



# Timor Sea Designated Authority

for the Joint Petroleum  
Development Area

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# 2006

# Annual Report

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**Timor Sea Designated Authority**  
**Annual Report 2006**

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Attachment 1: Audited Financial Report as at 31 December 2006

## **1 Message from the Executive Director**

This year has been an interesting and challenging year for the Timor Sea Designated Authority (TSDA) in fulfilling its mission to manage and regulate the Joint Petroleum Development Area (JPDA). Despite the challenges, the TSDA has managed to excel in meeting the high standards necessary for a regulatory institution, coupled with its role as a joint production sharing partner.

From an institutional perspective, it is a historic year for the TSDA with the closure of the TSDA office in Darwin. Having the organisation's functions centralised in our Dili office not only enhances the effectiveness of our work, but also facilitates the capacity building process for our Timor-Leste national employees. I am also extremely pleased to have some key personnel relocate to Timor-Leste following the closure of the Darwin office.

We have also had a busy year recruiting new national and international staff to meet the rising needs of the organisation, which has been fostered by new activities in the area. The organisation has grown quickly in a short space of time which has certainly challenged our physical capacity to house everyone, which is why we are currently working on alternative office sites in Dili.

With all the institutional changes and development we have had, it has been timely that the Strategic Plan for 2003-2006 was due for review. A new Strategic Plan for the period 2007-2010 is being developed and will be implemented in 2007. The strategic planning workshop organised to address the future goals of the TSDA involved all the employees, ensuring their participation and ownership of the process.

From an operational perspective, we saw the first shipments of Bayu-Undan Liquefied Natural Gas (LNG) transported from Wickham Point in Darwin to Japan. It is the first delivery of gas from the JPDA to the market that we hope will be the first of many to continue for years to come. I wish to take this opportunity to congratulate the Operator ConocoPhillips and its Joint Venture Partners for this achievement.

It is also the year that we have reached profit oil for the Bayu-Undan and EKKN projects, bringing increased revenues to Timor-Leste and Australia. This milestone was reached within just two years of the commencement of production; an example which I hope can be followed by other projects in the JPDA.

In 2006 we also awarded contracts for our first acreage release which took place in 2005. Despite the review taking place at the height of the political and military crisis in Timor-Leste, we were able to conduct it in a timely manner and finish the process smoothly. Of the four areas on offer, three were awarded to different companies. This result is an indication of the hard work by the TSDA team working on the project, and also the perceived prospectivity of the JPDA. As with all activities there are always lessons learned, which I have made a commit to review and improve for future acreage releases.

Finally, as this is my first complete year as the Executive Director, I would like to acknowledge all the support that I have received and the patience shown to me during this time. In particular, I would like to thank the Joint Commissioners for the guidance they have given me; the Directors, Advisor and staff of the TSDA, for the support and expertise provided to make this year a success; and to the governments of

Timor-Leste and Australia and our partners for their joint cooperation.



Jose Lobato  
Executive Director

## **Strategic Direction**

### **1.1 Vision**

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

### **1.2 Mission**

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.

### **1.3 Profile**

The TSDA was designated by the Joint Commission for the first three years after the *Timor Sea Treaty* entered into force on 2 April 2003 to carry out the day to day regulation and management of petroleum activities in the JPDA. In 2006, Timor-Leste and Australia agreed to designate the TSDA for a further one year period, until 1 April 2007, after which the Designated Authority for the JPDA shall be the Timor-Leste Government Ministry responsible for petroleum activities or, if so decided by the Ministry, a Timor-Leste statutory authority.

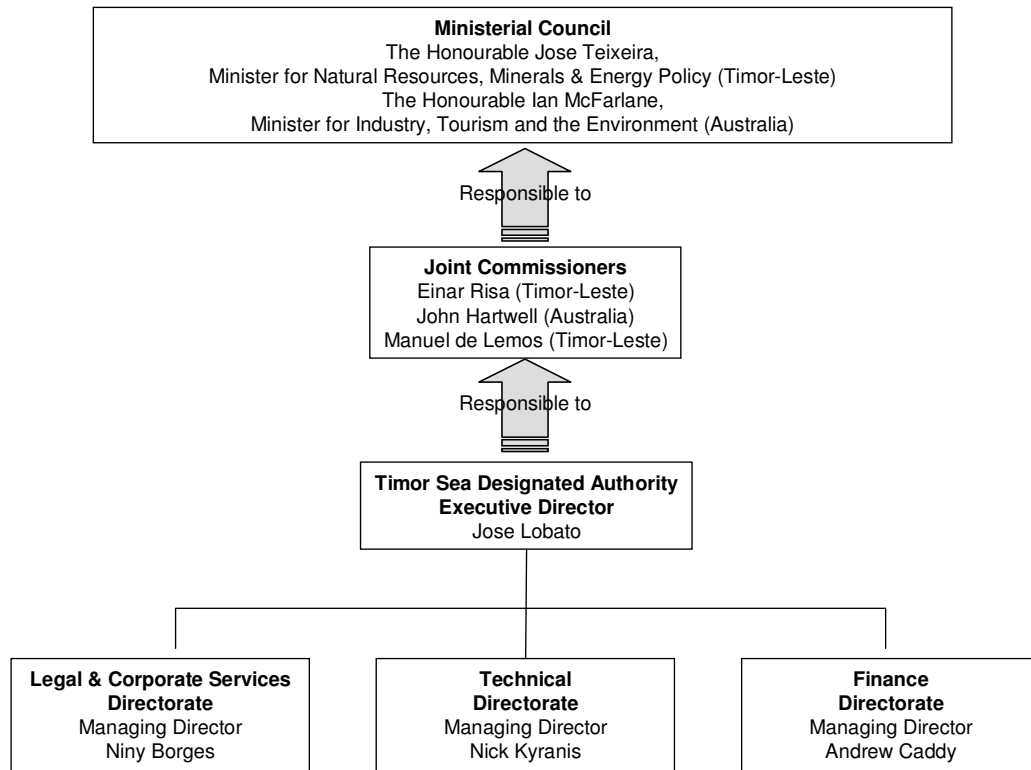
The TSDA is responsible to the Joint Commission which consists of two Commissioners from Timor-Leste, Mr. Einar Risa and Mr. Manuel de Lemos, who replaced Mr. Jose Teixeira upon his appointment as Minister for Natural Resources, Minerals and Energy Policy in July 2006, and one Commissioner from Australia, John Hartwell. Timor-Leste also named Mr Roger White as an alternative Commissioner.

The TSDA Directors report regularly to the Joint Commission and are required to submit a budget for approval for each calendar year, as well as annual reports for the previous calendar year. This year the Commissioners met three times to discuss and consider various issues including approving the 2005 budget, acreage award, PSC's and marketing strategies, as well as, project updates, security and evacuation issues. The Joint Commission also agreed to a schedule of four meetings per year for 2007.

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

Profiles for each of the TSDA Directors are provided at Appendix 2 and the organisational structure is outlined on the following page.

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The TSDA team

## 2 Institutional Development

### 2.1 Summary of the Strategic Planning Workshop 2007-2010

The TSDA held its Strategic Planning Workshop in October 2006 in order to prepare its 2007-2010 Strategic Plan, notwithstanding the expected changes to the Designated Authority in 2007. All TSDA office employees were invited to participate in the workshop.

The Executive Director, Jose Lobato, shared his vision for the TSDA:  
'We will be a reference for Timor-Leste organisations and a model to oil and gas regulators world-wide'.

The workshop focussed on the question:

'What does the TSDA need to do over the next three years to be a model of excellence in managing all resources under its care?'

The participants reflected on the original Mission Statement and then moved on to review the 2003-2006 Strategic Plan and the 2004-2007 Action Plan by looking at what has been achieved and what lessons have been learned. The next steps were to analyse the TSDA's current and future operating environment, and then to develop a practical vision for the TSDA by 2010. The participants then analysed the issues in the current situation that help or hinder the organisation in achieving its vision, and of those, which can be controlled or influenced. The next task was to look at the strategies that will maximise the strengths and overcome the obstacles, so that the vision can be achieved. Lastly, these strategies were checked against the original Strategic Plan to ensure all TSDA responsibilities are included in the 2007-2010 Strategic Plan.

The 2007-2010 Strategic Plan is to be issued in early 2007 following endorsement by the Joint Commission. It is to be published on the TSDA website. An Action Plan for 2007-2010 is to be developed to detail the actions required to achieve the strategies.



TSDA Strategic Planning Workshop at Hotel Timor

## 2.2 Future Structure of the TSDA

Under the *Timor Sea Treaty*, the TSDA was scheduled to have become either part of the Ministry for Natural Resources, Minerals and Energy Policy (the “Ministry”) or a statutory authority on 2 April 2006. However, the Government of Timor-Leste required more time to analyse and debate the re-structure of the petroleum sector within Timor-Leste. Accordingly, by Third Party Note on 31 March 2006, the Governments of Timor-Leste and Australia extended the period designating the TSDA until 2 April 2007.

## 2.3 HR Development

### A. Staffing Levels within the TSDA

With the closure of the Darwin office planned for December 2006, three employees transferred to the Dili office and the remaining five employees elected not to transfer to Dili. Of the five, three were replaced by new international staff in Dili and the others were replaced by existing or Timor-Leste national employees in Dili. HR recruited a total of ten new employees during 2006; five international and five Timor-Leste national. The TSDA saw a growth in the total number of personnel during 2006 from 32 to 36 employees with plans for five new Timor-Leste national employees to join in early 2007. Of the 36 employees, 26 are Timor-Leste nationals.



Farewell parties in Dili for Darwin employees

### B. Education and Training of Timor-Leste Nationals

The TSDA completed its first Certificate in Business Skills course that was started in 2005 as part of an emphasis on professional skills development, cross-cultural communication and coaching skills for supervisors. The course consisted of 12 units, such as customer service, communication, prioritising work and report writing. A graduation ceremony was held at the TSDA Christmas Party in December 2006, with six employees being awarded the Certificate and a further five employees gaining Statements of Attainment for completed units.

Some employees attended industry specific courses, such as first aid training and Helicopter and Underwater Escape Training (HUET), and others did on the job training as part of offshore visits. The HSE Associates successfully completed a number of units of a Certificate IV in Occupational Health and Safety course via distance learning through Swan TAFE.



HUET training provided by IFAP Darwin – North Australian Safety Centre

Other non-technical staff completed courses in management, IT and training. All Timor-Leste national employees continued their English studies throughout the year and selected employees participated in Portuguese language training. International employees were also provided the opportunity to learn Tetum.

The TSDA also held fortnightly seminars on a variety of topics as part of its professional development program. Topics included: the bid selection process, exploration, economic modelling, the downstream industry, organisational development and information from petroleum-related conferences.



Award day for Business Skills



TSDA staff attending Portuguese class

### 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.

During the year a special advisor to the Executive Director was recruited to help with a capacity building program designed for the top executive level. A project was designed and includes formal and informal educational and training sections, implementation of new management tools and a performance review process.

**D. Organisational Development**

The Darwin office was closed in December 2006 after a planned gradual downsizing of the office and its functions. In addition to achieving the aim of meeting a requirement under the *Timor Sea Treaty* to become part of the relevant Timor-Leste Ministry or statutory authority, the merge of the two offices is also contributing to a better functioning office from the perspective of cost efficiency, communication and training of Timor-Leste national staff in accordance with our Strategic Plan.

The TSDA continued to develop its internal administration through development of policies and procedures; in particular, the PSC application handling procedure, the security policy, hazard reporting, correspondence registering and a review of the Performance Review process and form.

### **3 Regulations**

The TSDA, with the approval of the Joint Commission, makes regulations prescribing all matters that by the Petroleum Mining Code (PMC) are required or permitted for carrying out or giving effect to the PMC.

Since the approval of the new regime by the Joint Commission on 6 February 2006, regulations have applied to all Production Sharing Contracts (PSCs) operating within the JPDA. Accordingly, the Interim Regulations under the Interim Petroleum Code are being reviewed with a view to meeting this legislative change as well as taking into consideration the transition of the TSDA to a Timor-Leste government institution as provided under the *Timor Sea Treaty*.

The TSDA aims to finalise the review of the regulations by May 2007 for public consultation by industry and civil society. It is expected that the regulations will come into effect in July 2007.



The TSDA stand at APPEA

## **4 Areas Under Contract**

In order to put the activities of the TSDA and the performance of the Contract Operators, captured in the remainder of this report, into context, the following provides an overview of the main activities associated with the JPDA PSC areas in 2006. Refer to the map at Appendix 3 for contract areas.

### **4.1 New PMC and PSC**

On 6 February Timor-Leste and Australia agreed to a new Petroleum Mining Code (PMC) and a model Production Sharing Contract (PSC) pursuant to Article 7(a) of the *Timor Sea Treaty*. It was agreed that this new PMC and PSC would apply to existing PSCs and new acreage release awards, although the Bayu-Undan and Sunrise PSCs would continue under the Interim PMC.

For the existing contracts, the contractors had a period of six months to consider the new terms offered to them under the new regime. The results are summarised in the overview of the PSC areas below.

### **4.2 JPDA 06-105 Jahal & Kuda-Tasi**

Woodside Petroleum (Timor Sea 1) Pty Ltd, INPEX Timor Sea Ltd and Talisman Resources (JPDA 03-01) Pty Ltd were offered a new PSC under the new regime for the area which was previously known as JPDA 03-01 (now 06-105). A new contract was signed on 24 July 2006 and the effective date after all requirements were met was 22 September 2006.

### **4.3 JPDA 03-12 Elang, Kakatua and Kakatua North (EKKN) Project**

The EKKN project is operated by ConocoPhillips (03-12) Pty Ltd and is a mature project with production now well into decline averaging approximately 2000 BOPD. The Contract Operator is planning to abandon the field in 2007.

### **4.4 JPDA 03-12 & 03-13 Bayu-Undan Project**

The Bayu-Undan project is operated by ConocoPhillips (03-12) Pty Ltd and has been in production since 2004. The export of gas the field via the pipeline to Darwin commenced in February 2006.

### **4.5 JPDA 03-16**

The Contract Operator ConocoPhillips (03-16) was offered a new contract (renamed JPDA 06-106) under the new PMC and PSC terms and conditions. The operator declined the offer to continue under the new terms. Therefore, on 6 August 2006 the PSC for JPDA 03-16 was terminated.



Bayu-Undan project (photo courtesy of ConocoPhillips)

#### **4.6 JPDA 03-19 & 03-20 Greater Sunrise**

The Contract Operator, Woodside Petroleum (Timor Sea 19), found there to be insufficient fiscal, legal and regulatory certainty to justify any significant work in these areas during 2006, due to the *Agreement between the Government of the Democratic Republic of Timor-Leste and the Government of Australia Relating to the Unitisation of the Sunrise and Troubadour Fields* (Sunrise Unitisation Agreement) not being ratified. It is the Contract Operator's position that the project is officially 'stalled' until such time the issues are resolved by the governments. However, on 12 January 2006 the governments of Australia and Timor-Leste signed the Treaty concerning *Certain Maritime Arrangements in the Timor Sea* (CMATS), which is now awaiting ratification by both countries. CMATS provides some certainty for the project to move forward.

#### **4.7 JPDA 03-21**

The Contract Operator ConocoPhillips (03-21) and its joint venture partner Eni JPDA 03-21 BV were offered a new contract (renamed JPDA 06-107) under the new PMC and PSC terms and conditions. The joint venturers declined the offer to continue under the new terms. Therefore, on 6 August 2006 the PSC for JPDA 03-21 was terminated.

## **5 Acreage Release**

### **5.1 Bid Submission**

The TSDA conducted its inaugural JPDA Acreage Release in 2005 and bidding for the four Contract Areas on offer closed on 26 May 2006. Bids were opened by the Evaluation Committee on 29 May 2006.

Eight bids from Australian and international companies were received. The bids were submitted both individually and in consortia by the following companies:

- Bharat Petroleum, Duddell Resources Ltd
- Gujarat State Petroleum Corporation
- Korea Gas Corporation
- LG International Corporation
- Minza Oil and Gas Ltd
- Oilex NL
- Petronas Carigali Overseas Sdn. Bhd.
- Samsung Corporation
- Santos Ltd
- Videocon Industries Ltd
- Zetex N.V.

The evaluation process took into consideration financial, legal and technical aspects of the bidding companies and consortia. The Evaluation Committee reviewed each exploration work programme bid with reference to which programme would 'best and most expeditiously' evaluate the petroleum potential of each Contract Area, following the Guidelines issued under Article 5 of the Petroleum Mining Code.

A summary of all eight bids received is shown at Appendix 4.

### **5.2 Bid Round Results**

The Final Report of the Evaluation Commission identified the following companies' bids as those that offered the best conditions and advantages for the future exploration of each Contract Area.

**Table 1: Contract Awards**

<b>Contract Area</b>	<b>Awarded to</b>
06-101(A)	Minza Oil and Gas Ltd
06-102	Petronas Consortium
06-103	Oilex Consortium
06-104	Zetex N.V. (later rejected)

The Evaluation Committee recommended that a PSC for Contract Area 06-101 not be awarded. However a further recommendation was made to offer a revised PSC to Minza Oil and Gas Ltd for a reduced 06-101(A) Contract Area of approximately 2,130 km<sup>2</sup>.

### **5.3 Contract Awards**

The Joint Commission ratified the Final Report from the Evaluation Commission for the JPDA Contract Areas on 16 August 2006. Accordingly the four successful companies were invited to enter into PSCs with the TSDA.

Zetex N.V. later indicated that it could not provide the financial guarantees required and despite its earlier undertakings to the TSDA, rejected the offer for Contract Area 06-104.

The Evaluation Committee therefore reconvened to re-assess the remaining bids on JPDA 06-104. Following this re-assessment the Evaluation Committee recommended to the Joint Commission that neither bid offered a technical work programme that was regarded as sufficient to follow up existing leads or identify and evaluate new exploration prospects in previously unexplored parts of the contract area, and therefore a PSC for JPDA 06-104 should not be awarded to either company.

PSC contracts were signed with the successful bidders on the following dates:

- JPDA 06-101(A) Minza Oil and Gas Ltd on 30 October 2006.
- JPDA 06-102 Petronas Consortium on 30 October 2006.
- JPDA 06-103 Oilex Consortium on 15 November 2006.

### **5.4 Success**

The Acreage Release was successful with bids presented being exceedingly robust indicating the exploration industry's belief that considerable exploration potential remains throughout the JPDA. Future seismic acquisition and drilling in the PSC areas awarded will continue to enhance the knowledge of the petroleum geology of the JPDA.



Contract award signing ceremonies

## **6 Exploration**

### **6.1 Seismic**

The exploration effort in the JPDA in 2006 and the 2006 Acreage Release were fuelled significantly by two seismic data acquisition projects in 2005:

- (a) A 2D marine seismic survey of the waters between the JPDA and the Timor-Leste coastline, a portion of the northeast corner of the JPDA and several tie-lines into the JPDA 03-12 & 03-13 contract areas, which was completed by Global Geo Services Ltd. in 2005. As part of that programme a significant amount of pre-existing seismic data was re-processed to provide a uniform distribution of high quality seismic data across the whole of the JPDA.
- (b) The IKAN 3D seismic survey, which was shot during October 2005 in JPDA 03-01. The target was to obtain the best quality 3D seismic coverage to assist in interpretation of the Kuda-Tasi area prior to definition of a Kuda-Tasi-3 well location.

### **6.2 Projects**

#### **A. JPDA 03-01 Jahal & Kuda-Tasi**

The contract operator, Woodside Petroleum (Timor Sea 1) Pty Ltd, continued appraisal of the Kuda-Tasi structure during early 2006 with the assistance of the new 3D seismic data derived from the IKAN 3D survey. Better visualisation of the main fault trends and, in particular, seismic velocity modelling was used to re-define the structure and confirm the Kuda-Tasi-3 well location.

Kuda-Tasi-3 was drilled to a total depth of 3,513m and was plugged and abandoned on 22 October 2006. However, reservoir sands encountered in the well were thinner than expected which led to a downgrading of reserves in the Jahal & Kuda-Tasi structure.

The results from the drilling of Kuda-Tasi-3 were disappointing. Kuda-Tasi-3 was designed to appraise the economics of the project by investigating the potential up-side potential in the north-east flank of the structure.

The 4.5m oil column observed indicated a reservoir gross rock volume, however the operator regarded it as sub-economic or marginal.

#### **B. HSE**

Woodside contracted the *Nan Hai VI* drilling unit with Maersk Contractors as the third party management contractor to execute one appraisal well on the Kuda-Tasi structure. The operation experienced a major fire in the store room before the well was spudded, and over two months of productive time was lost.

## **7 Production**

### **7.1 JPDA 03-12 & 13 - Bayu-Undan Project**

#### **A. Project Description**

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

#### **B. Activities**

The Bayu-Undan field has performed well, taking into consideration minor planned and unplanned production interruptions throughout the year. Export of gas from the Darwin LNG Plant commenced in February 2006.

There were 43 off-takes of condensate totalling 4,115,454 Mm<sup>3</sup> (25,902,672 bbls) and 26 LPG off-takes totalling 2,100,754 m<sup>3</sup> (13 232 395 bbls).

Average annual operating costs were US\$10,504,083 compared with the budgeted amount of US\$13,957,585. Actual average unit cost was US\$2.978/bbl compared with the budgeted amount of US\$3.755/bbl.

The Bayu-Undan Extend the Edge programme commenced on 31 January 2006 with representatives from the Upstream Business Unit, Upstream Technology and Singapore Ops Excellence. The primary focus was to identify bottlenecks and propose solutions to eliminate them. The completed draft report and recommendations were presented on 8 February 2006. These were analysed to verify justification for implementation

An audit of the onshore and offshore measurement systems was completed by Upstream Technology.

Failure of a gas export pressure control valve positioner resulted in damage to the pressure safety valves on the export header, resulting in their replacement. An investigation into the cause of the incident following the Recommended Code of Practice for Root Cause Analysis was revealed in the final report.

Gas export was interrupted in October due to the planned shutdown at the Darwin LNG Plant for statutory inspection of critical vessels and maintenance. All gas produced was reinjected into the reservoir.

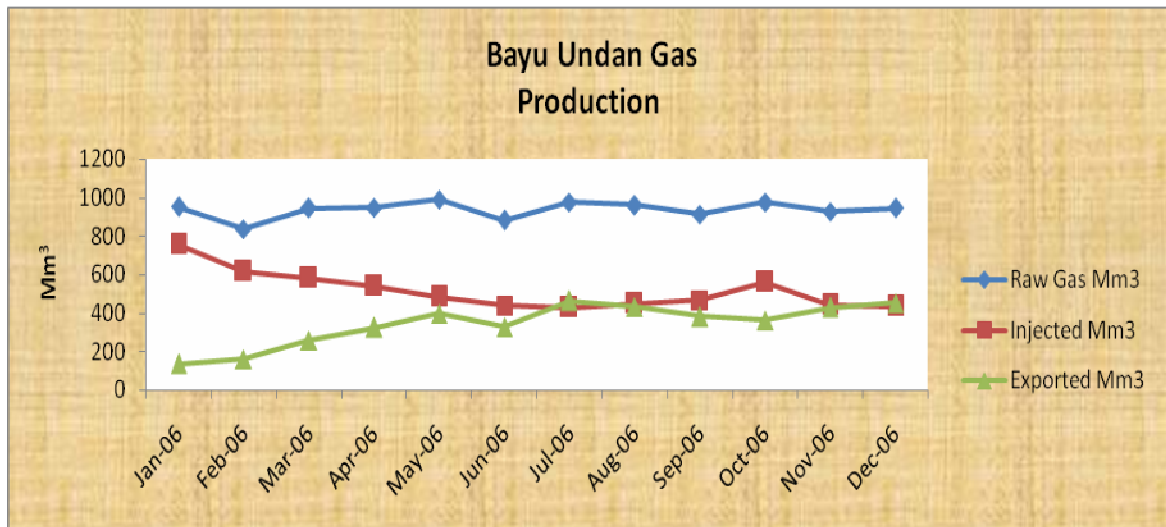
**C. Production Performance**

**Table 2: Bayu-Undan Gas Production**

	Gas		
	Raw Gas Mm <sup>3</sup>	Injected Mm <sup>3</sup>	Exported Mm <sup>3</sup>
Jan 06	950.43	<b>754.83</b>	<b>136.53</b>
Feb 06	<b>838.01</b>	615.38	162.38
Mar 06	944.74	580.64	257.83
Apr 06	949.61	540.85	323.82
May 06	<b>990.67</b>	484.36	398.56
Jun 06	881.22	440.87	328.39
Jul 06	975.74	<b>429.94</b>	<b>463.49</b>
Aug 06	960.37	448.27	432.90
Sep 06	914.52	466.29	382.01
Oct 06	975.36	561.18	363.99
Nov 06	928.59	444.08	427.66
Dec 06	943.69	436.99	452.47
<b>Total</b>	<b>11,252.93</b>	<b>6,204</b>	<b>4,130.03</b>

- Maximum Production
- Minimum Production

**Figure 1: Bayu-Undan Gas Production**

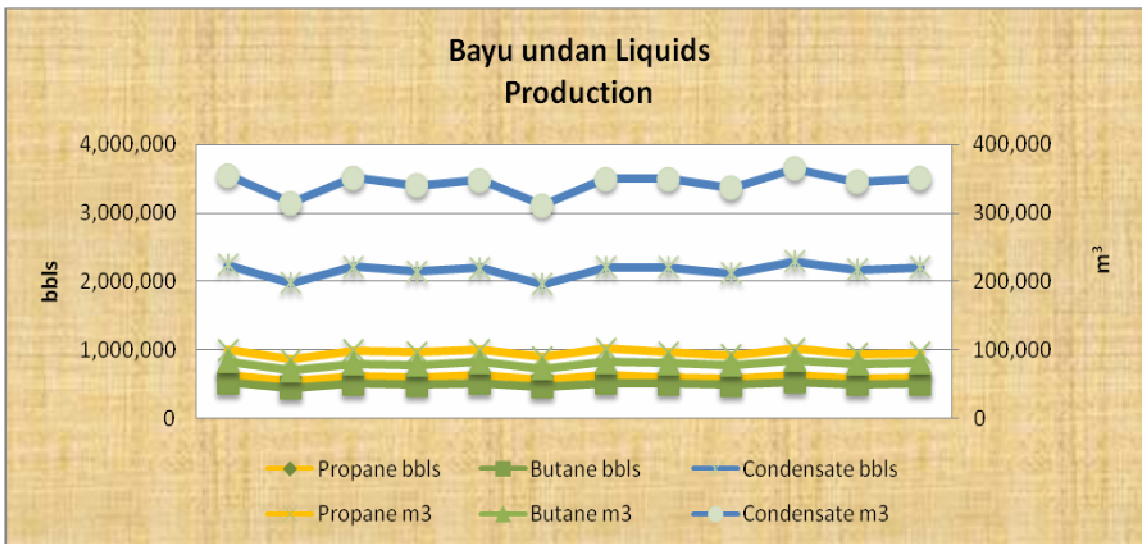


**Table 3: Bayu-Undan Liquids Produced**

	Imperial			Metric		
	Propane bbls	Butane bbls	Condensate bbls	Propane m <sup>3</sup>	Butane m <sup>3</sup>	Condensate m <sup>3</sup>
<b>Jan 06</b>	626,624	521,138	2,235,505	99,461	82,754	355,180
<b>Feb 06</b>	537,889	441,300	1,977,362	<b>85,377</b>	<b>70,079</b>	314,164
<b>Mar 06</b>	624,216	503,633	2,208,819	99,081	79,975	350,942
<b>Apr 06</b>	604,885	492,725	2,139,130	96,008	78,244	339,868
<b>May 06</b>	628,198	516,104	2,191,707	99,711	81,957	348,222
<b>Jun 06</b>	561,402	458,352	1,958,840	89,107	72,788	<b>311,223</b>
<b>Jul 06</b>	640,954	515,805	2,201,502	<b>101,734</b>	81,911	349,778
<b>Aug 06</b>	606,847	509,236	2,202,863	96,320	80,865	349,994
<b>Sep 06</b>	581,725	489,458	2,117,542	92,336	77,728	335,988
<b>Oct 06</b>	638,629	534,813	2,292,046	101,365	<b>84,928</b>	<b>364,614</b>
<b>Nov 06</b>	587,808	500,982	2,172,027	93,298	79,556	345,095
<b>Dec 06</b>	599,700	509,972	2,205,329	95,189	80,982	350,386

- Maximum Production
- Minimum Production

**Figure 2: Bayu-Undan Liquids Production**



**D. HSE**

There was one lost time incident resulting in 105 lost days. There were a total of 15 hydrocarbon and seven non-hydrocarbon spills in 2006.

**7.2 JPDA 03-12 - Elang, Kakatua and Kakatua North (EKKN)**

**A. Project Description**

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

**B. Activities**

Production uptime was lost due to *MVI* departing the JPDA for an overhaul. On its return from Singapore, problems were encountered reconnecting to the Riser Turret Mooring (RTM).

The total cumulative production was 31,191,074 bbls sales accounted for two lifts for the year totalling 545,469bbls.

AMS representatives recalibrated LP flare meter and fiscal meter prover quarterly.

Annual approval for *MVI* operations received from TSDA.

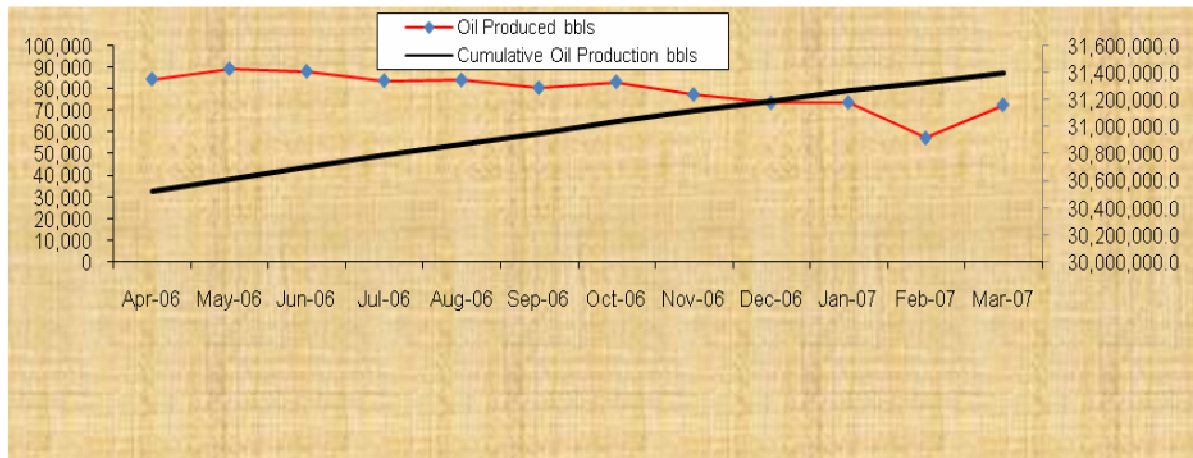
**C. Production Performance**

**Table 4: EKKN Oil Produced**

	Oil	
	Produced bbls	Cumulative bbls
Jan 06	0	30,444,042
Feb 06	21,697	30,379,071
Mar 06	64,971	30,444,042
Apr 06	84,810	30,528,852
May 06	<b>89,548</b>	30,618,400
Jun 06	88,353	30,706,754
Jul 06	84,089	30,790,843
Aug 06	84,410	30,875,253
Sep 06	80,778	30,956,031
Oct 06	83,521	31,039,552
Nov 06	77,666	31,117,218
Dec 06	73,857	31,191,074

- Maximum Production
- Minimum Production

Figure 3: EKKN Oil Produced



**D. HSE**

There were no lost time incidents on the EKKN facility for the year and only one medical treatment case. In comparison to 2005, there was an improvement in the HSE performance.

## 8 Health, Safety and Environment

### 8.1 General

The HSE Department travelled offshore and conducted one audit and investigated a major fire incident. Personnel were sent offshore to observe two other incident investigations.

There were two reportable safety incidents reported during the year but no reportable environmental incidents.

A Regulations Committee chaired by the HSE Manager was established at the end of the year to review the proposed Regulations covering HSE, Production and Development.

### 8.2 Health and Safety

#### A. Bayu-Undan

There was one lost time incident resulting in 105 lost days.

**Table 5: Bayu-Undan Health and Safety Incidents**

	JPDA 2006	Change from 2005	Onshore	Total
<b>Hours worked</b>	663,684	-37.65%	123,944	787,628
<b>Incidents (number reported)</b>				
Lost Time Injuries (LTI)	1	-50%	1	2
Total Injury Incidents (LTI, ADI, MTI)	1	-90.9%	1	2
Near Miss Incidents	47	6%	0	47
<b>Frequency Rates</b>				
Lost Time Injuries (LTI)	1.51	-24.5%	0	1.51
Alternative Duty Injuries (ADI)	0	-100%	0	0
Medical Treatment Injuries (MTI)	0	-100%	0	0
First Aid Injuries (FAI)	39.18	-1.72%	0	34.2
Total Reportable Injuries (LTI, ADI, MTI)	1.51	-84.9%	0	1.51
<b>Lost Time Injuries</b>				
Total Days Lost	105	-37.5%	0	105
Average Duration Rate (days per LTI)	105	25%	0	105
Severity Frequency Rate	0.1	0%	0	0.1

Note: Frequency rates are calculated per million person hours worked.

#### Accomplishments

- There were zero recordable injuries - a first for the Australasia Business Unit.
- There was only one Contractor recordable injury, which was a reduction of 50% from the previous year.
- The Contractor Engagement Plan was initiated, which provides a forum for ConocoPhillips' 14 major contractors to align their HSE goals, objectives and plans with the ConocoPhillips HSE plans.

- The Darwin Operations Centre HSE Steering Committee commenced, which is aimed at providing leadership and to promote and support HSE excellence.
- The Safety Improvement Team commenced, which actioned initiatives, e.g. employee safety surveys, HSE Management Systems Review, formation of Behavioural Based Safety Steering Committee, and launch of the '007' Safety Campaign.

**B. Elang Kakatua / Kakatua North Performance**

There were no lost time incidents on the EKKN facility for the year and only one medical treatment case. In comparison to 2005, there was an improvement in the HSE performance.

**Table 6: EKKN Health and Safety Incidents**

	Offshore	Change from 2005	Onshore	Total
<b>Hours worked</b>	140,538	11.9%	28,175	168,713
<b>Incidents (number reported)</b>				
Lost Time Injuries (LTI)	0	0%	0	0
Total Injury Incidents (LTI, ADI, MTI)	1	0%	0	1
Near Miss Incidents	6	-60%	0	6
<b>Frequency Rates</b>				
Lost Time Injuries (LTI)	0	0%	0	0
Alternative Duty Injuries (ADI)	0	-100%	0	0
Medical Treatment Injuries (MTI)	7.12	--	0	7.12
First Aid Injuries (FAI)	21.35	-26.9%	0	21.35
Total Reportable Injuries (LTI, ADI, MTI)	7.12	-2.5%	0	7.12
<b>Lost Time Injuries</b>				
Total Days Lost	0	0%	0	0
Average Duration Rate (days per LTI)	0	0%	0	0
Severity Frequency Rate	0	0%	0	0

Note: Frequency rates are calculated per million person hours worked.

### 8.3 Environment

**A. Incidents**

Focusing on Bayu-Undan, a total of 15 hydrocarbon and seven non-hydrocarbon spills were recorded in 2006. The total spill volume of hydrocarbon for the year 2006 was 6,721.3 litres and 6,718 litres was recovered. Approximately 95% or 6,502 litres of the total volume of hydrocarbon spill occurred in May 2006. However, this amount was fully recovered. No single discharge was greater than 80 litres.

**B. Gaseous Emissions (Flaring & Venting)**

Flared and vented volumes for Bayu-Undan and EKKN in 2006 (shown in Tables 7 and 8, respectively) are inclusive of the first full year of production. Flaring in Bayu-Undan has remained consistently below 2% of the total raw gas produced. Compared to flaring in Bayu-Undan, flaring in EKKN is 21% (Table 4). However, this amount is justified as EKKN has a different production regime.

**Table 7: Bayu-Undan Flaring & Venting Volumes**

Emission	2006 Total
Hydrocarbons Flared (1000 m3)	99,780
Proportion of gas flared against allowance	64.5%
Hydrocarbons Vented (CPP, WP1, FSO) (1000 m3)	2,795.8

**Table 8: EKKN Flaring & Venting Volumes**

Emission	2006 Total
Hydrocarbons Flared (1000 m3)	3,590
Proportion of gas flared against allowance	2.5%
Hydrocarbons / Inert Gas Vented (1000 m3)	1,007,500

**C. Aqueous Discharges**

Produced formation water (PFW) is mostly re-injected. Discharge to the sea, via a dedicated PFW caisson only occurs when the re-injection is not possible and PFW is only diverted to caisson for occasional periods. During 2006, PFW was diverted to the caisson on two occasions in July and December. On both occasions, the oil in water content did not exceed the 25 mg/L limit specified.

**8.4 Performance of Operators**

**A. ConocoPhillips 03-12 and 03-13**

HSE statistics are presented in Tables 9 and 10 below for activities associated with the two production facilities. There have been significant improvements in all areas.

**Table 9: 2006 ConocoPhillips Lagging Safety Indicators**

Statistic	Total	Change Since 2006
<b>Hours worked</b>	804,222	-56.9%
<b>Incidents (number reported)</b>		
Lost Time Injuries (LTI)	1	-50%
Total Incidents (LTI, ADI, MTI)	2	-91.7%
<b>Frequency Rates</b>		
Lost Time Incident Frequency Rate	1.3	-7.1%
Total Injury Incidents (LTI, ADI, MTI)	2.5	-70.6%

**Table 10: 2006 JPDA Environment Indicators**

Indicator	Total	Change Since 2005
<b>Gas Production and Flaring</b>		
Gas Produced (m3)	11,256,519	1%
<i>Proportion flared</i>	0.92%	-0.5%
Gas Flared (m3)	103,370	-39.29%
<b>Produced Formation Water Discharged</b>		
PFW Discharged (m3)	1,239,761	0.06%
<i>Average OIW Content (mg/L)</i>	15	0.05%
Oil discharged with PFW (kg)	19,753	0.07%

The EKKN operation was shut down for 3 months of 2005. Consequently, the discharge of produced formation water (PFW) during 2006 shows a significant increase from the previous year.

**B. Woodside Petroleum 03-01 (06-105)**

Woodside contracted the *Nan Hai VI* drilling unit with Maersk Contractors as the third party management contractor to execute one appraisal well on the Kuda-Tasi structure. The operation experienced a major fire in the store room before the well was spudded, and over two months of productive time was lost. The TSDA investigated the incident and made eleven recommendations. Most of the recommendations were completed by the time the *Nan Hai VI* completed its program in the JPDA.



TSDA HSE staff on *Modec Venture I*

## 9 JPDA Commercial

### 9.1 Sales of Products

During 2006, 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 for the first time in 2006, natural gas. Sales contracts were negotiated using spot cargoes, short term sales contracts for LPG and long term sales contracts for natural gas.

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.

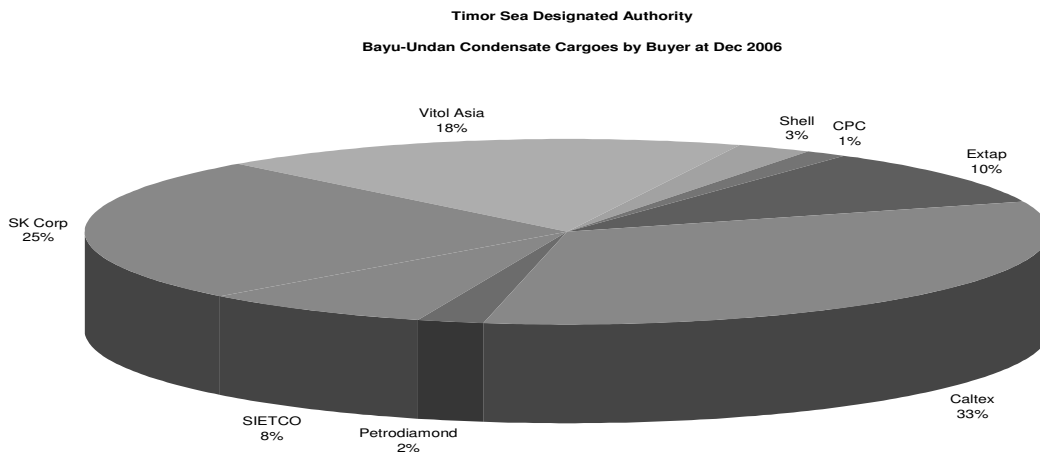
#### A. Bayu-Undan

##### *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 43 condensate cargoes lifted during 2006. Condensate was sold using both a spot basis and a term contract to buyers in South East Asia. The following graph shows the various customers that purchased condensate during the year.

**Figure 4: Condensate Customers**



The 2006 year was marked by a high and volatile crude oil price environment. The Bayu-Undan condensate price generally increased consistent with world oil prices during the year opening at US\$59 per barrel in January. It continued to increase steadily peaking at US\$71 in August before gradually easing through the rest of 2006. An average price of US\$63 per barrel was recorded for the year.

On the spot market, new customers were introduced to the condensate from Japan, Indonesia and Taiwan.

Figure 5: Bayu-Undan Condensate v World Crude Oil Markers 2006

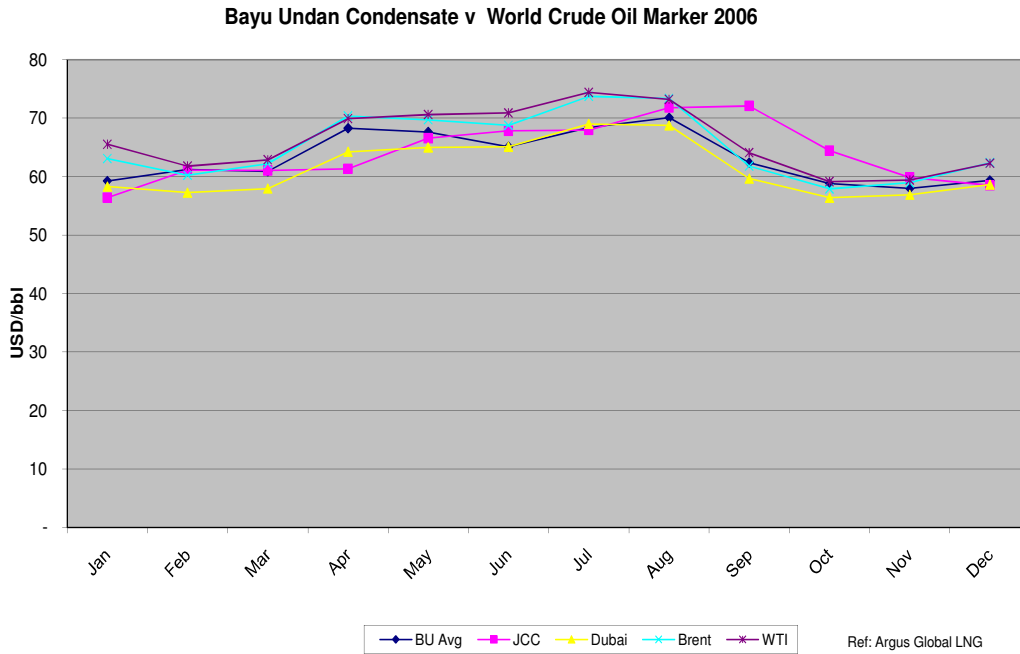
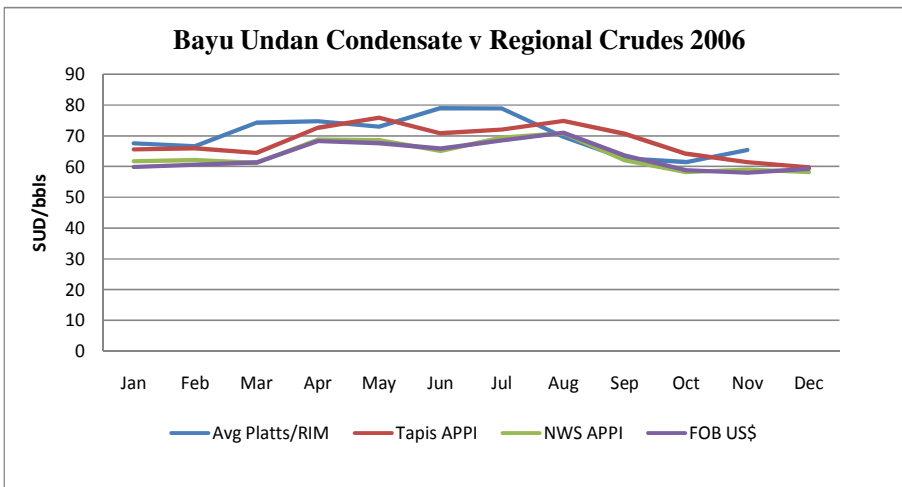


Figure 6: Pricing Achieved by Bayu-Undan Condensate Compared with Regional Indicators

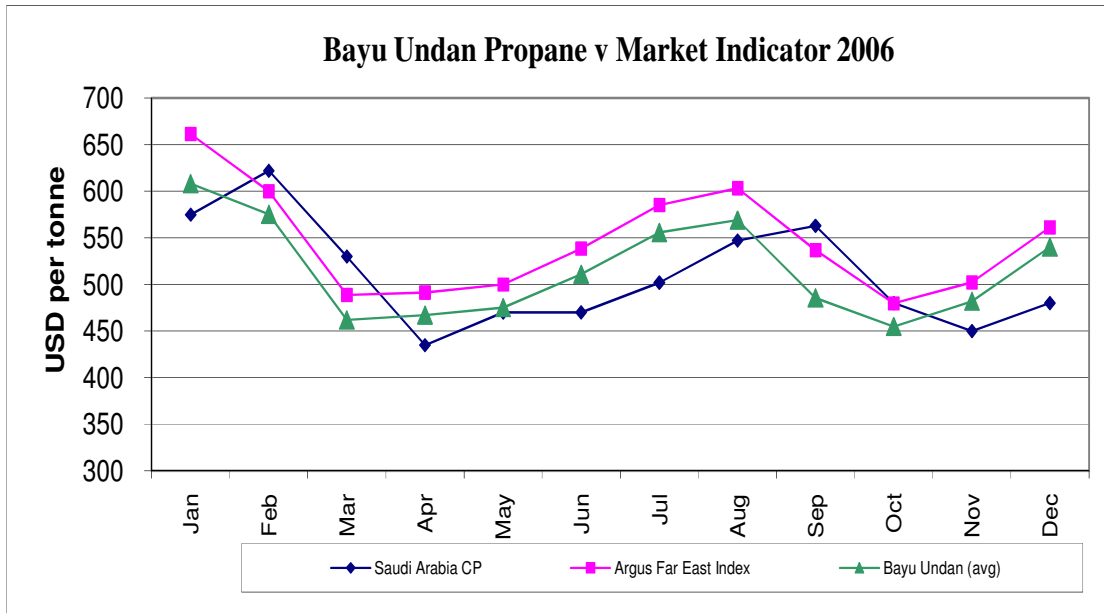


**Liquefied Petroleum Gas**

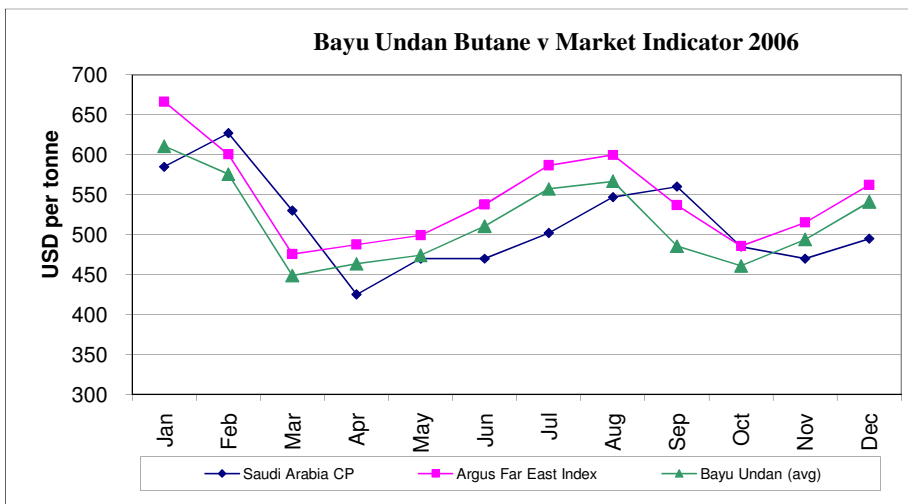
All Bayu-Undan LPG was sold by ConocoPhillips under a term contract to Vitol Asia. During the 2006 year, 26 liftings took place under the contract totalling over 1.1 million metric tonnes sold.

The contract included a market base pricing formula indexed to the Argus Far East Index. Similar to other petroleum products, the price of LPG was volatile during the year with a low price of US\$435 per tonne up to US\$622 per tonne based on Saudi Aramco CP.

**Figure 7: Pricing Achieved by Bayu-Undan Propane Compared with Market Indicators**



**Figure 8: Pricing Achieved by Bayu-Undan Butane Compared with Market Indicators**

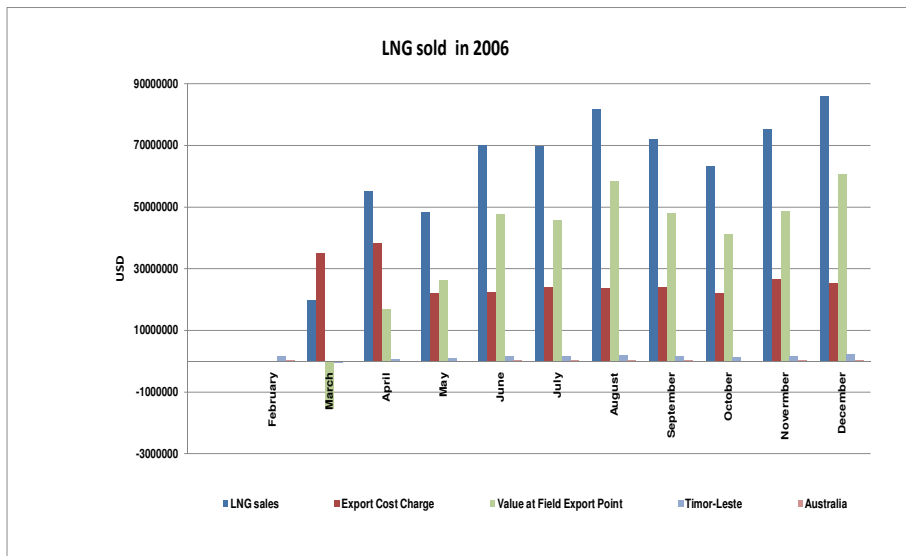


The LPG term contract with Vitol S.A. expired on 31 December 2006 and ConocoPhillips will continue a term deal with Vitol S.A. in 2007.

***Liquefied Natural Gas***

All LNG was sold under a long term sale agreement between ConocoPhillips and Tokyo Gas and Tokyo Electric. The plant (Darwin LNG) started to produce in February 2006. During 2006, FTP in respect of LNG sold was recorded at over US\$17 million to the contracting states. The following table shows the total LNG sold during 2006 and the amount received by the contracting states.

**Figure 9: Total LNG sold and receipts by States in 2006**

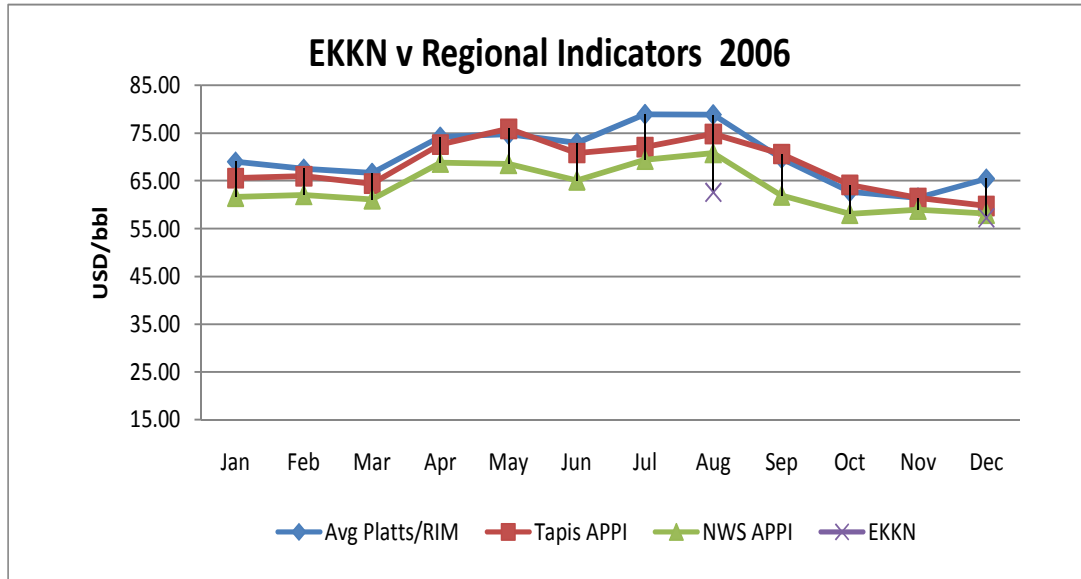


**B. EKKN**

The EKKN field entered its eighth year of production. Despite its low production rate, the project continues to provide revenue with two cargoes being lifted and sold during 2006 earning US\$3.6M for the TSDA. This is a decrease of US\$3.2M from the 2005 sales of US\$6.8M and reflects the decreased production from 954,782 bbls in 2005 to 833,700 bbls in 2006.

The pricing of EKKN crude oil was consistent with that generally achieved for similar products from the region in the market. During 2006, the highest ever price for an EKKN cargo was recorded at over US\$70 per barrel. This achievement reinforces the benefit of the continuation of the field even at low rates of production and the TSDA continues to explore avenues to extend the life of the EKKN field.

**Figure 10: Pricing Achieved by EKKN Compared With Regional Indicators**



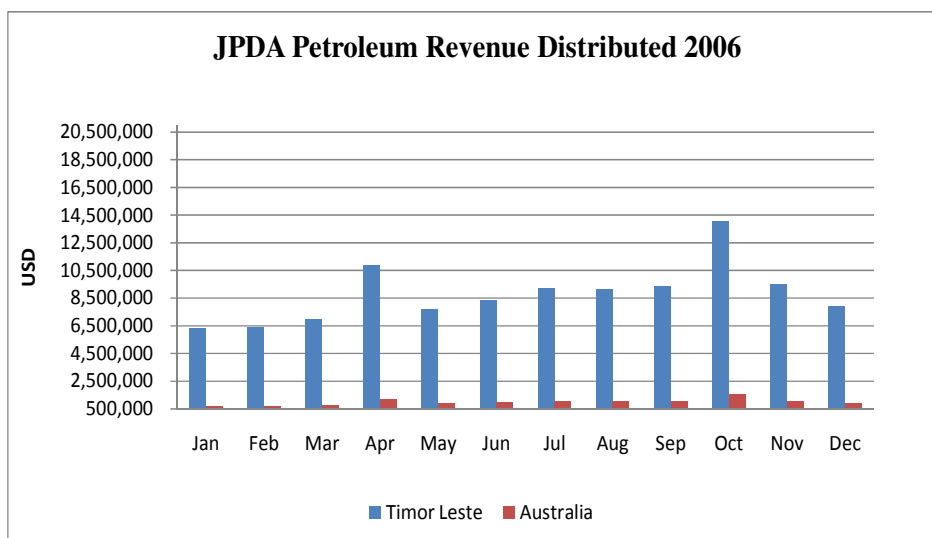
## 9.2 Revenues Distributed to Contracting States

The JPDA has generated significant income to the contracting states.

Total revenue from First Tranche Petroleum (FTP) distributed during 2006 was US\$120,706,576 and profit revenue distributed was US\$29,435,109 in December 2006. As can be seen from the graph below, revenue has increased significantly since profit oil was reached at the end of 2006.

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

**Figure 11: Total JPDA Revenue Distributed during 2006**



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Petroleum revenue accruing to the TSDA during 2006 is summarised as follows:

**Table 11: 2006 Petroleum Revenue**

	2006	2005
Government share of :		
First Tranche Petroleum	125,298,689	80,506,031
Profit Oil/Gas	171,933,184	-
<b>Total FTP &amp; Profit Oil/Gas</b>	<b>297,231,873</b>	<b>80,506,031</b>
Australia (10%)	29,723,187	8,050,603
Timor - Leste (90%)	267,508,686	72,455,428
	<b>297,231,873</b>	<b>80,506,031</b>

During the year, net FTP increased by US\$44.7M, from US\$80.5M to US\$125.2M. The increase in FTP was due to the start of LNG Production in Feb 2006, higher production rate and strong world oil prices. Production data is summarised in Table 12.

**Table 12: JPDA Petroleum Production**

Year	EKKN stb	Condensate stb	Propane stb	Butane stb	Exported Gas Mscf
2005	954,782	21,325,467	6,035,911	4,878,968	
2006	833,700	25,902,672	7,238,877	5,993,518	145,852

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 13: JPDA Cargoes**

	2006		2005	
	Liftings	Gross bbls	Liftings	Gross bbls
Elang Kakatua Kakatua North	2	545,470	5	1,294,040
Bayu Undan				
Condensate	43	25,951,210	36	21,303,604
LPG	26		23	
Propane		6,684,222		5,321,302
Butane		6,246,560		5,531,490
LNG		6,124,875		
	<b>71</b>	<b>45,552,336</b>	<b>64</b>	<b>33,450,436</b>

During 2006, there were 71 off-takes (collectively sold as Condensate and LPG) of petroleum totalling over 39.4 mmbbls. In addition, total gross LNG sold was recorded over 6,124,875 mmbbls.

### **9.3 Profit Oil/Gas**

The Bayu-Undan project attained a profit oil position far earlier than expected at the time of development. This achievement was the result of record oil prices, the overall timing of the project and the performance of the offshore facilities.

First profit oil was received and distributed in December 2006 totalling more than US\$29M. The Following table shows the split of profit oil and gas.

**Table 14: Total Profit Oil and Gas Payments**

Month	Gas	Liquid	Total
Oct-06	13,021,394.28	15,636,500.00	28,657,894.29
Nov-06	22,045,145.23	27,211,719.88	49,256,865.11
Dec-06	29,820,396.08	59,286,879.29	89,107,275.37
<hr/>			
Total Profit Oil and Gas	64,886,935.59	102,135,099.16	167,022,034.76

All profit oil receipts are distributed to the Governments and Australia and Timor-Leste. The funds are subject to audit by the TSDA's own auditors and by the Timor-Leste Petroleum Fund auditors.

### **9.4 Exploration Costs**

By far the most significant exploration that took place in the JPDA related to the drilling program in PSC 06-105. Over US\$30M was spent in relation to the exploration program and the operator Woodside continues to review the results in an effort to monetise the oil discovery in the contract area.

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**Table 15: Exploration Costs**

<b>Expenditure by PSC</b>					
		<b>JPDA PSC</b>			
	<b>06-105*</b>	<b>03-16</b>	<b>03-19</b>	<b>03-20</b>	<b>03-21</b>
<b>Exploration Costs</b>	30,264,202				
<b>Non Capital Costs</b>					
Operating & Administration	2,757,864	4,058	27,197	5,760	8,088
Other	160,000	160,000	160,000	160,000	240,000
<b>Capital Costs</b>	-				
<b>Other Costs</b>					
<b>Miscellaneous Receipts</b>	-				
<b>Net Expenditure</b>	33,182,066	164,058	187,197	165,760	248,088
* Formerly PSC 03-01 - for the 13 months ended 31 December 2006.					

## 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 financial audit is included at Attachment 1.

### 10.2 TSDA Results for the 2006 Financial Year

The TSDA derived a net profit of US\$205,195 from revenues of US\$4.4M (after depreciation, provision for impairment and foreign exchange losses).

The organisation continued to act responsibly and consistent with its budget during the period. Noticeably, several items were significantly less than anticipated and this result was largely influenced by the social unrest and difficult conditions experienced during the year in Timor-Leste.

The financial results for the year ended 31 December 2006 is summarised in the table below.

**Table 16: Summary of 2006 Financial Results**

	<b>Actual 2006</b>	<b>Budget 2006</b>
	<b>US\$</b>	<b>US\$</b>
<b>Total Income</b>	4,385,404	4,163,980
<b>Expenses</b>		
Employment costs	2,732,356	2,718,811
Travel & related costs	311,820	449,608
Training & education	76,883	186,224
Consultants	93,342	226,986
Legal Costs	48,859	395,000
Office lease & related	134,153	161,299
Communications	167,933	162,476
Other costs	181,227	206,738
<b>Total expenditure before depreciation, impairment &amp; foreign exchange</b>	3,746,573	4,507,142
<b>Total Depreciation, impairment &amp; foreign exchange</b>	433,637	0
<b>Total expenditure after depreciation, impairment &amp; foreign exchange</b>	4,180,210	4,507,142
<b>Excess income/(expenditure)</b>	205,194	(343,162)

### 10.3 2007 Approved Budget

The TSDA's budget for the year ending 31 December 2007 has been approved by the Joint Commission.

**Table 17: Approved Budget for 2007**

	<b>Budget 2007</b>	<b>Budget 2006</b>
	<b>US\$</b>	<b>US\$</b>
<b>Total Income</b>	4,325,624	4,164,000
<b>Expenses</b>		
Employment costs	2,963,771	2,674,714
Travel	363,273	449,607
Training & education	205,764	186,227
Consultants	94,500	226,984
Legal	0	395,000
Acreage release & promotion	45,000	42,152
Office lease & security	136,812	103,513
Communications	129,560	162,481
Other overhead	129,874	266,473
Other capital & miscellaneous	134,194	429,832
Contingency	120,000	
<b>Total expenditure</b>	4,322,748	4,936,983
<b>Surplus/(deficit) before extraordinary items</b>	2,876	(772,983)
<b>Other items</b>		
Audit related costs	339,600	
<b>Surplus/(deficit) after extraordinary items</b>	(336,724)	(772,983)

Despite increasing costs across the petroleum industry, the TSDA has formulated a budget which is fiscally responsible and still satisfies its obligations to the contracting states. The closure of the Darwin office has resulted in additional employment cost pressures because more international employees have been recruited in Timor-Leste.

However, this increase has been offset by reduced travel requirements and a reduced need for external consultants. Significantly, the legal cost associated with the action brought against the TSDA is not expected to be incurred in 2007 as the case against the TSDA has been dismissed. Refer to paragraph 12.1 below.

The Joint Commission has requested the TSDA to conduct a detailed and independent internal review of its procedures, processes and governance. This cost is included in Other Items together with other audit related costs.

## **11 Corporate Management**

### **11.1 Litigation**

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

The TSDA continued to vigorously deny all claims made against the TSDA by plaintiffs. On 21 September the US District Court dismissed all claims alleged against the TSDA by Oceanic Exploration. The TSDA demonstrated to the court that TSDA in fact awarded Production Sharing Contracts to ConocoPhillips and its joint venture partners in accordance with the sovereign decisions of the states of Timor-Leste and Australia.

### **11.2 Relocation Project**

The TSDA continued to work on preparing for new office space in Dili to cater for the merge of the Darwin and Dili offices and to ensure better work place synergies. The Mercado Municipal site in the centre of Dili was approved in 2005 and the design and engineering phase was completed in 2006. The TSDA then went out to competitive tender for a contractor to rehabilitate the existing building on site. The project was stalled after the security crisis in mid year but resumed again later in the year. The TSDA has recommended award of the tender to the Joint Commission and is awaiting a decision.

Whilst the new office location is being progressed, the existing Dili office is undergoing expansion to house new and existing staff.



Mercado Municipal project site in Dili

## **12 Development of Local Content**

The TSDA and Timor-Leste's National Directorate for Petroleum and Gas (DNPG) worked together in 2006 to decide how the Timor-Leste Local Content commitments by the Contractors under PSC's are to be managed. The proposed plan lists areas for possible investment as follows:

- Education and Training
- Transfer of Technology
- Infrastructure Development

In order to ensure that there are guidelines for how to approve funds for projects, TSDA and DNPG drafted a Timor-Leste Local Content Policy. The TSDA and DNPG agreed to establish a Timor-Leste Local Content Committee (TILCO), which will handle project submissions and make decisions on projects to ensure a coordinated effort and strong focus is given to transparency, with input from all relevant sectors in Timor-Leste.

The TILCO will comprise representatives from DNPG, other Timor-Leste government ministries, TSDA, local NGOs and local businesses. The policy is awaiting Ministerial approval.

## **13 Social Responsibility**

The TSDA has been actively involved in providing information to civil society on the activities of each directorate within the TSDA at a Public Open Day forum. Aside from the intention to share the information, the TSDA's aim is to strengthen the idea of transparency, the transfer of knowledge, as well as to bring closer the relationship between the TSDA and civil society. This has been a successful cooperation between civil society and the TSDA since the open days started in 2004.

On 28 February 2006, the TSDA was invited to present at a workshop organised by the Timorese Women's Network, known as Rede Feto. The presentation on Women's Participation in the Petroleum Industry in Timor-Leste was delivered in Dili by the TSDA Legal Officer to a group of Timorese women varying in age and backgrounds. Almost forty Timorese women attended from all districts, demonstrating the importance of, and interest in, petroleum issues in Timor-Leste. The TSDA focussed on providing a general overview of the petroleum sector in Timor-Leste, and the opportunities/scholarships available for women in the petroleum sector.

The TSDA also made a presentation about the JPDA and Timor-Leste petroleum in general for the University of Timor-Leste's Social/Political Faculty.

Representatives from Finance and Legal presented at the 'Petroleum Revenue Projection' workshop hosted by the World Bank and the Timor Sea Office, which was open to the public. Another workshop hosted by Timor-Leste's Foreign Affairs department in conjunction with the Malaysian Institute Economic Research on 'The importance of Oil and Gas to the TL economy: Can ASEAN play a role?' was supported by the TSDA.





## Appendices

### Appendix 1: Abbreviations

ADI	alternative duty injury
BOPD	barrels of oil per day
BSCF	billion standard cubic feet
BSCFD	billion standard cubic feet per day
CMATS	Treaty Concerning Maritime Arrangements in the Timor Sea
CPP	Central Processing Platform
CUQ	Compression, Utilities & Quarters platform
DPP	Drilling, Production & Processing platform
FAI	first aid injury
FPSO	floating production and storage offtake
FSO	floating storage and offtake
FTP	First Tranche petroleum
HSE	health, safety and environment
HUET	Helicopter Underwater Escape Training
JPDA	Joint Petroleum Development Area
kg	kilogram
LNG	liquefied natural gas
LPG	liquefied petroleum gas
LTI	lost time incident
m <sup>3</sup>	cubic metre
mg/L	milligrams per litre
MMBO	million barrels of oil
MMBOE	million barrels of oil equivalent
MMSTB	million stock tank barrels of oil
MMSCFD	million standard cubic feet per day
MODU	mobile offshore drilling unit
MTI	medical treatment injury
<i>MVI</i>	<i>Modec Venture 1</i>
OIW	oil in water
NDT	non-destructive testing
OHS	occupational health and safety
PFW	produced formation water
PMC	Petroleum Mining Code
PSC	Production Sharing Contract
PSD	process shutdown
RTM	riser turret mooring
TAFE	Technical and Further Education
TSDA	Timor Sea Designated Authority
US\$	United States Dollars
WP1	wellhead platform 1

# Timor Sea Designated Authority Annual Report 2006

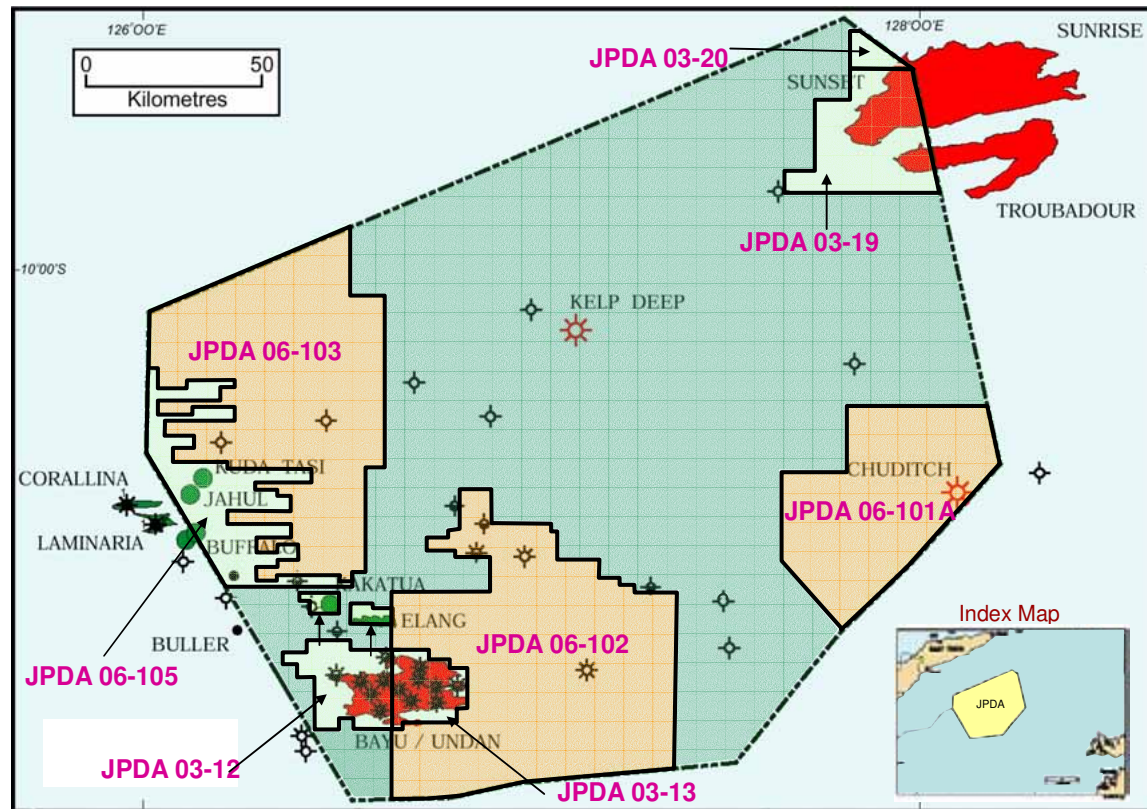
## Appendix 2: TSDA Directors

	<p><b>Jose Lobato   TSDA Executive Director</b></p> <p>Jose Lobato was appointed Executive Director on 20 December 2005 after being nominated by the Timor-Leste Government and approved by the Joint Commission. He has a Graduate Diploma in Business Studies from Charles Darwin University. Prior to his appointment he served as a Timor-Leste Member of Parliament for four years. He was previously the Deputy CEO of Timor Aid, a Non-Governmental Organisation. He is also on the Board of Directors of Timor Aid.</p>
	<p><b>Andrew Caddy   Managing Director- Finance</b></p> <p>Andrew Caddy was appointed as Managing Director – Finance on 2 April 2003, by the Joint Commission. Andrew has a Bachelor of Business from the Northern Territory University and is a member of the Institute of Chartered Accountants in Australia. Prior to his appointment with the TSDA, Andrew worked as Director and Financial Controller both within government and private enterprise in Australia and Asia.</p>
	<p><b>Niny Borges   Managing Director – Legal and Corporate Services</b></p> <p>Niny Borges was appointed Managing Director – Legal on 2 April 2003, by the Joint Commission and in 2005 she also was also appointed as the responsible Director for the Corporate Services Directorate. Niny holds a Bachelor of Laws from the University of Sydney and a Bachelor of Arts (Honours) in Political Science from the University of Wollongong. Niny was admitted to practise as a solicitor in the Supreme Courts of New South Wales and the Northern Territory in 2002 and 2005 respectively. Prior to her appointment Niny has worked in development and regulatory organisations in Timor-Leste and Australia.</p>
	<p><b>Nick Kyranis   Managing Director – Technical</b></p> <p>Nick Kyranis is a Science graduate of the University of Queensland, and was appointed Managing Director – Technical on the 2nd April 2003 by the Joint Commission. Prior to his appointment he served as Technical Manager and Director in government and private enterprise, gaining wide-ranging experience from assignments in Southeast Asia, the Middle-East, Europe and North America.</p>



Appendix 3: Map of JPDA as at 31 December 2006

**JPDA PSC Areas**



**Appendix 4: Bid Summaries**

**Bid Summaries**

Bidder	Duddel Resources Ltd.		Minza Oil and Gas Ltd.	Oilex Consort.		Petronas Consort.	Santos Pty. Ltd.	Zetex N.V
	06 -102	06 -104		06 -101	06 -102			
<b>JPDA PSC</b>								
<b>Work Programme</b>								
<b>Years 1-3</b>								
2D Seismic	150 Km	303 Km	500 Km	820 Km	1060 Km		600 Km	3,001 Km
3D Seismic				720 Km	1020 sq Km	300 sq Km		
Expl. Wells.				2	4	3		3
Data Evaluation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>US\$ M</b>	<b>0.40</b>	<b>0.73</b>	<b>1.38</b>	<b>25.65</b>	<b>52.45</b>	<b>40.50</b>	<b>1.90*</b>	<b>37.01*</b>
<b>Work Programme</b>								
<b>Years 4-5</b>								
2D Seismic								
3D Seismic				220 sq Km	520 sq Km	100 sq Km		155 sq Km
Expl. Wells.	1	1	1	1	1	1	1	
Data Evaluation				Yes	Yes	Yes	Yes	Yes
<b>US\$ M</b>	<b>12.00</b>	<b>12.00</b>	<b>12.00</b>	<b>11.50</b>	<b>12.80</b>	<b>13.10</b>	<b>18.54*</b>	<b>3.65*</b>
<b>Work Programme</b>								
<b>Years 6-7</b>								
2D Seismic								
3D Seismic						100 sq Km		
Expl. Wells.				1	1	1		1
Data Evaluation				Yes	Yes	Yes	Yes	Yes
<b>US\$ M</b>				<b>10.5</b>	<b>10.5</b>	<b>13.1</b>	<b>0.14*</b>	<b>11.68*</b>
<b>Total US\$ M</b>	<b>12.40</b>	<b>12.73</b>	<b>13.38</b>	<b>47.65</b>	<b>75.75</b>	<b>66.70</b>	<b>20.58*</b>	<b>52.34*</b>

\* Bid presented in A\$. Nominal Conversion AU\$ 1.00 = US\$ 0.73

## Timor Sea Designated Authority Annual Report 2006

### Appendix 5: Register of Contract Operators as at 31 December 2006

PSC	Effective Date	Expiry Date	Contract Operator	Interest %	Joint Venture Partners	Interest %
JPDA 06-105	20-May-02	8-Jan-22	Woodside Petroleum (Timor Sea 1) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: + 61 8 9325 4273 Contact: Adrian Wilks	40	INPEX Timor Sea Ltd Paladin Resources (JPDA 03-01) Pty Ltd	35 25
JPDA 03-12	20-May-02	6-Feb-22	ConocoPhillips (03-12) Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Laura Sugg	46.7144238	Emet Pty Ltd Petroz (Timor Sea) Pty Ltd INPEX Sahul, Ltd Santos (JPDA 91-12) Pty Ltd	1.577 13.371 19.0712244 19.2663518
JPDA 03-13	20-May-02	16-Dec-21	ConocoPhillips JPDA Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Laura Sugg	37.5	ConocoPhillips (03-13) Pty Ltd Eni JPDA 03-13 Limited Tokyo Timor Sea Resources Pty Ltd	13.1262893 26.8737107 22.5
JPDA 03-16	20-May-02	Contract terminated on 6-Aug-06				
JPDA 03-19	20-May-02	4-Oct-26	Woodside Petroleum (Timor Sea 19) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: +61 8 9325 8178 Contact: Adrian Wilks	27.6666667	Shell Development (PSC 19) Pty Ltd ConocoPhillips (03-19) Pty Ltd OG ZOCA (95-19) Pty Ltd	32.3333333 30 10
JPDA 03-20	20-May-02	13-Nov-26	Woodside Petroleum (Timor Sea 20) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: +61 8 9325 8178 Contact: Adrian Wilks	26.6666667	Shell Development (PSC 20) Pty Ltd ConocoPhillips (03-20) Pty Ltd. OG ZOCA (96-20) Pty Ltd	33.3333333 30 10
JPDA 03-21	20-May-02	Contract terminated on 6-Aug-06				

## Timor Sea Designated Authority Annual Report 2006

JPDA 06-101(A)	29- Dec-06	Minza Oil and Gas Limited Nautilus House, La Cour des Casernes, St Helier Jersey, JE1 3NH, Channel Island Facsimile: +44 (0) 1534 760007 Contact: Richard Visick	100%		
JPDA 06-102	29-Dec-06	PC (Timor Sea 06-102) Ltd Trust Co Complex, Ajeltake Road, Ajeltake Islands Majuro, Marshall Islands MH96960 Facsimile: + 60 (3) 23315877 Contact: Paramaswaran Suppiah	50%	KG (Timor Sea 06-102) Ltd Samsung Oil & Gas (Timor Sea 06-102)Ltd LG (Timor Sea 06-102)	30% 10% 10%
JPDA 06-103	15-Jan-07	AUSTRALIA OFFICE Oilex (JPDA 06-103) Ltd Level 3 50 King's Park Road West Perth WA 6005 Facsimile: +61 (8) 9226 2108 Contact: Bruce McCarthy  DILI OFFICE Av. De Portugal, Kampo Alor, Dili Timor-Leste Contact: Rajesh Padmagiresan	25%	Global Energy Inc Bharat PetroResources JPDA Limited GSPC (JPDA) Limited	25% 25% 25%

## Timor Sea Designated Authority Annual Report 2006

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### Appendix 6: Unit Participating Interests for Bayu-Undan Contractors

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

**Appendix 7: Sunrise Unitisation Interests**

<b>03-19 PSC</b>	<b>Parties interest in PSC %</b>	<b>Unit participating interest in Sunrise %</b>
Woodside Petroleum (Timor Sea 19) Pty Ltd	27.6666%	5.5333%
Shell Development (PSC 19) Pty Ltd	32.3333%	6.4667%
OG ZOCA (95-19) Pty Ltd	10.0000%	2.0000%
ConocoPhillips (03-19) Pty Ltd	30.0000%	6.0000%
	100.0000%	20.0000%

<b>03-20 PSC</b>	<b>Parties interest in PSC %</b>	<b>Unit participating interest in Sunrise %</b>
Woodside Petroleum (Timor Sea 20) Pty Ltd	26.6666%	0.0267%
Shell Development (PSC 19) Pty Ltd	33.3333%	0.0333%
OG ZOCA (95-19) Pty Ltd	10.0000%	0.0100%
ConocoPhillips (03-20) Pty Ltd	30.0000%	0.0300%
	100.0000%	0.1000%



**Attachment 1: Audited Financial Report as at 31 December 2006**

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

**FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2006**

**TIMOR SEA DESIGNATED AUTHORITY  
FOR THE JOINT PETROLEUM DEVELOPMENT AREA  
YEAR ENDED 31 DECEMBER 2006**

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## DIRECTORS' DECLARATION

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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 2006 and the financial position of the Designated Authority as at 31 December 2006; and
- (b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of the Board



Jose Lobato  
Executive Director



Andrew Caddy  
Managing Director - Finance

DILI

Date: 30 July 2007



## **INDEPENDENT AUDIT 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 2006 and the income statement, statement of changes in equity, statement of cash flow and notes to the financial statements for the year then ended. 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.

#### *Management's responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

We believe that our audit provides a reasonable basis for our 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 at 31 December 2006, 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  
Darwin, Australia

Date:

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

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006**  
(Expressed in United States Dollars)

	Note	2006 \$	2005 \$
<b>REVENUE</b>			
Contract Service Fees		1,019,616	1,074,750
Development Fees		3,064,000	2,154,000
Interest		60,332	40,507
Other		241,456	4,362
		<u>4,385,404</u>	<u>3,273,619</u>
<b>EXPENSES</b>			
Personnel costs	8	2,747,478	1,571,721
General and administration	9	1,046,372	1,460,576
Foreign exchange losses		43,186	40,253
Impairment Expense		202,397	-
Depreciation		140,776	179,544
		<u>4,180,209</u>	<u>3,252,094</u>
<b>PROFIT FOR THE YEAR</b>		<u>205,195</u>	<u>21,525</u>

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

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

**BALANCE SHEET  
AS AT 31 DECEMBER 2006**  
(Expressed in United States Dollars)

	Note	2006 \$	2005 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash equivalents	3	2,032,651	2,889,239
Trade and Other receivables	4	1,631,840	524,381
Other	5	21,010	22,450
<b>Total Current Assets</b>		<u>3,685,501</u>	<u>3,436,070</u>
<b>NON-CURRENT ASSETS</b>			
Property Plant and Equipment	6	<u>334,517</u>	<u>278,832</u>
<b>TOTAL ASSETS</b>		<u>4,020,018</u>	<u>3,714,902</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade creditors and accruals		376,127	293,564
Provision for annual leave		157,760	80,785
Prepaid contract service fees	7	<u>530,849</u>	<u>590,466</u>
<b>Total Current Liabilities</b>		<u>1,064,736</u>	<u>964,815</u>
<b>TOTAL LIABILITIES</b>		<u>1,064,736</u>	<u>964,815</u>
<b>EQUITY</b>			
Contribution by Contracting States		3,782,380	3,782,380
Accumulated Losses		<u>(827,098)</u>	<u>(1,032,293)</u>
<b>Total Equity</b>		<u>2,955,282</u>	<u>2,750,087</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,020,018</u>	<u>3,714,902</u>

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



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

**STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 31 DECEMBER 2006**  
(Expressed in United States Dollars)

	2006 \$	2005 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Fees from Operators	2,896,999	3,015,229
Other income	241,456	-
Interest Received	60,332	40,507
Less: Personnel Costs	(2,686,520)	(1,486,430)
Less: Other Operating Expenses	(1,052,072)	(1,416,728)
	<hr/>	<hr/>
Net cash flow from operating activities	(539,805)	152,578
	<hr/>	<hr/>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Purchase of property, plant and equipment	(316,783)	(172,977)
	<hr/>	<hr/>
Net cash flow (used in) investment activities	(316,783)	(172,977)
	<hr/>	<hr/>
<b>Net (decrease) in cash and cash equivalents</b>	(856,588)	(20,399)
	<hr/>	<hr/>
Add opening balance carried forward	2,889,239	2,909,638
	<hr/>	<hr/>
<b>Cash and cash equivalents ending balance</b>	2,032,651	2,889,239
	<hr/>	<hr/>
<b>Comprising:</b>		
Cash	2,032,651	2,889,239
	<hr/>	<hr/>
	2,032,651	2,889,239
	<hr/>	<hr/>

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

**TIMOR SEA DESIGNATED AUTHORITY  
FOR THE JOINT PETROLEUM DEVELOPMENT AREA**  
NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2006

**1. NATURE OF OPERATIONS**

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

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

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

During the year ended 31 December 2006 the Designated Authority operated from offices at NT House, 22 Mitchell Street, Darwin, Australia and Avenida de Portugal No. 5 Dili, Timor Leste. The office at NT House, 22 Mitchell Street, Darwin, Australia was closed in November, 2006. At the end of the year the Designated Authority employed thirty six full time employees (2005 – 31 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:

	2006	2005
Office furniture	25%	25%
Office and Computer Equipment	25-100%	25-100%
Other	25-50%	25-50%
Leasehold Improvements	20%	20%

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

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

**k. Impairment of Assets**

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

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

**TIMOR SEA DESIGNATED AUTHORITY  
FOR THE JOINT PETROLEUM DEVELOPMENT AREA**  
NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2006

**3. CASH AND CASH EQUIVALENTS**

	2006 \$	2005 \$
ANZ AUD Account	-	82,808
ANZ USD Account	-	2,658,722
ANZ Dili USD Account	96,332	107,854
HSBC AUD Account	59,578	-
HSBC Singapore USD Account	873,796	-
HSBC Perth USD Account	954,349	-
AMP - Funds on deposit	47,216	38,806
Petty Cash	1,380	1,049
Total	<u>2,032,651</u>	<u>2,889,239</u>

**4. TRADE AND OTHER RECEIVABLES**

	2006 \$	2005 \$
Contract Service Fees	400,000	480,000
Development Fees	1,207,000	-
Other	24,840	44,381
Total	<u>1,631,840</u>	<u>524,381</u>

**5. OTHER CURRENT ASSETS**

	2006 \$	2005 \$
Prepayments	21,010	22,450
Total	<u>21,010</u>	<u>22,450</u>

**6. FIXED ASSETS**

**(a) Reconciliation of cost and accumulated depreciation**

	Cost	Accumulated Depreciation	Impairment Provision	Written down Value
Office and Computer Equipment	432,287	(290,002)	-	142,285
Office Furniture	65,080	(35,336)	-	29,744
Other	87,582	(37,260)	-	50,322
Leasehold Improvements	178,697	(66,531)	-	112,166
Dili Office Relocation - Mercado Project (i)	202,397	-	(202,397)	-
Total	<u>966,043</u>	<u>(429,129)</u>	<u>(202,397)</u>	<u>334,517</u>

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**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**

	2006 \$	2005 \$
<u>Office and Computer Equipment</u>		
Carrying amount at beginning	196,580	256,400
Additions	45,395	53,160
Depreciation Expense	(99,690)	(112,980)
Carrying amount at ending	<u>142,285</u>	<u>196,580</u>
<u>Office Furniture</u>		
Carrying amount at beginning	45,523	10,286
Additions	877	48,350
Depreciation Expense	(16,656)	(13,113)
Carrying amount at ending	<u>29,744</u>	<u>45,523</u>
<u>Other</u>		
Carrying amount at beginning	21,245	14,744
Additions	49,264	17,775
Depreciation Expense	(20,187)	(11,274)
Carrying amount at ending	<u>50,322</u>	<u>21,245</u>
<u>Leasehold Improvements</u>		
Carrying amount at beginning	15,038	3,970
Additions	101,371	53,245
Depreciation Expense	(4,243)	(42,177)
Carrying amount at ending	<u>112,166</u>	<u>15,038</u>
<u>Dili Office Relocation - Mercado Project</u>		
Carrying amount at beginning	446	-
Additions	201,951	446
Impairment expense	(202,397)	-
Carrying amount at ending	<u>-</u>	<u>446</u>

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	2006 \$	2005 \$
<u>Total Property, Plant &amp; Equipment</u>		
Carrying amount at beginning	278,832	285,400
Additions	398,858	172,976
Depreciation Expense	(140,776)	(179,544)
Impairment Expense	(202,397)	-
Carrying amount at ending	<u>334,517</u>	<u>278,832</u>

**7. PREPAID CONTRACT SERVICE FEES**

A number of contract service fees (US\$ 530,849) partially relating to the following year, were received in the year ended 31 December 2006 (2005 US\$ 590,466). These prepaid contract service fees are shown as current liabilities at 31 December 2006, and are to be taken up as income in the following year.

**8. PERSONNEL COSTS**

	2006 \$	2005 \$
Salaries	1,849,683	1,033,950
Employee Benefits	261,496	188,202
Relocation	176,534	61,982
Superannuation	175,077	149,312
Home Leave Travel	107,762	54,083
Evacuation Expenses	96,957	-
Recruitment	58,543	40,057
Staff Amenities	17,334	18,778
Motor Vehicle	4,092	25,357
Total	<u>2,747,478</u>	<u>1,571,721</u>

**9. GENERAL AND ADMINISTRATION COSTS**

	2006 \$	2005 \$
Travel	311,820	528,956
Telephones & Communication	167,933	171,793
Office rental	99,536	125,412
Consultants	93,342	114,582
Training, Education and Conference expenses	76,882	92,937
Legal costs	48,860	193,843
Office relocation to Dili	47,278	-
Repairs and maintenance	44,909	42,585
Security	34,617	29,216
Motor Vehicle expenses	29,573	6,786
Office supplies	22,937	13,952
JPDA Marketing	18,634	43,041
Electricity	14,382	14,346
Subscriptions & Memberships	12,142	17,965
Bank charges	7,153	3,614
Minor Equipment	5,072	8,785
Printing & advertising	3,263	1,380
Other	8,039	51,383
Total	<u>1,046,372</u>	<u>1,460,576</u>

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**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**

	2006 \$	2005 \$
Petroleum Income	297,154,223	80,687,446
Plus: Other Income	225,367	285
Less: Related expenses	(147,717)	(181,700)
Net Income	<u>297,231,873</u>	<u>80,506,031</u>
Distributions to Contracting States for the year		
Timor-Leste	105,719,250	95,749,774
Australia	11,746,583	9,102,796
	<u>117,785,833</u>	<u>104,852,570</u>
<b>Net Movement in petroleum funds held on behalf of Contracting States</b>	<u>179,766,040</u>	<u>(24,346,539)</u>
<b>Opening balance of petroleum funds held on behalf of Contracting States</b>	14,920,552	39,267,091
<b>Closing balance of petroleum funds held on behalf of Contracting States</b>	<u>194,686,592</u>	<u>14,920,552</u>
<b>Allocation of closing balance:</b>		
Timor-Leste	175,217,933	13,428,496
Australia	19,468,659	1,492,056
	<u>194,686,592</u>	<u>14,920,552</u>
<b>Represented by:</b>		
Cash	39,715,142	7,039,289
Receivables	154,971,450	7,881,263
	<u>194,686,592</u>	<u>14,920,552</u>

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**11. COMMITMENTS AND CONTINGENCIES**

- a) At 31 December 2006 the Designated Authority had no capital commitments.
- b) Contingent Liability

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

On 21 September 2006, the TSDA received a Court Order from the *United States District Court for the District Court of Columbia* dismissing claims made by *Oceanic Exploration* and its subsidiary *PetroTimor* against the TSDA. Accordingly, the TSDA has not recognised any contingent liability.

**12. RELATED PARTIES**

**Compensation of Key Management Personnel**

	2006 \$	2005 \$
	<hr/>	<hr/>
Short Term Employment Benefits	725,762	497,820
	<hr/>	<hr/>
	<u>725,762</u>	<u>497,820</u>

**TIMOR SEA DESIGNATED AUTHORITY  
FOR THE JOINT PETROLEUM DEVELOPMENT AREA**  
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**13. BUDGET IN COMPARISON TO ACTUAL EXPENDITURES**

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

	<b>Expenditure \$</b>	<b>Budget \$</b>	<b>Expenditure in excess /(under) Budget</b>
Salary & Wages	1,849,683	2,133,113	(283,430)
Superannuation	175,077	231,532	(56,455)
Employee Benefits	261,496	123,889	137,607
Recruitment	58,543	35,400	23,143
Motor Vehicle Allowance	4,092	2,756	1,336
Home leave travel	107,762	108,746	(984)
Relocation	176,534	74,671	101,863
Workers compensation premium	2,212	8,704	(6,492)
Evacuation Expenses	96,957	-	96,957
Travel & Expenses	311,820	449,608	(137,788)
Training, Education & Conference Expenses	76,882	186,224	(109,342)
Consultants	93,342	226,986	(133,644)
Legal Costs	48,859	395,000	(346,141)
Office Lease & Related	146,814	131,642	15,172
Security	34,617	29,657	4,960
Office expenses	349,160	369,214	(20,054)
Total Expenditure before Depreciation, Impairment expense & foreign exchange gain/(loss)	<u>3,793,850</u>	<u>4,507,142</u>	<u>(713,292)</u>

**TIMOR SEA DESIGNATED AUTHORITY  
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**14. FINANCIAL INSTRUMENTS**

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

**TIMOR SEA DESIGNATED AUTHORITY  
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**15. 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	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
<b>(i) Financial assets</b>								
Cash	2,032,651	2,889,239	-	-	2,032,651	2,889,239	4.00%	2.80%
Receivables	-	-	1,631,840	524,281	1,631,840	524,381	-	-
<b>Total financial assets</b>	<b>2,032,651</b>	<b>2,889,239</b>	<b>1,631,840</b>	<b>524,381</b>	<b>3,654,491</b>	<b>3,413,620</b>		

Financial Instruments	Non-interest Bearing		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
<b>(ii) Financial liabilities</b>						
Trade creditors & accruals	376,127	293,564	376,127	293,564	-	-
<b>Total financial liabilities</b>	<b>376,127</b>	<b>293,564</b>	<b>376,127</b>	<b>293,564</b>		





**15. FINANCIAL INSTRUMENTS** (continued)

**(iv) Net Fair Values**

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

Receivables and Payables: The carrying amount approximates fair value.

**(v) Credit Risk Exposures**

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

# Timor Sea Designated Authority

for the Joint Petroleum  
Development Area

[www.timorseada.org](http://www.timorseada.org)

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