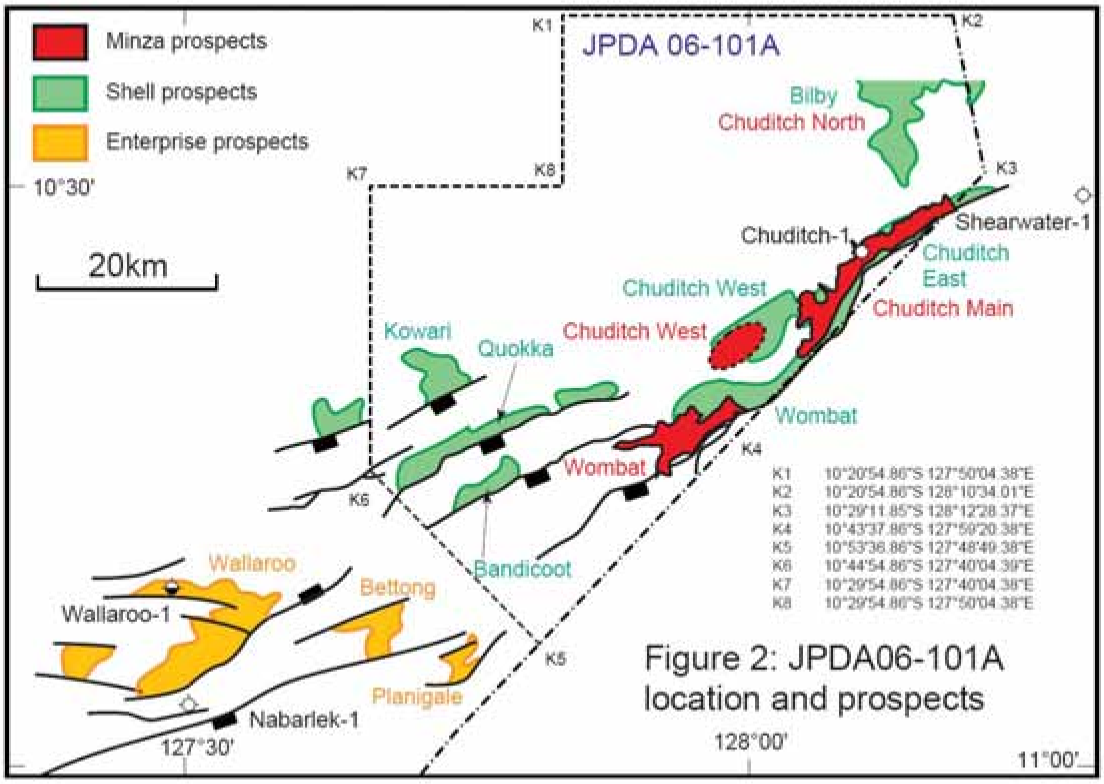
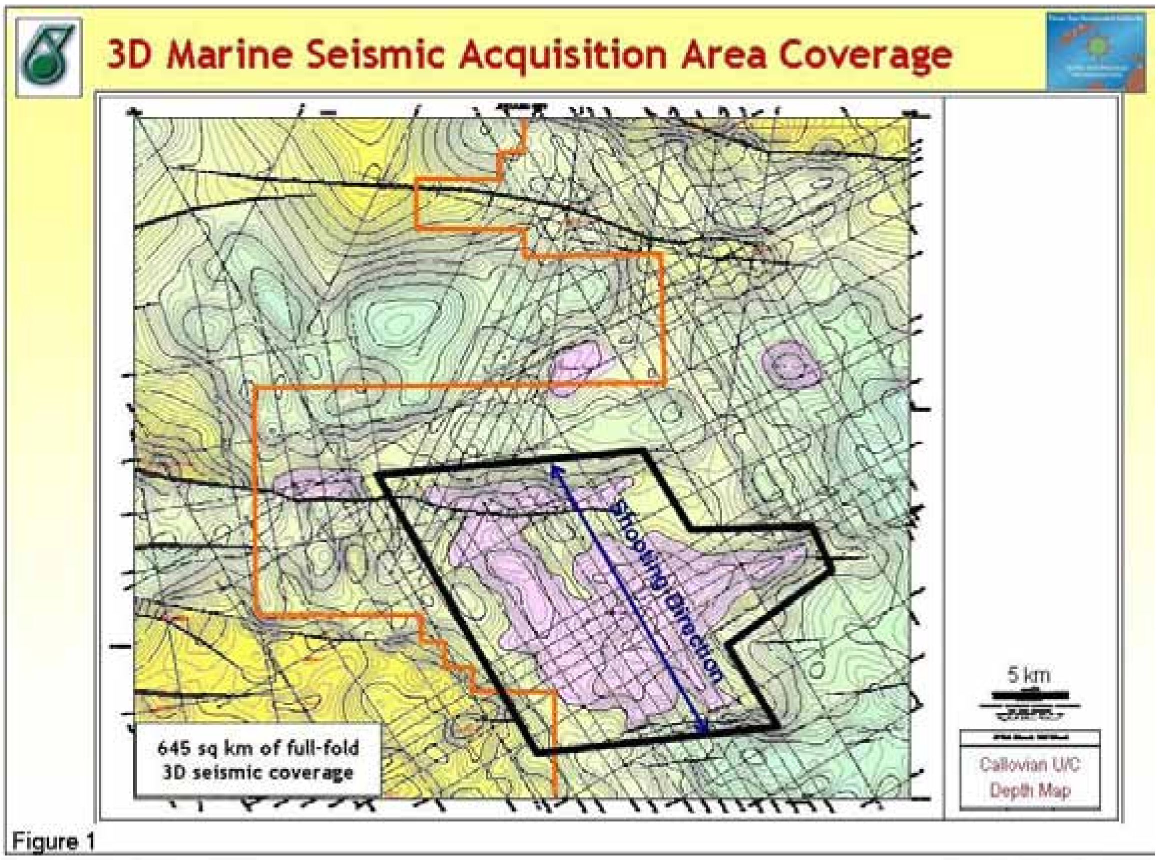


Figure 2: JPDA06-101A location and prospects

D. JPDA PSC 06-102

The operator, PC (Timor Sea 06-102), focussed on assembling geoscientific data for the PSC, creating its exploration team, undertaking regional and PSC specific geological and geophysical studies, and opening its representative office in Dili.

A 3D seismic acquisition project was undertaken from 14 October to 14 November 2007 and approximately 645 sq km of full fold seismic data was obtained. This data was positioned so as to obtain the best possible 3D seismic data over the Operator's two main exploration targets, Bayu East (Gas Condensate) and Elang Far East (Oil):

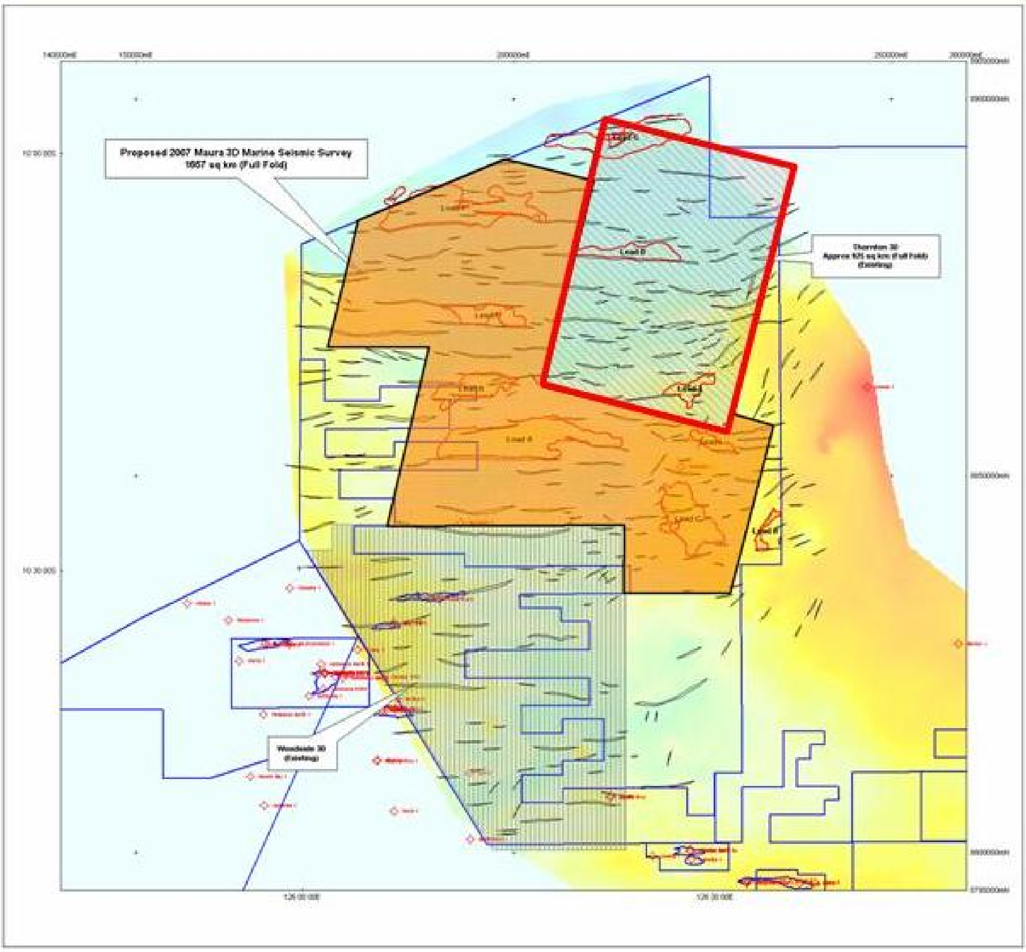


E. JPDA PSC 06-103

The operator, Oilex (JPDA 06-103) Ltd, commenced assembling geoscientific data for their PSC, creating their exploration team, undertaking regional and PSC specific geological and geophysical studies, and on opening a representative office in Dili.

Oilex purchased the Thornton 3D seismic survey consisting of 925 sq km of full fold seismic data to assist in their interpretation of structures in the northern, deeper water, section of JPDA 06-103. This data set will complement data from the Maura 3D seismic acquisition program, planned for acquisition in 2008, with the target of firming up drilling targets for Oilex's 2008 - 2009 four well drilling program.

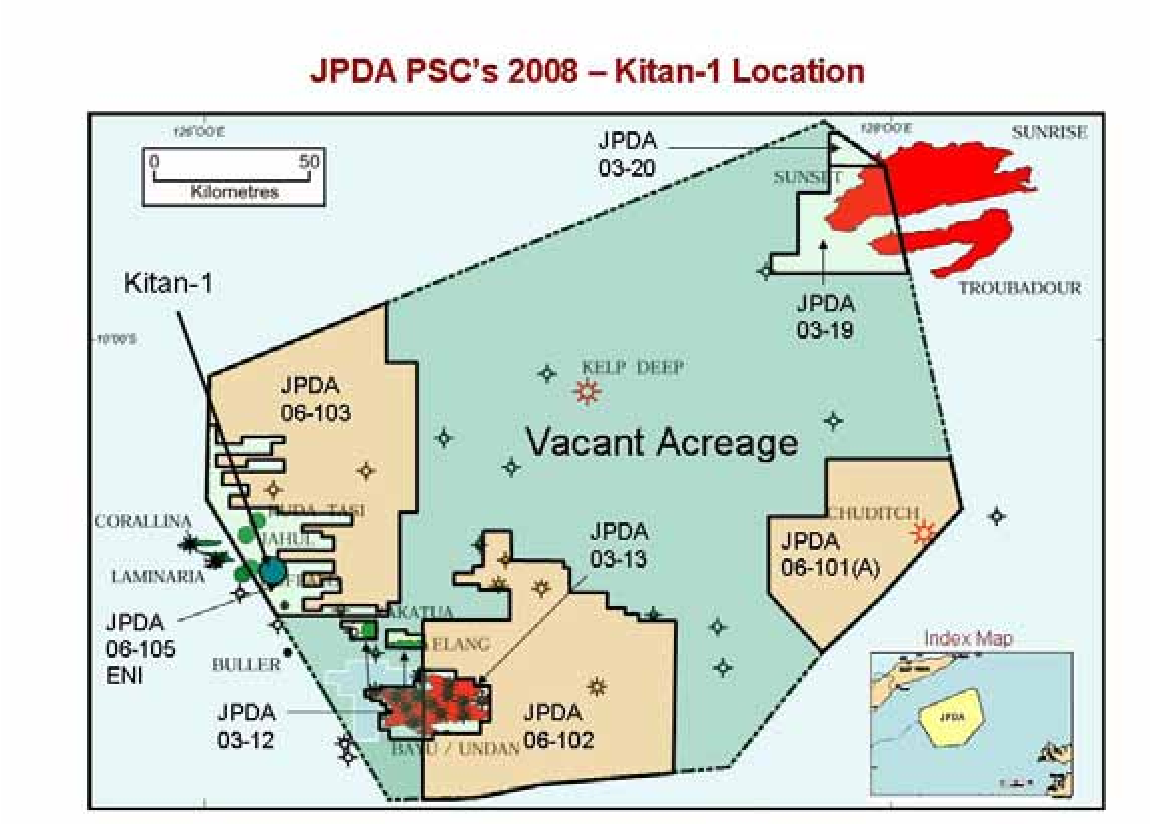
THORNTON 3D



F. JPDA PSC 06-105

The new Operator, ENI JPDA 06-105 Pty Ltd, reviewed all potential hydrocarbon bearing structures in the PSC in the light of a new regional fault risk study and subsequently identified several previously recognised structures as worthy of study as potential drill targets.

By December 2007 the Kitan structure in the southern sector of JPDA 06-105 had been chosen as the best location for drilling in early 2008.



8. PRODUCTION

8.1. Bayu-Undan Production 2007

General

The Bayu-Undan field and production facilities performed well during the year. The planned shutdown during September included several maintenance activities in addition to the planned Extend the Edge (EtE) and de-bottlenecking programmes. The EtE programme will continue into 2009/2010 to achieve beneficial production and process results. As could be expected with such complex facilities, some unplanned production malfunctions occurred however these were managed effectively and overall production exceeded the budget for the year.

Operational activities

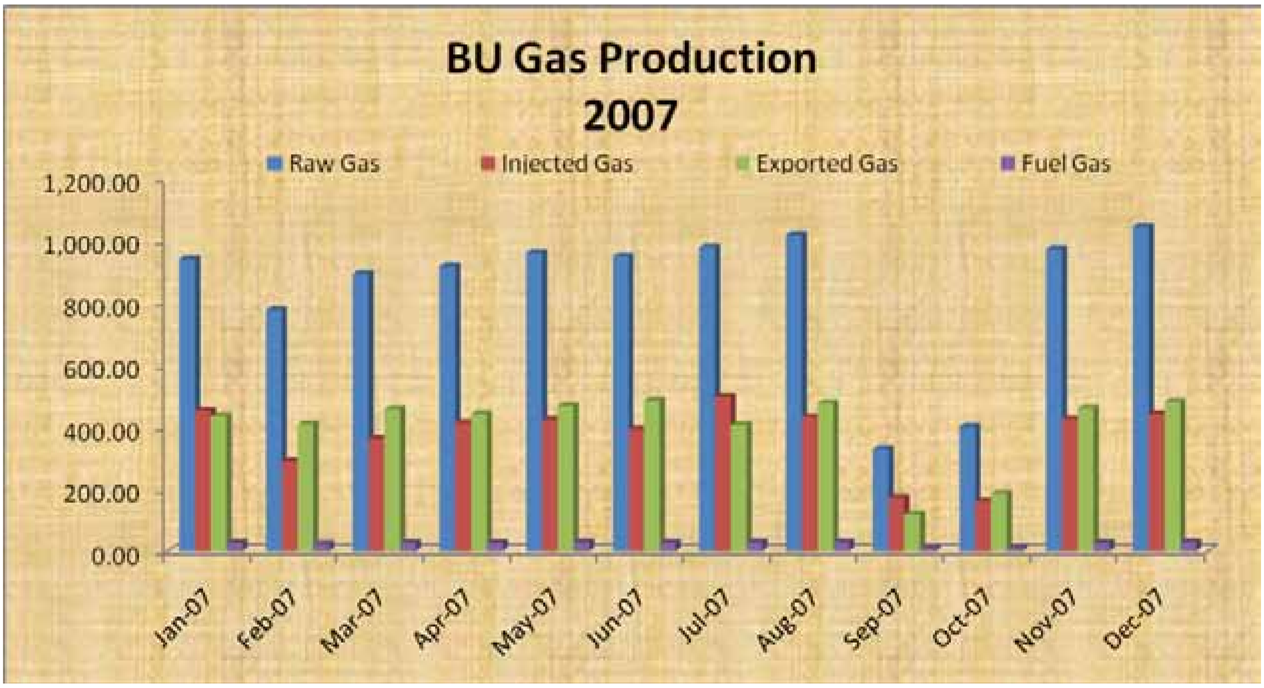
- Leak-Off and Well Barrier Test completed on BU-W01, BU-W02, BU-W11, BU-D04, BU-D06, BU-D08 and BU-D09
- Well intervention program successfully completed with down-hole gauges set in BU-D05 and BU-D15 and water shut-off plug set in BU-D05.
- A side Scan Survey completed on the Bayu-Undan to Darwin export gas pipeline.
- The planned shutdown activities were delayed to complete intervention work on well BU-D11.
- Bayu-Undan shutdown operations commenced on 11 September 2007 and operations resumed on 16 October 2007.
- Average monthly Operating Expenditures were US$ 16.9 M compared to a Budget of US$ 16.2 M.
- Average Actual lifting costs were US$ 3.66/BOE compared to the budgeted amount of US$ 4.22/BOE.

Bayu-Undan Production Performance 2007

Gas Produced

	Gas			
	Raw Gas	Injected	Exported	Fuel
	Mm3	Mm3	Mm3	Mm3
Jan-07	940.90	453.27	435.95	28.44
Feb-07	776.68	290.53	409.60	23.60
Mar-07	892.15	362.87	459.26	27.29
Apr-07	918.19	413.97	442.67	27.24
May-07	962.16	424.51	469.08	29.04
Jun-07	950.70	392.48	486.82	27.90
Jul-07	978.49	497.90	407.30	29.67
Aug-07	1,019.00	433.32	478.39	29.45
Sep-07	330.18	172.57	119.84	9.45
Oct-07	402.02	161.77	185.82	11.39
Nov-07	973.70	426.25	449.25	27.58
Dec-07	1,045.55	443.70	482.27	29.80
Total	**10,189.72**	**4,473.13**	**4,826.23**	**300.84**

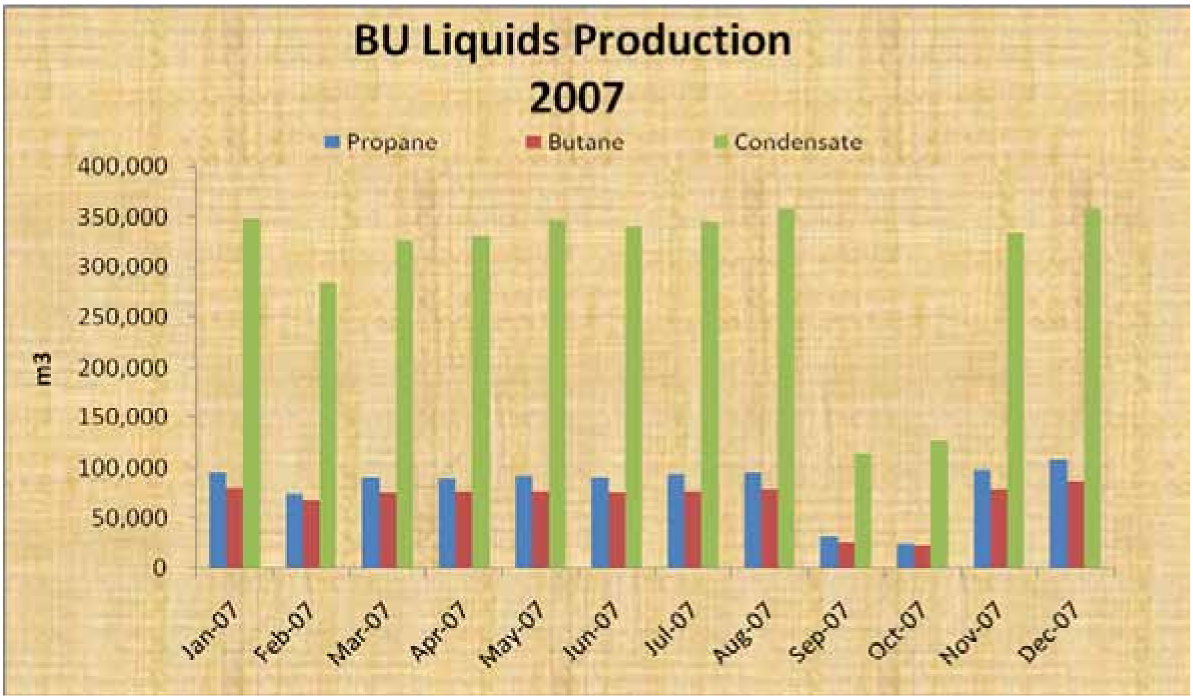
•Maximum Production
•Minimum Production



Liquids Produced

Month	Metric			Imperial		
	Propane	Butane	Condensate	Propane	Butane	Condensate
	m3	m3	m3	bbls	bbls	bbls
Jan-07	95,407	80,458	348,431	601,110	506,666	2,193,025
Feb-07	74,218	67,710	283,589	467,602	426,374	1,784,907
Mar-07	90,775	76,036	327,068	571,902	478,817	2,058,564
Apr-07	89,156	76,656	331,626	561,697	482,721	2,087,253
May-07	91,803	77,072	346,578	578,374	485,347	2,181,361
Jun-07	90,390	75,354	340,468	569,473	474,529	2,142,907
Jul-07	93,135	77,433	345,138	586,786	487,621	2,172,301
Aug-07	95,726	79,407	358,275	603,104	500,045	2,254,980
Sep-07	31,086	25,781	114,878	195,858	162,354	723,041
Oct-07	24,227	22,800	127,118	152,647	143,578	800,081
Nov-07	98,728	79,499	334,105	621,992	500,597	2,102,858
Dec-07	108,463	87,571	358,164	683,351	551,437	2,254,282
Total	**983,114**	**825,777**	**3,615,439**	**6,193,896**	**5,200,086**	**22,755,561**

- Maximum Production
- Minimum Production



Bayu-Undan Process Facility Description

Main Facilities

- CPP comprising two platforms; a DPP and a CUQ.
- WP1 7.4 KM from CPP
- FSO 2.15 KM from CPP
- One 450mm production pipeline between the WP1 and the DPP
- DPP platform that is bridge-linked to the CUQ platform
- Flare which is located on a remote tripod structure, bridge-linked to the DPP
- Liquids are pumped via a subsea pipeline from the DPP to the FSO facility for storage and export via charted tankers
- Fuel gas line from DPP to the FSO
- 42 KM export gas pipeline to export header
- Ultrasonic fiscal metering facilities
- Pig launching facilities

(b)Transport of Products

Dry export gas leaves the platform metering package 42 km to the border of the JPDA. From there it follows a 500 km trajectory under pipeline monitoring to reach Darwin at Wickham Point where it enters the metering station and reception facilities.

Four export pipelines transport Propane, Butane, Condensate and Fuel Gas from the Drilling Production & Process (DPP) Platform to the Floating Storage & Offtake (FSO) facility.

Proposed Future Developments

- ConocoPhillips propose to drill 2 wells in 2010, BU-D041and BU-D091 and 2 more in 2015, BU-D141 and BU-D151 preferentially producing from DPP (Northern area) keeping lean injected gas as far away from producers as possible.
- Conversion of the injectors to producers depending on gas demand, beginning 2020.

8.2. EKKN Production 2007

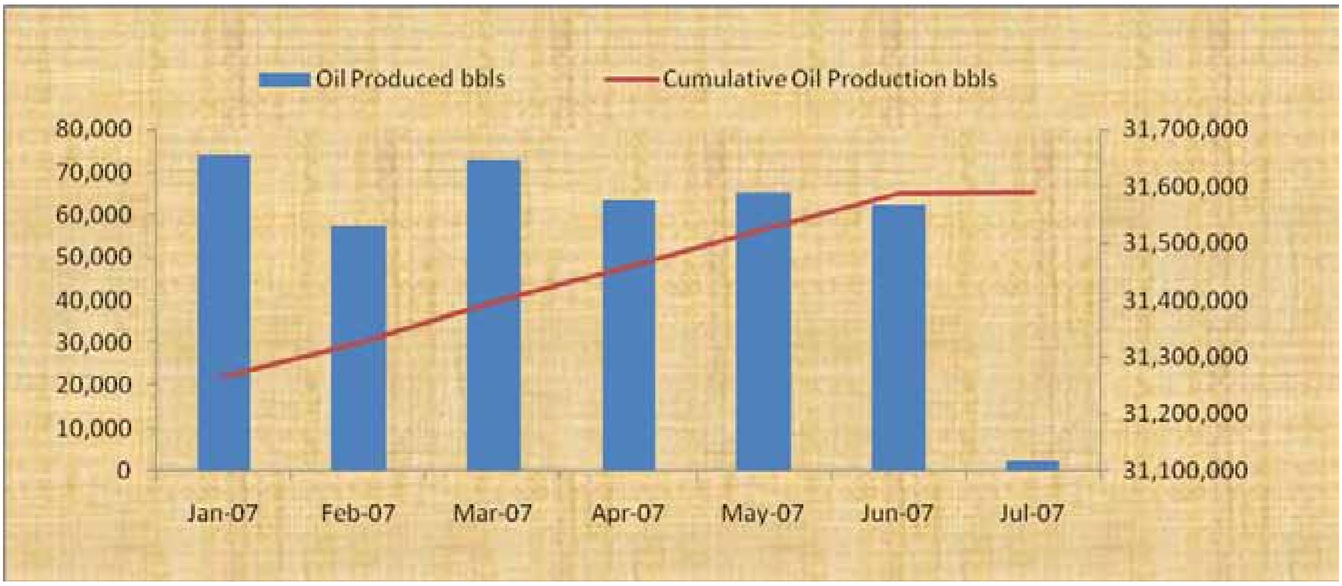
The EKKN field ceased production on 1st July 2007. Plans are being finalised for submerged process facilities and wellheads to be permanently abandoned by ConocoPhillips and Modec.

- In May 2007 ConocoPhillips issued Modec V - 1 with 90 days notice to terminate production operations of the EKKN field.
- On 1st July 2007 Modec ceased production and commenced de-pressuring and preparing the suspension and flushing of flow-lines and wellheads.
- AT 23:59, 27th July 2007 Modec Venture's contract with ConocoPhillips expired.

(a) Oil produced

	Oil	
	Produced	Cumulative Production
	bbls	bbls
Jan-07	***74,027***	31,265,101
Feb-07	57,623	31,322,725
Mar-07	72,919	31,395,644
Apr-07	63,580	31,459,224
May-07	65,199	31,524,423
Jun-07	62,224	31,586,647
Jul-07	2,390	31,589,037

•Maximum Production
•Minimum Production



(b) Production Status (at end of field life, July 2007)

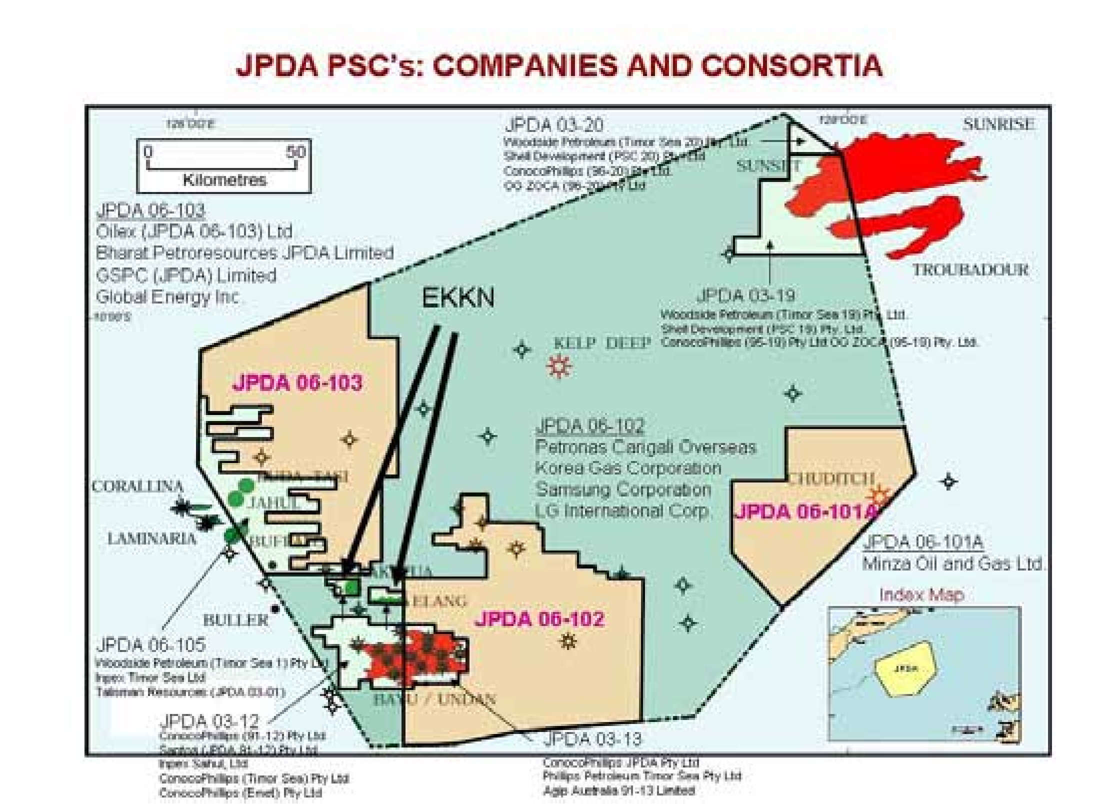
Cumulative Oil Produced	31,589,037
Cumulative Water Produced	61,809,646bbls
Cumulative Gas Produced	17 BCF

In May 2007 the TSDA with approval from the Joint Commissioners posted an expression of interest on the website inviting suitable companies experienced in Improved Oil Recovery/Enhanced Oil Recovery expertise to respond by mid June 2007 adhering to guidelines set out in the EOI. Seven companies responded, but failed to comply with a firm proposal.

Again in October 2007 senior management decided to re-advertise the field under the same conditions, with a cut-off date set for 31st March 2008. Eight companies responded but failed to comply with a firm proposal with the exception of one. Due to time constraints for the Operator to abandon the field the cut-off date was brought forward to 31st January 2008.

EKKN FIELD - Potential for enhanced oil recovery at EKKN

Background:



Oil was discovered in February 1994 and the size of the oilfield was confirmed with the drilling of the Kakatua-1 well in December of the same year. Kakadu North-1 was discovered in January 1997.

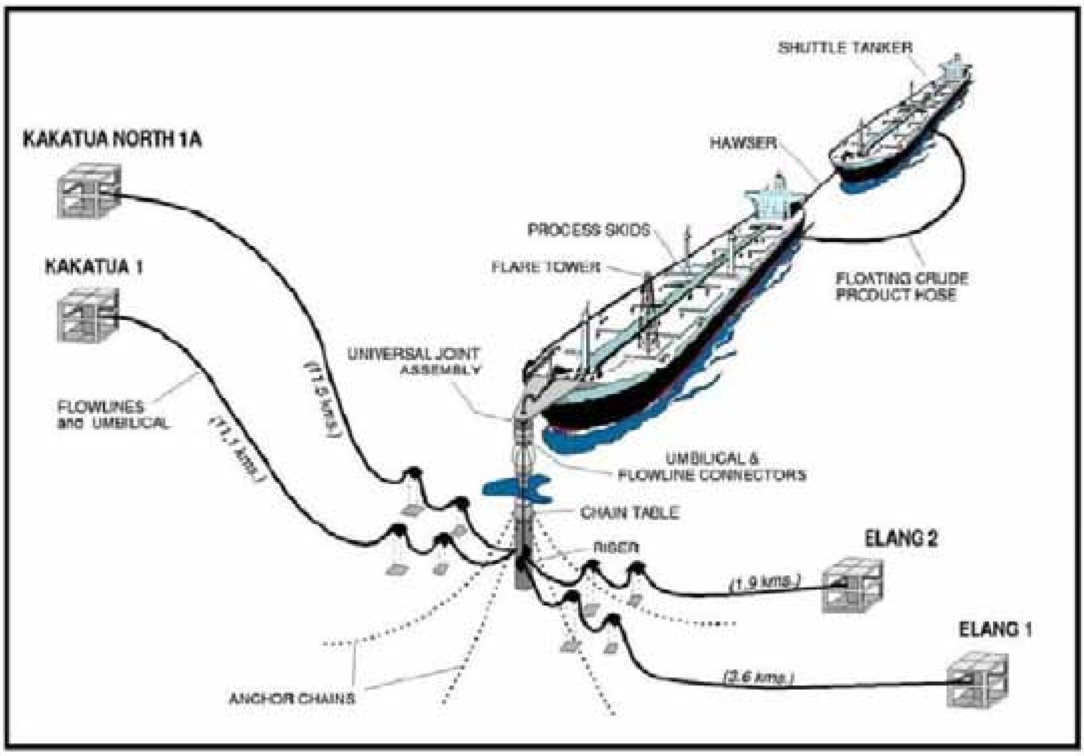
Production started in July 1998, the first oil production within the JPDA. The target production rate of 32,500 barrels of oil per day was initially exceeded before production began a natural decline.

In early 2000, a sidetrack well from the Elang-1 was drilled and a work-over of the Elang-2 well was completed. Production at combined rates of more than 20,000 barrels of oil per day was subsequently achieved. EKKN is currently producing about 2,000 barrels of oil per day.

Cumulative production, through February 2007, was approximately 31 million barrels of light, low sulphur crude oil from an initial reserve of approximately 33 million barrels.

EKKN has four wells with sub-sea completions connected to a Floating Production, Storage and Offloading facility (FPSO), the Modec Venture-1. It has a storage capacity of 950,000 barrels of oil which is exported by shuttle tanker.

EKKN FIELD - SCHEMATIC



Initial production from Jurassic Élan Formation sands, one of the most prolific reservoirs in the North Bonaparte Basin of the Timor Sea.

Cumulative production was 31.59 MMstb from an initially recognised recoverable reserve of 32.67 MMstb which represents recovery of 94.8% of the currently understood overall reserve in the field. Recovery factors for each well vary from 45% – 53%

The reservoir was of good quality with porosities from 12% - 14%. Production was by means of compressed gas lift using produced gas for lift and FSO fuel.

Remaining production (P50) is currently forecast at:

Year	2007	2008
Oil + NGL - Ambles	767	620
Gas - Mesc	632	561

TSDA provided access to a data package covering all relevant field, well, production and geological data to assist in project evaluation.

9. JPDA Commercial

9.1. Sales of Products

The 2007 year was again remarkable for the marketing of Bayu-Undan petroleum products as global oil prices continued to increase. The TSDA continued to market its share of petroleum through its contract partners, ConocoPhillips and Inpex. Petroleum from the EKKN and Bayu-Undan fields included crude oil, condensate, LPG and natural gas. Sales of products were made using spot cargoes and short term sales contracts for LPG. Natural gas supplies for liquefaction and subsequent sale exceeded expectations.

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

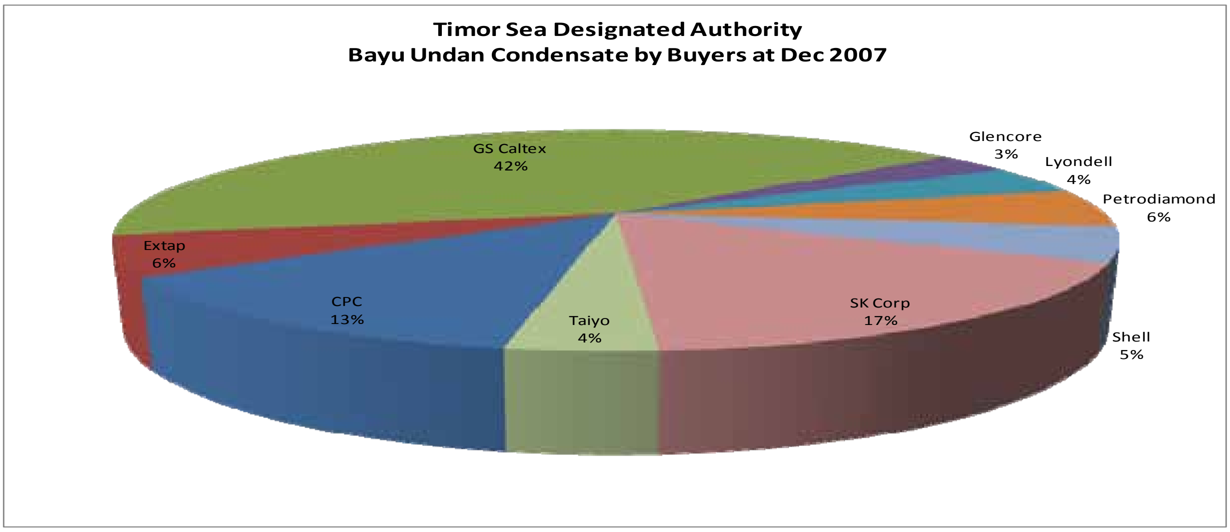
9.2. Bayu-Undan

A. Condensate

The TSDA continues to market its share of Bayu-Undan condensate through its PSC partners, ConocoPhillips and Inpex. The results are regularly reviewed by the TSDA and independent experts to ensure transparent and arm's length principles are reflected throughout the sales process.

There were 39 condensate cargoes lifted during 2007. Condensate was sold using both a spot basis and a term contract to buyers in South East Asia and US West Coast. The following graph shows the various customers that purchased condensate during the year.

Figure 1: Condensate Customers



The 2007 year saw some of the most significant increases in the price of Bayu-Undan condensate since the start of production. The condensate price opened at US$ 54 per barrel in January. The first six months of the 2007 year returned increasing unit revenue before an overall market downturn in the third quarter. Marketing was interrupted by the September shutdown and resumed in another period of consistently increasing oil prices. The value peaked at US$ 96 during November 2007 before slightly easing in December to finish at US$ 90 per barrel. An average price of over US$ 72 per barrel was recorded for the year.

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

Figure 2: Bayu-Undan Condensate 2007 Marketing Result

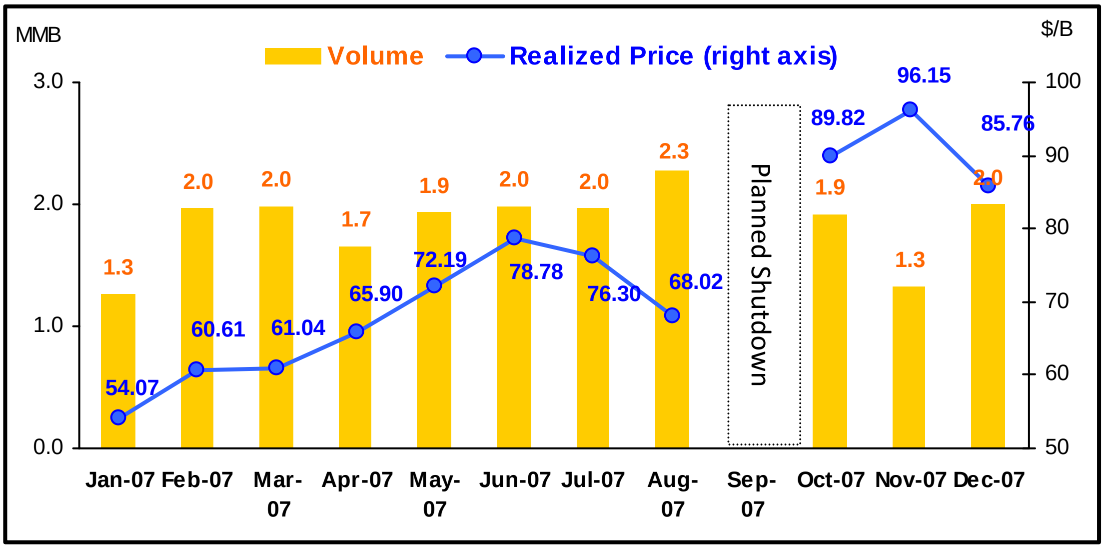


Figure 3: Bayu-Undan Condensate v World Crude Oil Marker 2007

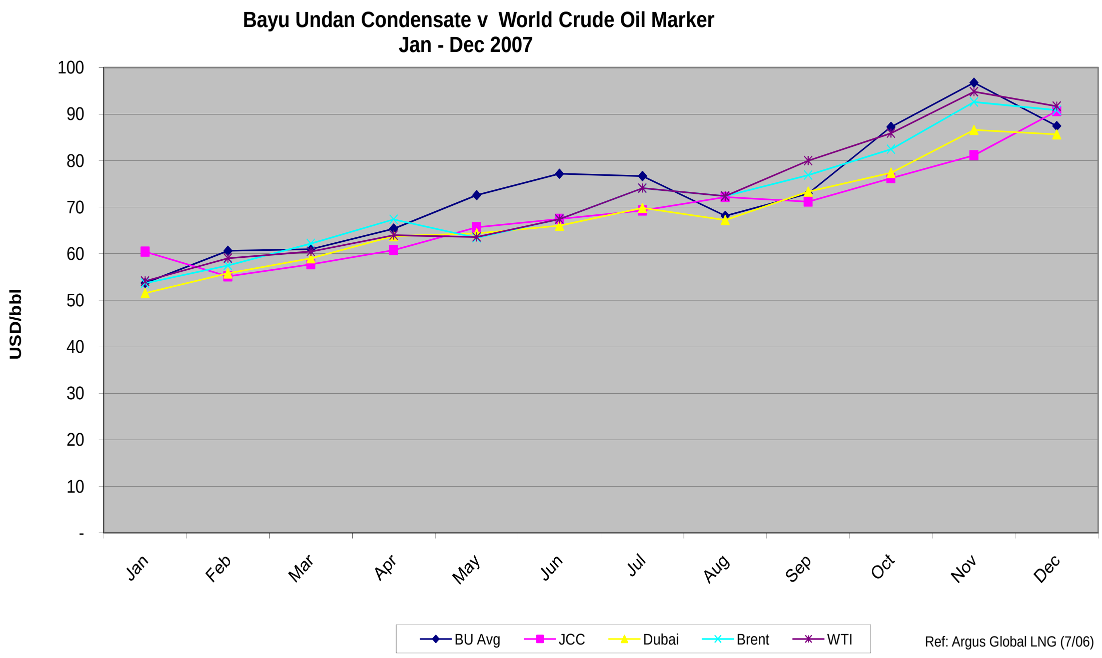
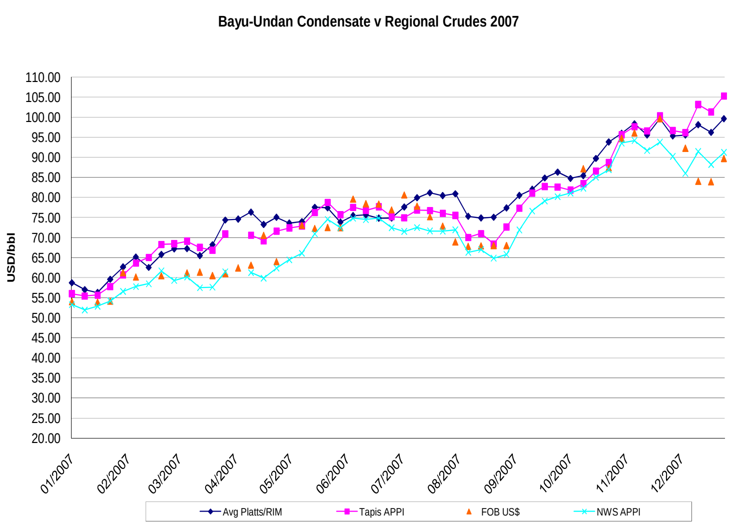


Figure 4: Pricing Achieved by Bayu-Undan Condensate Compared with Regional Indicators



B. Liquefied Petroleum Gas (LPG)

During 2006, ConocoPhillips International Inc. was reappointed by its Joint Venture partners and the TSDA as the sole marketer of Bayu-Undan LPG. A thorough tender process for the sale of the 2007 Bayu-Undan LPG production was conducted and resulted in a 12 month term contract with Vitol Asia. During the year, 23 liftings took place under the contract totalling around 985,724 metric tonnes sold. This was a slight decrease of 4 cargoes compared to 2006 due to the shutdown for maintenance in September.

Similar to other petroleum products, the price of LPG increased noticeably during the year with a low price of US$545 per tonne up to US$ 860 per tonne based on the Saudi Aramco Contract Price marker.

Figure 5: Pricing Achieved by Bayu-Undan Propane Compared with Market Indicators

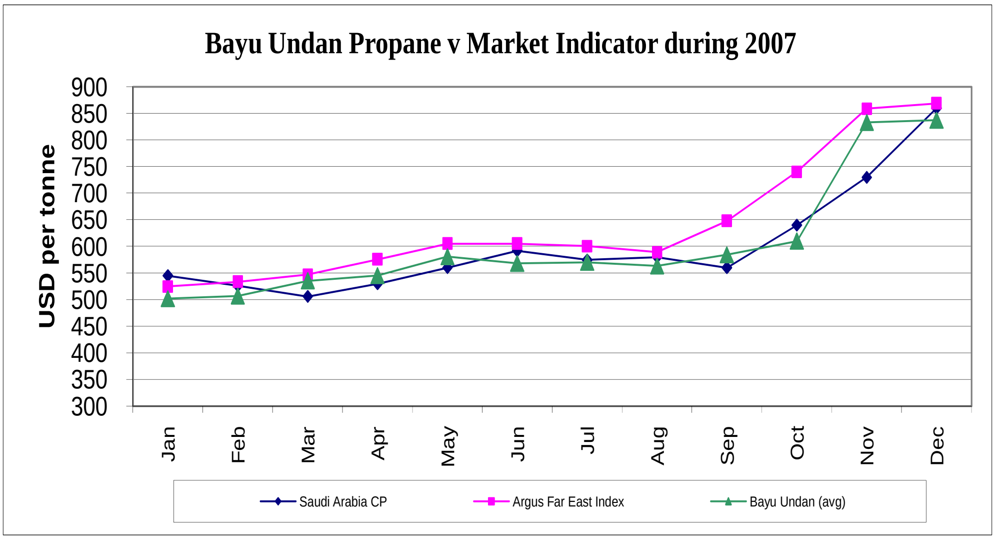
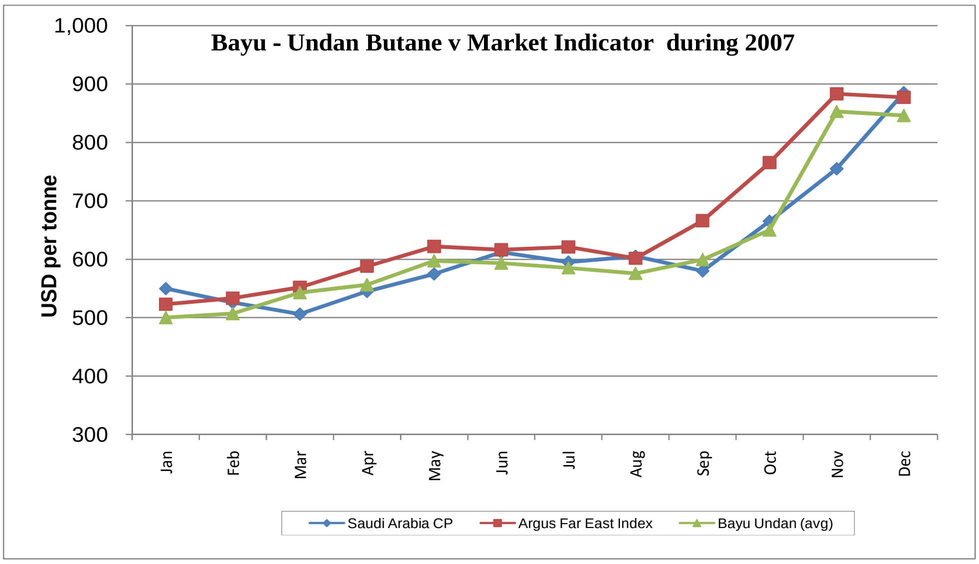


Figure 6: Pricing Achieved by Bayu-Undan Butane Compared with Market Indicators



The LPG term contract with Vitol S.A. expired on 31 December 2007, and ConocoPhillips has awarded its LPG term contract with Astomos E.C a Japanese buyer for 2008 term sale.

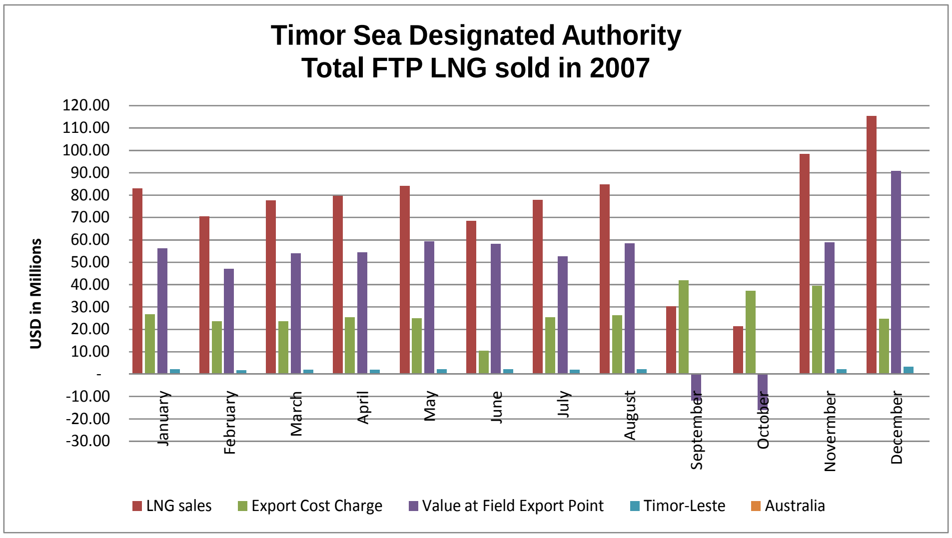
C. Liquefied Natural Gas

The term agreement for the sale of LNG to Tokyo Electric and Tokyo Gas continued successfully.

Marginally higher than expected production satisfied the minimum quantities required under the contract and allowed for an additional cargo at the end of the year.

During 2007, FTP in respect of LNG sold was recorded at over US$ 23.5 million to the Contracting States. The following table shows the total LNG sold during 2007 and the amount received by the contracting states.

Figure 7: Total LNG sold and Revenue by TSDA in 2007

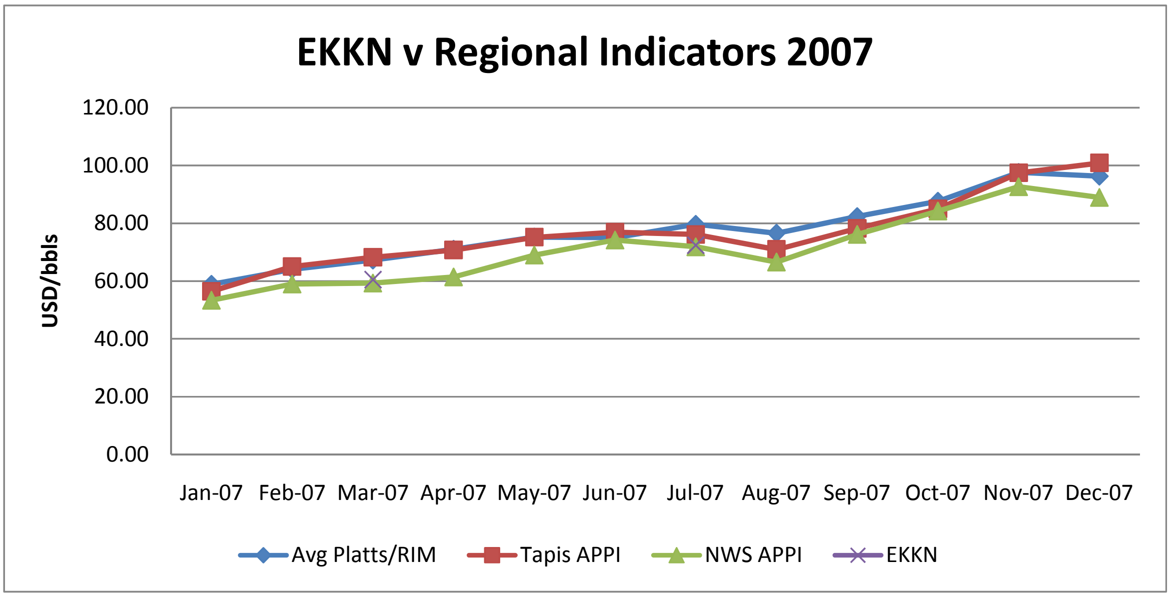


9.3. EKKN

The EKKN field entered its ninth and final year of production. Due to its low production rate, only 2 cargoes were sold during the year before the field was shut-in and production ceased.

As in prior years, the pricing of EKKN crude oil was consistent with that generally achieved for similar products from the region in the market.

Figure 8: Pricing Achieved by EKKN Compared With Regional Indicators

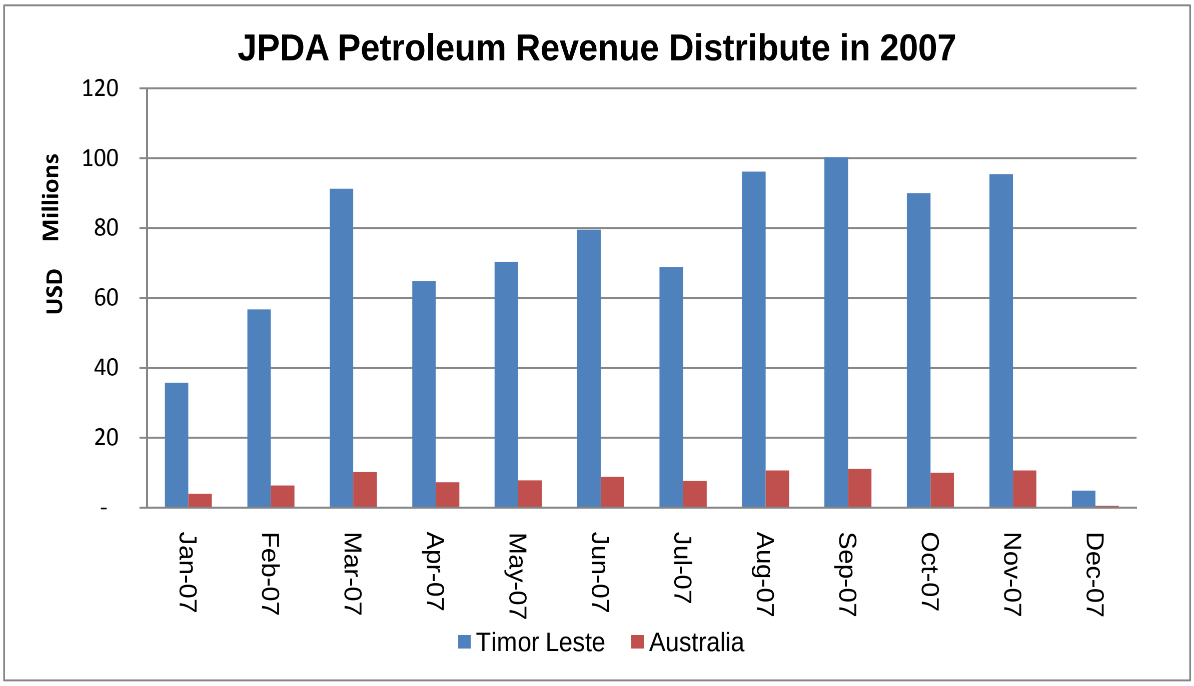


9.4. Revenues Distributed to Contracting States

Consistent with the principles of the Extractive Industries Transparency Initiative, the TSDA reported its revenue distributions to the Contracting States on its website. Petroleum revenues and distributions were independently reviewed by the TSDAs auditors, and the EITI auditors. Petroleum generated revenues distributed during 2007 to Australia and Timor-Leste equalled US$948.99 M.

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

Figure 9: Total JPDA Revenue Distributed during 2007



Whilst the TSDA makes payments of Petroleum Revenues based on its actual receipts, it records its entitlements based on accrual accounting. This will result in a timing difference between revenue earned by the TSDA during the year and the actual payments made to the Contracting States during the same period.

The difference between the revenue distributed and the petroleum sold during the year is identified at Note 10 in the TSDAs audited financial statements which are shown at attachment A.

During the year, FTP increased by US$13.03M, from US$125.3M to US$138.33M.

In contrast, the value of Profit Oil & Gas increased significantly by US$714.48M, from US$171.86 M. to US$886.34 M. This increase was due to a full year of profit oil production, with the exception of the shutdown month of September 2007.

JPDA Revenue to TSDA 2007

	2007	2006
First Tranche Petroleum	138,634,724	125,298,689
Profit Oil & Gas	886,335,250	171,855,535
Other Income	2,578,949	225,367
Less: Related expenses	(1,124,350)	(147,717)
Net Petroleum Revenue	1,026,424,573	297,231,874
Allocation to Contracting States		
Timor-Leste (90%)	923,782,116	267,508,687
Australia (10%)	102,642,457	29,723,187
	1,026,424,573	297,231,874

Table 1: JPDA Petroleum Production

Year	EKKN stb	Condensate stb	Propane stb	Butane stb	Exported Gas Mscf
2006	833,700	25,902,672	7,238,877	5,993,518	145,852.00
2007	397,955	22,755,561	6,193,896	5,200,086	170,438

The TSDA is strongly committed to ensuring that success experienced to date continues into the future. This has been shown with the close coordination and scheduling of offloading ships continues to be performed by ConocoPhillips as the operator of the EKKN and Bayu-Undan fields.

Table 2: JPDA Cargoes

	2007		2006	
	Liftings	Gross BOE	Liftings	Gross BOE
EKKN	2	682,893	2	545,470
Bayu-Undan				
Condensate	39	22,796,855	43	25,951,210
LPG	23		26	
Propane		5,910,356		6,684,222
Butane		5,629,492		6,246,560
LNG		27,133,961		25,130,300
TOTAL	64	62,153,246	71	64,557,762

During 2007, there were 64 off-takes (collectively sold as Condensate and LPG) of petroleum totalling over 35 mmbbls. In addition, total gross LNG sold was recorded over 27.133 mm BOE.

9.5. Exploration Costs

During 2007 the operators of the various PSCs had minimal exploration costs as they were predominantly in a period of preparation for anticipated exploration activity in 2008. The most significant expenditure took place in JPDA PSC 06-102 as a result of the operator completing a 3D seismic acquisition program.

Table 3: Exploration Costs

Expenditure by PSC						
	JPDA PSC					
	06-105*	03-19	03-20	06-101A	06-102	06-103
Exploration Costs	1,230,424			508,686	13,862,654	,209,487
Non Capital Costs						
Operating & Administration	706,676	2,384,521	19,408	501,814	906,612	744,034
Other	160,000	160,000	160,000	80,000	80,000	80,000
Net Expenditure	2,097,100	2,544,521	179,408	1,090,500	14,849,266	2,033,521

10. TSDA Financial Performance

10.1. General

Consistent with the *Timor Sea Treaty*, the TSDA's budgeting, financial performance, and reporting is subject to the oversight and approval of the Joint Commission. The TSDA must submit its annual estimates of income and expenditure to the Joint Commission for approval and subsequent results must be independently audited each year. A copy of the audited financial statements is included at Attachment 1.

10.2. TSDA Results for the 2007 Financial Year

The TSDA incurred a net loss of US$386,226 after revenues of US4.2M (after depreciation, provision for impairment and foreign exchange gains).

The financial results for the year ended 31 December 2007 are summarised in the table below.

Table 4: Summary of 2007 Financial Results

	Actual 2007	Budget 2007
	US$	**US$**
TOTAL INCOME	4,203,727	4,325,624
Employment costs	2,955,071	2,963,771
Travel & expenses	350,450	363,275
Training & education	131,833	205,764
Consultants	477,172	434,100
Acreage Release	0	45,000
Legal Costs	46,477	0
Office lease & related	106,352	136,812
Communications	181,510	129,560
Other costs	173,602	249,874
Total expenditure before depreciation & foreign exchange	4,422,467	4,528,156
Total Depreciation & foreign exchange	167,486	0
Total expenditure after depreciation & foreign exchange	4,589,953	4,528,156
Excess income/(expenditure)	(386,226)	(202,532)

10.3. 2008 Approved Budget

The TSDA's budget for the year ending 31 December 2008 has been approved by the Joint Commission.

Table 5: Approved Budget for 2008

	Budget 2008	Budget 2007
	US$	US$
Total Income	3,894,626	4,325,624
Expenses		
Employment costs	3,047,603	2,963,771
Travel	190,280	363,273
Training & education	496,190	205,764
Consultants	181,000	94,500
Acreage release & promotion		45,000
Office lease & security	172,020	136,812
Communications	190,152	129,560
Other overhead	147,700	129,874
Other capital &	88,800	134,194
Contingency	120,000	120,000
Total expenditure	4,633,745	4,322,748
Surplus/(deficit) before extraordinary items	(739,119)	2,876
Other items		
Audit related costs		339,600
Surplus/(deficit) after extraordinary items	(739,119)	(336,724)

Whilst total budgeted expenditure is expected to decrease over the 2008 year, budgeted revenues are also forecast to decrease. This will result in a loss of US$739,119.

It is recognised by the Directors that losses are not sustainable by the TSDA indefinitely and the organisation is reviewing its operations carefully to formulate strategies to contain costs.

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
YEAR ENDED 31 DECEMBER 2007

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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 financial performance and cash flows of the Designated Authority for the year ended 31 December 2007 and the financial position of the Designated Authority as at 31 December 2007; and

(b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of the Board

Gualdino da Silva
Executive Director

Angelo Lay
Director – Commercial

DILI

Date: 20 June 2008

merit partners
CHARTERED ACCOUNTANTS

Tel 61 8 8982 1444
Fax 61 8 8982 1400

Level 2
9-11 Cavenagh Street
Darwin NT 0800

GPO Box 3470
Darwin NT 0801

www.meritpartners.com.au

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Timor Sea Designated Authority for the Joint Petroleum Development Area which comprises the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

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

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Timor Sea Designated Authority for the Joint Petroleum Development Area as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Matthew Kennon
Merit Partners
Date: 20 JUNE 2008

Darwin, Australia

Merit Partners Pty Ltd
ABN 16 107 240 522

Liability limited by
a scheme approved
under Professional
Standards Legislation.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in United States Dollars)

	Note	2007 $	2006 $
REVENUE			
Contract Service Fees		1,040,479	1,019,616
Development Fees		2,959,834	3,064,000
Interest		93,489	60,332
Other		108,417	241,456
Foreign Exchange gain		1,508	-
		4,203,727	4,385,404
EXPENSES			
Personnel costs	8	2,955,071	2,747,478
General and administration	9	1,467,396	1,046,372
Foreign exchange losses		-	43,186
Impairment Expense		-	202,397
Depreciation		167,486	140,776
		4,589,953	4,180,209
PROFIT/(LOSS) FOR THE YEAR		(386,226)	205,195

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

BALANCE SHEET
AS AT 31 DECEMBER 2007
(Expressed in United States Dollars)

	Note	2007 $	2006 $
ASSETS			
CURRENT ASSETS			
Cash and Cash equivalents	3	3,236,247	2,032,651
Trade and Other receivables	4	273,992	1,631,840
Other Non Financial Assets	5	5,137	21,010
Total Current Assets		3,515,376	3,685,501
NON-CURRENT ASSETS			
Property Plant and Equipment	6	250,820	334,517
TOTAL ASSETS		3,766,196	4,020,018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables		387,265	376,127
Provision for annual leave		167,724	157,760
Prepaid contract service fees	7	642,151	530,849
Total Current Liabilities		1,197,140	1,064,736
TOTAL LIABLILITIES		1,197,140	1,064,736
EQUITY			
Contribution by Contracting States		3,782,380	3,782,380
Accumulated Losses		(1,213,324)	(827,098)
Total Equity		2,569,056	2,955,282
TOTAL EQUITY AND LIABILITIES		3,766,196	4,020,018

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

(Expressed in United States Dollars)

	Contribution by Contracting States	Accumulated Losses	Total Equity
At 1 January 2006	3,782,380	(1,032,293)	2,750,087
Profit for the year	-	205,195	205,195
At 1 January 2007	3,782,380	(827,098)	2,955,282
Profit for the year	-	(386,226)	(386,226)
At 31 December 2007	3,782,380	1,213,324	2,569,056

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in United States Dollars)

	2007 $	2006 $
CASH FLOW FROM OPERATING ACTIVITIES		
Fees from Operators	5,457,781	2,896,999
Other income	114,247	241,456
Interest Received	93,489	60,332
Less: Personnel Costs	(2,917,650)	(2,686,520)
Less: Other Operating Expenses	(1,467,842)	(1,052,072)
Net cash flow from operating activities	1,280,025	(539,805)
CASH FLOW FROM INVESTMENT ACTIVITIES		
Proceeds on disposal of property, plant & equipment	12,400	-
Purchase of property, plant & equipment	(88,829)	(316,783)
Net cash flow (used in) investment activities	(76,429)	(316,783)
Net (decrease) in cash and cash equivalents	1,203,596	(856,588)
Add opening balance carried forward	2,032,651	2,889,239
Cash and cash equivalents ending balance	3,236,247	2,032,651
Comprising:		
Cash	3,236,247	2,032,651
	3,236,247	2,032,651

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

1. NATURE OF OPERATIONS

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

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

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

During the year ended 31 December 2007 the Designated Authority operated from its office at Avenida de Portugal No. 5 Dili, Timor Leste. At the end of the year the Designated Authority employed forty four full time employees (2006 – 36 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Cash and Cash Equivalents (cont'd)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Property, Plant, and Equipment

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

	2007	2006
Office furniture	25%	25%
Office and Computer Equipment	25-100%	25-100%
Other	25-50%	25-50%
Leasehold Improvements	20%	20%

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

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

k. Impairment of Assets

The Designated Authority assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Designated Authority makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of 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

	2007 $	2006 $
ANZ Dili USD Account	226,366	96,332
HSBC AUD Account	215,198	59,578
HSBC Singapore USD Account	947,291	873,796
HSBC Perth USD Account	1,792,406	954,349
AMP - Funds on deposit	54,386	47,216
Petty Cash	600	1,380
Total	3,236,247	2,032,651

4. TRADE AND OTHER RECEIVABLES

	2007 $	2006 $
Contract Service Fees	240,000	400,000
Development Fees	20,834	1,207,000
Other	13,158	24,840
Total	273,992	1,631,840

5. OTHER NON-FINANCIAL CURRENT ASSETS

	2007 $	2006 $
Prepayments	5,137	21,010
Total	5,137	21,010

6. FIXED ASSETS

(a) Reconciliation of cost and accumulated depreciation

	Cost	Accumulated Depreciation	Impairment Provision	Written down Value
Office and Computer Equipment	492,385	(389,896)	-	102,489
Office Furniture	69,155	(49,469)	-	19,686
Other	97,349	(44,973)	-	52,376
Leasehold Improvements	163,556	(87,287)	-	76,269
Dili Office Relocation - Mercado Project (i)	202,397	-	(202,397)	-
Total	1,024,842	(571,625)	(202,397)	250,820

6. FIXED ASSETS (continued)

(i) Due to uncertainties in the continuation of the Project, all the costs allocated to the Mercado Project are considered to be impaired

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

	2007 $	2006 $
Office and Computer Equipment		
Carrying amount at beginning	142,285	196,580
Additions	71,894	45,395
Disposals	-	-
Depreciation Expense	(111,690)	(99,690)
Carrying amount at ending	102,489	142,285
Office Furniture		
Carrying amount at beginning	29,744	45,523
Additions	4,075	877
Depreciation Expense	(14,133)	(16,656)
Carrying amount at ending	19,686	29,744
Other		
Carrying amount at beginning	50,322	21,245
Additions	28,000	49,264
Disposals	(5,040)	-
Depreciation Expense	(20,906)	(20,187)
Carrying amount at ending	52,376	50,322
Leasehold Improvements		
Carrying amount at beginning	112,166	15,038
Additions	-	101,371
Disposals	(15,140)	-
Depreciation Expense	(20,757)	(4,243)
Carrying amount at ending	76,269	112,166
Dili Office Relocation - Mercado Project		
Carrying amount at beginning	-	446
Additions	-	201,951
Impairment Provision	-	(202,397)
Carrying amount at ending	-	-

	2007 $	2006 $
Total Property, Plant & Equipment		
Carrying amount at beginning	334,517	278,832
Additions	103,969	398,858
Disposals	(20,180)	-
Depreciation Expense	(167,486)	(140,776)
Impairment Expense	-	(202,397)
Carrying amount at ending	250,820	334,517

7. PREPAID CONTRACT SERVICE FEES

A number of contract service fees (US$ 642,151) partially relating to the following year, were received in the year ended 31 December 2007 (2006 US$ 530,849). These prepaid contract service fees are shown as current liabilities at 31 December 2007, and are to be taken up as income in the following year.

8. PERSONNEL COSTS

	2007 $	2006 $
Salaries	2,227,150	1,849,683
Employee Benefits	300,849	261,496
Relocation	66,867	176,534
Superannuation	193,859	175,077
Home Leave Travel	81,604	107,762
Evacuation Expenses	25,332	96,957
Recruitment	32,693	58,543
Staff Amenities	26,717	17,334
Motor Vehicle		4,092
Total	2,955,071	2,747,478

9. GENERAL AND ADMINISTRATION COSTS

	2007 $	2006 $
Travel	350,450	311,820
Telephones & Communication	181,510	167,933
Office rental	72,903	99,536
Consultants	477,172	93,342
Training, Education and Conference expenses	131,833	76,882
Legal costs	46,477	48,860
Office relocation to Dili	-	47,278
Repairs and maintenance	32,875	44,909
Security	33,449	34,617
Motor Vehicle expenses	28,576	29,573
Office supplies	30,570	22,937
JPDA Marketing	5,537	18,634
Electricity	12,030	14,382
Subscriptions & Memberships	12,979	12,142
Bank charges	11,413	7,153
Minor Equipment	7,284	5,072
Printing & advertising	199	3,263
Other	32,139	8,039
Total	1,467,396	1,046,372

10. PETROLEUM REVENUE

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

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	2007 $	2006 $
Petroleum Income	1,024,969,974	297,154,223
Plus: Other Income	2,578,949	225,367
Less: Related expenses	(1,124,350)	(147,717)
Net Income	1,026,424,573	297,231,873
Distributions to Contracting States for the year		
Timor-Leste	854,088,058	105,719,250
Australia	94,898,674	11,746,583
	948,986,732	117,465,833
Net Movement in petroleum funds held on behalf of Contracting States	77,437,842	179,766,040
Opening balance of petroleum funds held on behalf of Contracting States	194,686,592	14,920,552
Closing balance of petroleum funds held on behalf of Contracting States	272,124,435	194,686,592
Allocation of closing balance:		
Timor-Leste	244,911,991	175,217,933
Australia	27,212,443	19,468,659
	272,124,435	194,686,592
Represented by:		
Cash	10,996,473	39,715,142
Receivables	261,127,961	154,971,450
	272,124,434	194,686,592

11. COMMITMENTS AND CONTINGENCIES

At 31 December 2007 the Designated Authority had no capital commitments or contingent liabilities.

12. SUBSEQUENT EVENTS

Pursuant to Article 6(b)(ii) of the Timor Sea Treaty, the Designated Authority will become part of the Timor-Leste Ministry, or other Authority of the Timor-Leste Government. At 31 December 2007, the Timor Sea Treaty Joint Commission agreed for the Designated Authority to continue in its current form until 30 June 2008. At the date of signing the accounts, the new structure and Authority had not been formalised by the Government of Timor-Leste and the Joint Commission.

13. RELATED PARTIES

Compensation of Key Management Personnel

	2007 $	2006 $
Short Term Employment Benefits	699,691	725,762
	699,691	725,762

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	2,227,110	2,426,226	(199,116)
Superannuation	193,859	208,517	(14,658)
Employee Benefits	382,453	306,028	76,425
Recruitment	32,693	-	32,693
Relocation	66,867	-	66,867
Evacuation Expenses	25,332	23,000	2,332
Travel & Expenses	350,450	363,275	(12,825)
Training, Education & Conference Expenses	131,833	205,764	(73,931)
Acreage Release	-	45,000	(45,000)
Consultants	477,172	434,100	43,072
Legal Costs	46,477	-	46,477
Office Lease & Related	72,903	71,892	1,011
Security	33,449	64,920	(31,471)
Office expenses	381,869	259,434	122,435
Total Expenditure before Depreciation, Impairment expense & foreign exchange gain/(loss)	4,422,467	4,408,156	14,311

15. GOING CONCERN

The financial statements have been prepared on the basis that the Designated Authority is not a going concern. As reported at Note 12, it is the intention of the Timor-Leste government to make the Designated Authority part of the Timor-Leste government structure some time after 30 June 2008. However, at the time of signing the accounts, the exact date of the change is not known.

When the new body is formed, it is the understanding of the Directors of TSDA that the assets and liabilities of the Designated Authority will be transferred to the new Timor-Leste entity at their carrying amount. Accordingly no adjustments have been made to the carrying amounts of asset and liabilities in the preparation of these financial statements.

16. 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.

16. FINANCIAL INSTRUMENTS (continued)

III) INTEREST RATE RISK

Financial Instruments	Floating Interest Rate		Non-interest Bearing		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
(i) Financial assets								
Cash	3,236,247	2,032,651	-	-	3,236,247	2,032,651	3.00%	4.00%
Receivables	-	-	273,992	1,631,840	273,992	1,631,840	-	-
Total financial assets	**3,236,247**	**2,032,651**	**273,992**	**1,631,840**	**3,510,239**	**3,664,491**		

Financial Instruments	Non-interest Bearing		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
(ii) Financial liabilities						
Trade creditors & accruals	387,265	376,127	387,265	376,127	-	-
Total financial liabilities	**387,265**	**376,127**	**387,265**	**376,127**		

16. 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

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

(vi) Credit Risk Management

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

(vii) Foreign Exchange Risk

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

(viii) Interest Rate Risk

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

Timor Sea Designated Authority for the Joint Petroleum Development Area

2007 – 2010 STRATEGIC PLAN

Approved by:			
Name and Role:	Einar Risa Joint Commissioner (Timor-Leste)	Manuel de Lemos Joint Commissioner (Timor-Leste)	John Hartwell Joint Commissioner (Australia)

Revision History (Only permanently record issued revisions)

Rev	Date	Description	Originated	Checked	Approved
0	23 Feb 07	Issued for use	All TSDA staff	Jose Lobato	E. Risa
				Niny Borges	M. de Lemos
				Nick Kyranis	J. Hartwell
				Andrew Caddy	
				Renato Azevedo	
				Maria Jose Campos	
				Dino da Silva	
				Tomas Fernandes	
				Henrique Monteiro	
				Liz Garrett	

1 Vision 2010

To be a benchmark for Timor-Leste organisations and a model for oil and gas regulators.

2 Mission Statement

The Timor Sea Designated Authority shall regulate and manage petroleum resources in the Joint Petroleum Development Area on behalf of Timor-Leste and Australia in accordance with the Timor Sea Treaty by:

- Maximising economic benefits;
- Promoting best health, safety and environmental practices; and
- Developing the institutional and human resource capacity of the Timor-Leste petroleum sector.

3 Goals

Goal 1 Facilitate exploration and development of petroleum resources

Goal 2 Plan and achieve financial deliverables

Goal 3 Contribute to Sunrise development

Goal 4 Increase capacity of Timor-Leste nationals

Goal 5 Facilitate development of Timor-Leste suppliers of goods and services

Goal 6 Develop organisational and operational excellence

4 Strategies

Goal 1 Facilitate exploration and development of petroleum resources

a. Encourage non-exclusive seismic surveying and review results.

b. Sub-divide vacant acreage in accordance with perceived prospectivity.

c. Manage the exploration database.

d. Ensure the TSDA is actively involved at each stage from exploration through to concept selection, submission and approval of development plans.

e. Ensure field and pipeline facilities are constructed, installed, commissioned and monitored in accordance with approved development plans.

f. Encourage the enhanced recovery of existing petroleum resources.

Goal 2 Plan and achieve financial deliverables

a. Monitor and evaluate the commercial and production operations of the Bayu-Undan project including the Darwin LNG operations.

b. Optimise the commercial interests of stakeholders.

c. Ensure financial viability of the TSDA.

Goal 3 Contribute to Sunrise development

a. Assist the Governments in the legislative approval process.

b. Ensure TSDA active participation from the start of the concept selection process.

c. Ensure field and pipeline facilities are constructed, installed, commissioned and monitored in accordance with approved development plans.

Goal 4 Increase capacity of Timor-Leste nationals

a. Ensure that operators and other companies are giving adequate consideration to, provision of and funding for training, education and employment for Timor-Leste nationals.

b. Facilitate employment of Timor-Leste nationals and the training of all TSDA staff.

Goal 5 Facilitate development of Timor-Leste suppliers of goods and services

a. Ensure that operators and other companies foster the use and development of Timor-Leste goods and services, including petroleum-related infrastructure.

Goal 6 Develop organisational and operational excellence

a. Ensure risk reduction measures are taken at all stages of the project cycle.

b. Disseminate appropriate information to interested parties.

c. Implement the transfer of the TSDA to its successor organisation.

d. Consult with TSDA employees to determine the most effective and efficient working environment, including management delegation and project timeframe techniques.

e. Develop and maintain the TSDA Management System to ensure good governance.

f. Develop and implement corporate policies through consultation and communication with employees.

g. Assist governments to develop and implement emergency response procedures.