ANNUAL REPORT & ACCOUNTS 2016

We Value and Add Value to the Resources

TIMORGAP

CONTENTS

President & Chief Executive Officer Message

It is with a great pleasure that I, on behalf of the Board and Executive Committee, present the TIMOR GAP's Annual Report for 2016. This report comprehends the activities undertaken by the company this year, in furtherance of the accomplishments made since TIMOR GAP's establishment.

We value the human resource, where our people are central to our vision of being a regional leader in oil & gas for a sustainable national development. From our first operational year to present, we have seen an increase of 80% of the number of staff working for TIMOR GAP, with a continuous investment on talented people, thus providing further opportunities to learn, grow and succeed through trainings and secondments with renowned international business partners, the latest example finds two of our engineers awarded with the prestigious OPITO Certificate, for the completion of an intensive On-Job-Training for operations and maintenance of LNG. Continuous learning, capacity building, knowledge transfer and teamwork make TIMOR GAP more resilient and better able to navigate the complex and constantly changing global energy business.

> "...upholding the highest standards in our service delivery by becoming the first organization in Timor-Leste to be certified for its Integrated Management System (IMS) comprised of three management systems: ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and ISO 18001:2007 Health and Safety Management System."

Throughout this year, TIMOR GAP reached important milestones and significant progress in various activity sectors. Our exploration and production (E&P) sector saw a positive and promising developments towards its expansion, making important progress and a significant breakthrough. On our company's first PSC for the offshore block 11-106 in the JPDA, prospect mapping has been completed and discussions' regarding prospect ranking and selection for drilling is progressing between the Joint Venture partners, with the drilling campaign scheduled for early 2018. On the offshore block TL-SO-15-01, located in the TLEA, the 3D seismic survey has been completed in order to fulfill the minimum Exploration requirements and prospects mapping and identification of drillable targets are to follow. On the assigned onshore block, where three separate blocks been divided, to enhance the potential for interested partners to enter into exploration, we reached a further step, with the signing of a Commercial Agreement with TIMOR Resources, a subsidiary of the Australian company NEPEAN Resources, to participate in exploration activities on two blocks, and further technical discussions and negotiations are being undertaken with the aim of entering into a PSC in early 2017. These promising developments, both offshore and onshore, will strengthen and further boost the expansion of our E&P portfolio.

In the downstream sector, a significant phase in our marketing portfolio and TIMOR GAP's brand growth was achieved with good results. The value of downstream increased with the opening of our first retail fuel station in the southern coast of the country this year, making contributions to increase the company's profit and fuel sales revenue. The Suai retail fuel station sold a total of 74,334.53 liters of gasoline and 102,226.93 liters of diesel by the end of 2016. We continue to pursue other business opportunities for fuel marketing and we are now engaging with potential clients for the fuel supply opportunity in the southern coast project.

We enhance our marine & logistic services competitiveness, partaking with our international partners in several tenders for the provision of vessel and logistic services in drilling offshore campaigns. Business ventures within the marine and oil & gas industry are managed through our subsidiary TIMOR GAP Oil & Gas Marine and Logistics.

We pushed forward the values of quality, health, safety and environmental protection within TIMOR GAP as we reinforce our firm commitment in upholding the highest standards in our service delivery by becoming the first organization in Timor-Leste to be certified for its Integrated Management System (IMS) comprised of three management systems: ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and ISO 18001:2007 Health and Safety Management System.

TIMOR GAP is entrusted with the management and supervision of the Tasi Mane Project on behalf of the Government, a multi-phase integrated project on the south coast with the aim to establish a national petroleum industry, associated supporting infrastructures, skills development and service capability, in order to facilitate petroleum development in Timor-Leste. This project comprises a Supply Base in Suai, a Refinery and Petrochemical Complex in Betano, a LNG Plant in Beaço and support infrastructures for each industrial cluster, namely new towns to resettle to local residents, the rehabilitation of the existing airports in Suai and Viqueque, and a highway connecting project locations along the south coast. The company's key project have been pushed forward and important progresses were obtained in implementing the Tasi Mane Project. The Pre-FEED study for the LNG Plant was completed; we initiated the Environment Impact Assessment and concluded the re-verification and publication of the land title identification data for the Refinery and Petrochemical Complex site. Further achievements were attained for the support infrastructures envisaged in this project with the completion of 63,62% of the Suai airport construction, which is expected to be inaugurated in May 2017, hand over 25 new houses to the affected community of Lohorai and commencement of the highway section 1 (30.4km) construction.

Francisco Monteiro
President & Chief Executive Officer

The energy landscape fundamentally transformed over the past few years. However, as there are clear signs that the oil and gas market is adjusting and that it will gradually rebalance, we remain focused and take this opportunity to reinforce the foundations of our strategy, thus contributing to the creation of value in the future. In order to adapt successfully to the trend reduction in global oil prices, we must have a clear sense of where we are heading. In this context, this year TIMOR GAP endorsed its Strategic & Business Plan for the period 2016 -2035, in which we define where we are (our current situation and context in which we operate), where we want to be (our vision for the future) and how to get there (what will we do to make our vision a reality in the next 5, 10, 20 years).

Executive Summary

As the national oil company of Timor-Leste, TIMOR GAP received the mandate to optimize the country's economic benefits from oil and gas resources and associated activities. As part of our effort to fulfill our mandate, we continue to invest in our human capital, developing the skills of our employees for a successful execution of the company's vision, mission and strategy (Section 1)

Upstream

TIMOR GAP has been expanding its Exploration & Production (E&P) portfolio, extending its participation to the TLEA, with the grant of two onshore and offshore exploration blocks, including the authorization to conduct 3D seismic survey on the offshore block. The company is focused on the execution of its E&P developments projects and in 2016, we continue to carry out the PSC Exploration Work Program stipulated for the offshore block; and further progress were achieved for the onshore block with the approval of its subdivision into three distinct blocks by the Council of Minister, followed by the commenced of consultations and discussions aiming to initiate exploration activities in the said contract area. Other upstream studies include the review of Greater Sunrise reserve and Bayu-Undan full field review (Section 2).

Downstream, Services and Subsidiaries

TIMOR GAP continues to invest in the downstream projects, such as the JPDA offshore services tenders and Suai fuel station, a milestone in the company's brand and growth in the downstream and services sectors, and enhance import and trading capability. Other business opportunities and partnerships are managed through the subsidiaries GAP-MHS Aviation Lda, TIMOR GAP Oil & Gas Marine and Logistics and the recently created TIMOR GAP Seismic Services and TIMOR GAP Offshore Block (Section 3).

Tasi Mane Project

We continue with the management and administration of Tasi Mane Project on behalf of the Government. The project foresees the creation of three industrial clusters in the south coast of Timor-Leste: a Supply Base in Suai; a Refinery and Petrochemical Complex in Betano; and a Pipeline and LNG Plant in Beaço. The development of the national petroleum industry also includes complementing infrastructures such as the Suai Airport, a Highway, as well as Suai, Betano and Beaço new towns development. A follow up on the Tasi Mane Project and its current status is available on Section 4.

01 About TIMOR GAP

OUR VISSION

To be a regional leader in oil & gas for sustainable national development

Who we are

The national oil company of Timor-Leste created by the Government in 2011 and entrusted with the development of business activities for upstream exploration and production, including services, to be carried out onshore and offshore, within and outside of the national territory.

TIMOR GAP was also assigned with the execution of downstream business activities, including the storage, refining, processing, distribution and sale of petroleum and its by-products, comprising the petrochemical industry.

In 2016, TIMOR GAP endorsed its Strategic & Business Plan for the period 2016 -2035, thus obtaining alignment on what we aim to be (vision), why we exist (mission) and how we work (values, embedded in our corporate spirit: "CAN DO").

OUR MISSION

- To contribute to national development by securing and adding value to energy resources
- To support social and economic development by maximizing local capacity and participation
- To guarantee customer and partner satisfaction through our products, services and projects
- To promote innovation and creativity through research and development
- To operate according to quality, health, safety and environmental best standards
- To create business opportunities and jobs, improving skills and technological transfer

OUR CORPORATE VALUES

INTEGRITY – We are committed to the highest standards of integrity, behaving ethically and professionally at all times.
COMPETENCE – We are capable, confident and committed, delivering high-quality, accurate and innovative products and services.
BUSINESS FOCUS – We are business oriented, always seeking new opportunities and adding values to resources and stake-holders.
SAFETY – We care for the health and safety of employees, communities and the environment, aligned with international best practices.
TEAMWORK – We work together with an open mind and respect for diversity, and connected by a family spirit.

Business Units

TIMOR GAP comprises business units with the following core activities:

The **Corporate Service Unit (CSU)** provides the company with essential support services and ensures the effective and efficient delivery of corporate operations. It has overall responsibility for the company's corporate services including all aspects of human resources management, management of information technology and communication systems, travel and logistics, procurement management and general administration.

The **Business Development Unit (BDU)** finds business opportunities for TIMOR GAP and provides business support to the other Units. This support includes legal issues, identification of business opportunities, database and analysis. The BDU also liaises with the government on issues concerning the company's activities.

The **Exploration & Production and Supply Base Unit (EP&SBU)** manages and coordinates upstream activities, developing the exploration and production of oil and gas. The EP&SBU is also responsible for the activities related to the building and operating of a petroleum logistic supply base.

The **Refinery and Petroleum Services Unit (R&PSU)** manages and coordinates the refinery project and is in charge of other downstream activities, including petroleum products and distribution in Timor-Leste.

The **Gas Business Unit (GBU)** manages and coordinates all business activities within the field of natural gas, including LNG, LPG and gas pipelines.

The **Finance Unit (FU)** provides a full support to the company's operational of programs and projects, with the day to day financial transactions, recordings, and responsible in procuring funds for financing projects.

The **Quality, Health, Safety and Environment Unit (QHSE)** provides, promotes and ensures the compliance with Quality, Health, Safety and Environment high standards across all company activities.

The **New Ventures Unit** is under the office of Vice-President and its core responsibilities is to lead, evaluate and coordinate all activities related to new venture projects/opportunities. The Unit evaluates and seizes all the new venture opportunities, providing Geological & Geophysical expertise, commercial & legal inputs to the new potential ventures related to exploration, production and other oil and gas services projects. It creates a bridge between the company and other partners to initiate all the business arrangements, playing a crucial role in assisting the company to convert an entrepreneurial proposal/idea into profitable business.

Financial Overview

The audited Financial Statements are contained in Section 7 of this Report, and have attached a detailed analysis of the results for 2016, which are for a period of 12 months, with 31 December as financial year end. TIMOR GAP has been using International Financial Reporting Standards (IFRS) to ensure a well-recognized framework. The figures shown in this Report are stated in US Dollars.

The company received a government grant of $ 6,000,000 during the year ended 31 December 2016 (2015: $9,700,000). The mains sources of Income were originated from onshore exploration farm-out of $ 3,000,000 and profit on sale of fuel of $ 36,960. Other income derived from offshore vessel service of $44,777 and fixed contract service fees of $ 8,498 (2015: $28,922).

Expenditure for the Business Units, the Office of the President & CEO and the Office of the Vice-President is set out below.

Offices and Units	Remarks on the main expenses incurred during the period
President & CEO Office	Expenditures associated with projects, namely, legal & technical consultancy fees, JPDA and Joint Commission meetings, Sunrise negotiations, and fixed asset (software) acquisition and maintenance for projects. Expenses related to Board of Directors/Executive Committee meetings, general legal services, business travel, and salary & wages.
Vice-President Office - Drilling and Technology, New Ventures	Project expenditures such as new ventures meetings, legal and technical consultant fees; general operational expenditures, capital items, and staff salary & wages.
Corporate Service Unit	Company's operational expenditures, such as stationery, telephone, electricity, vehicle & office maintenance, IT infrastructure, including office rental, and staff salary & wages.
Business Development Unit	Project expenditures mainly on project monitoring, dissemination & community liaison related expenditures, technical & legal consultant fees, including capital item (vehicle) for project operational purpose. Staff professional development, minor equipment, salary & wages, and other unit related expenditure.
Exploration & Production and Supply Base Unit	Project expenses, consultant fee, staff salary & overheads, training and/or secondment, travel & expenses and meetings.
Refinery and Petroleum Services Unit	Project expenditures, mainly on contractors for fuel station and refinery projects, technical consultant, dissemination & community liaison, one vehicle for the project operations and project monitoring related expenditures. Staff professional development, salary & wages, and other unit operational related expenditure.
Gas Business Unit	Expenses for the LNG Plant Pre-FEED project and community liaisons. Staff training and professional development (secondment), overheads and staff salary & wages.
Quality, Healthy, Safety and Environment Unit	Unit expenditures, technical consultant for QHSE Integrated Management System implementation, internal audit and certification audit, Personal Protective Equipment (PPE), salary & wages, and staff professional development.
Finance Unit	Expenses related to the investment in the offshore block exploration activities, covering part of 3D seismic data acquisition and interpretation, including general expenditure for onshore block exploration. Unit general expenditure, such as SAP ERP Foundation, including Sage ACCPAC maintenance fees, project finance meetings, external financial audit, staff professional development, capital items, and salary & wages.

The main components of the 2016 Financial Year were related to the development and management of several projects, as detailed from Sections 2 to 4.

Our People

Photo by Michael Scott

Our people are central to our vision of being a regional leader in oil & gas for sustainable national development. We recruit and train according to a people based strategy on the aim to resourcing and developing today's talent and for future, enhancing individual and organizational performance and effectiveness.

In 2016, TIMOR GAP continued to invest in its human capital, upholding our commitment to continually enhance and develop the skills and capabilities of our employees. Our human resources are constantly progressing through the development of programs and trainings in several areas of the petroleum and gas sector. Capacity development and on-the-job-training are also being provided through secondments with our partners, reputable international oil and gas companies, and as well as through cooperation programs. Similar to previous year, this year we continued to conduct our annual performance review with the purpose of evaluating employee's work performance and recognizing achievements, covering the previously set objectives and key performance indicators (KPIs), which also supports planning staff development needs for the following year. In 2016, TIMOR GAP continued to pay close attention to its Management Information System, with main focus on its Enterprise Resource Planning (ERP) and data management system, namely SAP (System, Application and Product), adopted and implemented in 2015. TIMOR GAP SAP Foundations Implementation consists of Finance, Human Capital Management, Procurement and Logistics, Sales and Distribution and Financial Project Management. Tasks such as SAP Systems Administration, SAP Foundations Functional Maintenance and Support Services were carried out throughout the year in order to ensure the maintenance and monitoring of the system in place and thus its smooth functioning.

Our people are central to our vision of being a regional leader in oil & gas for sustainable national development

We strive to maintain a constructive and motivating working environment. Activities with focus on building team capability and strengthen relationship among employees are promoted within the company, aiming to build a shared commitment to the corporative goals, which leads to the ability to produce more and better outcomes. TIMOR GAP's futsal team is an example of this effort as our team continued to participate in the Environment Cup organized in 2016, promoting simultaneously your very own CAN DO Spirit and environmental awareness.

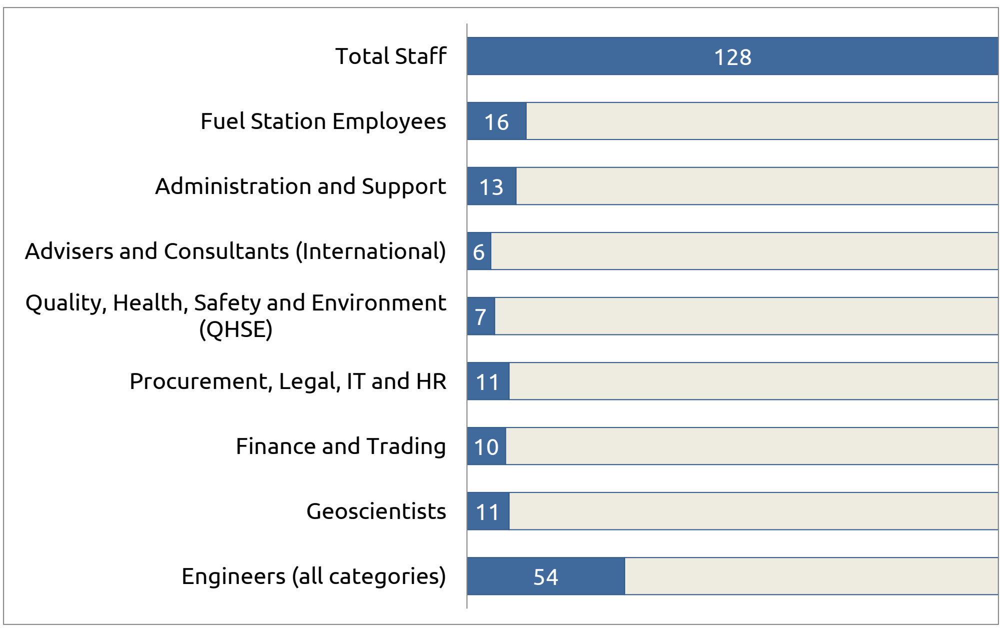
Human Resources Development

Employees Overview

At the end of 2016, TIMOR GAP employed a total of 128 employees with a gender breakdown of 40 female and 88 male. Our employee headcount continued to rise steadily in line with our strategy and growth plans for the future, highlighting the hiring of 16 employees for TIMOR GAP's first retail fuel station inaugurated this year.

The table below illustrates our staff by categories.

TIMOR GAP's Staff by Categories



Courses and Training for TIMOR GAP

Our employees are essential for the successful execution of the company's strategy. For the success of its strategy, it is essential that the company is equipped with the right skills to meet the challenges that it faces. In view of this, TIMOR GAP will strive to provide opportunities through training courses to further enhance the professional capacity, performance and knowledge of its staff in their specific areas of expertise, as well as in the overall oil and gas industry.

In 2016, training opportunities are identified both nationally and internationally of which staff are encouraged to attend as follows:

- Adobe InDesign CS6 provided by Fasnetgama Training Center;
- Training on seismic acquisition, data process and geological interpretation provided by BGP Marine Office;
- Tropical Basic Offshore Safety Induction & Emergency Training (T-BOSIET);
- Training for the Suai retail fuel station employees provided by Pertamina;
- Offshore Crocodile 3D Seismic Survey provided by BGP Geoexplorer;
- 3D Seismic Processing training provided by WesternGeco;
- Basic training for plant operation provided by INSTEP;
- Training on Environmental Impact Assessment provided by TEAM Consulting;
- BGP Geoexplorer Vessel (Broome Offshore) provided by BGP Geoexplorer;
- Indonesia Oil & Gas Partnership Program 2016 provided by the Ministry of Energy and Mineral Resources of Republic of Indonesia;
- Training on transportation of Liquefied Natural Gas provided by Malaysia Maritime Academy (ALAM);

- Data Management in Oil & Gas Industry provided by Jogja Training & Career Centre;
- Internal Audit Training conducted by LOCKFORCE Consultancy International Pty Ltd, Perth Australia;



From top to bottom, left to right: Internal Audit Training conducted by LOCKFORCE Consultancy International Pty Ltd; Training for the Suai retail fuel station employees provided by Pertamina

Workshops and Conferences

Depending on the contents of conference/seminar, opportunities will be extended to the staff to attend as deemed relevant and beneficial to their job responsibility and the overall objective of the company.

In 2016, TIMOR GAP's employees had the opportunity to partake in various workshops and conferences during the period:

- LNG 18 Conference;
- Gastech Conference;
- BGP Geoexplorer Technical Seminar;
- ConocoPhillips Local Content Workshop on Procurement & Incoming Bayu-Undan Infill Wells Project;

Secondments and On-The-Job-Training

Secondments and job placement is a strategy that the company continued to implement in 2016 to further enrich the professional capacity of its staff, through TIMOR GAP's international business partners.

This year, TIMOR GAP had the pleasure to see two of its engineers being awarded with an **OPITO Certificate** following the completion of 6-months intensive On-Job-Training (OJT) for the operations and maintenance of LNG. This OJT has commenced at Bontang LNG in 2015, with the first phase being completed on November 2015 and the second phase on May 2016. Provided by Cegelec Oil & Gas (Actemium) and its partner PT Badak LNG, it covered a variety of training modules including Process Train, Utilities and Storage & Loading, as well as Maintenance Awareness.

OPITO (Offshore Petroleum Industry Training Organization) is not-for-profit organization, wholly owned by the oil and gas industry and responsible for ensuring it has a safe, skilled and competent workforce. The standards set by OPITO are produced and agreed by related groups, and those that passed such standards are recognized worldwide.

OPITO Certificate award ceremony

Visit to Badak LNG

Study Leave

TIMOR GAP's employees can undergo further studies as a professional development option. The study leave enables them to pursue studies that will improve future contribution to the company.

In 2016, one employee returned to the company after completing a Master's degree in Project Management at George Washington University, Washington DC, USA, under SERN - Fulbright Scholarship Program (current MPRM).

During this period, our employees continued or commenced their scholarships program and academic courses in international renowned universities, namely:

- Master's degree in Geoscience at Wollongong University, Australia, under Australian Awards Scholarship program;
- Master of Environmental Management at Massey University, Palmerston North, New Zealand, New Zealand Development Scholarship (NZDS);
- Master of Engineering in Oil and Gas Program at University of Western Australia (UWA), under Australian Awards Scholarship Program;
- English Preparation Program, Scotland, United Kingdom.

Corporate Institutional Development

TIMOR GAP's Strategic & Business Plan 2016 -2035

In the previous year, TIMOR GAP initiated a dynamic and inclusive process towards the elaboration of its Strategic & Business Plan for the period 2016-2035. The aforesaid process culminated this year with the approval of TIMOR GAP's Strategic & Business Plan and its subsequent disclosure to partners and relevant stakeholders.

Through the Strategic & Business Plan, TIMOR GAP was endorsed its key strategic goals and ambitions for the next 20 years, covering short, medium and long term targets. It consists on a live document as it will be updated as appropriate as the company moves forward and, most importantly, will be translated into concrete day to day actions for each unit and individual to implement its strategy and accomplish its mission and vision.

The Strategic & Business Plan was built upon three main questions that steered its plan to effectively fulfill its mandate to contribute to a sound social and economic national development: "where we are", "where we want to be" and "how to get there".

Quality, Health, Safety and Environment (QHSE)

A strong Quality, Heath, Safety and Environment (QHSE) culture is of indisputable value at TIMOR GAP, with safety and quality being set as prerequisites in every operating area, just as respect for the environment is a constant consideration. By embedding these principles in our activities, we aim to contribute and enhance our company continuing excellence in providing services for the oil and gas industry with quality, health, safety and environment of best standards.

Aiming to promote TIMOR GAP safety culture and to increase its employee's awareness, activities such as monitoring, record & report of any anomalies, first aid supply, safety induction and pre-departure safety briefing for staff involved in field trips are performed and delivered regularly within the company.

Timor Plaza fire drill simulation

International Organization for Standardization (ISO) Certification

Our commitment to uphold the highest standard in our service delivery was clearly expressed when, this year, we concluded our certification journey, becoming the first organization in Timor-Leste to be certified for its Integrated Management System (IMS) comprised of three management systems: ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and ISO 18001:2007 Health and Safety Management System. Therefore, TIMOR GAP had put in place an IMS that complies with the International Organization for Standardization (ISO) requirements of industry best practice and addresses all objectives of quality, health, environment and safety at once achieving audit efficiency as well as cost effectiveness.

MANAGEMENT SYSTEM CERTIFICATION
DNV·GL
ISO 9001 ISO 14001
OHSAS 18001

From left to right: H.E. Alfredo Pires, Timor-Leste Minister of Petroluem and Mineral Resources; Mr. Francisco Monteiro, President & CEO of TIMOR GAP; Mr. Percy Lakdawalla, Vice President DNV GL Business Assurance; H.E. Stig Ingemar Traavik, Norwegian Ambassador to Indonesia; Mr. Rony da Costa, former Director QHSEU of TIMOR GAP; Mr. Ros Oh, Business Development Manager SEA DNV GL Business Assurance

In the award ceremony conducted on April 2016, the DNV GL - Business Assurance Vice President, Regional Manager for Asia Pacific, Mr. Percy Lakdawalla presented the certificate to the President & CEO of TIMOR GAP, witnessed by Norwegian Ambassador to Indonesia, H.E. Stig Ingemar Traavik and attended by key governmental stakeholders, Parliament Members and organizations in the oil & gas industry.

Following the ISO accreditation, the IMS campaign launched round 1 and 2 within the company, where the systems and operational procedures in the IMS, including forms, templates and checklist were presented and discussed, ensuring its full implementation and continuing improvement.

Aligned with this purpose, a Surveillance Audit and Internal Audit for the IMS were performed towards the end of the year. The former is a mandatory external audit, conducted by DNV GL as the certification body and set to assess TIMOR GAP continued compliance with the ISO standards, as well as the company's policies and procedures in force; and the latter, an internal audit, is carried out by TIMORGAP, aiming to identify whether the system has been properly implemented and maintained, to identify areas of improvement to determine the compliance with the standards attained.

EIA and SEIA for TIMOR GAP's Projects

Our company's projects are based on studies that assess potential impacts of the project that might have on the environment and social communities. Environmental Impact Assessments (EIA) have been carried out by TIMOR GAP and partners, with the objectives to identify, predict, evaluate and mitigate biophysical, social and other relevant potential adverse impacts of our projects, as well as specific measures to avoid them.

An EIA determines changes to the environmental and social parameters, while a strategic environmental impact assessment (SEIA) is a first step in assessing those effects. In that regard, the Tasi Mane project under our portfolio, realized in 2012 a SEIA, which was conducted for two of the planned industrial clusters: the refinery and petrochemical complex in Betano, and the Beaço LNG plant. The project of the Suai supply base, which will be the first cluster to be built and of which had more detailed information available, produced a comprehensive EIA. In 2013, the environmental license for the Suai industrial cluster was granted by the Secretary of State for Environment (SEMA).

An EIA study for the fuel supply and fuel station development in Suai was also undertaken in 2014, encompassing public consultation with community leaders, environmental authority and other relevant entities from civil society and Non-Governmental Organizations. The final Simplified Environment Impact Statements (SEIS) and Environment Management Plan (EMP) were then submitted to SEMA for approval and the licence was granted in 2015.

In 2016, an EIA study for the Betano refinery and onshore pipeline route (Betano – Suai), including also Health Impact Assessment (HIA), was carried out and the Environmental License is expected to be issued in 2017.

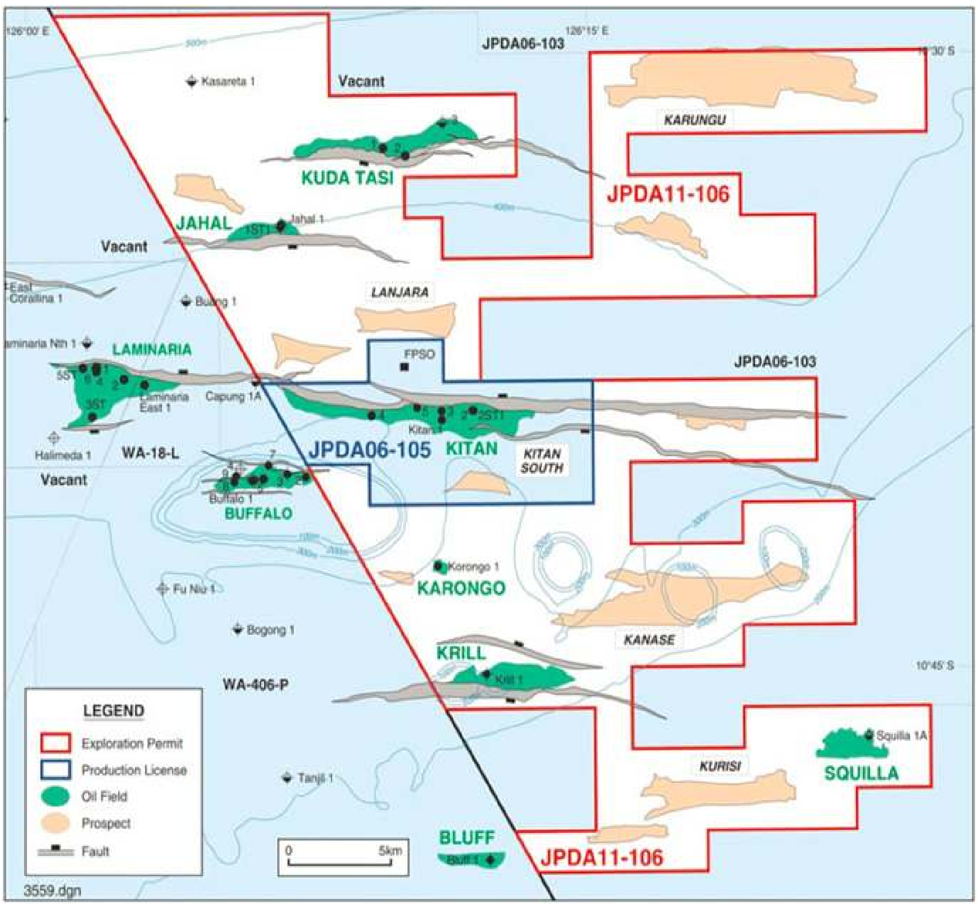
Earning the trust of local communities is essential to the success of our projects and operations, therefore these processes involve stakeholder public consultations and "socializasaun" in the proposed project. The objective of the consultation and socialization is to inform local community and community leader in order to ensure that the project is well-understood in terms of economic benefits, direct and indirect and also the risk involved with mitigation measures.

02 UPSTREAM

PSC JPDA 11-106

Our first Production Sharing Contract (PSC) was signed in 2013, through the wholly owned subsidiary TIMOR GAP PSC 11-106, to begin exploration offshore in the Joint Petroleum Development Area (JPDA) of the Timor Sea. In the Joint Venture partnership, TIMOR GAP has a share of 24%, which envisages a good starting point considering experience levels as a young national oil company and as well a symbolic number, marking the number of years of Timor-Leste's struggle for independence. ENI, the operator of this Contract, has a share of 40.53% and INPEX, the third JV partner, 35.47%. The Joint Operating Agreement (JOA) was signed on October 2013.

The area being explored by the PSC 11-106 JV is located approximately 240 km south of Dili and 500 km northwest of Darwin, covering an area of 662 km^2 adjacent to the Kitan oil field and lies in an average water depth of 350m. The focus of the study is on already proven but unproduced reserves at Jahal, Kuda Tasi (+/- 20MMbbls), Squilla and Krill fields. Technical evaluation of the area is ongoing, including review of the existing sub-commercial discoveries within the PSC. Prospect mapping has been completed and discussions' regarding prospect ranking and selection for drilling is progressing between the Joint Venture partners. The drilling campaign is scheduled for early 2018 and the ANPM has approved an extension to the initial exploration period until 22nd October 2018.



PSC JPDA 11-106 – Discoveries and Prospects

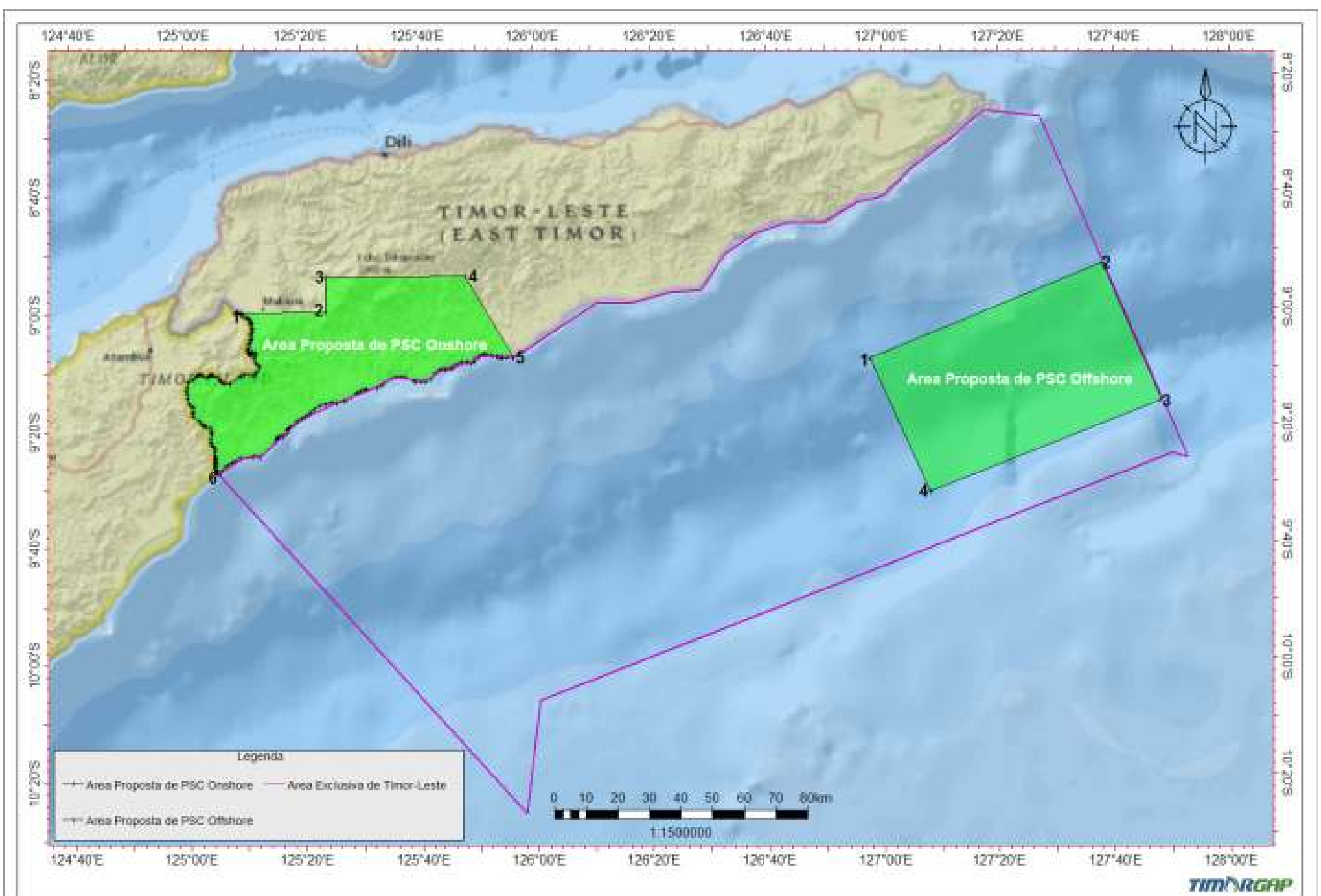
TIMOR GAP technical team prudently evaluates the work of the operator and in parallel, carries out independent technical studies to evaluate the prospectivity of the PSC area. All technical evaluation is periodically reviewed by the management and it also provides opportunity for the team to improve their technical capabilities. The Joint venture is now focusing on deeper targets within the exploration area and this work is expected to be completed in the first half of 2017.

Timor-Leste Exclusive Area (TLEA)

A major breakthrough towards our exploration and production (E&P) portfolio expansion was achieved when, on December 2015, the Council of Ministers issued the Government Resolution No. 44/2015 authorizing TIMOR GAP to hold a participating interest with a value of less than or equal to 100% in an onshore and offshore block, including an authorization to carry out a multi-client 3D seismic survey in the offshore block, and the Minister of Petroleum and Mineral Resources, by way of a Ministerial Order has authorized the direct award to TIMOR GAP of a Production Sharing Contract (PSC) for the onshore and offshore area, both located in the Timor-Leste Exclusive Area (TLEA).

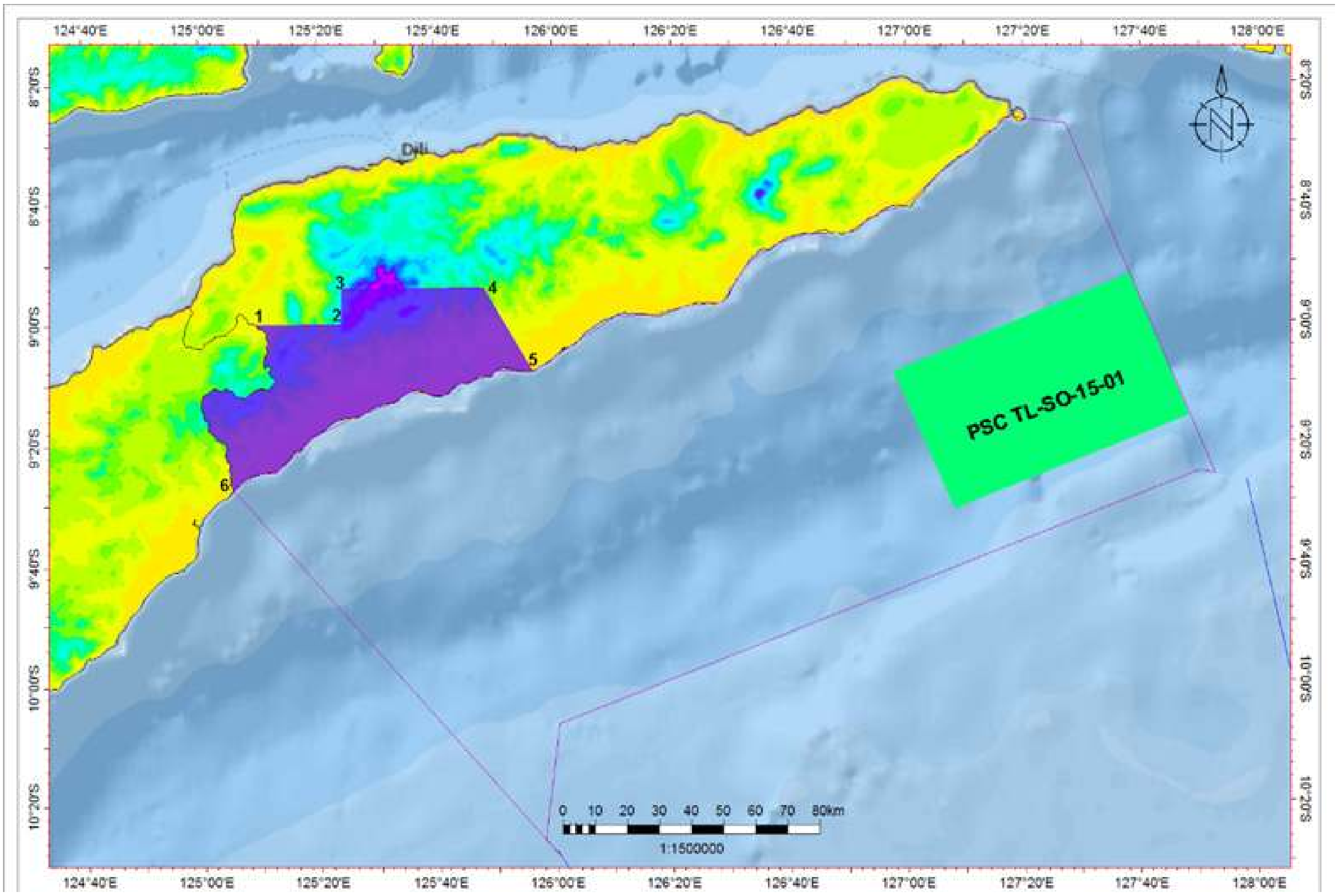
> **"… our participation in TLEA,.. will enable TIMOR GAP's growth efforts in enticing new investments…"**

Since its establishment, TIMOR GAP's upstream activities have been solely concentrated in the Joint Petroleum Development Area (JPDA) and, in spite of the several oil and gas seeps discovered in the onshore over the past years, TLEA remained an under-explored area. Hence, we are confident that our participation in TLEA, also through additional data acquisition, will bring value to our company, improving our understanding of the complex subsurface geology in this area and playing a significant role in attracting further partners. This will enable TIMOR GAP's growth efforts in enticing new investments to strategically position itself and grow in the region.



Contract area for the PSC's onshore and offshore

Offshore Block

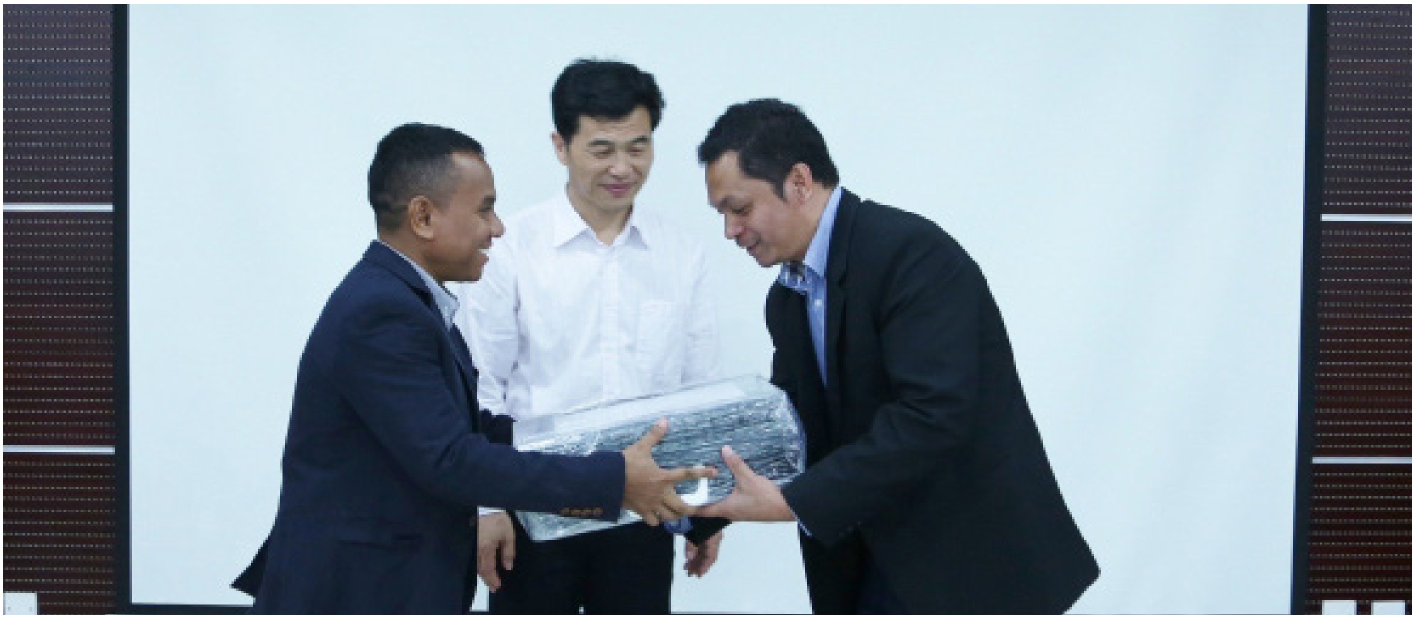


Map of PSC TL-SO-15-01

On December 2015, TIMOR GAP signed its second PSC, through its wholly-owned subsidiary, TIMOR GAP Offshore Block, to begin exploration offshore in the block TL-SO-15-01, located in the TLEA. This PSC is a step towards achieving TIMOR GAP's growth strategy and demonstrates its commitment to expand the company's exploration portfolio.

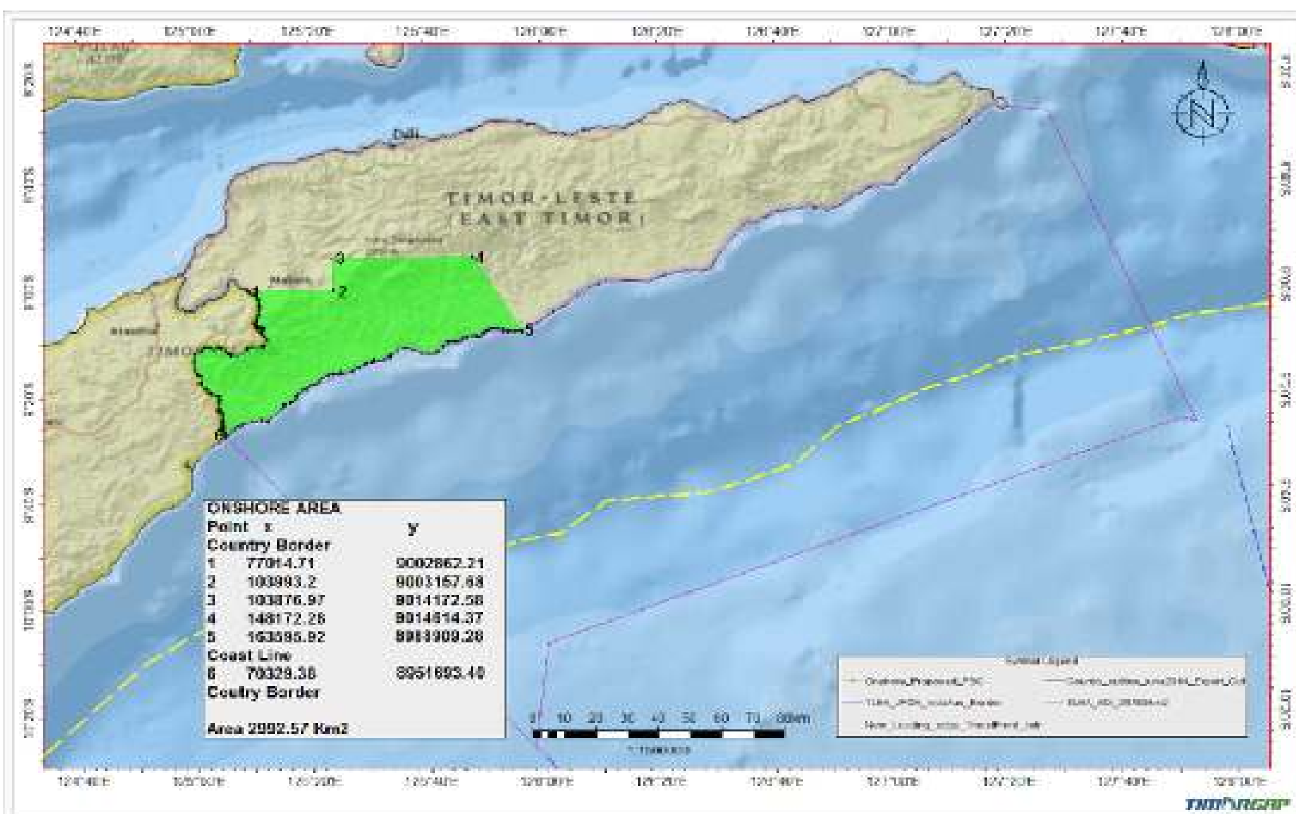
The PSC Exploration Work Program is divided into three periods, namely, Initial Period (Contract Years 1 to 3), Second Period (Contract Years 4 and 5) and Third Period (Contract Years 6 and 7). In order to fulfil the Minimum Exploration Work Requirements within the Initial Period, comprising the acquisition, processing and interpretation of 3D seismic data and integrated G&G studies, as well as prospect mapping and identification of drillable targets, TIMOR GAP engaged TIMOR GAP Seismic Service, a joint venture company created between TIMOR GAP and BGP Geoexplorer in 2015, to undertake the multi-client 3D seismic survey. The aforesaid survey commenced on 23rd December 2015 and was completed on 7th March 2016, followed by the official ceremony to hand over the survey data to TIMOR GAP and thereafter to ANPM, held on 10th March.

Upon the delivery of the survey data and following the completion of a tender process, on 25th May, TIMOR GAP Offshore Block and WesternGeco, Schlumberger Australia, entered into a Service Agreement for the provision of the 3D seismic data processing service. The 3D seismic data processing project was concluded on 25th November 2016.



3D seismic survey data handover to President of ANPM by TIMOR GAP Offshore Block Managing Director, in the presence of a representative from BGP Geoexplorer

Onshore Block



Map of the TIMOR GAP Onshore Block

The onshore block area was assigned to TIMOR GAP by the Ministry of Petroleum and Mineral Resources, with the approval of the Council of Ministers. Following technical and commercial analysis conducted by TIMOR GAP and further discussions with potential partners over the course of 2016, TIMOR GAP has divided the acreage into three separate blocks, namely Block A, Block B and Block C, in order to enhance the potential for interested partners to enter into exploration in the aforesaid area and, thus, increasing the quantity and quality of the exploration activities in the contract area.

The distinct blocks encompass area as follow:

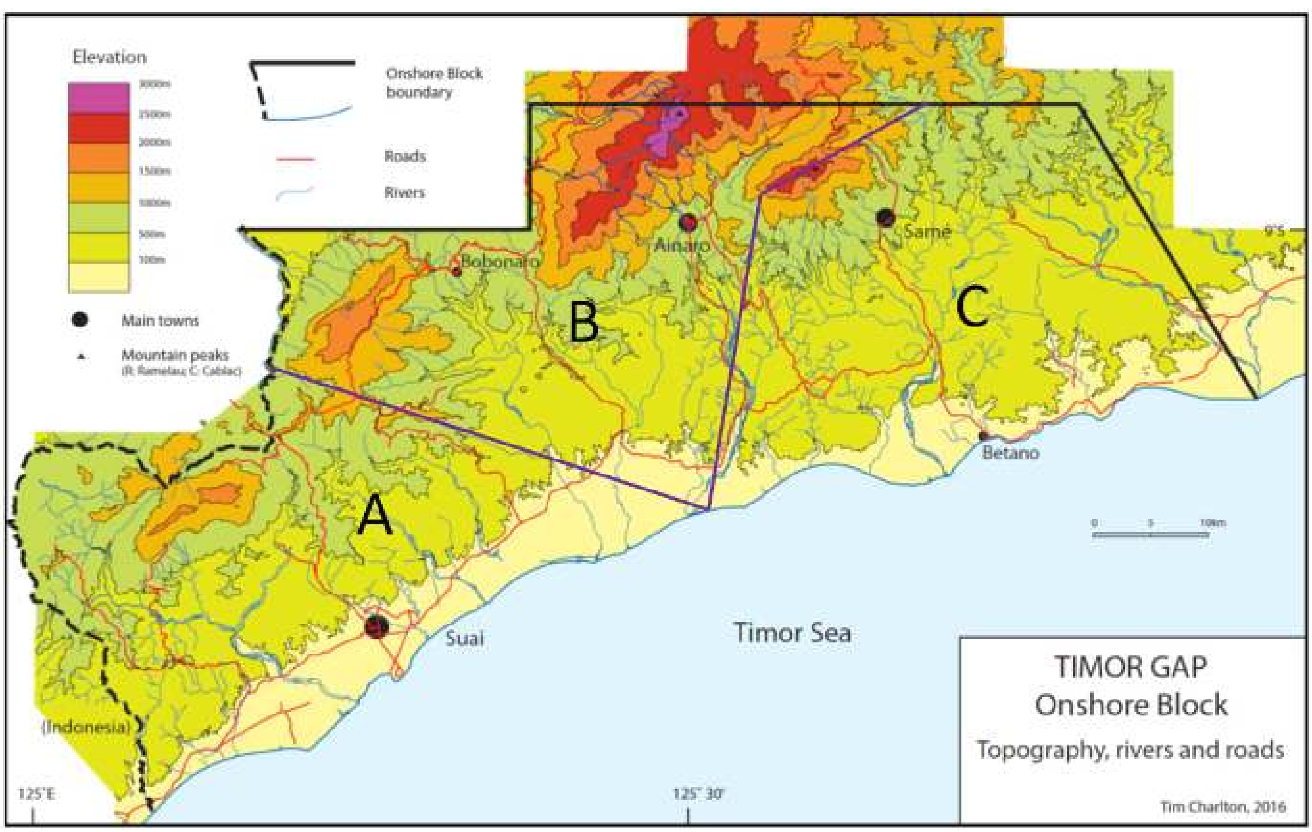
- **Block A**, covers Suai Basin with an area of 1008.3 km^2;
- **Block B**, covers Bazol Anticline and Aituto Anticline with an area of 1004.63 km^2; and
- **Block C**, covers Betano region with an area of 1004.01 km^2.

The elevation of the onshore block area varies from sea level to 2400 m (except in Block B, where the elevation reaches 2986m due to the Ramelau Mountain), with the majority of the flat area lying towards the coast and the coastal town of Suai, where is envisaged the building of the Suai Supply Base. This will provide infrastructure support to hydrocarbon exploration and there will be mutual benefits, along with socio economic development.

The subdivision of the Block Exploration Contract Area was presented to the Council of Ministers and subsequently endorsed on 22nd November. With the subdivision of the contract area into three distinct areas, it is anticipated the maximization of the oil exploration and prospecting activities and a boost in the interest and future participation of the private sector.

In light of the above, farm out opportunities were promoted for the onshore blocks, as a result of which, on 16th November, a Commercial Agreement was signed between TIMOR GAP and TIMOR RESOURCES PTY LTD, a company incorporated in Australia, pursuant to which the later acquired participating interests in the onshore Block A and Block C.

Following to the Commercial Agreement signature, further technical and commercial discussions were carried out among the companies and with ANPM, on behalf of the Government, for the purposes of entering into a Production Sharing Contract in early 2017.



Map of the TIMOR GAP Onshore Block

Energy within the CPLP:

Timor-Leste assumed the Community of Portuguese Speaking Countries (Comunidade dos Países de Língua Portuguesa, CPLP) Presidency role on a biennial term (2014-2016), and with this role, it gave the platform for Timor-Leste to explore and expose itself within the members states and afar, giving the opportunity to better and acquire further knowledge on the energy sector, that is, the main driving force for the economic growth in the country.

In view of the growing geostrategic, geopolitical and geo-economic importance of the energy, on October 2016 was held the 1st Technical Energy Meeting of the CPLP under the theme "The Economic Potential of Energy within CPLP", in Malabo, Guinea Equatorial. This meeting was jointly organized by Timor-Leste, as the Member State holding the Presidency *pro tempore*, and Guinea Equatorial, as the Member State hosting the meeting, counting with the participation of several Energy Focal Points of the Member States of CPLP and chaired by TIMOR GAP's President & CEO, acting as Timor-Leste Energy Focal Point appointed by the Minister of Petroleum and Mineral Resources.

The 1st Technical Energy Meeting follows on the 1st Meeting of Energy Ministers of the CPLP, held in 2015, in Cascais, Lisbon, being tasked with the follow up of the decisions, initiatives and measures taken in the Energy Ministers Meeting; assess the degree of implementation of the decisions contained on the Cascais Declaration; harmonize, coordinate and consolidate the implementation of cooperation projects in the field of energy arising in the context of CPLP.

The 2nd Meeting of Energy Minister of the CPLP is anticipated to 2017.

Energy Focal Points of the Member States of CPLP

Visit to Malabo's Power Plant operated by SEGESA

Other Upstream Studies

Greater Sunrise Reserve Study

The Sunrise Commission, which was established by Timor-Leste and Australia to consult on issues related to the exploration and exploitation of petroleum in the area of the Greater Sunrise field, ordered for a reserve estimate study in 2012. TIMOR GAP, on behalf of Timor-Leste's government, has been managing this study with the objective of independently estimating the Greater Sunrise reserves through third party consultants. The Petroleum Initially in Place of the Greater Sunrise Field study has been completed and the results have been reviewed by both Timor-Leste and Australia.

TIMOR GAP Exploration & Production team have completed the reservoir simulation studies, based on the Petroleum Initially In Place results from the independent consultants.

Bayu-Undan Full Field Review

TIMOR GAP was entrusted by the Government of Timor-Leste through the Joint Commissioners and MPRM to carry out a full field review of the Bayu-Undan field, with the objective of resource management and optimization.

TIMOR GAP technical studies to estimate the gas initially in place and review of the production till date has been completed. A comprehensive report on the results of the study has been submitted to the Government, while TIMOR GAP is carrying out further analyses to optimize the recoverable resources from the Bayu-Undan field.

The Exploration & Production team has completed the Geomodelling and the Full Field Reservoir Modelling for the Bayu-Undan field. The results of the study have been submitted to the Government. TIMOR GAP will continue to engage in discussions with the ANPM and the Bayu-Undan joint venture partners to maximize revenues for the stakeholders and Timor-Leste in particular.

03 Downstream, Services and Subsidiary Companies

Overview

In addition to the Tasi Mane Project (Section 4), in 2016, we continued to explore further opportunities to add, diversify and strengthen our current and future portfolio.

The company grew stronger in the downstream and services sectors with the opening of TIMOR GAP's first retail fuel station in 2016, an important achievement expected to be replicated in the forthcoming years with the construction of other fuel stations across the country. We also continue to participating on several offshore services tenders for the JPDA area and looking for opportunities to provided fuel supply services for projects.

Showing our prior commitment in making TIMOR GAP a known partner of choice, our company continued to seek further business opportunity both domestically and internationally, engaging with potential partners in bringing success and developing our portfolio. This business opportunities and partnerships are managed through the TIMOR GAP's six subsidiaries. The year brought us further expansion with the establishment of a new subsidiary, TIMOR GAP Onshore Block, established to partake in exploration and exploitation activities within the onshore block located in TLEA.

Retail Fuel Stations

Suai Fuel Station

In 2016, TIMOR GAP reached an important milestone for its marketing portfolio with the opening of its first retail fuel station, a precedential phase to achieve further success in the TIMOR GAP brand and growth of the company in the downstream sector, thus achieving greater operational efficiency with a view to increase profitability.

The first of a planned network of retail fuel stations to be constructed across the country, results of a joint partnership with Pertamina inaugurated on 29th April, in Suai. This fuel station was established in accordance with the requirements set forth by the ANPM Regulation no.1/2013, on installation and operation of fuel filling stations, and operates in compliance with the best quality, health, safety and environment standards applicable to the oil & gas industry, with inspections being carried out by TIMOR GAP on a regular basis.

The Suai fuel station facility is fully furnished with the required equipment for the provision of gasoline and diesel, including three underground fuel storage tanks with a capacity of 30 kl each. The facility also has two above ground storage tanks with capacity of 30kl each plus space for an additional two tanks to meet the fuel demand of any local projects, such as the Suai Supply Base project in the future.

With the development and establishment of the fuel station, jobs were created and 16 nationals who were recruited locally were employed and working at TIMOR GAP's first fuel station. To equip the employees with the right tools, under the Joint Cooperation Agreement celebrated with Pertamina, 8 operators and 1 foreman attended training at Pertamina's Retail facilities in Surabaya, Indonesia.

Since commencement of its operations, a steady increase on the fuel sales have been registered and in September 2016, TIMOR GAP signed a contract on fuel supply to vehicles of the Administration Covalima Municipality.

By the end of 2016, a total of 74,334.53 liters of gasoline and 102,226.93 liters of diesel were sold, representing a revenue of $176,013.

Top to bottom, left to right: TIMOR GAP's fuel station employees; Suai fuel station; Inspection to the fuel storage tank

JPDA Offshore Service Tenders

TIMOR GAP and its subsidiaries participated on the several offshore service tenders for the JPDA area, predominately in the Bayu-Undan contract area. In 2016, TIMOR GAP with support of its partners continue to participate for those tenders.

TIMOR GAP signed a Memorandum of Understanding with China Oilfield Services Limited (COSL) to seek for opportunities on the marine drilling work, where recently both parties have jointly submit a response to the Request for Information (RFI) for the Jack-up drilling for phase 3B development of the Bayu-Undan project.

Moreover, we engaged with COSL for the Geophysical & Geotechnical Survey for the Bayu-Undan drilling, where TIMOR GAP confirmed its interest to support Subsea 7 on the requested survey services by submitting a commercial and technical proposal for above survey scope.

South Horizon, is a Joint venture company established between TIMOR GAP Marine and Siglar Offshore Services in 2015 with the aims to further explore opportunities in the Marine & Logistic services. In 2016, South Horizon submits survey vessels and a Remote Operated Vehicle (ROV) for Subsea 7 to support its Geotechnical & Geophysics Survey work. A vessel quotation and technical specification also submitted to subsea 7 for the logistics services to transport goods from Dili to Bayu-Undan. We also assisted Aibel to develop fabrication & assembly work execution plan for the mud mat frame fabrication.

Fuel Supply and Trading

Pursuant to the requirements under the Design-Build Contract for the Suai Supply Base (SSB), TIMOR GAP has been appointed as the fuel supplier to the SSB construction project.

A Request for Proposal (RFP) was issued to seven (7) bidders to supply fuel for the SSB Marine works but merely one (1) bidder submitted the bidding proposal. The proposal was evaluated by a tender assessment panel (TAP) then recommend to the management. In accordance with TIMOR GAP's management direction, TAP was instructed to contact more potential direct suppliers. Trading team conduct an initial discussion with PTT, Marine Creation Sdn and Trillion Bunkering Singapore/Indonesia.

On the other hand, for the land works fuel supply scope following TAP recommendation we conducted a physical verification towards Global's technical proposal and inspect Global's floating barge and onshore storage at Tibar bay.
Furthermore, we are in the process of negotiation with Suai highway contractor, COVEC, to supply diesel. The draft sales and purchase contract is being discussed by both parties involving both legal and trading team of the respected company.

Subsidiary Companies

Pursuant to the Decree-Law no. 31/2011, of 27th July, in order to pursue any activities related to its object, TIMOR GAP, E.P., is authorized to incorporate subsidiaries, which may be associated with other national or foreign companies, as well as acquire, encumber and dispose of shareholdings in any company. The Consolidated Financial Statements of TIMOR GAP and its subsidiaries and associates are detailed in Sections 7 and 8.

Subsidiaries which are majority owned by TIMOR GAP as the national oil company are subject to directives and strategic planning, and common corporate rules providing technical, administrative, accounting, financial or legal guidance, which are approved by the Board of Directors. Members of the Executive Management are allowed to participate in the management of these subsidiaries and affiliates, by appointment of the Board of Directors.

In furtherance of the company's purpose, TIMOR GAP had established since its creation six subsidiaries aiming to conduct specific business activities in the petroleum sector and related services as set out below.

GAP-MHS Aviation

GAP-MHS Aviation Lda

TIMOR GAP's first subsidiary company, GAP-MHS Aviation Lda, was constituted in 2012 for the purpose of providing offshore petroleum aviation support operations in Timor Sea. The subsidiary is owned by TIMOR GAP (60%) and MHS Aviation (TL) Lda (40%), which is a subsidiary of Malaysian Helicopter Services (MHS) Aviation Berhad, a company specialized in oil and gas aviation support operations.

Since its establishment, GAP-MHS has been providing aviation support services for Bluewater Glas Dowr FPSO vessel, operating regular helicopter flights between Dili and Kitan field, where the Glas Dowr had its operations. GAP-MHS continued to carry out normal flight operations at the beginning of 2016. However, on 27^{th} February, the subsidiary operated its last and final flight to the FPSO Glas Dowr and the contract with Bluewater, GD03 Contract, was officially ceased on 12^{th} March 2016. Following the end of GD03 Contract, the 2 contracted helicopters, Reg. No: 9MSPB and 9MSPC, were flown back to Malaysia and the hangar facilities reduced to only the Hangar "C", the rest of the hangars were vacated and handed over to ANATL.

Prior to end of the GD03 Contract, the company's management had conducted a meeting with the shareholders, which then decided on retrenchment of staff process according to Timor-Leste procedures, including payment of compensation to the affected staff, which were employed with the company until 30^{th} April 2016. It was also decided to maintain the JV Company for the following 2 to 3 years. For that purpose, some key personnel continue to be employed by GAP-MHS and, at the end of the year, the subsidiary employed both internationals and locals adding to a total of 6 employees, breaking into 2 female and 4 male.

GAP-MHS is actively involved in the pursuit of new business opportunities within the oil and gas aviation support operations, offering the provision of helicopter services with quality and safety as a main priority and in line with the best standards in the region.

TIMOR GAP PSC 11-106 Unipessoal Lda

In 2012, TIMOR GAP established a wholly owned subsidiary company, TIMOR GAP PSC 11-106 Unipessoal Lda, as a Special Purpose Vehicle (SPV) with the sole object being the acquisition and exercise of respective rights arising from ownership of a participating interest in the PSC regarding Block 11-106 in the JPDA established by the Timor Sea Treaty. This includes the exploration and production of crude oil and natural gas, and respective sale activities.

TIMOR GAP, through the aforesaid subsidiary, signed in 2013 its first Production Sharing Contract (PSC) to commence offshore exploration in the contract area JPDA 11-106, with the Italian company ENI and the Japanese company INPEX as Joint Venture (JV) partners and the regulator National Petroleum and Minerals Authority (ANPM). With TIMOR GAP's first participation in upstream activities, this marked Timor-Leste first ever direct participation in petroleum exploration in its history.

This year, we continued to carry out the Exploration Work Program foreseen in the PSC JPDA 11-106, mostly focused on G&G work, Jurassic & Triassic Play potential for Kanase and evaluation of Jahal, Kuda Tasi, Squilla and Krill discoveries. A prospect mapping was completed in 2016 and further discussions regarding the drilling, engineering and planning have progressed with operator and Joint Venture partners.

In order to ensure the exploration activities are carried out as planned, an extension of this PSC until October 2018 was granted by ANPM.

More information on the PSC JDPA 11-106 available in Section 2 of this Report.

TIMOR GAP Oil & Gas Marine and Logistics

TIMOR GAP Oil & Gas Marine and Logistics is a wholly owned subsidiary of TIMOR GAP created in 2014 to provide general services for the marine industry and to render logistic and support services to the petroleum industry operating in the Timor Sea, Timor-Leste and afar. The subsidiary is expected to not only manage but eventually own and operate supply vessels, tug boats, and general marine services required in the petroleum industry.

In the following year, TIMOR GAP Oil & Gas Marine and Logistics established the South Horizon Offshore Services, Lda, a joint venture company with Siglar Offshore Services Timor, with the purpose to provide support services to vessels and offshore installations operating in the Timor-Sea (both JPDA and TLEA), to own and operate offshore support vessels, and render any other services for the marine and Oil & Gas industry. In this joint venture partnership, TIMOR GAP Oil & Gas Marine and Logistics holds a share of 51% and Siglar Offshore Services Timor holds the remaining 49%.

Over the course of 2016, South Horizon Offshore Services actively continued to seek for opportunities to provided vessel service in drilling campaign and new business ventures within the marine and oil & gas industry. Further details on this subject are provided under the above "JPDA Offshore Service Tenders".

TIMOR GAP Seismic Services

Established in 2015, TIMOR GAP Seismic Services (TGSS) is owned by TIMOR GAP (60%) and BGP Geoexplorer Pte, Ltd (40%). It was created through a Joint Venture Agreement signed in October 2015 by the two companies with the aims to provide seismic survey services within the Timor-Leste's territory and foresee an expansion to overseas projects. BGP Geoexplorer, a subsidiary of China National Petroleum Corporation (CNPC) in the business of providing marine seismic services.

TIMOR GAP Seismic Services main scope is to perform 2D/3D seismic acquisition and processing and with an expansion to interpretation, whilst providing training opportunities and technology development to its local staff through its international partners.

Upon its establishment, on December 2015, TIMOR GAP launched its first 3D seismic survey, engaging TGSS and BGP Geoexplorer as the contractors to carry out the Crocodile 3D Seismic acquisition covering an area of 2780 Km^2 within the offshore PSC TL-SO-15-01, located in the TLEA. The survey was carried out by BGP Prospector vessel, a 12 streamer seismic vessel, and it was completed on 7th March 2016. A official ceremony to hand over the survey data was held on 10th March, followed by a visit to the BGP seismic vessel.

BGP Prospector vessel

TIMOR GAP Offshore Block

The Law No. 13/2005 on Petroleum Activities and the Production Sharing Contracts (PSC) require the establishment of a Special Purpose Vehicle (SPV) company for entering into a PSC. Therefore, TIMOR GAP established a wholly owned subsidiary company in 2015, TIMOR GAP Offshore Block Unipessoal Lda, as a SPV for the offshore block TL- SO-15-01.
On 23rd December 2015 TIMOR GAP, through its subsidiary TIMOR GAP Offshore Block, entered in its second Production Sharing Contract, a PSC for the block TL-SO-15-01 contract area of the Timor-Leste Exclusive Area. As part of the PSC Initial Period of the Exploration Work Program, a 3D seismic survey was undertaken and completed on March 2016, followed by the signing of Service Agreement with WesternGeco, Slumberger, for the survey data processing.

TIMOR GAP Offshore Block is to continue to carry out the work program schedule for the PSC TL-S0-15-01, which will terminate on 2022.

Signing of Service Agreement with WesternGeco, Slumberger, for the survey data processing

TIMOR GAP Onshore Block

Following the direct award of an onshore block by MPRM with the Council of Minister approval, in 2016, TIMOR GAP created a wholly owned subsidiary company, TIMOR GAP Onshore Block Unipessoal Lda, for the purpose of partaking in exploration and exploitation activities in the aforesaid onshore block located in the TLEA, which was afterwards divided in three distinctive blocks (Block A, Block B and Block C) in order to maximize the exploration activities within the contract area.

TIMOR GAP, through TIMOR GAP Onshore Block Unipessoal Lda, seeks reputable oil and gas companies to form a joint venture for the purposes of entering into a potential PSC with the Government of Timor-Leste in the onshore block. This goal was achieved when, in November 2016, TIMOR GAP entered into a Commercial Agreement with TIMOR RESOURCES, pursuant to which the latter acquired a participating interest in the Block A and C. The PSC is expected to be signed on early 2017

Signing Ceremony of Commercial Agreement between TIMOR GAP and TIMOR RESOURCES for the TIMOR GAP Onshore Block project

04 Tasi Mane Project: A National Petroleum Sector Industrialization

Three clusters of the Tasi Mane project

TASI MANE PROJECT CLUSTER

Planned developments include:

- **Suai Supply Base;**
- **Betano Refinery and Petrochemical Complex;**
- **Beaço LNG Plant.**

Supporting Infrastructure:

- **New towns to accommodate the workforce and resettlement of local residents;**
- **The upgrade of two existing airstrips, in Suai and Viqueque;**
- **A highway connecting project locations along the south coast (Suai-Betano-Beaço).**

Envisioned in the Government's Strategic Development Plan 2011-2030, which identifies the petroleum sector as a basis for our nation's sustainable development, the Tasi Mane Project aims at establishing a national petroleum industry and associated supporting infrastructures, skills development and service capability, becoming a major contributor to the economy of Timor-Leste.

Tasi Mane is a multi-phase integrated project comprising three industrial clusters located along a 155km stretch of the southern coast of Timor-Leste, from Suai in the district of Covalima to the west, to Beaço in the district of Viqueque to the east. The project encompasses three industrial clusters: Suai Supply Base cluster, Betano Refinery and Petrochemical Industry cluster, and Beaço LNG Plant cluster, plus planned additional facilities for each site.

The Tasi Mane Project is a major strategic initiative of the Government of Timor-Leste spanning a wide range of economic impacts at national, regional at local levels by providing direct economic benefits from Timor-Leste's natural resources. The project will increase national gross domestic product (GDP) and export earnings, while creating employment opportunities during construction and operation, as well as providing a catalyst for further development in the south coast region. It is projected that up to 10000 direct jobs will be created form Tasi Mane projects, and more than 50000 indirect jobs can be generated with the transformation of petroleum sector development from extractive to industrialization.

In addition, the Tasi Mane Project will generate indirect benefits, influencing broader economic performance as a result of flow-on to other industry sectors. Spending by project participants, employees, Government and private beneficiaries will lead to “multiplier effects” as the economic activities associated with the project impact on economy generally. Investment in productive physical assets (such as power generation facilities, roads and airports) and in social assets (for example improved education and health services) will also benefit the economy by enhancing the productivity of economic factors. One of the significant impacts of the project will be the opportunities it will create for local business. These opportunities include outsourcing of services such as catering, engineering, security, fuel supply, managerial, professional and technical services.

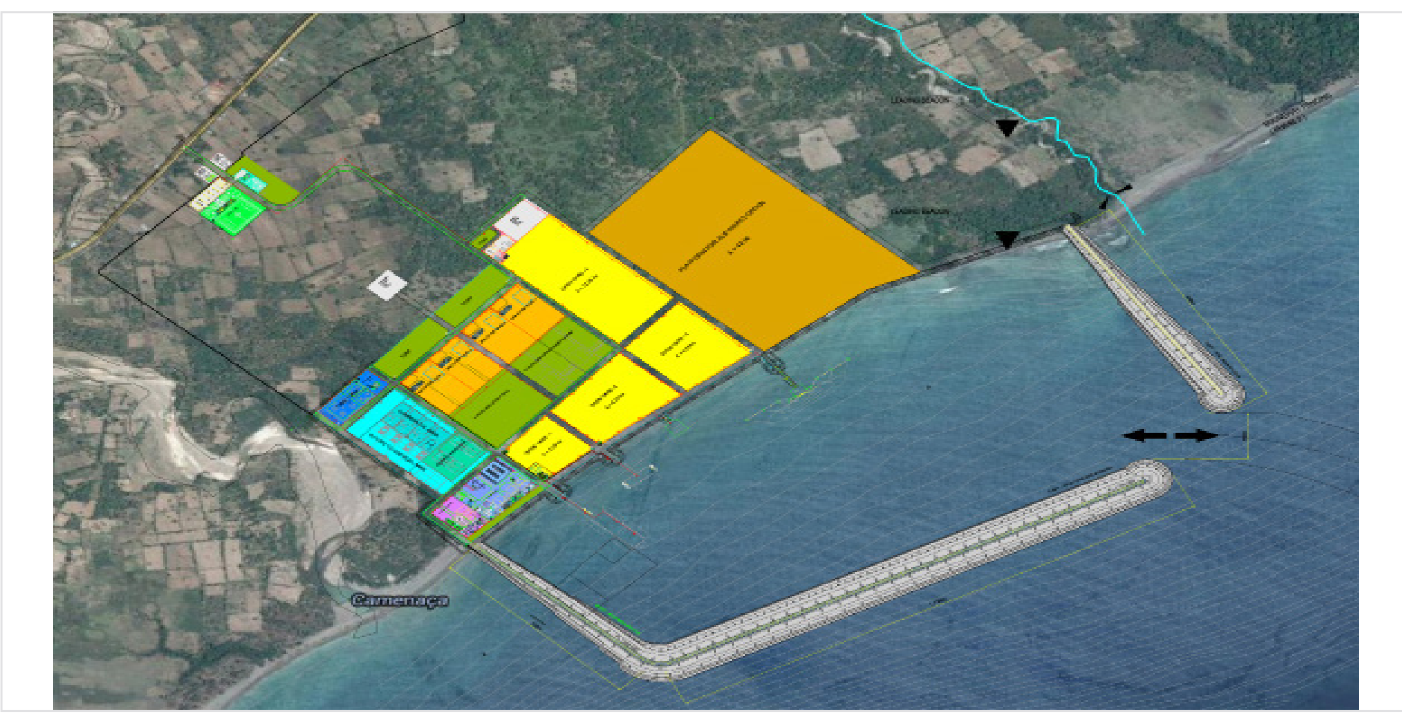
TIMOR GAP was mandated by the Government to manage and administer the Tasi Mane project. The company will support the creation of industries and the development of the necessary human resources to operate efficiently the petroleum sector.

It is expected that the existence of these basic infrastructures will stimulate and provide incentive for commercial investment in the other Tasi Mane projects. This will transform the current nature of the petroleum sector in Timor-Leste which is simply extractive, and allow it to evolve to a more diversified and industrialized petroleum sector, including the development of a refinery and associated petrochemical complex in Betano and of the LNG plant in Beaço.

The Government of Timor-Leste, as the proponent of the Tasi Mane integrated project, will finance some of these projects, such as the basic infrastructures, e.g. Suai supply base and airport. The rest of the Tasi Mane projects will be invested by way of project financing & other forms of private investment.

Suai Supply Base

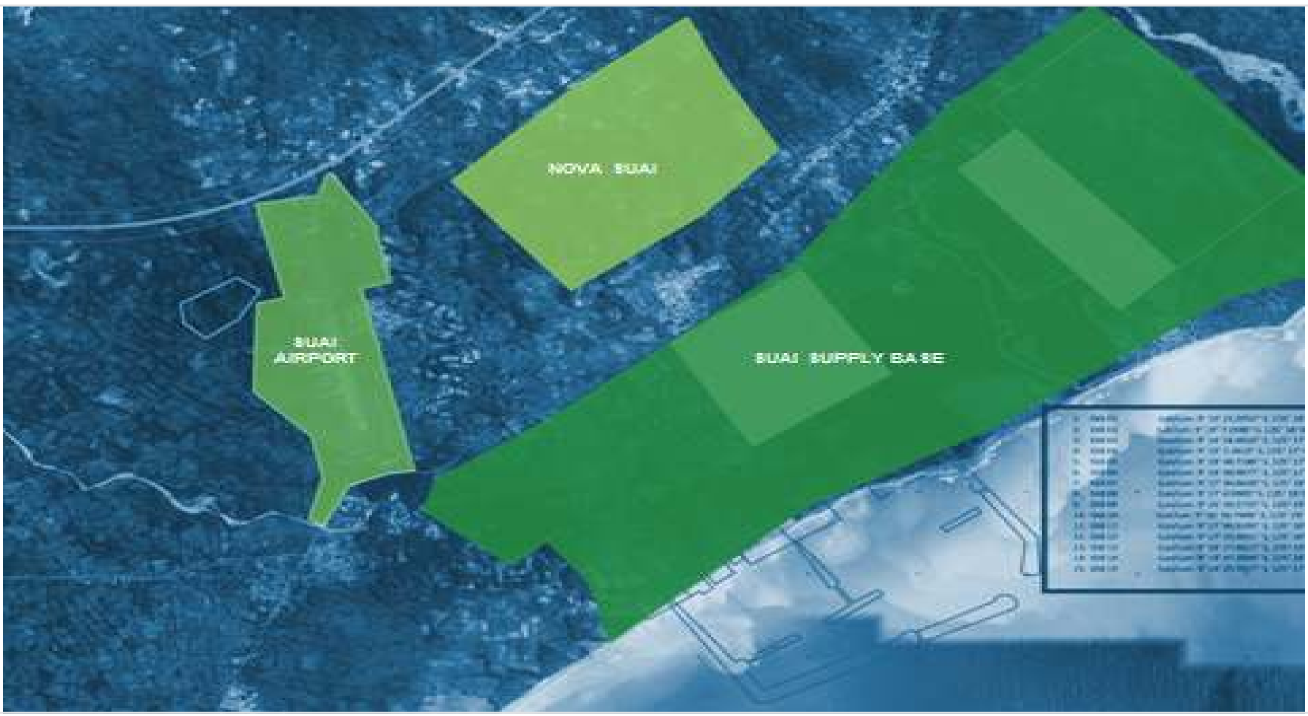
The Suai Supply Base (SSB) facility constitutes an important role within Timor-Leste’s government Strategic Development Plan (SDP) and is recognized as a notable project and landmark in the south coast.



SSB Facilities layout

Considering that, the SSB facilities as one of a key national project for Timor-Leste, the government through the Ministry of Petroleum and Mineral Resources (MPRM) has developed the stages of the implementation of the Tasi Mane Projects. Part of it, is the construction of SSB logistics and marine facilities in Suai, situated in Camanasa, Municipality of Covalima. Besides that, it will support all of petroleum activities in Timor-Leste Exclusive Area (TLEA) and Joint Petroleum Development Area (JPDA) and its vicinity, as well as commercial and industrial's business activities.

It will also serve as an entry point to accommodate the supply chain management of other two planned industrial clusters activities in Betano's refinery and petrochemical complex and Beaço's LNG plant.



Suai Integrated Facilities Layout (SSB, Airport, Highway and Nova Suai)

Apart from that, the Front End Engineering and Design (FEED) of the supply base was concluded in 2010 and encompasses as following:

- **Land facilities** – operations building, covered warehouses, mini shore bases, fuel tank farm, water storage tanks, waste management system, parking areas, recreational and community facilities, and others;

- **Marine facilities** - three jetty structures consisted of main jetty, barge jetty and LCT Ramp supported with a tug boat berth, passenger boat berth and a shore connected rock breakwater in order to provide shelter from the waves, creating a safe, calm and protected harbor for the facility;

- **Social impact** - the Suai cluster will be a platform in driving and stipulating a job creation opportunities, generating hundreds of new jobs, support a national economic development, and potentially to upgrade skills of local workforce in areas such as steel fabrication, marine and civil construction, mechanical and electrical engineering, etc. Furthermore, other non-oil industries, such as commercial fisheries, are expected to be incorporated to the SSB marine shore facilities, especially in the east area of the breakwater; and

- **Environmental issues** – the Environmental Impact Assessment (EIA) for the SSB was conducted in 2012, including its public consultations ("*socializasaun*") on the project. The **Environmental License** was granted in 2013 and renewed in June 2015.

Project Management Organization

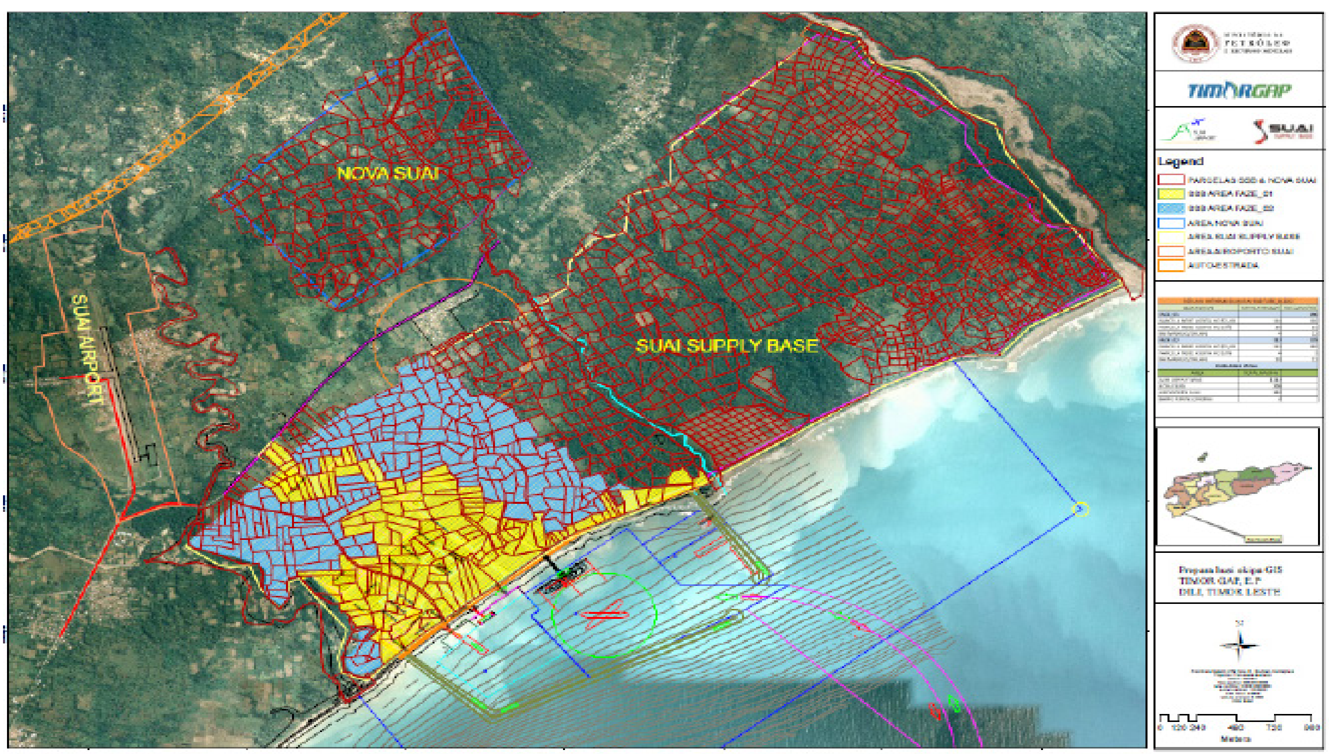
The SSB Project Management Organization (PMO), status approved and established in 2016, has the fundamental role as an internal working group that oversees and assists the consultant and contractor on SSB's project.

Therefore, the PMO is entrusted with the coordination of all supervision and management tasks, to monitor and control any activities performed during the SSB pre-construction and construction, until the completion period and handover of the project infrastructure facilities. In addition, the PMO team is also responsible for any project on administrative matters and contract document management, include its supervision works with the aim to achieve the establishment of a TIMOR GAP's business facility in Suai; and also to facilitate inter-ministerial coordination activities to support the SSB project construction program from its initial process to completion.

Procurement and Construction Process

The SSB procurement process has been completed once the TIMOR GAP, representing the project owner (MPRM), and the National Procurement Commission (NPC) submitted the SSB contract to the Audit Chamber for further approval before entering to construction phase of the SSB project. However, on October 2015, the Audit Chamber, following the preliminary revision procedure, issued a ruling pursuant to which it was decided not to approve the Design-Build Contract. In view of this, the Government, through the Council of Ministers' approval, submitted its appeal on November 2015. The delays in obtaining a response for the appealing process submitted to the Audit Chamber resulted in Hyundai's withdrawal from the SSB Design-Build Contract in 2016. So far, the SSB contact approval process still under the regulatory of Audit Chamber.

Land Title Clearance and Community Liaison



SSB Parcels map cleared by end of 2016

During 2016, TIMOR GAP continued with the land title clearance process in close coordination with Inter-Ministerial Working Group (*Ekipa Konjunta Interministerial Alargado*), partaking in several meetings, field trips and public consultations with local authorities, relevant stakeholders and the affected community. It is of the upmost importance to fully comply with public disclosure requirements and accurately communicate with affected community for a clear understanding of the SSB project and land title identification and compensation process.

The land title compensation has started for the first phase payment in 2014 with a total area of 148 ha has been cleared out and in 2015 with a total area of 178 ha. On August 2016, in coordination with the National Directorate of Land & Property and Cadastral Services, a meeting and field trip were conducted by TIMOR GAP with the purpose to proceed with the contract signature for beneficiaries who decided to change from 10% share option of their land to sell ("$3" Option). The beneficiaries who signed the contracts represent 23 parcels of land, in a total area of 22.16 hectares.
By the end of 2016, was cleared a total area of 348.16 hectares out of 1,113 hectares.

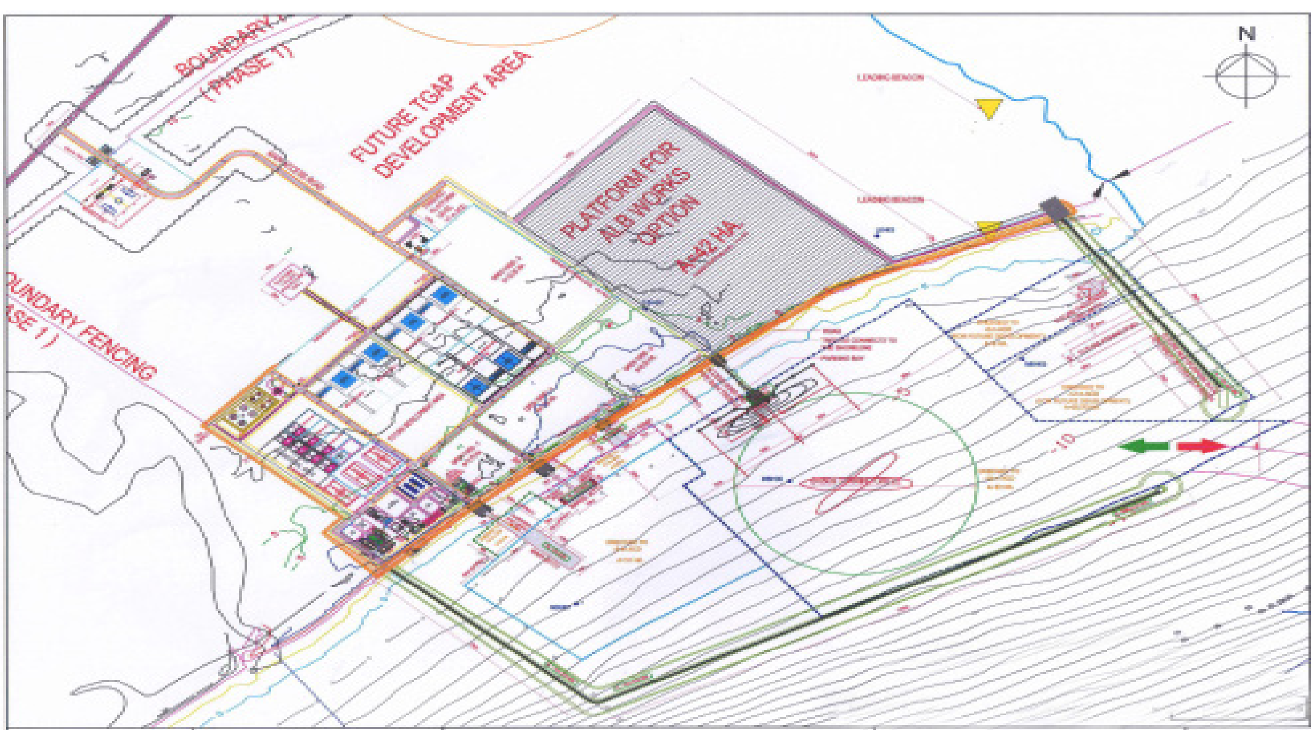
In addition to the land title clearance process, a training and skill development program for the SSB construction phase involving the affected community is being outlined and prepared.

Rescheduled Masterplan

Through Government Resolution No. 19/2014, of 24th July, the Council of Ministers approved the rescheduling of the Masterplan of Suai Supply Base Project, which resulted in changes and additions to the original proposed scope of works of the Design-Build Contract in order to integrate other marine facilities previously planned for the Betano refinery, of which comprises an additional liquid berth jetty, dredging works, an increase in land development and the relocation of the main jetty.

On October 2015 and further to the Council of Ministers endorsement, the Government and Eastlog, the project consultant, entered into the Amendment No.2 to the Consultancy Agreement to incorporate the additional scope of the works to be executed, thus resulting with the increase in the quantum and the level of engineering resources for the supervision of the works, as well as consequential increase in the duration of the construction period under the Design-Build Contract.

Afterwards, the Amendment No. 2 submitted to the Audit Chamber for approval was granted on 9th March 2016.

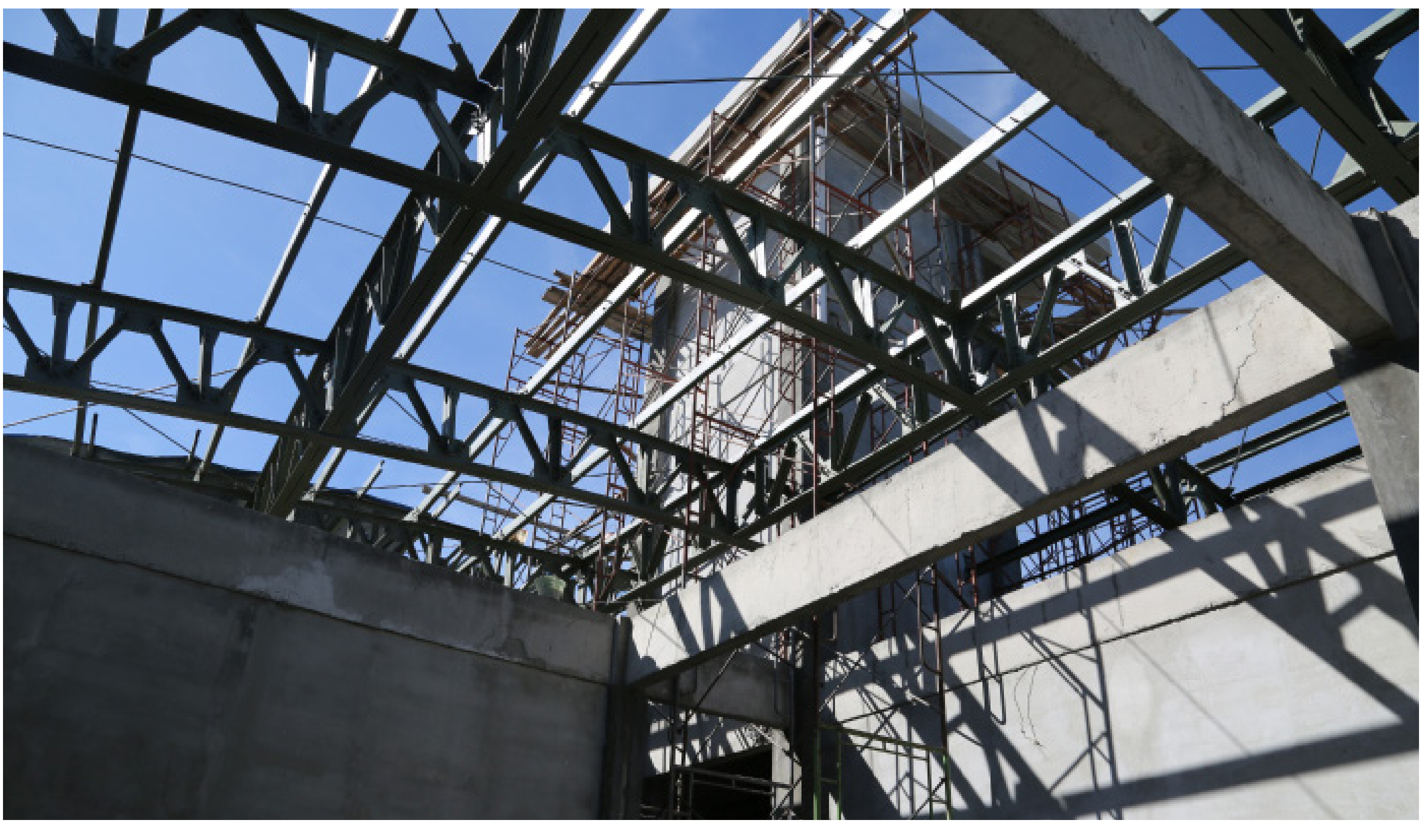


SSB revised master plan, with the additional liquid jetty and required dredging to –14m ACD

Draft Decree-Law on Commercial Explosive Materials

Following the process initiated through 2015, the working group composed by TIMOR GAP, MPRM and Ministry of Interior completed, by the end of 2015, a final "Draft Decree-Law for the Import, Transportation, Storage and Use of Explosives in Projects of Public Interest". It establishes standards, rules and special safety procedures governing the import, transportation, storage and use of commercial explosives in projects of public interest. The Suai Supply Base project as a former example, due to its nature and size, will require the use of explosive materials during its construction stage especially dealing with quarry blasting needs.
In the end of 2016, TIMOR GAP handed over the draft decree-law to ANPM, as the entity able to coordinate the use of explosive materials for the mining activities, and ANPM will assume the role to further coordinate the works of the working group in order to finalize the aforesaid draft decree-law. TIMOR GAP will still be actively involved in the working group to support finalization of the draft decree-law.

Suai Airport Upgrade



Main Terminal Building infrastructure

The existing Suai Airport, located between Matai and Holbelis, Covalima district, is classified as a district airport and will be upgraded to cater for expanded passenger and freight services. The main new features will be a 1.5 km long runway and, a new terminal building with facilities for customs and immigration, fire station and helipad with Medivac air ambulance facilities.

The airport project is based on International Civil Aviation Organization (ICAO) standards and the redevelopment has the main purpose of allowing safe operations of light airplanes and helicopters to support petroleum activities and supply base operations, thus benefiting the companies working on oil and gas platforms, the Tasi Mane project, and the communities living in the south coast. With the new airport multiple services will be created such as air traffic control, catering, maintenance, fire brigade, meteorological, transports, security, passenger handling, communications, fuel companies, hence generating various new job opportunities.

Created in 2015, the Project Management Unit is composed by representatives of Ministry of Petroleum and Mineral Resources (through TIMOR GAP) and Ministry of Public Works, Transport and Communications (MOPTC), being entrusted with the supervision and monitoring of the airport rehabilitation and land title clearance.

The land and properties compensation process for the Suai airport and the support infrastructure facilities was mostly completed in 2015.

Suai Airport Construction Progress

The construction commenced on May 2014 and is expected to be completed on May 2017, reaching a physical progress of 63, 62% by the end of 2016.

PT. Waskita Karya, the company responsible for the construction under the supervision of Jurutera Perunding Zaaba SDN, Bhd. Ltd, employs a total of 371 workers, of which 20% are employed under the local content requirements during this year.

From top to bottom, left to right: Runway; Taxiway A; Flexible Apron

From top to bottom, left to right: Main Terminal Building; ATCT Building; AFRS Building; Hangar

Construction of Infrastructure Facilities for the Support of Suai Airport

Children of the Lohorai community at the new residential quarter

In order to allow the planned upgrading and enhancement of Suai Airport, it is envisaged the construction of a new residential quarter to resettle the community of Lohorai and Holbelis villages affected by the project.

In view of this, Community Housing Limited (CHL) Industries, Unipessoal Lda was engaged to develop a masterplan and housing design, completed in early 2014 and followed by the signature of the contract for the construction of infrastructure facilities for the support of Suai Airport on December 2014 for the Lohorai community.

The project encompasses the construction of 72 new houses to be built in two stages. The first stage comprised 25 houses, completed with an access road and drainage system, for the affected community in the area of the Main Terminal Building. The construction works commenced in 2015 and were concluded in early 2016, marked by a ceremony held on 8th February, where H.E. Secretary of State for Land and Propriety symbolic handover of 25 houses to the community. This new residential quarter offers good housing conditions, providing sanitation, electricity, access road, water supply system and a comfortable environment, making the most of the thermal properties of the tijolu kesi walls (soil bricks produced locally).

In addition to the construction works, the project scope also foresees the provision of On the Job Training for the 200 locals working on site during the construction period. Hence, a Training Centre for the Production and Construction was established, with the purpose to produce local building materials, while providing training on production and construction using mainly the aforesaid materials.

The remaining 47 houses are currently under construction with the overall progress of 93.74% and are expected to be completed in early 2017.

From top to bottom, left to right: New houses for affected community; Remaining houses under construction; Access road; Drainage system

Panoramic view of the infrastructure facilities for the support of Suai airport

Betano Refinery and Petrochemical Complex

Located on the coast in the Manufahi District, approximately 70 km south of Dili, the Betano Petroleum Refinery and Petrochemical Complex are planned as the second industrial cluster of the Tasi Mane project, with the purpose to convert condensate, piped to the site from fields in the Timor Sea to a range of fuels and other products. It is expected that the project will make Timor-Leste self-sufficient for unleaded petrol (ULP) and diesel, with room to meet demand growth.

The refinery site has an area of approximately 230 hectares. The refinery main complex consists of the process unit and support units such as utilities units, waste treatment unit, tank farm, fire water and land fill for solid waste management. The complex will have supporting facilities such as Warehouse, Operation Building, Administration Building, Laboratory Building, Fire and Safety Office and Canteen. Water for the operation of the refinery will be provided by pipeline from the source located approximately 10 km from the refinery.

Layout of the Betano refinery and petrochemical complex

The initial phase of development phase will establish a refinery which will produce fuel for domestic use (diesel, gasoline, LPG and Naptha), to be used both locally and for export. The initial capacity for production is 30kbpd of product with a maximum capacity for 40kbpd.

The development of the refinery will be supported by construction of a new town, Nova Betano, which will house up to 14,500 staff, contractors and their families and cover an area of approximately 1,065 ha. The existing Betano airstrip will also be upgraded to the status of regional airport with a new runway and terminal facilities.

The refinery cluster in Betano will be established through a commercial venture, entrusted to TIMOR GAP to carter the development.

Environment Impact Assessment Study

Under the Memorandum of Understanding (MoU) signed between TIMOR GAP and PTT Thailand the two companies are jointly conducting the feasibility studies for Betano Refinery project which includes Front End Engineering Design (FEED) & Cost Estimation, Land Survey, Land Development, Market Study and Environmental Impact Assessment/Health Impact Assessment (EIA/HIA).

Within this framework, the TIMOR GAP and TEAM Consulting entered into a Service Agreement for the provision of the Environment Impact Assessment study for the Betano Refinery and Petrochemical Complex project in early 2016, which was followed by the Kick off Meeting and Project Execution Plan (PEP) approval. The field data collection was carried out by TEAM Consulting and supported by TIMOR GAP and local community leaders. As prerequisite by EIA regulations, public consultations were conducted on March with Government Agencies & Non-Governmental Organizations (NGO's), and afterwards with the affected communities from Aldeia Ferik Sare, Selihasan, Be-Metan, loro & Raifusa, Aldeia Ainaro kiik (Bobe & Bonuc), Cassa, Suai Vila and Zumalai.

Upon due revision by the Consultant and TIMOR GAP, the Environmental Management Plan (EMP) and Environment Impact Statement (EIS) final reports were submitted on 16th August to National Directorate of Pollution Control and Environmental Impact (NDPCEI) for approval.

The Environmental License is expected to be issued in 2017.

Land Title Identification

Throughout 2016, TIMOR GAP proceeded towards the land title identification for the refinery site in Betano, in close coordination with the inter-ministerial team. Upon completion of identification and socialization phases in 2015, the publication of the title identification results to the affected community was undertaken in early 2016 at two distinct locations, namely, the refinery site and National Directorate for Land and Properties office in Manufahi, for a period of 30 days each. In light of the outcomes obtained with the data publication and subsequent claims, a re-verification of the land title identification data base was performed, leading to the publication of the re-verification results with a total of 159 land parcels. A total of 62 ha were identified as empty land, mountain and river considered as State own property.

Map of the weir area

In addition to land titles, data for 35 houses, 11 livestock & cowsheds and plantations were collected, confirmed, published and considered for the compensation stage.
Concerning to the weir to be built in order to provide water for the refinery operations, the re-verification results for the weir area of 8 ha in Ferik-Saren were identified as river area and therefore considered as empty plot administered by State, except for the plantations (teak & gamelina) acknowledged as belonging to the community which were divided into 3 plots of plantation

Map of the re-verification results

Investment Appraisal for the Project

A Final Investment Decision (FID) for the Betano Refinery is still to be made. The refinery project requires a financing solution and a scheme for development, hence TIMOR GAP is investing further in looking for financing solutions and potential investors, in addition to the partnership with PTT Thailand.
On the subject of feedstock for the refinery, the project is expecting condensate production from Bayu-Undan field and in the future, from Greater Sunrise, and other fields in the Timor Sea and onshore.

LNG Plant in Beaço

Map of Timor-Leste LNG Complex

The Government of Timor-Leste aims to develop the gas from Greater Sunrise field through the building of a subsea pipeline to onshore Timor-Leste, and with the establishment of a LNG Plant to process the gas in south coast at Beaço, Viqueque (about 200 km south-east of Dili).

The first phase of the LNG Plant development will establish a production capacity of 5 million tonnes per annum (Mtpa) or one train, with a possible future expansion to a capacity of up to 20 Mtpa or four trains.

This cluster will incorporate the LNG Plant complex, including associated marine facilities, as well as new urban developments. The existing airport at Viqueque will be refurbished with the capacity to operate as a fly-in-fly-out (FIFO) airport for LNG operators, serving also as a regional airport.

The Front End Engineering Design (FEED) studies for the Gas Pipeline and Marine Facility were completed in 2013, while the pre-FEED study for the LNG plant was completed in 2016.

Pre- Front End Engineering Design (Pre-FEED) for LNG Plant

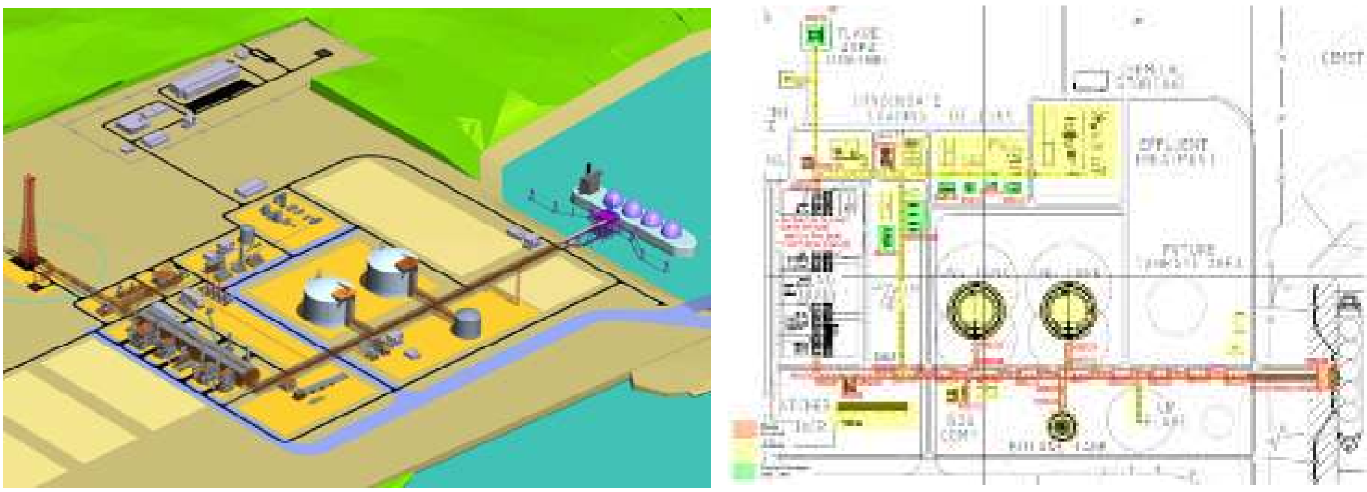
In 2015, the Government, trough MPRM, entered into contract with Amec Foster Wheeler (AFW) based in Reading, United Kingdom, pursuant to which AFW was engaged with the MPRM to provide a Pre- Front End Engineering Design (Pre-FEED) for the LNG Plant project. The project was overseen by TIMOR GAP on behalf of MPRM.

The Pre-FEED study commenced in middle of 2015 and it took approximatly 8 months to be completed. Upon its completion in early 2016, the Pre-FEED final reports were delivered through a series of presentations and workshops held at TIMOR GAP's office towards the end of January 2016.

The main results of the study included process and facility configurations embracing low risk technical solution, high level contract strategy for Engineering, Procurement and Commissioning (EPC), schedule, and cost estimates. The heart of the LNG Plant lies within

Liquefaction Unit and the technology to be adopted for the liquefaction process is Propane pre-cooled Mixed Refrigerant process – or most commonly known as C3MR – with the support of two Frame-7 Industrial Gas Turbines as the main refrigeration compressors driver.

The selection of C3MR technology is consistent with the philosophy of the Timor-Leste LNG project as it is a proven technology that has been adopted by about 70% or two-thirds of all LNG Plants in the world that are currently either in operation or under construction.



LNG Plant layout

English Language Training for Beaço Community by Science of Life (SOLS)

Various activities of SOLS English course for Beaço community

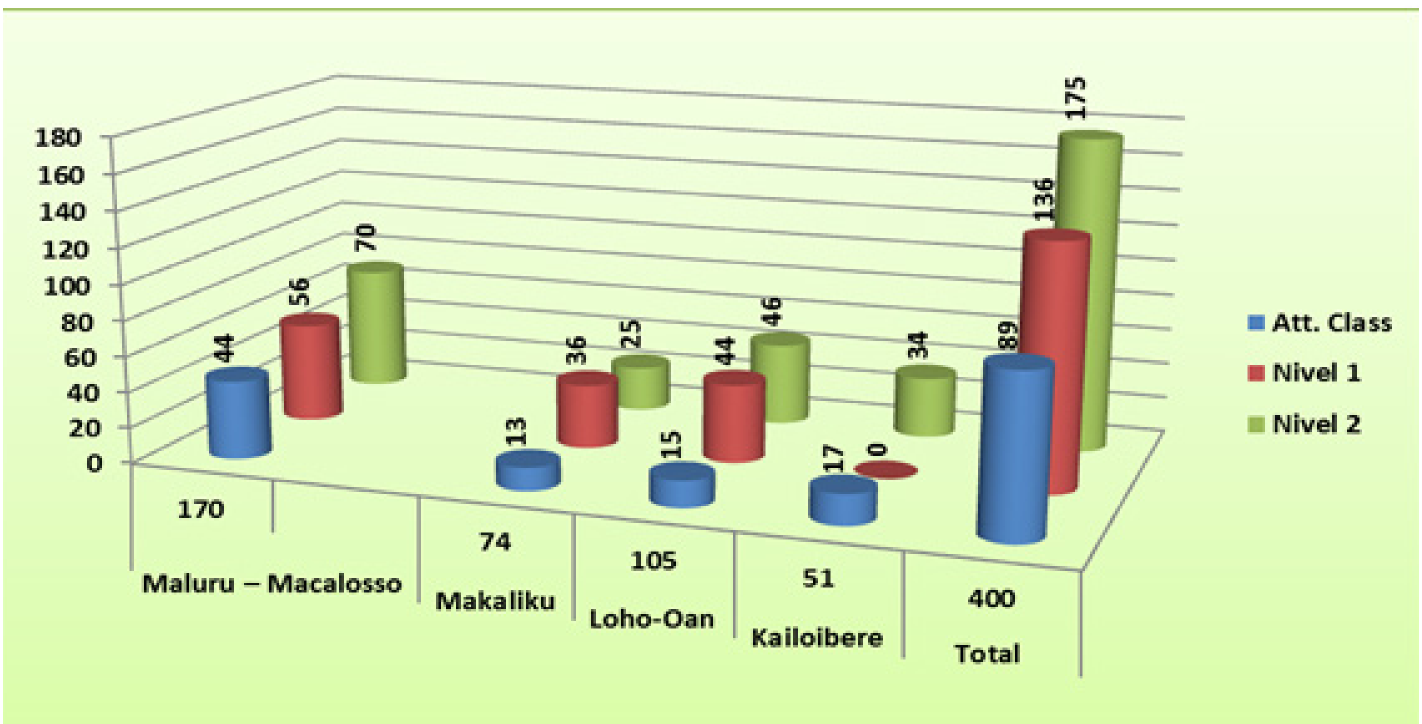
We continued to rely on human resources development as part of the preparation towards the implementation of Tasi Mane projects. In view of this, the Government, through MPRM, has launched a number of training programs with the purpose to maximize the participation of local content during the implementation of those projects.

The English Language Training is an example of the programs that MPRM promotes in order to enhance language skills for the affected community of Tasi Mane projects. In July 2014, a group of Beaço community representatives undertook a site visit to Suai for a comparative study in order to better understand the preparation and development of the English and computer courses delivered by Science of Life Studies (SOLS 24/7) to the local community. Acknowledging the benefits deriving from these courses in Suai, the community requested to also establish an English training program in Beaço.

After a series of discussions and preparations throughout 2015, on the 19th January 2016 the Phase 1 of the English Course for Beaço was launched by MPRM together with TIMOR GAP, local authority and veteran representatives, among other Government officials.

Engaging 320 students, this course was conducted by SOLS 24/7 and delivered at four different centres which included one centre for Aldeia Maluru and Aldeia Makaloso, and three centres for Aldeia Loho-Oan, Aldeia Kailoi-Bere and Aldeia Makaliku. The graduation ceremony for the Phase 1 of the English course was held on 15th October 2016.

The Phase 2 of the English course commenced on August with 400 students enrolled, registering an 25% increase in comparison to the former Phase 1.



Students enrolled for the Phase 2 of the English course

Highway

To connect the three clusters and support growth of the petroleum industry, it is planned that a road along the south coast, from Suai to Beaço, will be built in stages based on logistic and economic needs.

Highway Design

The design speed is 100km/h for flat areas and 60 km/h for mountainous areas, with an estimated travel time of 2 hours from Suai to Beaço. It will include 28 major bridges with an aggregate length of about 5.661 meters, and a total of 240 culverts (199 reinforced concrete pipe type and 41 reinforced concrete box type).

Created in 2015, the Project Management Unit is composed by representatives of Ministry of Petroleum and Mineral Resources (through TIMOR GAP) and Ministry of Public Works, Transport and Communications, being entrusted with the supervision and monitoring of the construction of the 1st phase of Highway project.

Land Title Clearance

In 2016, TIMOR GAP has continued to make steady progress towards the land title identification and compensation process for phase one of the highway project (section 1: Suai – Zumalai), in close collaboration with an inter-ministerial team.

In addition to the contracts signed throughout 2015, further contracts were signed between the National Directorate of Land & Properties and Cadastral Services and land owners, as followed:

- Suco Debos: 62 land and properties contracts and 2 livestock agreements
- Suco Ogues: 49 land and properties contracts and 2 livestock agreements
- Wemon Realignment Area:
    - Suco Tashilin: 22 land and properties contracts
    - Suco Beco: 172 land and properties contracts and 1 livestock agreement

All contracts and other relevant documents were submitted to Major Projects Secretariat (MPS) and National Procurement Commission (NPC) for appraisal. In total, 102 beneficiaries from Suco Debos and Suco Ogues, and 136 beneficiaries from Wemon realignment area benefitted from the land title identification, and payment for these beneficiaries has been made accordingly through the National Commercial Bank of Timor-Leste (Banco Nacional de Comércio de Timor-Leste, BNCTL).

The land and properties identification process for the Wemon realignment area was initiated this year, with data collected totalling 121 parcels equivalent to a total area of approximately 41.80 hectares of 4 km, followed by the aforesaid data and maps publication. With the publication of the data and maps, complaints and land disputes were on the raise and these were dealt with in due course.

Apart from the land title identification and compensation, the inter-ministerial team also carried out the socialization and negotiation process for the house estimation cost with the respective owners. Of the 23 private houses directly affected by the Highway project, 11 house owners which their houses are located inside the Highway phase 1 construction's area accepted the cost estimation and signed a contract with DTPSC, Covalima, as Government representative, proceeding with the compensation procedures, while the remaining houses are still under negotiation. The signed contracts were submitted to MPS and NPC for appraisal and the payment to these beneficiaries was made through BNCTL.

From top to bottom, left to right: Land title identification; Publication of Map and Data of affected community of Wemon Realignment Area

Construction Works

Following of tender process for the construction of the highway and its supervision, resulted with the awarding to China Overseas Engineering Group C.Ltd. in joint venture with China Railway First Group C., Ltd. (COVEC – CRFG JV) with a construction contract for the phase one of the highway project. The construction works commenced in 2016 upon the land-handing over of the Branch I, II and III, achieving a progress of 15.67% by the end year.

From top to bottom, left to right: Road embankment; Bridge pier construction; Traffic box construction

05 Joint Petroleum Development Area & Greater Sunrise

Besides developing petroleum activities and managing the projects mentioned in previous sections related to Tasi Mane, TIMOR GAP as the national oil company supports the Government's goal to build a gas pipeline from Greater Sunrise field to Beaço on the south coast of Timor-Leste, as well as to build a LNG plant to process the natural gas onshore.

The Sunrise and Troubadour gas and condensate fields, collectively known as the Greater Sunrise fields, are located in the Timor Sea, 140 km south-east of Timor-Leste and 450 km north-west Australia. They were discovered in 1974.

Our company provides advice and participates in the Joint Commission and Sunrise Commission, along with Government officials from Timor-Leste, the National Petroleum and Mineral Authority (Autoridade Nacional do Petróleo e Minerais - ANPM) and Australia.

Joint Commission

The Timor Sea Treaty was signed with Australia on the first day of Timor-Leste's independence, 20th May 2002. Article 6 (c) of the Timor Sea Treaty provides for the establishment of a Joint Commission to create policies and regulations regarding petroleum activities in the Joint Petroleum Development Area (JPDA), which is jointly administered by Timor-Leste and Australia, and to oversee the work of the Designated Authority (ANPM).

The Joint Commission consists of two Commissioners appointed by Timor-Leste and one Commissioner by Australia and each of them may be represented by their nominated alternate. The Commission should meet regularly on a quarterly basis and the meetings may be requested by each Commissioner or the ANPM.

The President & CEO of TIMOR GAP, Mr. Francisco da Costa Monteiro, is one of the Timor Sea Treaty Joint Commission members. Mr. António de Sousa, Vice-President and Board of Directors member at TIMOR GAP, is the other Timor-Leste's JPDA Commissioner. The alternate Commissioners are Mr. Vicente Lacerda and Mr. Domingos Lequisiga who are the Executive Committee members and Unit Directors at TIMOR GAP.

JOINT COMMISSION MEETINGS HELD IN 2016

- **45th Joint Commission meeting on 7th and 8th April, in Adelaide**
- **46th Joint Commission meeting on 14th September, in Dili**

Similar to last year, Timor-Leste emphasized commission meetings had no prejudice to the Certain Maritime Arrangements in Timor Sea (CMATS) arbitration and the Government to Government discussions.

Sunrise Commission

The Sunrise **International Unitisation Agreement** (IUA) was signed in March 2003 between Timor-Leste and Australia, and relates to the Unitisation of the Sunrise and Troubadour fields. The Sunrise IUA was to enable the exploitation of these two petroleum and gas fields located in the Timor Sea, known collectively as Greater Sunrise, as one single reservoir unit.

The IUA agreement came into force on February in 2007 and article 9 provides for the establishment of a Sunrise Commission to facilitate the implementation of the agreement and consult on issues related to the exploration and exploitation of petroleum in the unit area.

Whereas the Joint Commission is composed by two Commissioners from Timor-Leste and one Commissioner from Australia, the Sunrise Commission is composed by one Commissioner from Timor-Leste and two Commissioners from Australia.

The President & CEO of TIMOR GAP, Mr. Francisco Monteiro, represents Timor-Leste in the Sunrise Commission, and Mr. António de Sousa (Vice-President) is the alternate Commissioner.

The last Sunrise Commission meeting was held in 2015 and since then there were no meeting up to the end of 2016.

06 Governance

Board of Directors

The Board of Directors (BOD) is the highest corporate body in TIMOR GAP, responsible for defining directions, policies and management.

TIMOR GAP's Board of Directors is composed by the President of the Board and 3 other members. The President of the BOD is appointed by the Government body responsible for the petroleum sector, with the approval of the Council of Ministers. Mr. Francisco Monteiro was appointed President of the Board and Chief Executive Officer (CEO) for a mandate of 4 years in 2011. His mandate was renewed in 2015 for an equal period ceasing in October 2019.

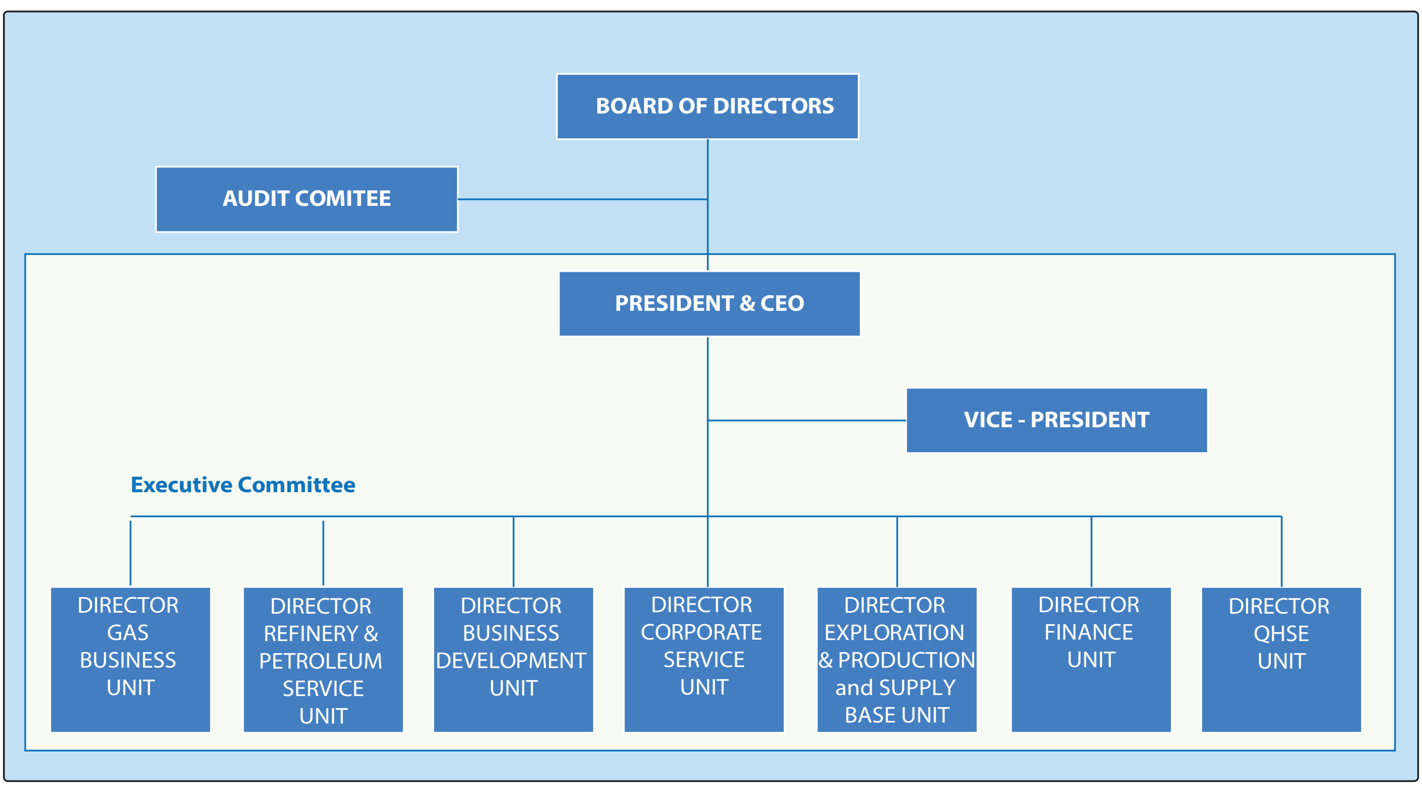
The remaining Board members were also appointed in October 2011, shortly after the establishment of the company: Ms. Norberta Soares da Costa, Mr. Dino Gandara and Mr. António de Sousa, afterwards indicated as Vice-President in September 2014.

Pursuant to the Decree Law no. 31/2011, the BOD is responsible for the direction and management of the company, being entrusted, amongst other, with the following duties:

- To define the direction of TIMOR GAP's business and approve strategies, multiannual plans, budgets, as well as the participation in petroleum operations, related projects, PSCs and to incorporate subsidiaries;
- To define general policies (commercial, financial, investment, environmental, human resources);
- To appoint and supervise the Executive Committee.

Executive Committee

The Executive Committee (EC) is entrusted with the daily exercise of the company's affairs, in accordance with its mission, objectives, strategies and guidelines approved by the Board of Directors.



TIMOR GAP's Corporate Structure

The EC is headed by the CEO who is also the President of the Board. The other members are the Vice-President and the Executive Directors of our business units:

President & CEO
Mr. Francisco da Costa Monteiro

Vice-President
Mr. António de Sousa

Director of Corporate Service Unit
Ms. Jacinta Paula Bernardo

Director of Business Development Unit
Mr. Luís Martins

Director of Exploration & Production and Supply Base Unit
Mr. Vicente Lacerda

Director of Refinery and Petroleum Services Unit
Mr. Vicente Pinto

Director of Gas Business Unit
Mr. Domingos Lequi Siga

Director of Finance Unit
Mr. Henrique Monteiro

Director of Quality, Health, Safety and Environment Unit
(Vacant)

The members of the Board of Directors and Executive Committee are briefly presented in the section below.

"We Value and Add Value to the Reources"

Francisco Monteiro
President & CEO

Mr. Francisco Monteiro graduated in 2003 with a Master of Science (MSc) in Geology from Auckland University, New Zealand and was a PhD candidate in Petroleum Geology at the Australian School of Petroleum, University of Adelaide. Mr. Monteiro has more than 14 years of work experience in the fields of geology, minerals, oil & gas, policy advocacy, as well as management and administration in the areas of petroleum and mineral resources. He is the President & CEO of TIMOR GAP, since its establishment in 2011. Mr. Monteiro is also Timor-Leste's Commissioner for the JPDA since 2007 and Greater Sunrise Commissioner from 2008. In 2012, he was appointed by the Prime-Minister as a member of the Investment Advisory Board of the Petroleum Fund.

António de Sousa
Vice President - Drilling and Technology, New Ventures

Mr. António Loyola de Sousa graduated in 1998 with a BSc in Mining Engineering, from ITB, Bandung, Indonesia, Specialization in Rock Mechanics and in 2007 with an MSc of Petroleum Engineering, from NTNU, Trondheim, Norway, with Specialization in Reservoir Engineering/Simulation. Mr. Loyola de Sousa has more than 18 years of experience in the field of oil & gas and specialization skills in reservoir engineering/simulation, geomechanics, management, politics and advocacy. He held a position as Reservoir/Simulation Engineer, in North Sea Non Operated Assets, Subsurface Department, Premier Oil Plc, Aberdeen in Scotland, UK. Mr. Loyola is also one of the Timor-Leste's Commissioners for the JPDA since 2007 and Timor-Leste's Greater Sunrise Commissioner since 2008. He was nominated Vice-President of TIMOR GAP in September 2014.

Norberta da Costa
Member of the Board

Ms. Norberta Costa graduated from University of Coimbra, Portugal, with major in Geology in 2008. She has 7 years of experience in the areas of minerals, oil and gas, policy advocacy, management and administration in the fields of petroleum and mineral resources. Ms. Costa has served as Director General for Corporate Service of the Ministry of Finance before being appointed Managing Director of the subsidiary TIMOR GAP Onshore Block in 2016.

Dino Gandara
Member of the Board

Mr. Dino Gandara graduated from Trinity College Dublin, Ireland with major in Geology in 2004. He has worked in minerals and oil & gas geology for more than 10 years. Returning to Timor-Leste in 2008, he undertook geological field mapping of onshore hydrocarbon prospects with Dr. Tim Charlton from 2009 until early 2013, identifying 17 onshore prospects hydrocarbon in the last 3 years. Mr. Gandara was the Country Manager for the gas exploration company Minza Ltd (operating a Block in the Timor Sea). Currently, Mr. Gandara is the Managing Director of the subsidiary TIMOR GAP Offshore Block.

Luís Martins
Director - Busines Development Unit

Mr. Luís Martins gained his BSc in Industrial Engineering from Winaya Mukti University and an MSc in Energy and Environmental Management and Economics from Scuola Enrico Mattei – ENI University, in Millan, Italy. Mr. Martins has over 6 years of experience in both technical and management skills within the oil and gas sector under the Secretariat of State for Natural Resources (SERN) of Timor-Leste. Prior to joining SERN, he held managerial position at the UN Agency as well as other international organizations in the country. Currently he is the Director of BDU, which main responsibilities are to search and seize opportunities for the development of petroleum related industries and services.

Domingos Lequi Siga
Director - Gas Business Unit

Mr. Domingos Lequi Siga received in 2006 a BSc in Natural Resources & Environmental Management from University of Hawaii at Manoa, Honolulu, USA. In 2008-2009, he was awarded a Fulbright Scholarship to pursue his MSc in Energy Management from New York Institute of Technology. Mr. Lequi Siga has over 10 years of experience in both technical and managerial skills within the oil and gas sector under the Secretariat of State for Natural Resources (SERN) of Timor-Leste. Currently he is the Director of GBU, whose main responsibilities are to manage and coordinate all business activities within the field of natural gas including LNG, LPG and gas pipelines.

Vicente Pinto
Director - Refinery & Petroleum Services Unit

Mr. Vicente Pinto graduated in 2010 with a MSc in Engineering in Oil & Gas Management from Asian Institute of Technology (AIT) Bangkok, Thailand. Mr. Pinto has more than 10 years of work experience as a public servant in administration and management in the area of petroleum and mineral resources. He is Director for R&PSU since October 2011.

Vicente Lacerda
Director - Exploration & Production and Supply Base Unit

Mr. Vicente Lacerda graduated in 2008 with an MSc in Petroleum Geosciences, specialization in Petroleum Geophysics from The Norwegian University of Science and Technology, Trondheim. Mr. Lacerda has 17 years of experience in the oil & gas industry in both technical and management skills. He started his career in 1998 as Officer- Geologist at the Regional Department of Mines and Energy in Timor-Leste, Dili. He is Director of EP&SBU at TIMOR GAP.

Henrique Monteiro
Director - Finance Unit

Mr. Henrique Monteiro graduated from Griffith University, Brisbane, Australia, with a Master in Banking and Finance. He started his career in 2000 at the United Nations Agency and holds 15 years of work experience within the areas of project economic & finance and corporate finance, in both technical and management skills. Prior to joining TIMOR GAP as project economic & finance manager in 2012, Mr. Monteiro worked for ANP performing the role of corporate finance manager. In 2015, he became the Director of Finance Unit at TIMOR GAP.

Jacinta Paula Bernardo
Director - Corporate Service Unit

Ms. Jacinta Paula Bernardo graduated from Monash University, Melbourne, Australia with a degree in Business and Commerce, double major in Human Resources Management and Management, minor in Tourism Management. Ms. Bernardo worked for more than 10 years with international development agencies such as the World Bank, International Organization for Migration (IOM), Australian Embassy and Oxfam International. She has gained experience from those International Development Agencies in the areas of project management, financial management and procurement management, human resources management and general administration. Currently, she holds the position of Director of Corporate Service at TIMOR GAP, whose main responsibilities are to manage and coordinate all business activities such as Human Resources Management, Procurement Management, Information and Communications Technology (ICT) and General Administration. In 2015, Ms. Bernardo was nominated by the Government of Timor-Leste to be a Commissioner for Civil Service Commission for the second mandate. Recently, she was appointed as one of the Board Member for TIMOR GAP Offshore Block, a subsidiary of TIMOR GAP, E.P.

Governance Framework

Law on Petroleum Activities

The **Law No. 13/2005 on Petroleum Activities** indicates that pursuant to international law, Timor-Leste has sovereign rights for the exploration, exploitation and management of its natural resources, including petroleum. The country is entitled to all petroleum resources existing in the subsoil of its territory, both onshore and offshore. One of the objectives of the Law is to ensure stability and transparency in regulating the development of petroleum resources. Therefore, the Law is complemented with transparency requirements.

Petroleum Fund

Our Petroleum Fund was created through the **Petroleum Fund Law No. 9/2005**, with the intention to contribute to the wise and sustainable management of the petroleum resources for the benefit of the people and future generations. The Petroleum Fund contributes to sound fiscal policy and is to be integrated into the State Budget. It requires prudent management and is operated in an open and transparent way, within the constitutional and legal framework.
The **Central Bank of Timor-Leste** administers the Petroleum Fund and the Ministry of Finance is responsible for the overall management and investment strategy. The **Fund's Investment Advisory Board** provides strategic investment advice concerning the investments of the Petroleum Fund to Minister of Finance.

Extractive Industries Transparency Initiative (EITI)

EITI Extractive Industries Transparency Initiative

Timor-Leste is committed to full transparency in accounting for income resulting from its petroleum resources, which have been the greatest source of State budget revenue. Our commitment to transparency is demonstrated through the adherence to the Extractive Industry Transparency Initiative (EITI), which is a global coalition of governments, companies, and civil society, to improve accountable management of revenues from natural resources. More openness on how a country manages its natural resources, such as oil, gas, metals and minerals, helps to ensure that they can benefit all citizens. Timor-Leste was admitted in 2008 as a candidate to implement the EITI and became in 2010 an **EITI Compliant Country**, meaning that it meets all requirements in the EITI Standard.

The **EITI Standard** ensures full disclosure of taxes and other payments made by oil, gas and mining companies to governments. These payments are disclosed in an annual **EITI Report**, which allows citizens to see how much their government is receiving from their country's natural resources. Timor-Leste produces annual EITI Reports that disclose revenues from the extraction of its natural resources: companies disclose what they have paid in taxes and other payments and the government discloses what it has received.

TL-EITI

Timor-Leste is proud to be the first country in Southeast Asia and the third in the world to achieve the status of EITI Compliant Country. In 2007, Timor-Leste's Government invited civil society and industry to nominate representatives to form a Multi-Stakeholder Working Group (MSWG), chaired by the then Secretary of State for Natural Resources and current Minister of Petroleum and Mineral Resources, H.E. Mr. Alfredo Pires, who was also appointed focal point of the EITI process in Timor-Leste and Board Members of EITI International. Upon its establishment, the MSWG created the TL-EITI Secretariat office, which has been functioning since 2008 under the MPRM. The Secretariat supports the activities of the MSWG, and organizes trainings, workshops & seminars, and ensures that the TL-EITI reports are publicly available and comprehensible.
The petroleum revenue management department of the Ministry of Finance provides advice on transparency and accountability in accordance with the EITI and participates along with TIMOR GAP as the state owned

enterprise in the national working group on the EITI. In June 2012, six months after the start of operations, TIMOR GAP became one of the few national oil companies in the world supporting the EITI.

The MSWG holds monthly meetings, bringing together relevant key stakeholders, such as representatives from the Government (MPRM, ANPM, Central Bank of Timor-Leste, Ministry of Finance), petroleum industry, including TIMOR GAP as the national oil company, and international oil companies, civil society and international organizations. The MSWG meetings continued to take place throughout 2016, with the continuous presence and active participation of TIMOR GAP.

Apart from the aforesaid meetings, we also partake in several outreach activities. An example of these activities is the public debate organized at the Higher Education level, under the theme "The potential of natural resources in Timor-Leste and income distribution towards fiscal sustainability". The official opening of the public debate was held on June 10th, 2016, at the National University of Timor-Leste (NUTL), went on to the Dili Institute of Technology (DIT) and, finally, to the University of Dili (UNDIL).

TIMOR GAP's President & CEO intervention at the public debate on "The potential of natural resources in Timor-Leste and income distribution towards fiscal sustainability".

The purpose of this debate was to disseminate information on the mineral resources sector so that students can deepen their knowledge and answer questions about the Government's management of the natural resources in Timor-Leste, under the theme of transparency, accounting, and the adoption of the EITI global mechanism. In addition, students were able to learn about the use of oil and gas incomes on developing public infrastructures works, education and health, among others.

TIMOR GAP also collaborated with other members of the MSWG to complete the 2013 EITI Report, compiled by Moore Stephens as the Independent Auditor (IA) and submitted for approval in early 2016; and the Work Plan for 2016 and the EITI Validation Report, both approved and published this year. Validation is an essential element of the EITI process, and is central to the Initiative's status as an international standard.

TIMOR GAP also participated in the dissemination of the 6th TL-EITI Report organized at sub-municipality level, namely on October in Venilale, Baucau, with the presence of 75 participants from public servants, community leaders, traditional leaders, among other entities.

In order to address the findings from pre-validation and observations reports made by EITI International Secretariat, Timor-Leste's MSWG produced a Supplement Report. The pre-validation report was based on 2012 EITI Report and the observations were made on 2013 EITI Report. The Supplement Report was submitted for approval in April 2016 and aims to minimize the gaps identified in the observation issued by EITI International Secretariat against draft 2013 EITI Report and to provide additional information required to complete the latter.

07 Commentary on the Financial Result

Set out below are the audited consolidated financial statements of TIMOR GAP group for the year ended 31 December 2016. This is the group's fifth trading period.

TIMOR GAP has adopted International Financial Reporting Standards (IFRS) to ensure that reporting is based on a well-recognized framework.

Grant Funding

During the current year a grant of $6 million (2015: $9.7 million) was provided by the Government to fund the 2016 operations of the company including to carry out some related studies on asset evaluation and transaction support on the Sunrise Reserve.

Revenue

As in previous years the government grant of $6 million (2015: $9.7 million) forms the majority of TIMOR GAP's revenue for the year 2016. In addition to the government funding the company earned contract fixed service fees during the year of $8,498 (2015: $28,922). These monies were received in advance from the Government and are being released over the life of the contract on the percentage completion method based on costs incurred against the total contract value. (See sub-sections on Contract 1/2012 and Contract 2/2012 below).

The company is a 60% quota holder GAP-MHS Aviation Lda (GAP-MHS). No dividend was declared during the 2016 financial year (2015: $1.357,038). GAP-MHS contributed with a share profit of $419,959 (2015: $403,861) to the consolidated results of the group.

Contract 1/2012

Contract 1/2012 relates to the previously completed pre-feasibility studies and pre-Front End Engineering Design (pre-FEED) options for a Marine facilities design at Beaço, District of Viqueque, as part of the LNG project. In consultation with SERN (Secretary of State for Natural Resources) the Coastal Harbour onshore basin layout was selected for the FEED or design stage. The design will form part of the planned LNG plant and provides a standard marine facility which includes a jetty, product loading facility, material offloading facility, and a trestle for pipe carrying LNG product to the loading arms and breakwater. In addition to the design, further metocean studies were conducted to determine the physical environment near the planned site from both a meteorology and oceanography perspective. The contract was completed at year end.

Contract 2/2012

Contract 2/2012 relates to a refinery facilities study for the Betano Refinery FEED. This project's objective meets the Timor-Leste Government's Strategic Development Plan to capture more value added from its petroleum produced. The contract has five main components which include the following.

- Betano Refinery FEED – which includes the ISBL and OSBL, pipeline, jetty facilities which support refinery operations infrastructure (accuracy 15%-20%) and
- Environmental Impact Assessment and a Social Health Impact Assessment for the Betano refinery
- A land survey
- Land development and design
- Market study.

In the current year no further funds were received from the Government of Timor-Leste for either of these project as the full contract value less than withholding taxes had been received in 2012 and 2013. During 2016, a further $128,117 was expended for contract 2 and $115,689 was adjusted amount related to previous disbursed for contract 1 (2015: $371,626).

The project contract fixed service fee is only recognized as income based on the percentage of costs incurred to date on the project compared to the total costs expected. During 2016, $8,498 (2015: $28,922) was earned as revenue from this contract.

At year end $1,030,770 remained of the funds received for use in 2017 when the projects are expected to be completed.

Project Expenses

The primary projects that TIMOR GAP incurred expenses on during the period included:

- Suai Supply Base
- Suai Airport project
- Greater Sunrise upstream concept review and feasibility study
- Asset evaluation and transaction support project
- Highway project
- New venture – open area exploration
- Refinery Project

These projects have been discussed in detail in Sections 2 to 5 of this report.

Financial Results

Comprehensive Profit/Loss for the Year

The company's operating profit/loss for the year ended 31 December 2016 amounted to $2,521,217 (2015: $1,616,525) prior to a deduction of $336,000 from the income tax paid in advance which gives a comprehensive profit/loss of $2,185,217 (2015: $2,973,563).

On a group basis the operating profit/loss for the year ended 31 December 2016 of -$35,937 (2015: $1,616,153) and increased by the 60% share of the GAP-MHS's result of $419,959 (2015: $403,861) to a comprehensive profit/ loss on a group basis of $48,021 (2015: $2,020,014).

The profit/surplus incurred to date have improved the deteriorating of the total Capital received in 2012 at the Company level with the company now having an equity of $3,972,046 (2015: $1,878,562) and the group level is at $2,035,756 (2015: $2,079,466). During the year, the income received has exceeded the operational expenses. The company's retained earnings as at 31 Dec 2016 of $1,472,046 and the accumulated tax losses at the beginning of the year $438,361 (2015: $599,200), which was superior to the taxable profit in the current year at 10% of $224,916. The company's accumulated tax losses at the end of the year was $213,445 (2015: $438,361).

Set out below are the main categories of operational expenses incurred.

Depreciation and Amortisation Expense

During the period TIMOR GAP has additions to property plant and equipment worth $835,438 (2015: $239,213) as set out in Note 8, and additions of $154,981 (2015: $350,865) of computer software explained in Note 9 to the financial statements.

As set out in the accounting policies TIMOR GAP has adopted the straight line method of accounting for depreciation and amortisation over the expected useful lives of the assets from the date they were acquired. During 2016 depreciation of property plant and equipment amounted to $467,118 (2015: $441,150), and for computer software the amortization for the year was $251,241 (2015: $140,798). The increase in the amortization amount was due to the additional software (Eclipse & Petrel, Hampson Russel Avo, and IP Software) purchased in 2015 and in use by the Exploration and Production Unit.

Employee Costs/Expenses

At 31 December 2016 TIMOR GAP had a staff complement of 128 employees (2015: 117 employees). Costs for staff increased from $2,578,714 in 2015 to $2,692,248 in 2016. The increase in costs is mainly due to the additional recruitment and a grading exercise implemented during the year based on the approved career development plan (Performance Management Policy) which streamlined the rates of pay per grade.

Impairment of loan account

TIMOR GAP owns 100% of TIMOR GAP PSC 11-106, Unipessoal as required by the law and the contract. This special purpose company is party to a Joint Venture in the JPDA. TIMOR GAP entered into the Joint Operating Agreement in which it is not obliged to contribute costs incurred for the joint account during the exploration phase.

TIMOR GAP PSC 11-106 has incurred its own costs which are outside of those incurred by the joint account. As the development plan has not been approved yet there is no expected income for this company in the immediate future. As a result the costs incurred by the company which were paid for by TIMOR GAP and included as a loan account has been impaired until such time as recovery of the costs is probable. There has been no further amount impaired in the current year and thus the loan impairment amount is remained as in the previous year (2015: $268,954) in the financial statements of TIMOR GAP.

Other expenses

The most significant “other expenses” for the year ended 31 December 2016 include the following items:

	2016	2015
Consultant Expenses	231,586	351,930
Staff Training & Development Expenses	176,622	305,790
Office Lease & Related Expenses	779,780	807,934
Telephone & Internet Expenses	170,717	156,313
Travel & Expenses		
Local	166,297	311,911
Overseas	84,039	297,213
Motor Vehicle Expenses	44,875	43,596
General Overhead Expenses	753,761	777,201
Total	**2,407,677**	**3,051,888**

The company’s consultant expense was primarily for covering legal consultant on the JPDA & Greater Sunrise Negotiation including some minor expenditure on finance unit consultant.

From October 2016, the company was able to negotiate the office rental fees and got a discount of 25% from the monthly fees.

Travel & expenses include the costs to attend field trips for the Tasi Mane projects management and administration. These include activities such as community liaisons, land clearance by Inter-ministerial team, etc. In addition, travel & expenses also covered various activities for capacity development, participation at workshops and conferences, meetings, including Joint Commission meetings as well as other official requests from the Government for specific purposes.

The General Overhead Expenses are the expenditure for community liaison for Tasi Mane projects, minor equipment, organization promotion and other miscellaneous expenses.

In line with TIMOR GAP’s mandate for the creation of business activities, the young NOC’s costs in pursuit of the development of the oil and gas industry are often unpredictable.

Taxation

TIMOR GAP is subject to the Taxes and Duties Act of 2008. In the current year there is no income taxation payable due to the loss that the company has incurred.

The company has deducted and paid or accrued withholding taxes on payments to employees and suppliers at the appropriate rates. During 2016 a total of $420,030 (2015: $594,467) was paid in withholding taxes.

Statement of Financial Position

Current Assets

Current assets include amounts expected to be received within a year of the balance sheet date. Current assets of the company amount to $3,893,254 (2015: $1,761,009) and include prepayments and receivables of $137,533 (2015: $59,584), the rental and other deposits of $179,514 (2015: $195,914). At year end 2016 cash at the bank and on hand amounted to $780,090 (2015: $1,169,511).

As set out in Note 26 the financial statements have been prepared on the going concern basis, which assumes the realization of assets and the discharge of liabilities in the normal course of business. The company incurred a net profit of $2,185,217 (2015: $2,973,563) (consolidated: $48,021) during the year ended December 31, 2016 and, as of that date, the Company's current assets exceeded its current liabilities by $2,030,945 (2015: -$230,295), while for the group the current liabilities exceeded its current assets by $507,128 and the company had an equity of $3,972,046 (2015: $1,878,562).

As a young national oil company, TIMOR GAP is reliant on government grants to sustain its operations until such time as the company growth its business to become sufficiently self-funding. In this phase of its business' development expenditure can be less predictable as it pursues opportunities in line with Timor-Leste and TIMOR GAP's vision for the oil and gas industry in Timor-Leste.


3.54%
4.19%
1.35%
4.25%
5.36%
2.51%

08 Financial Statement

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December .

	Note	Group		Company	
		2016	2015	2016	2015
		$	$	$	$
Revenue					
Revenue from government grant	5	6,000,000	9,700,000	6,000,000	9,700,000
Income - Onshore exploration farm-out	5	3,000,000	-	3,000,000	-
Offshore vessel service income	5	44,777	-	44,777	-
Fixed contract service fees	5	8,498	28,922	8,498	28,922
Other income	5	11,864	-	11,864	-
Profit on sale of fuel	5	36,960	-	36,960	-
Total revenue		**9,102,098**	**9,728,922**	**9,102,098**	**9,728,922**
Expenses					
Project expenses		(3,038,673)	(1,899,846)	(762,597)	(1,899,846)
Depreciation and amortization expense	8 & 9	(718,359)	(581,948)	(718,359)	(581,948)
Employee costs		(2,866,350)	(2,578,714)	(2,692,248)	(2,578,714)
Other expenses	6	(2,514,653)	(3,052,260)	(2,407,677)	(3,051,888)
Total expenses		**(9,138,035)**	**(8,112,769)**	**(6,580,881)**	**(8,112,397)**
Operating Profit/ (Loss)		(35,937)	1,616,153	2,521,217	1,616,525
Dividend received from associate		-	-	-	1,357,038
Share of profit of associate	11	419,959	403,861	-	-
Profit /(Loss) before tax		384,021	2,020,014	2,521,217	2,973,563
Income tax expense	7		-		-
Income Tax paid in advance written off	25	(336,000)	-	(336,000)	-
Profit / (Loss) for the period		48,021	2,020,014	2,185,217	2,973,563
Other comprehensive income		-	-	-	-
Total comprehensive Profit / (Loss)		**48,021**	**2,020,014**	**2,185,217**	**2,973,563**
Total comprehensive Profit / Loss attributable to: Controlling interest		48,021	2,020,014	-	-

The above statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	Group		Company	
		2016	2015	2016	2015
		$	$	$	$
Assets					
Non-current assets					
Property, plant and equipment	8	1,154,588	786,268	1,154,588	786,268
Intangible assets	9	763,513	859,774	763,513	859,774
Capital Work in progress		-	449,813	-	449,813
Investment in subsidiaries	10	-	-	20,000	10,000
Investment in associates	11	624,783	204,824	3,000	3,000
		2,542,884	**2,300,680**	**1,941,102**	**2,108,856**
Current assets					
Trade and other receivables	12	226,130	591,498	3,067,376	591,498
Inventory	13	45,788	-	45,788	-
Cash and cash equivalents	14	1,090,918	1,174,592	780,090	1,169,511
Total current assets		**1,362,836**	**1,766,090**	**3,893,254**	**1,761,009**
Total assets		**3,905,720**	**4,066,770**	**5,834,355**	**3,869,865**
Equity and liabilities					
Equity					
Contributed equity	15	2,500,000	2,500,000	2,500,000	2,500,000
Retained Earnings / (Accumulated losses)		(464,244)	(420,534)	1,472,046	(621,438)
Total equity		**2,035,756**	**2,079,466**	**3,972,046**	**1,878,562**
Current liabilities					
Trade and other payables	16	769,692	890,964	762,038	894,964
Unearned fixed contract service fees and project advances	17	1,100,272	1,096,340	1,100,272	1,096,340
Total current liabilities		**1,869,964**	**1,987,304**	**1,862,309**	**1,991,304**
Total equity and liabilities		**3,905,720**	**4,066,770**	**5,834,355**	**3,869,865**

The above statements should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December

	Note	Group		Company	
		2016	2015	2016	2015
		$	$	$	$
Cash flows from operating activities					
Operating Profit / (Loss)		(35,937)	1,616,153	2,521,217	1,616,525
Adjustments for:					
Depreciation		467,118	441,150	467,118	441,150
Amortization		251,241	140,798	251,241	140,798
		682,422	2,198,101	3,239,576	2,198,473
Decrease / (increase) in trade receivables	12	365,368	70,041	(2,475,878)	70,041
Increase / (decrease) in trade and other payables		(121,271)	(1,592,085)	(132,926)	(1,593,085)
Cash generated from operations		926,519	676,057	630,772	675,429
Income tax paid		(427,731)	-	(427,731)	-
Net cash from operating activities		**498,788**	**676,057**	**203,041**	**675,429**
Cash flows from investing activities					
Purchase of property, plant and equipment	8	(835,438)	(239,213)	(835,438)	(239,213)
Purchase of intangible assets	9	(154,981)	(350,865)	(154,981)	(350,865)
Decrease / (increase) in Capital Work-in-Progress		449,813	(449,813)	449,813	(449,813)
Decrease / (increase) in Inventory		(45,788)	-	(45,788)	-
Investment in subsidiary	10	-	-	(10,000)	-
Dividend from associate		-	1,357,038	-	1,357,038
Net cash used in investing activities		**(586,393)**	**317,147**	**(596,393)**	**317,147**
Cash flows from financing activities					
Increase / (decrease) in project advances		3,931	(400,548)	3,931	(400,548)
Net cash used in financing activities		**3,931**	**(400,548)**	**3,931**	**(400,548)**

	Note	Group		Company	
		2016	2015	2016	2015
		$	$	$	$
Net increase in cash and cash equivalents		(83,675)	592,657	(389,421)	592,029
Cash & cash equivalents at start of the year		1,174,592	581,935	1,169,511	577,482
Cash & cash equivalents at end of the year		**1,090,918**	**1,174,592**	**780,090**	**1,169,511**

The above statements should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December

	Note	Group		Company	
		2016	2015	2016	2015
		$	$	$	$
Transactions with owners of the company Contributed Capital					
- 1 December 2011		2,000,000	2,000,000	2,000,000	2,000,000
- 23 February 2012		500,000	500,000	500,000	500,000
		2,500,000	2,500,000	2,500,000	2,500,000
Consolidated loss and comprehensive loss attributable to equity holders of the parent:					
At the beginning of the period		(420,534)	(2,440,548)	(621,439)	(3,595,002)
Profit /(Loss) for the period		48,021	2,020,014	2,185,217	2,973,563
Income tax paid during the year		(91,731)	-	(91,731)	-
At the end of the period		(464,244)	(420,534)	1,472,046	(621,438)
Non-controlling interest		-	-	-	-
Total equity at 31 December		**2,035,756**	**2,079,466**	**3,972,046**	**1,878,562**

Accounting policies and explanatory notes to the Consolidated Financial Statements for the year ended 31 December 2016

1. General information

The Consolidated Financial Statements of the Group, which comprise Timor Gás e Petróleo, Empresa Pública (TIMOR GAP, E.P. as the parent) and its subsidiary and associate, for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the directors on 24 April 2017.

These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. These Consolidated Financial Statements comprise separate financial statements of the parent entity and Consolidated Financial Statements of the Group. They are presented in United States Dollars (USD or $). The Consolidated Financial Statements have been prepared on a historical cost basis. The Consolidated Financial Statements comprise the Financial Statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date Group ceases to control the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions and unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Where the ownership of a subsidiary is less than 100% and, therefore, a Non-Controlling Interest (NCI) exists, the NCI is allocated its share of the total comprehensive income of the period, even if that results in a deficit balance.

Investment in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

2. Basis of preparation and accounting policies

Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and gross of any sales- related withholding taxes collected on behalf of the government of Timor-Leste.

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Revenue from contract fixed service fee is recognized by reference to the stage of completion of the contract as a percentage of actual expenditure incurred on the project of the total contracted amount.

Sales of Fuel are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Fuel purchased is paid for after receipt of sale proceeds from the customer.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period/year.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered. The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognized in profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. Depending on the contractual arrangement, withholding taxes are either withheld against suppliers in specified industries or payment amounts are grossed up at the following rates and the monies are paid over to the government of Timor-Leste:

- Income from construction or building activities - 2%
- Income from construction consulting services - 4%
- Income from the provision of air or sea transportation services - 2.64%
- Contracting to petroleum services - 6%
- Rent - 10%
- Payments made to non-residents - 10%

Where the company is the recipient of income for providing any service listed above, the company can elect whether the withholding tax deducted is the final tax deducted or if they wish to be taxed on the actual profits basis.

Foreign currencies

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest dollar (USD or $), except where otherwise indicated. The Group does not have any foreign operations.
Transactions in foreign currencies are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of transaction.
Monetary assets and liabilities denominated in foreign currency are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.
Depreciation is recognized so as to write off the net cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their expected useful life using the straight-line method as follows:

- Leasehold improvements over the remaining period of the lease
- Plant and Equipment 33.3%
- Furniture, fixtures & fittings 20%
- Motor vehicles - 20% with a residual value of 20% of the cost price.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognized on a prospective basis.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Tangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Intangible assets are comprised mainly of software products and are amortized over their estimated useful lives.

Impairment of non-financial assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial instruments- initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. All financial assets are recognized initially at fair value. The Group's financial assets include:

- Trade and other receivables, and
- Cash and cash equivalents.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified as Trade and other receivables or Cash and cash equivalents

Derecognition

A financial asset is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- All the risks and rewards of the asset, have been transferred.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Financial liabilities at fair value through profit or loss

Initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of payables, net of directly attributable transaction costs.
The Group's financial liabilities are classified, at initial recognition as:

- Trade and other payables, or
- Unearned contract fixed service fees and undisbursed advances.

Subsequent measurement

For purposes of subsequent measurement financial liabilities are classified as Trade and other payables, or unearned contract fixed service fees and undisbursed advances.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks in non-interest bearing accounts and cash on hand.

Trade payables
Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into USD using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Unearned contract fixed service fees and project advances
Cash received by the company from the Government of Timor-Leste as a project advance and for unearned contract fixed service fees is recognized as a liability on receipt.
The project advance liability is reduced by costs incurred with suppliers of services plus applicable withholding taxes.

The unearned project management fee is reduced by reference to the stage of completion of the contract as a percentage of actual expenditure incurred on the project of the total contracted amount.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Contingencies
By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

Taxation
Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign income and withholding taxes. Given the company and group work in different international and tax jurisdictions, differences arising between the actual income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which it operates. Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

4. Significant accounting judgements, estimates and assumptions

4.1 New and revised IFRSs applied with no effect on the financial statements

There are no new and revised IFRSs which have been adopted in these financial statements.

4.2 New and revised IFRS in issue but not yet effective

The company has not applied the following new and revised IFRSs that have been issued but are not yet effective. The Directors of the Company have not yet had an opportunity to consider the potential impact of the adoption of standards and interpretations in issue but not yet effective and anticipate that these amendments will be adopted in the Company's financial statements when they become effective.

Standard / Interpretation	Effective date (periods beginning on or after)
IFRS 9 Financial Instruments – Finalized version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition	Effective for annual periods beginning on or after 1 January 2018.
IFRS 12 Disclosure of Interests in Other Entities – Amendments resulting from Annual Improvements 2014-16 Cycle	Effective for annual periods beginning on or after 1 January 2017
IFRS 15 Revenue from Contracts with Customers	Effective for annual periods beginning on or after 1 January 2018.
IFRS 16 Leases	Effective for annual periods beginning on or after 1 January 2019.
Amendments to IAS 7 Statement of Cash Flows	Effective for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 Income Taxes	Effective for annual periods beginning on or after 1 January 2017
Amendments to IAS 28 Investments in Associates and Joint Ventures	Effective for annual periods beginning on or after 1 January 2018.

5. Revenue and other income

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Revenue and other income				
Government grant	6,000,000	9,700,000	6,000,000	9,700,000
Income - Onshore exploration farm-out	3,000,000	-	3,000,000	-
Offshore vessel service income	44,777	-	44,777	-
Revenue from fixed contract service fee	8,498	28,922	8,498	28,922
Other income	11,864	-	11,864	-
Revenue	**9,065,138**	**9,728,922**	**9,065,138**	**9,728,922**
Sales of Fuel	176,013	-	176,013	-
Cost of fuel sold	139,053	-	139,053	-
Profit on Sales of Fuel	**36,960**	**-**	**36,960**	**-**

6. Other Expenses

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Other Expenses				
Consultant Expenses	231,586	351,930	231,586	351,930
Staff Training & Development Expenses	176,622	305,790	176,622	305,790
Office Lease & Related Expenses	779,780	807,934	779,780	807,934
Telephone & Internet Expenses	170,717	156,313	170,717	156,313
Travel & Expenses				
Local	166,297	311,911	166,297	311,911
Overseas	84,039	297,213	84,039	297,213
Motor Vehicle Expenses	44,875	43,596	44,875	43,596
General Overhead Expenses	860,737	777,573	753,761	777,201
Total	**2,514,653**	**3,052,260**	**2,407,677**	**3,051,888**

7. Income tax

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Income tax				
Income tax expense:				
Current income tax:				
Current income tax charge	-	-	-	-
Deferred income tax:				
Relating to origination and reversal of temporary differences	-	-	-	-
Total tax expense reported in profit or loss	**-**	**-**	**-**	**-**
A reconciliation between tax expense and the accounting profit multiplied by Timor-Leste's domestic tax rate for the year is, as follows:				
Accounting Profit /(Loss) before tax	**384,021**	**2,020,014**	**2,521,217**	**2,973,563**
At Timor-Leste's statutory income domestic tax rate of 10%	38,402	202,001	252,122	297,356
Adjusted for tax effect of:				
Dividend received exempt from tax	-	-	-	(135,704)
Deferred tax asset due to accelerated depreciation not recognized	(27,206)	(813)	(27,206)	(813)
Share of profit of associate exempt from tax	(41,996)	(40,386)	-	-
Current year - taxable Profit /(Loss) at 10%	**(30,800)**	**160,802**	**224,916**	**160,840**
Deferred tax				
Deferred tax relates to the following:				
Current year - taxable profit / (loss) at 10%	(30,800)	160,802	224,916	160,840
Accumulated tax losses at beginning of the year taxable loss at 10%	(465,348)	(626,150)	(438,361)	(599,200)
Accumulated tax losses at end of the year taxable loss at 10%	(496,147)	(465,348)	(213,445)	(438,361)

The group is yet to show a profit and is reliant on Government funding and therefore no deferred tax asset has been recognized.

8. Property, plant & equipment

	Leasehold Improvements	Plant & Equipment	Furniture, fixtures, & fittings	Motor Vehicles	Total
	$	$	$	$	$
Year ended 31 December 2016					
Cost:					
Balance at beginning of year	465,543	745,892	412,645	652,540	2,276,619
Additions	26,860	713,803	7,775	87,000	835,438
Balance at end of year	492,403	1,459,694	420,420	739,540	3,112,057
Depreciation:					
Balance at beginning of year	(369,822)	(514,527)	(296,669)	(309,333)	(1,490,351)
Charge for the period	(106,025)	(176,223)	(69,317)	(115,553)	(467,118)
Balance at end of year	(475,847)	(690,750)	(365,986)	(424,886)	(1,957,468)
Book value at beginning of year	95,721	231,365	115,976	343,206	786,268
Book value at end of year	**16,556**	**768,945**	**54,434**	**314,654**	**1,154,588**
Year ended 31 December 2015					
Cost:					
Balance at beginning of year	465,543	596,442	409,996	565,425	2,037,406
Additions	-	149,450	2,649	87,115	239,213
Balance at end of year	465,543	745,892	412,645	652,540	2,276,619
Depreciation:					
Balance at beginning of year	(234,985)	(382,675)	(214,208)	(217,333)	(1,049,201)
Charge for the period	(134,837)	(131,852)	(82,461)	(92,000)	(441,150)
Balance at end of year	(369,822)	(514,527)	(296,669)	(309,333)	(1,490,351)
Book value at beginning of year	230,559	213,766	195,788	348,092	988,205
Book value at end of year	**95,721**	**231,365**	**115,976**	**343,206**	**786,268**

9. Intangible Assets

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Cost:				
Balance at beginning of year	1,156,290	805,425	1,156,290	805,425
Additions	154,981	350,865	154,981	350,865
Balance at end of year	1,311,271	1,156,290	1,311,271	1,156,290
Amortization:				
Balance at beginning of year	(296,515)	(155,717)	(296,515)	(155,717)
Charge for period	(251,241)	(140,798)	(251,241)	(140,798)
Balance at end of year	(547,756)	(296,515)	(547,756)	(296,515)
Net Book Value at beginning of year	859,774	649,708	859,774	649,708
Net Book Value at end of year	763,513	859,774	763,513	859,774

10. Investment in Subsidiaries

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
The Company holds a 100% interest in a Timor Leste incorporated entity, TIMOR GAP PSC 11-106, Unipessoal, Lda which was formed on 10 February 2012 at a cost of:			5,000	5,000
The Company holds a 100% interest in a dormant Timor Leste incorporated entity, TIMOR GAP Marine Oil & Gas & Logistic Services, Unipessoal, Lda which was formed on 10 September 2014 at a cost of:			5,000	5,000
The Company holds a 100% interest in a Timor Leste incorporated entity, TIMOR GAP Offshore Block, Unipessoal, Lda which was formed on 16 December 2015 at a cost of:			5,000	-
The Company holds a 100% interest in a Timor Leste incorporated entity, TIMOR GAP Onshore Block, Unipessoal, Lda which was formed on 16 February 2016 at a cost of:			5,000	-
			20,000	**10,000**

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Disclosure of Subsidiary Company operations				
TIMOR GAP PSC 11-106, Unipessoal, Lda During 2013 the company entered into a Joint Operating Agreement with ENI JPDA 11-106 B.V. and Inpex Offshore Timor-Leste Ltd with respect to Contract Area JPDA 11-106 Joint Petroleum Development Area, Timor Sea. In terms of the agreement TIMOR GAP PSC 11-106, Unipessoal, Lda is not obligated to contribute to costs incurred for the joint account for its carried interest. Its share of such costs are borne by the carrying parties (ENI and Inpex) proportionately. Each carrying party will recover its prorated share of its costs, with an uplift, from TIMOR GAP PSC 11-106, Unipessoal, Lda after the Designated authority approves a development plan and subject to other conditions specified in the agreement. The company's share of the Joint Operating Agreement is 24%.				
Total approved authority for expenditure			18,753,000	13,861,000
Unaudited expenditure incurred since commencement			(10,365,130)	(8,579,933)
Unspent at year end			8,387,870	5,281,067
TIMOR GAP Marine Oil & Gas & Logistic Services, Unipessoal, Lda During 2014, TIMOR GAP created a wholly owned subsidiary TIMOR GAP Marine Oil & Gas & Logistic Services, Unipessoal, Lda to provide general services for the marine industry and to render logistic and support services to the petroleum industry operating in the Timor Sea, Timor Leste and elsewhere. The subsidiary is expected to not only manage but eventually own and operate supply vessels, tug boats, and general marine services required in the petroleum industry. This company is dormant till now.				

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Total approved authority for expenditure			30,000	30,000
Unaudited expenditure incurred since commencement			(350)	(155)
Unspent at year end			29,650	29,845
TIMOR GAP Offshore Block, Unipessoal, Lda TIMOR GAP through its subsidiary TIMOR GAP Offshore Block, entered in its second Production Sharing Contract, a PSC for the block TL-SO-15-01 contract area of the Timor Leste Exclusive Area. The PSC was signed on 23rd December 2015 and followed by the signing of Serviec Agreement with TGSS & BGP Geoexplorer to execute the 3D Seismic Survey for the contract area as part of the exploration work program.				
Total approved authority for expenditure			2,692,945	-
Unaudited expenditure incurred since commencement			(2,373,966)	-
Unspent at year end			318,979	-
TIMOR GAP Onshore Block, Unipessoal, Lda TIMOR GAP Onshore Block, Unipessoal, Lda is a 100% subsidiary of TIMOR GAP and the object of the company is to exploit hydrocarbon resources in TIMOR GAP Onshore Block.				
Total approved authority for expenditure			224,205	-
Unaudited expenditure incurred since commencement			(155,337)	-
Unspent at year end			68,868	-

11. Investment in Associate

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
The Company holds a 60% interest in a Timor-Leste incorporated entity, GAP MHS Aviation Lda, and the remaining 40% interest is held by MHS Aviation (TL) Lda. The activities of GAP MHS Aviation Lda are to provide logistical and support services for the operations of MHS Aviation (TL) Lda who provide aviation services and facilities to other parties. The Group's interest in GAP MHS Aviation Lda is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarized financial information of the Group's investment in GAP MHS Aviation Lda:				
Current assets	2,123,731	3,918,747		
Non-current assets	-	177,153		
Current liabilities	(1,082,426)	(3,754,526)		
Equity	1,041,305	341,374		
Proportion of the Group's ownership	60%	60%		
Carrying amount of the investment	624,783	204,824		
Revenue	806,928	5,060,722		
Cost of sales	(53,759)	(1,064,859)		
Administrative expenses	(809,180)	(3,054,140)		
Other income	-	4,953		
Profit before tax	(56,012)	946,677		
Income tax expense	(43,574)	(273,576)		
Over provision of taxation for prior years written back	799,517	-		
Profit for the year (continuing operations)	699,931	673,101		
Group's share of profit for the year	419,959	403,861		
The 60% interest held by TIMOR GAP, E.P. was acquired by the Company in July 2012 at a cost of:			3,000	3,000

A company TIMOR GAP Seismic Services was established on 26 November 2015 through a joint venture agreement between TIMOR GAP, E.P. (60%) and BGP Geoexplorer Pte Ltd. (40%). The purpose of establishing the company was to provide seismic survey services within the Timor Leste's territory and foresee an expansion to overseas projects.

The initial equity of the TIMOR GAP Seismic Services was decided to be $ 5,000 and TIMOR GAP, E.P. and BGP Geoexplorer Pte Ltd. was supposed to contribute the equity / capital in the ratio of 60:40 respectively. However, till 31 December 2016 such contribution was not transferred by the shareholders to the TIMOR GAP Seismic Services as no bank account of the new company has been opened yet.

12. Trade and Other Receivables

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Trade receivables	-	-	-	-
Payments made on behalf of subsidiary	-	-	-	-
Other receivables and prepayments	46,616	59,584	137,533	59,584
Withholding taxes recoverable	-	336,000	-	336,000
Refundable deposits	179,514	195,914	179,514	195,914
Loan receivable from subsidiaries:				
TIMOR GAP Offshore Block, Unipessoal, Lda	-	-	2,510,000	-
TIMOR GAP Onshore Block, Unipessoal, Lda	-	-	140,329	-
TIMOR GAP PSC 11-106, Unipessoal, Lda	-	-	368,954	268,954
Impairment of Loan Account	-	-	(268,954)	(268,954)
	226,130	**591,498**	**3,067,376**	**591,498**

13. Inventory

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Inventory - Suai Fuel Station (Diesel)	27,510	-	27,510	-
Inventory - Suai Fuel Station (ULP)	18,278	-	18,278	-
	45,788	**-**	**45,788**	**-**

14. Cash & Cash Equivalents

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Cash at Bank – ANZ Bank	1,036,209	1,168,773	727,381	1,163,692
Cash at Bank - Mandiri	619	819	619	819
Cash at Bank – BNCTL	44,017	-	44,017	-
Cash on hand (Petty Cash)	10,074	5,001	8,074	5,001
Cash at banks and on hand	**1,090,918**	**1,174,592**	**780,090**	**1,169,511**

15. Contributed Capital

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
The initial capital was subscribed and paid by appropriation from the General State budget of the Government of the Republic of Timor-Leste in the following tranches:				
- 1 December 2011	2,000,000	2,000,000	2,000,000	2,000,000
- 23 February 2012	500,000	500,000	500,000	500,000
	2,500,000	**2,500,000**	**2,500,000**	**2,500,000**

16. Trade and Other Payables

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Trade payables	77,512	213,906	77,512	213,906
Other payables	495,064	396,862	493,629	396,862
Withholding taxes payable	197,116	235,419	186,896	235,419
Lanpan 6 joint venture	-	44,777	-	44,777
Amount owed to subsidiary company	-	-	4,000	4,000
	769,692	**890,964**	**762,038**	**894,964**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing are normally settled on 60 day terms
- Other payables are non-interest bearing and have an average term of 6 months

17. Unearned fixed contract service fees and advances

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Unearned fixed contract service fee at beginning of period	78,000	106,921	78,000	106,921
Cash received net of 4% withholding taxes	-	-	-	-
Withholding taxes treated as an advance payment of income tax	-	-	-	-
Contract fixed service fees earned based on the degree of completion of the projects	(8,498)	(28,921)	(8,498)	(28,921)
Unearned contract fixed fee at end of the year	**69,502**	**78,000**	**69,502**	**78,000**
Advances at beginning of period	1,018,341	1,389,967	1,018,341	1,389,967
Cash received for contractors' net of 4% withholding taxes	-	-	-	-
Withholding taxes treated as an advance payment of income tax	-	-	-	-
Amounts disbursed and accruing to contractors	12,429	(371,626)	12,429	(371,626)
Advances at end of the year	1,030,770	1,018,341	1,030,770	1,018,341
Unearned contract fixed service fees and advances	**1,100,272**	**1,096,340**	**1,100,272**	**1,096,340**

18. Related Party Transactions

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Compensation of key management personnel:				
Salaries and annual allowance	829,558	611,458	653,772	611,458
Due by related parties:				
TIMOR GAP Offshore Block, Unipessoal, Lda	-	-	2,510,000	-
TIMOR GAP Onshore Block, Unipessoal, Lda	-	-	140,329	-

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
TIMOR GAP PSC 11-106, Unipessoal, Lda	-	-	368,954	268,954
Impairment of loan account	-	-	(268,954)	(268,954)
Due to related parties:				
Timor Gap Marine Oil & Gas & Logistic Services, Unipessoal, Lda	-	-	4,000	4,000

19. Financial Instruments

a) Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, and cash. The Company manages its exposure to financial risks, in accordance with its policies. The objectives of the policies are to maximize the income to the Company whilst minimizing the downside risk.

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

Primary responsibility for the identification and control of financial risk rests with Management under the authority of the TIMOR GAP E.P. Board of Directors.

b) Net fair value of financial assets and liabilities

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

Trade and other receivables and trade and other payables: Their carrying amounts approximate fair value due to their short term nature.

c) Foreign Exchange Risk

The Company generally operates using United States denominated currency held in US dollar bank account. TIMOR GAP E.P. is exposed to foreign exchange risk with respect to the Australian Dollar arising primarily from amounts owing to suppliers denominated in foreign currencies.

d) Credit Risk

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

The Company has a significant concentration to credit risk through its cash and deposits with their international bank. The Company does not utilize banks debts.

e) Liquidity Risk

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

The Company has a system of reducing its exposure to liquidity risk by monitoring its cash flows closely through rolling future cash flows and monitoring the ageing of receivables and payables.

f) Categories of Financial Instruments

The categories of financial instruments as at the end of the reporting period are as follows:

Financial assets	Group		Company	
	2016	2015	2016	2015
Trade and other receivables	226,130	591,498	3,067,376	591,498
Cash and cash equivalents	1,090,918	1,174,592	780,090	1,169,511
Total financial assets	**1,317,048**	**1,766,090**	**3,847,466**	**1,761,009**
Financial liabilities				
Trade and other payables	769,692	890,964	762,038	894,964
Unearned contract fixed service fees and project advances	1,100,272	1,096,340	1,100,272	1,096,340
Total financial liabilities	**1,869,964**	**1,987,304**	**1,862,309**	**1,991,304**

g) Maturity of financial instruments

The table below details the Group's expect maturity for it non derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets. No interest will be earned as the company does not have surplus funds.

Financial assets	Group		Company	
	2016	2015	2016	2015
	1-3	1-3	1-3	1-3
	Months	Months	Months	Months
Trade and other receivables	226,130	591,498	3,067,376	591,498
Cash and cash equivalents	1,090,918	1,174,592	780,090	1,169,511
Total financial assets	**1,317,048**	**1,766,090**	**3,847,466**	**1,761,009**

The table below details the Group's financial guarantee contracts are for the maximum the Group could be forced to settle under the arrangement for the full guaranteed amount if the amount is claimed by the counterparty to the guarantee.

Financial liabilities	Group		Company	
	2016	2015	2016	2015
	3-12	3-12	3-12	3-12
	Months	Months	Months	Months
Trade and other payables	769,692	890,964	762,038	894,964
Unearned contract fixed service fees and project advances	1,100,272	1,096,340	1,100,272	1,096,340
Total financial liabilities	**1,869,964**	**1,987,304**	**1,862,309**	**1,991,304**

h) Financing Facilities
The Group is reliant on Government Funding for its operations.

20. Contingent Liability

	2016	2015
	$	$
During 2014, the company entered into a Memorandum of Understanding (MOU) with Siglar Offshore Service Unipessoal Lda and SDV Logistics East Timor Unipessoal Lda to provide vessel services to oil and gas entities. Per the MOU the operations initially will operate as an unincorporated Joint Venture 3 partners sharing profits equally.		
A project called "Lanpan 6 " was performed during the year and the company received monies described as their profit share for the period to 31 December 2015 amounting to	-	44,777
Subsequently SDV informed the company that due to a misunderstanding with the client that the project may instead incur losses per partner of	-	40,799
	-	85,576
The misunderstanding is currently under discussion with client and TIMOR GAP has not determined the extent of the loss, if any that it will accept. On this basis at 31 December 2016:		
∞ the company considers a contingent liability exists amounting to	-	85,576
∞ the amounts received to date for this project have been treated as a liability	-	44,777
Amount that company would have to pay	-	40,799

There is no contingent liability as on 31 December 2016. The issue is resolved now.

21. Operating Lease Arrangements
Leasing Arrangements

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Operating leases relate to leases of office premises with lease terms of between 1 and 5 years. The operating lease contracts contain clauses for 5 yearly market rental reviews. The Company does not have an option to purchase the leased property at the expiry of the lease periods.				
Payments recognize as an expense				
Minimum Lease payments	578,611	749,379	578,611	749,379
Contingents rentals	-	-	-	-
Sub-lease payments received	-	-	-	-
	578,611	749,379	578,611	749,379
Non-cancelable operating lease commitments				
No Later than 1 year	573,301	566,611	573,301	566,611
Later than 1 year and not later than 5 Years	1,029,889	-	1,029,889	-
Later than 5 years	-	-	-	-
	1,603,190	**566,611**	**1,603,190**	**566,611**

22. Prior period expense

In the financial statements for the year 2016, the company has reported expenditure of $65,372 which relates to the year 2015.

23. Non-payment of statutory dues

Out of the outstanding liability for withholding tax as on 31 December 2016, an amount of $153,207.11 relates to the year 2012 to 2014 which has not been deposited by TIMOR GAP, E.P.

24. Cash advance

There is a cash advance balance of $24,601.18 in the books of account as on 31 December 2016. Out of the same $107.58 relates to cash advance disbursed during the year 2016, whereas the remaining balance of cash advance of $24,493.60 relates to the year 2012, 2013 and 2014 which have not been settled yet. The year wise outstanding cash advance balance for 2012, 2013 and 2014 is $21,523, $1,132.60 and $1,838 respectively.

25. Income tax paid in advance written off

The withholding taxes of $336,000 deducted earlier by Govt. of Timor-Leste on Project funds is considered to be not recoverable and written off during the year.

26. Going concern

The financial report has been prepared on the going concern basis, which assumes the realization of assets and the discharge of liabilities in the normal course of business. The company has earned a net profit of $2,185,217 (Group: $48,021) for the year ended 31 December 2016. As of that date the Company's current assets exceeded the current liabilities by $2,030,945 whereas for the group, the company's current liabilities exceeded its current assets by $507,128. The ability of the company and the group to continue as going concerns is dependent on the receipt of government grants to fund their operations.

The company is engaged in developing the petroleum industry and therefore evaluating identified investment opportunities and opportunities that are brought to its attention. This creates a degree of unpredictability in forecasting expenditure.

As a result of the above matters there is material uncertainty as to the ability of the company and the group to continue as going concerns and, therefore, whether they will realize their assets and discharge their liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount and classification of liabilities that might be necessary should the company and the group not continue as going concerns.

ANNEX 1

ACRONYMS

ADN	Agência de Desenvolvimento Nacional (National Development Agency)
ANPM	Autoridade Nacional do Petróleo e Minerais (National Petroleum and Mineral Authority)
BDU	Business Development Unit
Bpd	Barrels Per Day
CEO	Chief Executive Officer
CMATS	Certain Maritime Arrangements in Timor Sea
CNA	Comissão Nacional de Aprovisionamento (National Procurement Commission).
CPLP	Comunidade dos Países de Língua Portuguesa (Communities of Portuguese Speaking Countries)
CSU	Corporate Service Unit
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
EKI	Ekipa Konjunta Interministerial (Inter-ministerial Team)
EP	Empresa Pública (Public Company)
E&P	Exploration and Production
FEED	Front End Engineering Design
FPSO	Floating Production, Storage and Offloading
GBU	Gas Business Unit
ICAO	International Civil Aviation Organization
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
JPDA	Joint Petroleum Development Area
JV	Joint Venture
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MMbbls	Millions of barrels
MOU	Memorandum of Understanding
MPRM	Ministério do Petróleo e Recursos Minerais (Ministry of Petroleum and Mineral Resources)
MSWG	Multi-Stakeholder Working Group
PSC	Production Sharing Contract
QHSE	Quality, Health, Safety and Environment
R&PSU	Refinery and Petroleum Services Unit
SAP	System, Application and Product
SEIA	Strategic Environmental Impact Assessment
SEMA	Secretaria de Estado do Meio Ambiente (Secretary of State for the Environment)
SERN	Secretaria de Estado dos Recursos Naturais Secretary of State for Natural Resources)
SSB	Suai Supply Base
TGSS	TIMOR GAP Seismic Services
TLEA	Timor-Leste Exclusive Area
TLNG	Timor LNG

Level 3, Timor Plaza, Suit 301 - 314
Rua Presidente Nicolao Lobato, Comoro
P.O.Box No. 003
Dili, Timor-Leste

Tel : +670 3310953
Fax: +670 3310952
E-mail : info@timorgap.com

www.timorgap.com