

ANNUAL

REPORT & ACCOUNTS

We Value and
Add Value to the
Resources

2017

TIMOR GAP



TIMOR

GAZÓLEU
(Diesel)

GAZOLINA
(Gasoline)



OLEU
(Diesel)

GAZ
(Gasoline)





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Message of President & Chief Executive Officer

It is with great privileged that I present you with TIMOR GAP, E.P., the nation's national oil company 2017 annual report & accounts. This year has presented great challenges, equaling great opportunities and achievements.

2017 has seen the upstream sector growing commitment and resilience and the start of our upstream portfolio poised to a precedent and optimism under current and future projects. This year we achieved a milestone in the history of the country, with TIMOR GAP signing two Production Sharing Contracts with Timor Resources for oil and gas exploration in the territory of Timor-Leste, although considered to be highly prospective due to the presence of several oil and gas seeps, the onshore has remained largely untapped for the last 40 years.

In our offshore PSC TL-SO-15-01, the data interpretation of the 3D Crocodile seismic survey have showed excellent prospects, revealing 31 individual closed seismic structures at various geological levels (Jurassic, Triassic and Permian) in 17 geographically distinct locations, with most locations having multiple targets. The identification of prospects in the Triassic and Permian formations represent a game changer for explorations in the region, since to date many prospects and exploration plays have all been found in the Jurassic formation. Of the 31 prospects initially identified, approximately 6 have more than 1 billion of Petroleum-Initial-In-Place

Francisco Monteiro
President & CEO



(PIIP). We feel a great sense of enthusiasm and excitement towards the future development of these upstream projects and also with the upcoming drilling campaign for the PSC JPDA 11-106 scheduled for early 2019.

In the downstream sector, we continued to promote TIMOR GAP's brand while improving our financial results. Our Suai retail fuel station increased its gasoline fuel sales during the period, contributing to surge the company's profit and fuel sales revenue. Plans for future additional developments of others fuel stations to be constructed across the country is predicted to happen once we have a better market overview analysis of the country. New business opportunities to expand the company's fuel supply services are presented with the recently inaugurated and upgraded Suai airport. TIMOR GAP takes this opportunity to supply jet A1 fuel to the flights based in the Suai airport, becoming its sole jet fuel supplier and marking yet another achievement. The manufacturing of fuel tanks are expected to be completed in early 2018, complementing the needs of a standardized international airport.

Leveraging the impact of the upstream and downstream projects, over time TIMOR GAP intends to develop a series of services to become a truly integrated oil & gas company. With this in view, 2017 saw the establishment of a new subsidiary, TIMOR GAP Drilling & Services, to render services for drilling activities. This will provide the company with the right platform to participate in significant bids in the service sector, and currently a bid has been presented for the upcoming drilling campaign of the PSC 11-106 and Conocophillips Bayu-Undan Infill Wells project. This year TIMOR GAP continues to participate in tenders for JPDA projects, with emphasis on the Bayu-Undan infill wells topside fabrication tender, this participation is met with great optimism and a service that we can deliver with our renowned partners.

Undertaking the Tasi Mane Project, has been a responsibility assumed and managed by TIMOR GAP, and to further expand and expose our company in the region and afar, the Tasi Mane project will be imperative to boost and give the

right indication of a strong and positive portfolio and with this the we also seek to transform the current nature of the petroleum sector which is simply extractive to a more diversified and industrialized. On 20th June 2017, we inaugurated one of the Tasi Mane Project supporting infrastructure, the Suai "Commander in Chief of FALINTIL Kay Rala Xanana Gusmão International Airport", refurbished to cater for expand passengers and freights flight operations. With the Court of Appeal's prior approval for the Supply Base Design-Build Contract granted in 2017, we now find ourselves in a favorable position to initiate the construction of the Suai Supply Base. Further studies are being conducted for the Betano and Beço industrial clusters: an Environmental Impact Assessment (EIA) for the Betano Refinery & Petrochemical Complex components was concluded and submitted to the environmental authority; EIAs for the Beço LNG Plant components and for the Greater Sunrise pipeline are being prepared for submission to the authorities.

As the company grows and expands itself over the forthcoming years, so is our overriding philosophy of placing our people in the heart of what we do. Since the beginning of company's operations, our workforce continued to grow in numbers, reaching 130 staffs this year with 94% nationals, and in skills through the unremittingly provision of training and courses. TIMOR GAP partners up with renowned international companies operating in the oil & gas industry, through which secondments are provided and, in 2017, some of our engineers were placed in ENI, Schlumberger and COSL's offices. TIMOR GAP complies with a talent seek strategy, treats its employees as its wealth, and strives to foster an impartial and open promotion environment and career development path.

With all the investments and projects developments, TIMOR GAP is now well positioned for implementing the projects and future expansion. This position is reinforced with the agreement on the draft treaty that delimits the maritime boundary between Timor-Leste and Australia in the Timor Sea reached on 30 August 2017, under the UN compulsory conciliation proceedings. This is an his-

Message

torical achievement for the country that will have vast economic impact, as now TIMOR GAP representing the nation will undertake a new level of leverage on dealing with potential prospects development within our newly established maritime border, strengthening further the company's role and impact both domestically and regionally.

As we head towards an exciting new year, unveiling a new chapter in the company's life, we will continue to transform ourselves and take on new challenges with the aim of creating a solid operating platform that can deliver consistent growth in the regional market environment and to further add to the domestic market.



We add value to the resources

Executive Summary

The present Annual Report & Accounts refers to TIMOR GAP's activities and programs conducted in the financial year of 2017. The main purpose of this report is to depict the activities undertaken by the company for the aforesaid year, in furtherance of the accomplishments made since its establishment, and to disclosure detail analyses of the financial results for the same period.

TIMOR GAP's principal business objectives are to develop upstream and downstream pe-

troleum activities, provide services to the industry, and engage in onshore and offshore activity in the Timor-Leste Exclusive Area, Joint Petroleum Development Area and international. 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. In line with this purpose, the TIMOR GAP's Annual Report & Accounts covers the following activities/programs:

1. Institutional and Human Capital Development

We continue to invest in our human capital and quality, health, safety and environment (QHSE) for a successful execution of the company's vision, mission and strategy. Our employees' skills and competencies were further developed and enhanced through a wide range of trainings, providing in-house and abroad, and secondments with our international business partners, such as ENI and COSL. Following the

ISO certification granted in 2016 for the company's QHSE Integrated Management System (IMS), we continue to foster a culture in which safety and health are a priority, in so we conduct regular activities that include IMS campaign, training, audit, inspection of safety equipment and company's facility.

2. Upstream

Set forth as TIMOR GAP's core business, our Exploration & Production (E&P) portfolio witnessed two major breakthroughs this year with the signature of two onshore Production Sharing Contracts (PSCs) with Timor Resources, and the identification of 31 individual closed seismic structures at various geological levels (Jurassic, Triassic and Permian) in 17 geographically distinct locations at the TLEA offshore PSC TL-SO-15-01. In addition to this, we continued to prepare the drilling campaign for the PSC J11-106 contract area with our Joint Venture partners, expected to commence in 2019.

As a response to the complexity, challenges and necessities for supplying services in upstream business, the reliable upstream service subsidiaries of TIMOR GAP E. P.; TIMOR GAP Seismic Services and TIMOR GAP Drilling Service have been established in order to create, capturing and optimize the economic and commercial value and develop TIMOR GAP, E.P. human resources capability in upstream sector.

3. Downstream, Services and Subsidiary Companies

We continue to invest in the downstream and services sector in order to further increase the company's profitability, while promoting TIMOR GAP's brand. Suai fuel station sales continued to rise in 2017 and further fuel supply & trading opportunities are captured by the company with the project to provide jet A1 fuel to the flights based in the Suai airport. During 2017, TIMOR GAP and its subsidiaries

continued to participate on several offshore service tenders for the JPDA area, predominately in the Bayu-Undan contract area and PSC 11-106. Other business opportunities and partnerships are managed through our subsidiaries.

4. Tasi Mane Project

In supporting the implementation of 20 years National Strategic Development Plan, TIMOR GAP has also been mandated to manage and administer the Tasi

Mane Project, which comprises three industrial clusters and additional support infrastructures in the southern

Summary

coast of Timor-Leste. While awaiting for a decision from the Government regarding the construction project, the Suai Supply Base team is focused on implementing a training & skill development program for the local community and continuing to carry out the land title clearance process; the Environmental Impact Assessment (EIA) for the Betano Refinery and Petrochemical Complex of which was completed this year with the final reports submitted to the Environmental Authority for approval; the EIA study for the

Beaço LNG Plant components is ongoing as well as the EIA study for the Greater Sunrise – Beaço sub-sea pipeline, which is being carried out independently from other LNG project components. In regards to the additional support infrastructures, Suai Airport was concluded and inaugurated this year; Highway Section 1 construction is moving ahead reaching a progress of 77% in end of year; and the new resettlement in Lohorai is completed.

5. Joint Petroleum Development Area and Greater Sunrise

Throughout the year, TIMOR GAP continuously worked towards Timor-Leste Government aim in developing the Greater Sunrise project via a submarine pipeline across the Timor Trough to a LNG plant at Beaço, on the south coast of Timor-Leste. The com-

pany also participates in the Joint Commission and Sunrise Commission, for the supervision of petroleum activities in the Timor Sea, alongside Government officials.



1. 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



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 stakeholders .

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.



Figure 1-1: TIMOR GAP took part in the Government Expo for the 28 November Independence Day in Suai, Municipality of Covalima

1.1 Business Units

The corporate structure of the company has been restructured in 2017 to better reflect our business and strategic goals and to refocus on our core business. Formerly known as Exploration & Production and Supply Base Unit, in 2017 and onwards this unit will focus only on TIMOR GAP's core business,

namely Exploration & Production. The Supply Base is thus incorporated in the Business Infrastructure Development Unit, previously Business Development Unit, under which now falls the responsibility to manage business infrastructure for the company.

TIMOR GAP business units comprises the following 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 Infrastructure Development Unit (BIDU)** finds and seizes business opportunities related to infrastructure projects for TIMOR GAP and provides support, supervision, monitoring and evaluation to the infrastructure projects developed under the company's portfolio. It also supports other business units through the render of Geographic Information System (GIS), database and analysis support services; and liaises with the Government on issues concerning the company's activities.

The **Exploration & Production Unit (E&PU)** manages and coordinates upstream activities, developing the exploration and production of oil and gas.

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 (QHSEU)** 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.



1.2 Financial Overview

The audited Financial Statements are contained in Section 8 of this Report, and have attached a detailed analysis of the results for 2017, 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 \$11,900,000 during the year ended 31 December 2017 (2016: \$6,000,000). The main sources of income were originated from onshore exploration farm-out of \$2,000,000 (2016: \$3,000,000) and profit on sale of fuel of \$65,071.00 (2016: \$36,960) and fixed contract service fees of \$8,902 (2016: \$8,498).

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. Other expenses are related with the office expenditure for covering general legal consultant services, expenses related to Board of Directors/Executive Committee meetings, business travel, and salary & wages.
Vice-President Office - Drilling and Technology, New Ventures	Project expenditures related to 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 rental and maintenance, IT infrastructure, including SAP software consultant and staff salary & wages.
Business Infrastructure Development Unit	Project expenditures mainly on project monitoring, dissemination & community liaison related expenditures including investment in Marine Logistic Services. Staff professional development, minor equipment, salary & wages, and other unit related expenditure.
Exploration & Production Unit	Investment on PSC 11-106 related expenditures. Expenses with consultancy fees, business travel and staff professional development, salary & wages, capital, and other overhead related expenditures.
Refinery and Petroleum Services Unit	Project expenditures, mainly on construction of additional fuel station and operational of the existing fuel station, EIA study for refinery projects, including dissemination & community liaison. Unit expenditure for staff professional development, capital expenditure, salary & wages, and other unit operational related expenditures.
Gas Business Unit	Expenses for the Beaçó LNG Project: Land & Property identification, Environmental Impact Assessment (EIA), Local Community LNG Training and support for SOLS Training including for covering some liabilities of LNG Plant Pre-FEED project. Unit related expenditure such as staff training and professional development, overheads and staff salary.
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 offshore and onshore exploration. Unit's general expenditures, such as: consultant, travel for project finance meetings, external financial audit, staff professional development, capital items, and salary & wages.

Table 1-1: Overview of expenditures for each Business Unit

The main components of the 2017 Financial Year were related to the development and management of several projects, as detailed from Sections 2 to 6.



Beauty



There is beauty in everything



in everything

2. Institutional and Human Capital Development

2.1 Strategic Goals & Overview

Key to TIMOR GAP's sustainability and growth lies in the human resources. Our current team, although significant in numbers for a young National Oil Company, growth will be necessary in an increasing rate in the next 10 years, averaging 160 new employees per year as anticipated in our Strategic & Business Plan 2016-2035. This strategic growth is fundamental to meet the company's future plans, particularly in large projects envisaged in the Tasi Mane Project, the LNG Plant, the Refinery and Petrochemical Complex, and the Supply Base. In line to this, we continued to recruit the right talent, to manage, train, develop, reward, motivate and retain, and through this keeping a well-balanced team through equality, thus equally boosting development, a way to promote shared prospective.

A strong Quality, Health, Safety and Environment (QHSE) culture is of indisputable value at TIMOR GAP, with safety and quality being set as prerequisites in every operating area, as respect for the environment must be constantly considered. Programs such as competence and training; conducting of emergency management, monitoring QHSE issues and the company activities are variables and components we continued to deliver within the company throughout 2017.

We continue to invest in our Information & Communication Technology to further increase efficiency and productivity in our workplace and thus we continued to pay close attention to our SAP Management System.

2.2 Human Resources Management



Figure 2-1: Static & Dynamic Models In-House Training for Exploration & Production (E&P) Team by Schlumberger

We value our people and strongly believe that to thrive in the complex and constantly changing global energy business, the company's success depends on its human capital. With that in view, we established a human resources strategy based on

key areas such as recruitment of right talent, development and training, performance management and career development. It is our firm belief that people properly trained and prepared, with technical and behavioral skills aligned with the strategic objectives of

the organization, are the basis for the implementation of our strategy.

TIMOR GAP will invest in the growth of its strategic sectors, while upholding the company's commitment to continually enhance and develop the skills and capabilities of its employees. Our human resources are unremittingly progressing through the development of programs and trainings in several areas of the petroleum and gas sector. Strategies for capacity building and on-the-job-training are provided, including with external partners and joint venture partners, as well as secondments which are conducted through the cooperation with TIMOR GAP's international business partners.

TIMOR GAP pursues and works hard in the achievement of a greater local participation, by respecting and valuing the local content participation in its projects. Maximization of local content requires early focus on training of nationals to ensure the required skills are available and thus, a local content plan is a key requirement under our agreements/contracts and negotiations with Joint Venture partners. Our projects prioritize local staff whenever appropri-

ate as it is the case of our Suai Fuel Station staff.

TIMOR GAP complies with all laws in force applicable to the employment relations in Timor-Leste and therefore, in August 2017, the company implemented the Social Security System in furtherance of the Law No. 12/2016, of 14th November 2016, which enacts the new Social Security Law.

In the beginning of the year, we established new policies as strategies to be relevant to the Timor-Leste's Labor Law and regulations. This includes creating Career Development Regime & Pathways Policy, and Procedures and Roles, Responsibilities and Authorities of the Executives.

During the referred period, we also worked on the amendment of the current policies. TIMOR GAP's current policies were established in 2012 and a few policies required further amendments to be harmonized with the applicable laws. Therefore, the amendments of Leave and Working Hours Policy and Employment Policies were finalized and approved by the company's management this year

2.2.1 Employees Overview

As of 31st December 2017, TIMOR GAP employed a total of 130 employees with a gender breakdown of 38 female and 92 male, and 12 of our subsidiaries employees consist of 7 male and 5 female employees. TIMOR GAP also receives young interns under the Graduate Internship Program (GIP) with

the purpose to introduce real and professional working environments as a means to better prepare new graduates for their future professional career path.

The table below illustrates our staff by categories based on contract.

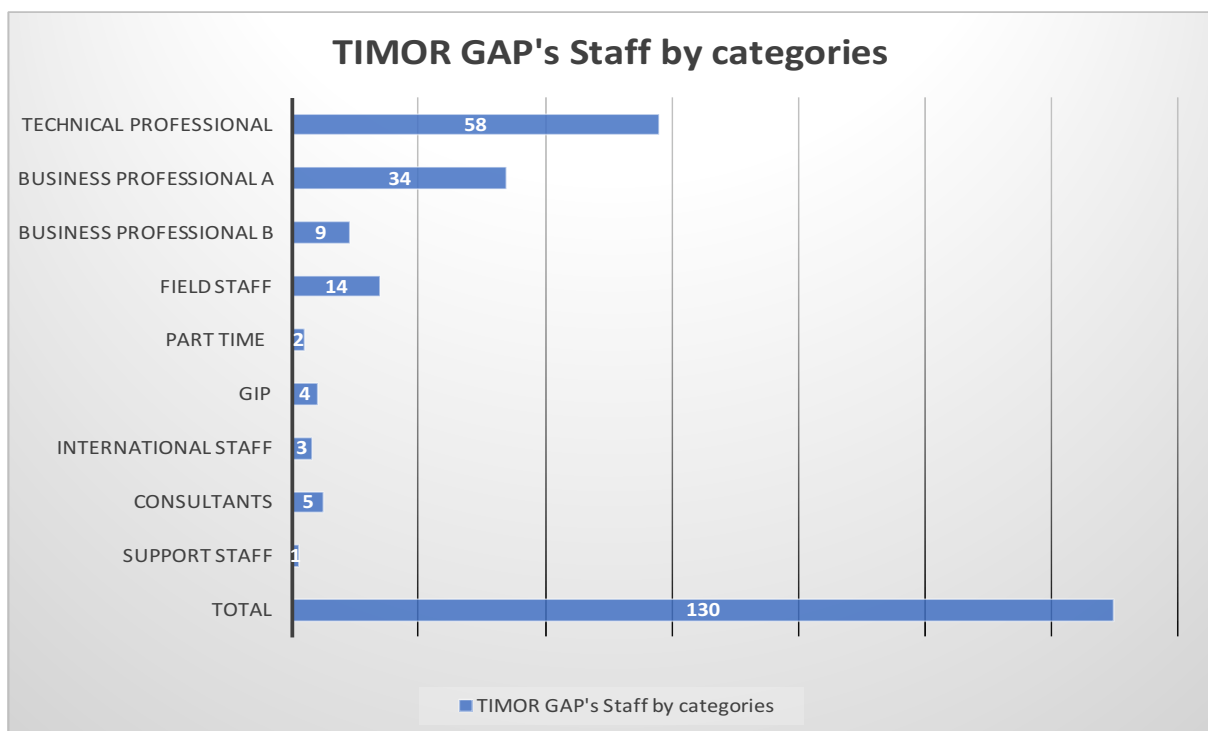


Table 2-1: TIMOR GAP's Staff by category

2.2.2 Career Development



Figure 2-2: From left to right: A TIMOR GAP employee delivering a presentation during her training program undertaken in South Korea and sponsored by KOICA; TIMOR GAP engineers attending a secondment provided by COSL (China); Elementary Fire Fight & Emergency Evacuation Plan Training for the Company Staff

TIMOR GAP value the working relationship between the company and its employees and set the path of their competency development and its corresponding career and professional advancement in order for the employee to effectively and efficiently contribute to the implementation of the company mission and objectives. Based on this view, in 2017 TIMOR GAP developed the employment contract based on the Labor Law and defined employment group based on the professional categories and grades. This will be the guidance for the career path and progression.

The company designs an individual development path which integrates selection, recruitment, training, assessment and progression/promotion. We recruit based on the needs of the company and through a competitive process with equal opportunities and gender equality. Similar to previous year, in 2017, we continued to conduct our annual performance review with the purpose of evaluating employee's work per-

formance and recognizing achievements, covering the previously set objectives and key performance indicators (KPIs), which also supports planning staff development needs for the following year.

By considering the results from the performance assessment, it is possible to manage more efficiently the career development of employees and plan their progression and promotion towards a next new role within TIMOR GAP. We motivate our employees by providing opportunities to grow within the company.

We strive to maintain a constructive and compelling working environment. Activities that focus on building team capability and strengthen relationship among employees are promoted within the company, aiming to build a shared commitment to the corporate goals, which leads to the ability to produce more and better outcomes.

2.2.3 Employees Training

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, workshop & conferences and secondments 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.

2.2.3.1 Courses and Training

In 2017, training opportunities are identified both nationally and internationally of which staff are encouraged to attend as follows:

- **Practical Training for Petroleum Quality Management System (PQMS):** 2 employees attended this training delivered by K-Petro in South Korea, from 18th May to 15th June. The objectives
- **Businesses Communications and Office Management:** 1 employee attended this training during 10 days in Singapore;



Figure 2-3: TIMOR GAP and ANPM staff attended Practical Training for Petroleum Quality Management System by K-Petro (South Korea)

of the PQMS training (a K-Petro's system of monitoring the quality and distribution of petroleum products) were to understand the advanced petroleum quality management system, to learn current issues and technologies in petroleum energy sector, among others. The training included lectures from industry experts and site visits;

- **ISO 9001:2015, ISO 1400:2015 & OHSAS 18001:2007 Foundation & Transition Course:** 35 employees participated in this in house training delivered by DNV-GL Singapore during 6 days. The training provided details on the differences between ISO 9001:2008 vs ISO 9001:2015 and ISO 14001:2015 standards, review the ISO's requirements in-depth and the impacts of the changes for TIMOR GAP as oil and gas company;
- **First Aid Training:** 20 employees attended this training delivered by ISAT (Industry Safety Assessment Training) during three days. Covering topics such as pre-hospital emergency care and basic life support including cardiopulmonary resuscitation (CPR), the first aid training is essential to respond quickly and effectively to any emergency situation;
- **Elementary Fire Fight & Emergency Evacuation Plan:** 15 employees attended this training delivered by ISAT during two days and providing general knowledge about basic firefighting equipment and procedures, self-rescue and emergency evacuation plan;
- **Tropical Basic Offshore Safety Induction & Emergency Training (T-BOSIET):** 7 employees

ees participated in this training provided by PT Samson Tiara during 3 days, in Jakarta, Indonesia. As mandatory requirements to work and/or entering offshore facilities, TIMOR GAP has increased employees' knowledge and performances through Job Specific Training with 18 people who currently have valid certification until 2022. It is anticipated that the certification holders will attend three months of On the Job Training next year from January till April at BGP Inc., China National Petroleum Corporation Onshore and Offshore Facilities in China;

- **Static & Dynamic Models Training for Exploration & Production (E&P) Team:** two experts from Schlumberger, a senior geophysicist and reservoir engineer, delivered this in-house training during 2 weeks, sharing their experiences in both Static & Dynamic Models for TIMOR GAP Offshore Block and Bayu-Undan field. The principal objective was to strengthen the skills and capacity of E&P team members in areas such as the use of PETREL geophysics and geology tools for the interpretation of Crocodile 3D seismic data;
- **Purchasing Management & Negotiation Skills for Business:** 1 employee partook in this 14 days training in Indonesia;
- **Design & Maintenance of Storage Tanks:** 4 employees participated in this 3 days training;
- **AutoCAD P&ID Engineering Design:** 1 employee attended this 5 days training in Indonesia;
- **Project Monitoring & Evaluation:** 2 employees attended this training with the duration of 5 days in Indonesia;
- **Budgeting & Cost Control System:** 1 employee attended this 5 days training in Indonesia;
- **Drone or Unmanned Aerial Vehicle Training Program:** 1 employee participated in this 5 days training in Indonesia;
- **Airborne Gravity Survey Training:** 2 employees attended the second phase of this training in Indonesia during 5 days;
- **Process Safety Management Training:** 3 employees attended this 3 days training provided by PT. PITHAGORAS GLOBAL DUTA in Jakarta, Indonesia, in order to increase skills and knowledge in the prevention of disastrous accident;
- **Crocodile 3D Seismic Interpretation:** 2 employees attended this training with the duration of 12 days in Malaysia;



- **Indonesia Oil & Gas Partnership Program:** 1 employee participated in this program provided by the Ministry of Energy and Mineral Resources of Republic of Indonesia during 8 days;
- **Refining Economic Training:** 1 employee attended this training for 5 days in Singapore;
- **Geosoft Training:** 2 employees participated in this training delivered at ANPM office for 3 months;
- **Basic Training for Plant Operation:** 1 employee participated in this training provided by INSTEP during 8 days in Malaysia. The training program covered an introduction to PETRONAS upstream & downstream activities.



Figure 2-4: Basic Training for Plant Operation by INSTEP (left); First Aid Training by ISAT (right)

2.2.3.2 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 compa-

ny.

In 2017, TIMOR GAP's employees had the opportunity to partake in various workshops and conferences during the period:

- **International Financial Reporting Standards (IFRS) in Indonesia;**
- **World Congress XXI Occupational Health and Safety in Singapore;**
- **Gastech Conference, in Tokyo, Japan;**
- **Implications of COP (COP22) for Timor-Leste;**
- **HSE Workshop on risk and environment impact of PSC 11-106 project in Perth, Australia;**
- **Mini workshop on the Draft Decree-Law for Petroleum Operations; and**

- **II Meeting of Ministers of Energy of the Community of Portuguese Speaking Countries (Comunidade de Países de Língua Portuguesa, CPLP).**

2.2.3.3 Secondments and On-The-Job-Training

Secondments and job placement is a strategy that the company continued to implement in 2017 to further enrich the professional capacity of its staff

- **ENI, Australia**

In preparation of the drilling campaign for the PSC 11-106 expected to commence in early 2019, two engineers completed a 4 weeks secondment at ENI Office in Perth, Australia. ENI is the operator of the PSC 11-106, in a Joint Venture with INPEX and TIMOR GAP. The referred secondment focused on

through TIMOR GAP's international business partners.

drilling services management, well planning and drilling operations, providing an opportunity to actively involve our technical team and further deepen their knowledge during the period of preparation and execution of drilling campaign.

- **Schlumberger, Australia**

Training in Field Development Planning was undertaken at Schlumberger office, Perth Western Australia conducted from 16th October to 10th November 2017. Two engineers of Exploration & Production Unit attended and learned different aspects and modules of field development planning, ranging from basic simulation workflow, input data set up of rock physics and fluid models throughout to simulation run and result view as well as history matching and prediction of future production. Secondment program with Schlumberger was part of working relationship

established between TIMORGAP and Schlumberger through the signing of Memorandum of Understanding between the parties in the previous years. The secondment program was focused on engineering software that comprised of PETREL RE, INTERSECT fundamental and advanced, PIPESIM and Oil Field Manager (OFM) modules. The study cases was focused on Bayu Undan reservoir Simulation dynamic model as well as set up production cases for Greater Sunrise field using field management strategy.



Figure 2-5: Two TIMOR GAP Staffs (Left & Right) Receiving Certificate after finished their Secondment Program at Schlumberger Office in Perth, Australia.

- **COSL, China**

Offshore Drilling Training (Jack Up) Program is a training program provided by COSL Drilling for the TIMOR GAP Drilling officials, as part of Cooperative Agreement between TIMOR GAP and COSL Drilling. This program aims to provide training and development capability especially in offshore drilling operations for selected TIMOR GAP Drilling officials. Regarding this training program, there are 3 batches of training provided by COSL Drilling which are: Drill-

ing Training, Health, Safety and Environment Training and Business (Finance, Bidding & Tendering) Training. The first batch (Drilling Training) has been completed. TIMOR GAP drilling team composed of 3 members undertook the Drilling training in Yanjiao, Tanggu and Offshore Bohai Bay Basin, China (Jack Up Rig) during 38 days. The training commenced on 30th November and was completed on 7th December.



Figure 2-6: TIMOR GAP staff undertook secondment training provided by COSL, China

2.2.3.4 Study Leave

TIMOR GAP recognizes the benefits of staff development for individuals and the institution as a whole and offers opportunities for employees to undertake personal and professional development. Our company's study leave policy provides a flexible arrangement in terms of job security benefit for employees and to retain the best talented employees that

enables them to improve future contribution to the company.

During this period, our employees continued awarded very competitive scholarships program from countries such as Australia, USA, New Zealand and United Kingdom and academic courses in international renowned universities, as following:

- **Master of Environmental Management at Massey University, Palmerston North, New Zealand, New Zealand Development Scholarship;**
- **Master of Engineering in Oil and Gas Program at University of Western Australia, under Australian Awards Scholarship Program;**
- **Master Degree in International Commercial Law at University of Aberdeen, Scotland;**
- **Master Degree in Petroleum Geoscience at Victoria University of Wellington, New Zealand;**
- **Master Degree in Educational Leadership and Management at Unitec Institute of Technology, New Zealand, under New Zealand Development Scholarship;**
- **Master Degree in Computing at Institute of Technology of Auckland, New Zealand;**
- **Master Degree in Natural Gas Engineering and Management at University of Oklahoma, USA, under Fulbright Scholarship; and**
- **Master Degree in Business Analysis and Consulting at University of Strathclyde, in Glasgow, Scotland.**

2.3 Information & Communication Technology (ICT)

Information & Communication Technology (ICT) is essential to further increase efficiency and productivity in our workplace, in order to keep up with TIMOR GAP's growth, by upgrading and installing adequate hardware and software will meet the needs, supporting all business areas, including support functions.

With this in view, we continued to pay close attention to our 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.

In 2017, a Consultant was engaged to provide SAP System Administration and SAP Foundation Functional Support Services, with main focus on the major part of the SAP modules which is FICO – Finance and Accounting. The onsite service was per-

formed and the data migration, new documents uploads, opening balance configuration, GL accounts matchings, reporting tools, KABA system and other related SAP Module such as HCM and Material Management (Procurement Module). The process will continue to ensure Go Live session of SAP FICO is in place and the accounts are matched and use proper accounting reporting standard.

Additional software for the units' activities was also acquired this period, mainly to assist with the additional Exploration & Production projects in 2017 onwards. The software will be utilized for technical projects under TIMOR GAP and its subsidiaries.



2.4 Quality, Health, Safety and Environment (QHSE)

Quality, Health, Safety and Environment (QHSE) is a unit in the TIMOR GAP that is mandated to ensure that all company's activities are delivered conforming to high quality, health and safety, and environmental best standards. In the QHSE 2015 – 2017 work program the focus has been on four main objectives, such as implementation of QHSE Management System; implementation of QHSE training, awareness and competence; change of HSE culture from pathological or reactive to calculative; and lastly in the attainment of ISO Certificate (ISO 9001, ISO 14001 and OHSAS 18001). These objectives are implemented with the aim to uphold QHSE sound and best practice at work place that can result in high quality of work, prevent incident and injuries to people, workers and community as well prevent loss to process and assets, and also to protect the environment. QHSE unit therefore provide supporting roles to all units within TIMOR GAP related to QHSE matters.

Since 2014, TIMOR GAP has started the implementation of its QHSE Management System, consisting of Quality Management System, referencing ISO 9001; Environmental Management System, referencing ISO 14001, and Health and Safety Management System, referencing OHSAS 18001. The implementation has been successfully recognised by

the rewarding of ISO certificate in 2015 from international certification body DNV GL Singapore, one of the leading global providers for management system certification. Since then, in the last few years, there has been remarkable change in the QHSE culture in TIMOR GAP where it is evident that the behaviour of employees toward QHSE aspect of TIMOR GAP's activity has been greatly improved.

Considering QHSE is high priority aspects to achieve company' objectives, QHSE been playing an important role and responsibility as integral part of TIMOR GAP's activities, by involved in the all activities starting from establishment of Project Plan, Project Study, FEED, Engineering Procurement and Construction, as well as continuously monitoring stages of the project.

As there is already a system in place to manage any hazards that can occurs in the company's activities effectively, QHSE can ensure and guarantee that, ZERO Customer Claim, ZERO Incident/Accident, and ZERO Environmental Impact as company target can be achieved. To able to do this, one of QHSE Objective is to provide requisite quality, health, safety and environment related training to personnel at all levels in the company in regards to increase level of awareness and increase of QHSE competence, through various workshops, conferences, training,

monitoring and evaluation, and these will still become one of the main focuses of QHSE unit in the future. Several training categories such as Job specific Related Training, Behaviour Base Safety Training, IMS and IMS/Safety Campaign and other related training provided during the year of 2017 can be seen in figure below.

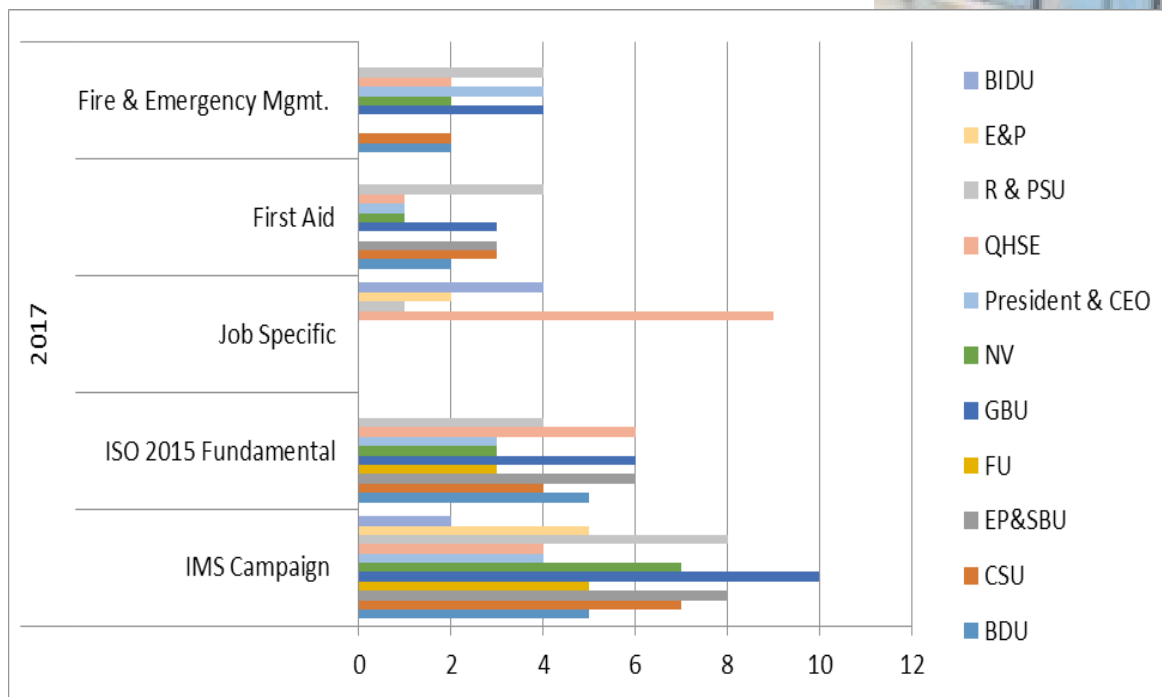


Table 2-2: TG-QHSE-2017 People, Competencies and Training





Figure 2-7: TIMOR GAP employees performing an emergency response drill at Timor Plaza

2.4.1 TIMOR GAP QHSE Objective Target and Program

2.4.1.1 Integrated Management System (IMS)



To achieve its aim to excel in providing services for the industry with quality, health, safety and environment, TIMOR GAP adopted an Integrated Management System (IMS), which describes the integrated system of the company complementing the require-

ments of International standards and specifications of ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007. In March 2016, TIMOR GAP, E.P. was awarded with the International Organization for Standardization (ISO) certification for its Integrated Management System, 9001:2008, ISO 14001:2004 and OHSAS 18001:2007, an integrated QHSE system for managing *“Project Management in Petroleum Sector Related to the LNG, Refinery and Supply Base & Petroleum Services”* becoming the first company in Timor-Leste bestowed with this certificate.

The IMS has been continuously improved since then including continuously complying with the new ISO standard requirements. Every year the certification body performs a periodical Surveillance Audit to review if the system is continuously maintained and improved and that it remains in compliance with the mandatory ISO standards requirements. In the recent surveillance and upgrading audit in February 2018, the TIMOR GAP’s IMS was audited against the new ISO 2015 standards for ISO 9001:2015 Quality Management System and ISO 14001:2015 Environmental Management System. After completed the audit process and with no major issues found from the audit, **the ISO Certificate of TIMOR GAP has been recommended to be upgraded to the 2015 version by auditor to the certification body.**

The IMS apply to all QHSE-related matters arising out of all activities and operations controlled by TIMOR GAP and its related stakeholders such as government, employees, contractors, NGO’s en-

vironment and the communities in which it operates. Therefore, the IMS is designed to provide TIMOR GAP with a consistent approach to QHSE management and to allow for the integration of QHSE management processes and responsibilities with other business requirements. By establishing consistent QHSE performance standards across the company’s activities and operations, it describes processes for planning, implementing, maintaining and monitoring of QHSE results, improving performance, using feedback and sharing lesson learned.

Therefore, all of TIMOR GAP, E.P.’s units are required to provide appropriate information in addition to take appropriate actions as required by the IMS to ensure compliance with the criteria established in the IMS, and consequently, TIMOR GAP to conduct its business with due care and in accordance with relevant legal and other requirements.

In order to improve the IMS, regular training and workshop programs have been delivered to all staffs in TIMOR GAP throughout 2017. DNV GL as certificate body has delivered an ISO 9001:2015, ISO 14001:2015 & OHSAS 18001:2007 Foundation & Transition Course, in May 2017, attended by 40 participants from all units. This training aimed to increase employees’ knowledge and gain better understanding of the key changes in the ISO 2015 as well as by adopting the new standards in TIMOR GAP Management System.

Following this, in July 2017 a consultant was hired to conduct revision to the IMS documents to align with the new ISO standards: ISO 9001:2015 and ISO 14001:2015. The aforesaid revision was completed in two-month timeframe encompassing the gap assessment; revision of the 13 IMS procedures; revision of unit procedures; presentation to the top management on the revised IMS; socialization of the revised IMS through IMS campaign; and internal audits for all units. In addition to this, throughout the year there have been numbers of regular in-house workshops delivered by QHSE unit to all staffs to socialize the IMS and its components including forms and checklists in more details.

2.4.1.2 Occupational Health and Safety

TIMOR GAP adhered to the philosophy of **“SAFETY FIRST”**, always putting safety and wellbeing of employees at the forefront. With the adoption of OHSAS18001:2007, Incident/Accident to employ-

ee’s, properties damages and financial lost can be prevented as the main objective of the Occupational Health and Safety Management System.

Health and safety issues arisen from various

TIMOR GAP's activities can be properly identified, assessed, controlled and monitored. Numbers of procedures and guidelines were developed providing processes needed in the assessment and management of risk, incident and accident, either in the office environment or in the field and during operation. With this, TIMOR GAP now has a proper system for managing Occupational Health and Safety and for managing any related records for either its identified risks or also incident and accident that has occurred from its various activities, including its mitigation and controlling action needed and arisen from these risks, accidents or incidents. The reviewing system for health and safety related issue has also been established and implemented.

People, Competencies, and Training in TIMOR GAP is one important component in managing the company's Human Resources, which is done through Health and Safety Training. Training is viewed as a tool to impart relevant technical knowledge and to provide periodic updates in the technology. By providing such training, it is expected that productivity can be improved and safe work culture can be developed.

This year, TIMOR GAP employees had the opportunity to attend several trainings, workshops and congresses to increase their awareness to health and safety issues, for instance, Process Safety Management training, First Aid Training, Elementary Fire Fighting and Emergency Evacuation Plan training. Also, a Tropical Basic Offshore Safety Induction and Emergency Training (T-BOSIET) was also provided this year. Currently 18 staffs hold valid certification until 2022 and they will further increase their knowledge and performance with On Job Training next year with TIMOR GAP's renowned international partners. Further information on QHSE related training and workshops can be seen on a section "Human Resources Management", People Competencies and Training Matrix or as shown in the Table 2-2 TG-QHSE-2017 Training Records.

Throughout its works, either field operation or daily activities, TIMOR GAP conforms to health and safety related code of conduct, oil and gas industrial best practices, ISO's requirements, TL labor code Section IV-Occupational safety, hygiene and Health also any other international standards. At work, regular safety briefing and inductions were conducted to all employees, visitors or contractors, delivering safety related information to all persons at all time. Also, regular health and safety checking/inspection is made on all premises and relevant equipment.

TIMOR GAP has also participated actively in the emergency drill conducted yearly at all companies' facilities. The drill is intended to have TIMOR GAP employees better prepared to response to the

emergency situation when any real emergency situation occurs. The drill will provide better awareness and evaluate the effectiveness of the emergency response plan and the building's emergency infrastructure and equipment.

Personal Protective Equipment and other relevant health & safety equipment are at employees' disposal and regular inspections to the company's facilities and its process are conducted, evaluating the effectiveness of the implementation of the Health and Safety Management System. In line to this, an inspection to Suai Fuel Station was carried out in June to verify the compliance of Downstream Regulation, Labor Code Requirement and Suai Fuel Station Standard Operational Procedure (SOP).

Visão Zerooo



TIMOR GAP's commitment to health and safety at workplace is better portrayed when, on September 2017, the company became part of the Global Vision of Prevention and was certified by the International Social Security Association (ISSA) in collaboration with International Labor Organization (ILO) to be committed to campaign the VISION ZEROOO at workplace. By taking part of

global Vision Zerooo Companies & Partners, we have committed to a stronger prevention culture to eradicate and prevent incident/accident, harm and occupational diseases at all TIMOR GAP working premises until 2022. TIMOR GAP concentrates on the people as the center of the prevention of any incident/accident and it is expected that each member of staff be aware of their responsibilities, which include the implementation of key controls for managing significant risks that either may affect them personally or those for which they are accountable.



Figure 2-8: TG-QHSE Fire Fighting & Emergency Response Training

Hazard Identification, Incident/Accident Management and First Aid

Hazard Identification, Risk Assessment and Control (HIRAC), Incident /Accident Management and First Aid are some of the components utilized to manage occupational health and safety risk to employee and asset. TIMOR GAP's IMS encompasses a HIRAC form to identify risks through the process of finding, recognizing and describing the risks in the workplace, so they could be analyzed and evaluated prior to treatment to reach a tolerable risk level. An Incident/Accident report is also produced to be used to perform a root cause analysis to understand the cause of a problem, and therefore to suggest any action to prevent it from reoccurring. A total of 83 HIRAC reports have been collected during 2017. All reports were addressed and responded to by each unit and actions taken accordingly.

There are 5 Incidents occurred during 2017 and properly managed under each responsible unit and department. Besides that, QHSE unit actively in providing first aid assistance to employee at office as well as in field and total 18 first aid assistance were recorded in 2017.

	President & CEO Office	BDU	GBU	RPSU	QHSEU	CSU	NV	EP&SB	Total
HIRAC	1	-	-	23	18	26	-	18	86
Incident & Accident	-	-	1	-	-	1	-	3	5
First Aid	-	-	4	12	1	1	-	-	18

Table 2-3 : TIMOR GAP-QHSE Performance



Comparison of 2016 and 2017 TIMOR GAP OHS performance

Detail comparison of the 2016 and 2017 TIMOR GAP OHS performance is shown in the tables and figure below. This includes report of contribution from each unit in TIMOR GAP, noticeably, number of reported HIRAC has increased exponentially, from only 11 to 86. This has been perceived as a result of increase of knowledge and understanding of the importance of Health and Safety Management

system, and the responsibility of each employee to ensure that the office can be free of accident and incident. More employees are now participated actively in the implementation of the system. On the other hand, incident and accident report remain the same, while First Aid report is increased slightly, perhaps employees are regularly using the First Aid this year.

	President & CEO Office	BDU	GBU	RPSU	QHSEU	CSU	NV	EP&SB	Total
HIRAC	-	-	-	1	5	-	1	4	11
Incident & Accident	-	-	-	2	1	1	-	1	5
First Aid	-	-	1	2	-	1	-	-	4

Table 2-4: QHSE performance for year 2016 from each unit in TIMOR GAP

	President & CEO Office	BDU	GBU	RPSU	QHSEU	CSU	NV	EP&SB	Total
HIRAC	1	-	-	23	18	26	-	18	86
Incident & Accident	-	-	1	-	-	1	-	3	5
First Aid	-	-	4	12	1	1	-	-	18

Table 2-5: QHSE performance for year 2017 from each unit in TIMOR GAP

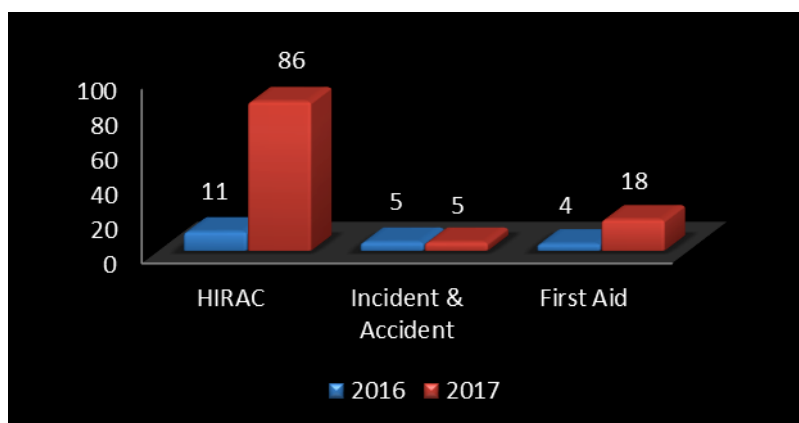


Figure 2-9: Comparison of QHSE performance for 2016 and 2017

2.4.1.3 Environment Management System

We meet our responsibility to protect the environment by conducting studies for all projects under our portfolio that assess the projects' potential impacts on the environment and social in the communities. Environmental Impact Assessments (EIA) and Strategic Environmental Impact Assessment (SEIA) 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.

- a. An EIA determines changes to the environmental and social parameters, while a SEIA is a first step in assessing those effects. One of the key objectives of a SEIA is to identify aspects that are required for a more detailed assessment. In 2016, an EIA was carried for the refinery and petrochemical complex in Betano. The study comprising of Betano refinery, Nova Betano, water supply and condensate pipeline components. The EIA was conducted to evaluate if the project has significant environmental impacts, as already listed in the legal and other regulatory requirement framework. The final reports of the Environmental Impact Statement (EIS) and Environmental Management Plan (EMP) were submitted to National Directorate of Pollution Control and Environmental Impact (Direção Nacional de Controlo de Poluição e Impacto Ambiental, DNCPIA) in 2017 and the Environmental License is expected to be granted in 2018.
- b. In 2017, the detail EIA studies for LNG Plant and Greater Sunrise Subsea pipeline have been started, performed by Advisian Consultant (WorleyParson Group). The Project Documents for both EIA studies were submitted to the Authorities, ANPM and DNCPIA, and have been revised by the authorities and afterwards by TIMOR GAP; and its consultant. The authorities (ANPM & DNCPIA) has released the EIA License certificate with Document Reference Number KK/PD/DS/II/2018/009 for this specific projects in the beginning of 2018 with excellent status, means the general status of the EIA study was good and no revision is needed for this document.
- c. For the project of Suai supply base (SBB) a com-

prehensive EIA was produced and the Environmental License for the Suai industrial cluster was granted in 2013 by the Secretary of State for Environment (SEMA) and renewed in 2015. In 2017 a further extension of the SBB Environmental License was requested and a site visit with the Environmental Authority (DNCPIA) to the project area was conducted to complete the process of attaining recertification for the project. Nevertheless, the referred license has not released yet by the authority, and it is still in the reviewing and completion process. It is expected that this process can be completed once the issue with the current government is finally settled.

- d. An EIA study for the fuel supply and fuel station development in Suai was undertaken in 2014 and the Environmental License was granted by SEMA in 2015 and renewed in 2017 for an equal period of two years. Yearly HSE inspection is carried out to ensure the operational of the SFS still meet to the internal and external legal & other requirements.

All these environmental assessments must involve relevant stakeholders, including local communities, local leaders, local authorities and also any relevant organizations/groups in the area. It is important to involve relevant stakeholders in the EIA assessment process, because their input will contribute greatly to the success of the project/operation. The EIA process involved public consultation and socialization held before and after the EIA process as required by the Environmental Licensing Decree-Law No. 5/2011.

As project owner TIMOR GAP has stepped through all requirement process such as open meeting, group discussion, survey or presentation, etc. The objective of public consultation and socialization is to inform the relevant stakeholders at the beginning of the process in order to ensure that the project is well understood in terms of its economic benefits, direct and indirect impacts and also risk involved with the mitigation measures.



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3. Upstream

3.1 Strategic Goals & Overview

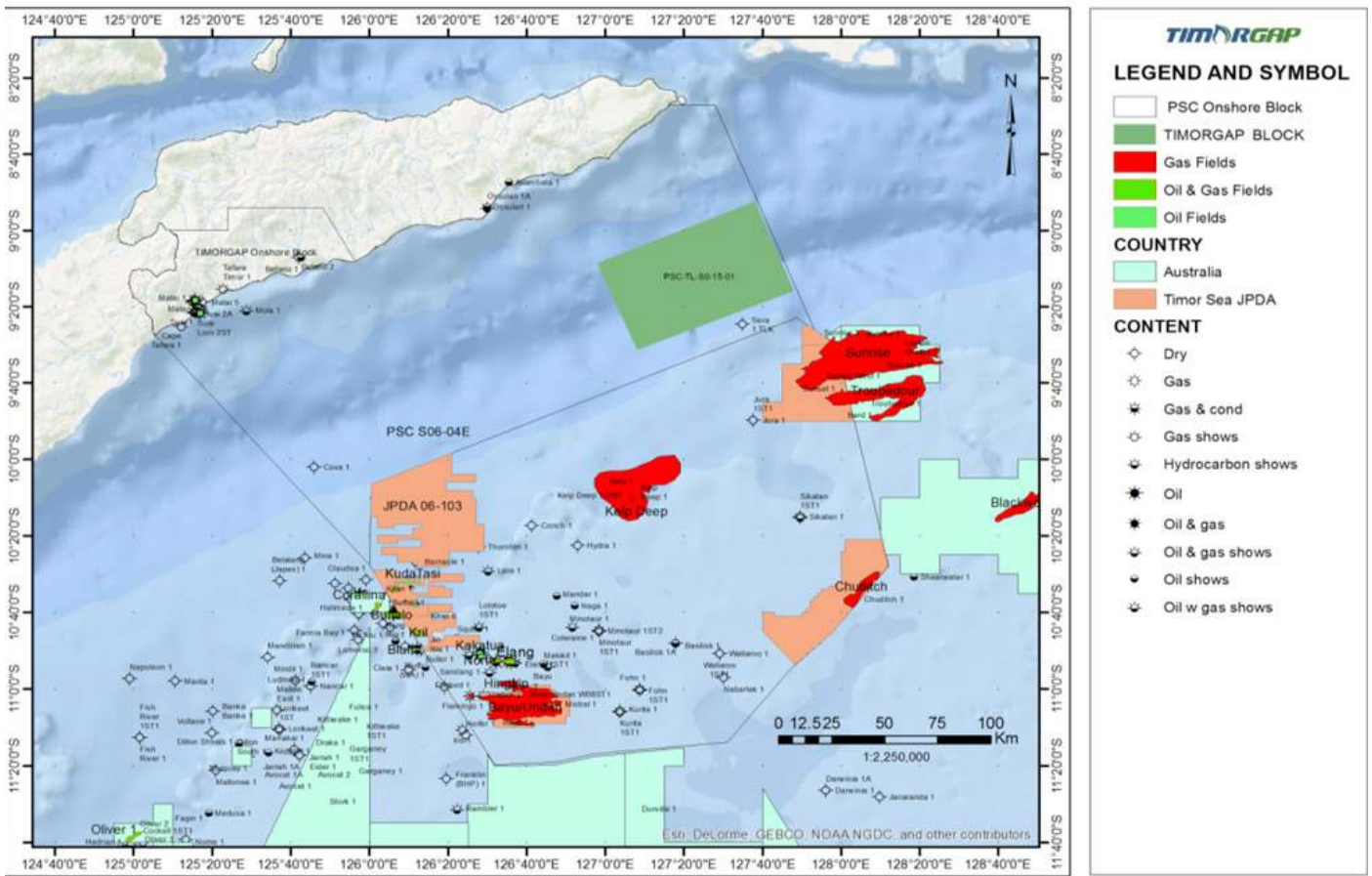


Figure 3-1: Map of the existing Production Sharing Contracts and oil & gas fields in the TLEA and JPDA

On TIMOR GAP's Strategic & Business Plan for 2016-2035, we defined Exploration & Production as our core business. Exploration & Production (E&P) has been identified as the most viable source of income in the short to medium term, given the current privileges as the National Oil Company, we have the competitive edge in marketing and strategically seek potential partnerships to boost the Exploration & Production activity and develop our portfolio.

Our key strategic goals for the upstream sector are based in the building, growth and expansion of the company's upstream business portfolio within the next 20 years. In short term, TIMOR GAP will be focused in building its exploration portfolio, thus boosting the gas and oil production and exploration activity in the Timor-Leste Exclusive Area and Joint Petroleum Development Area. This year brings us one step closer to our goals with the identification of world-class prospectivity in the offshore block TL-SO-15-01 and with the signature of two onshore Production Sharing Contracts (PSCs). With the signature of these PSCs we accomplished a further stage in the building of a stronger and wider exploration & production sector in our country, marking an import-

ant milestone for the petroleum sector of Timor-Leste and for TIMOR GAP, as its National Oil and Gas Company. In addition to these two milestones, we continue the Exploration Work Programme for PSC JPDA 11-106, carrying out technical studies for Jurassic & Triassic Play potential in Kanase and evaluating of Jahal, Kuda Tasi, Squilla and Krill discoveries. The drilling campaign for a dual target at Kanase prospect is scheduled for 2019.

In the process of building its upstream portfolio, the company will heavily invest in its human resources and technology acquisition, enhancing its technical competence and expertise on the management of exploration and exploitation activities through the provision of training and secondment with TIMOR GAP's exploration international partners and technical service providers.

Exploration & production activities will be carried both onshore and offshore, including in the Timor-Leste Exclusive Area (TLEA), the Joint Petroleum Development Area (JPDA) and, in future, internationally, to be undertaken by TIMOR GAP in partnership with international renowned companies.

3.2 PSC JPDA 11-106

Our first PSC was signed in 2013, through the wholly owned subsidiary TIMOR GAP PSC 11-106, to begin offshore exploration 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 north-west of Darwin, covering an area of 662 km² 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 was conducted, including review of the existing sub-commercial discoveries within the PSC and assessment of further potential drilling locations, covering shallow and deeper prospects. Joint Venture Partners are focused on assessment of the Jurassic Plover sandstone reservoir and a review of fault trap integrity, essential to exploration in this region, as well as evaluation of deeper prospects in the Triassic. In this regards, the operator has proposed to the National Petroleum and Mineral Authority (Autoridade Nacional do Petróleo e Minerais, ANPM) to replace two exploration wells commitment program set forth for the Initial Period with the drilling of a deeper well at Kanase prospect to test the Triassic reservoir level. The aforesaid pro-

posal of dual target at Kanase was approved by the Joint Commission and ANPM.

The Kanase prospect is located at approximately 13km from the Kitan field, 8km from the Krill discovery and 11km from Squilla discovery. The dual target comprises a primary target aiming for proven Jurassic Laminaria/Plover formation reservoir at 3500 mSS and a secondary target aiming for untested Triassic Nome formation play at 4200 mSS.

In 2016, ANPM has granted 24 months extension to the initial exploration period until 22nd October 2018. However, the Joint Venture partners have agreed to further request for a second extension and

discussions on this subject are being held between the stakeholders. The drilling campaign for the dual target at Kanase prospect is expected to commence in early 2019 and its preparation is ongoing. A tender for the provision of a rig and services for the drilling campaign is being carried out and it's expected to be completed in 2018.

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.

As part of the preparation works for the drilling campaign, a secondment was carried out in ENI Office in Perth, during a period of 4 weeks, providing an opportunity to actively involve our technical team and further deepen their knowledge during the period of preparation and execution of drilling campaign.

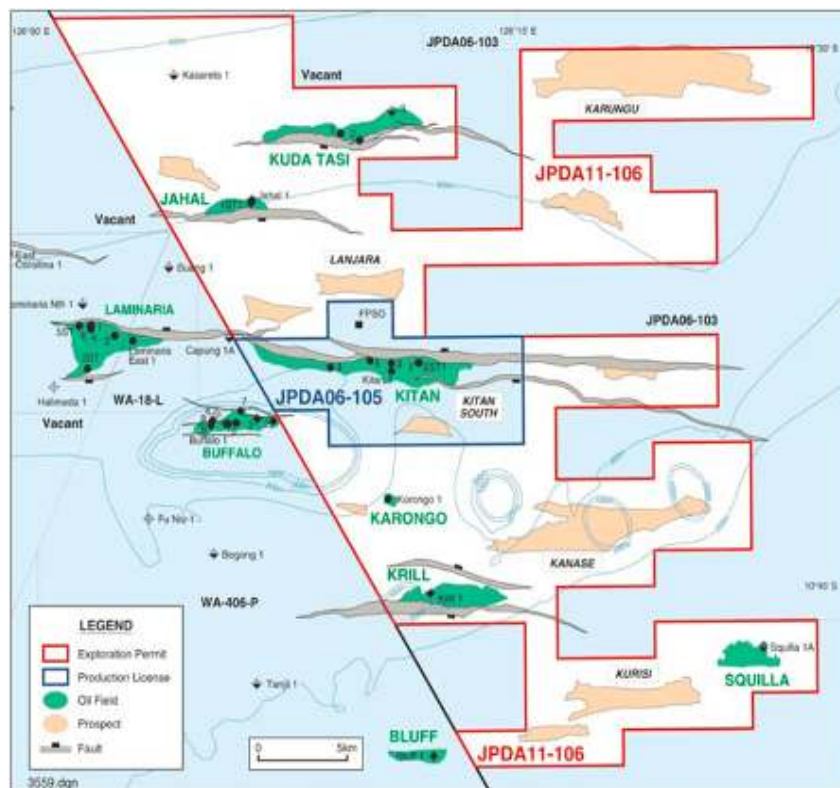


Figure 3-2: JPDA PSC 11-106 – Discoveries and Prospects

3.3 PSC TL-SO-15-01

TIMOR GAP, through its wholly-owned subsidiary TIMOR GAP Offshore Block, Unipessoal, Lda, was awarded PSC TL-SO-15-01 in accordance with Ministerial Dispatch No.3/GMPRM/XII/2015 dated 18th December 2015, authorizing the direct award to TIMOR GAP of a Production Sharing Contract for the onshore and offshore area and Government Resolution No. 44/2015 of 22nd December, which authorizes TIMOR GAP to hold a participating interest with a value of less than or equal to 100% in an onshore and offshore block, both located in the Timor-Leste Exclusive Area, including an authorization to carry out a multi-client 3D seismic survey in the offshore block.

The PSC block is located approximately 60km southeast of Timor's island eastern tip, within exclusive Timor-Leste maritime borders, midway between Timor and the Greater Sunrise gas-condensate field and covered by modern broadband 2D and 3D seismic surveys. The 2780 square kilometers Crocodile 3D seismic survey, which covers most of the PSC contract area, was acquired during 2016 and was undertaken pursuant with the PSC obligations

set for the initial exploration period. In early 2017, a contract for a full prospectivity assessment including interpretation of the 3D seismic data, AVO analysis, play analysis, prospect ranking and economics was awarded to CGG GeoConsulting, a leading global geoscience company.

The seismic data reveals clearly the geology in the 'subthrust' zone beneath the northern slope of the Timor Trough. The data allows the imaging of 31 individual closed seismic structures at various geological levels (Jurassic, Triassic and Permian), frequently stacked vertically, in 17 geographically distinct locations (11 Plover Fm prospects, 11 Triassic prospects and 9 Permian prospects), with most locations having multiple targets. The size of structures suggests the potential for substantial hydrocarbon accumulations closer to Timor-Leste's shoreline, including a previously unrecognized exploration fairway in intermediate water depths, which provides several highly attractive exploration drilling targets.

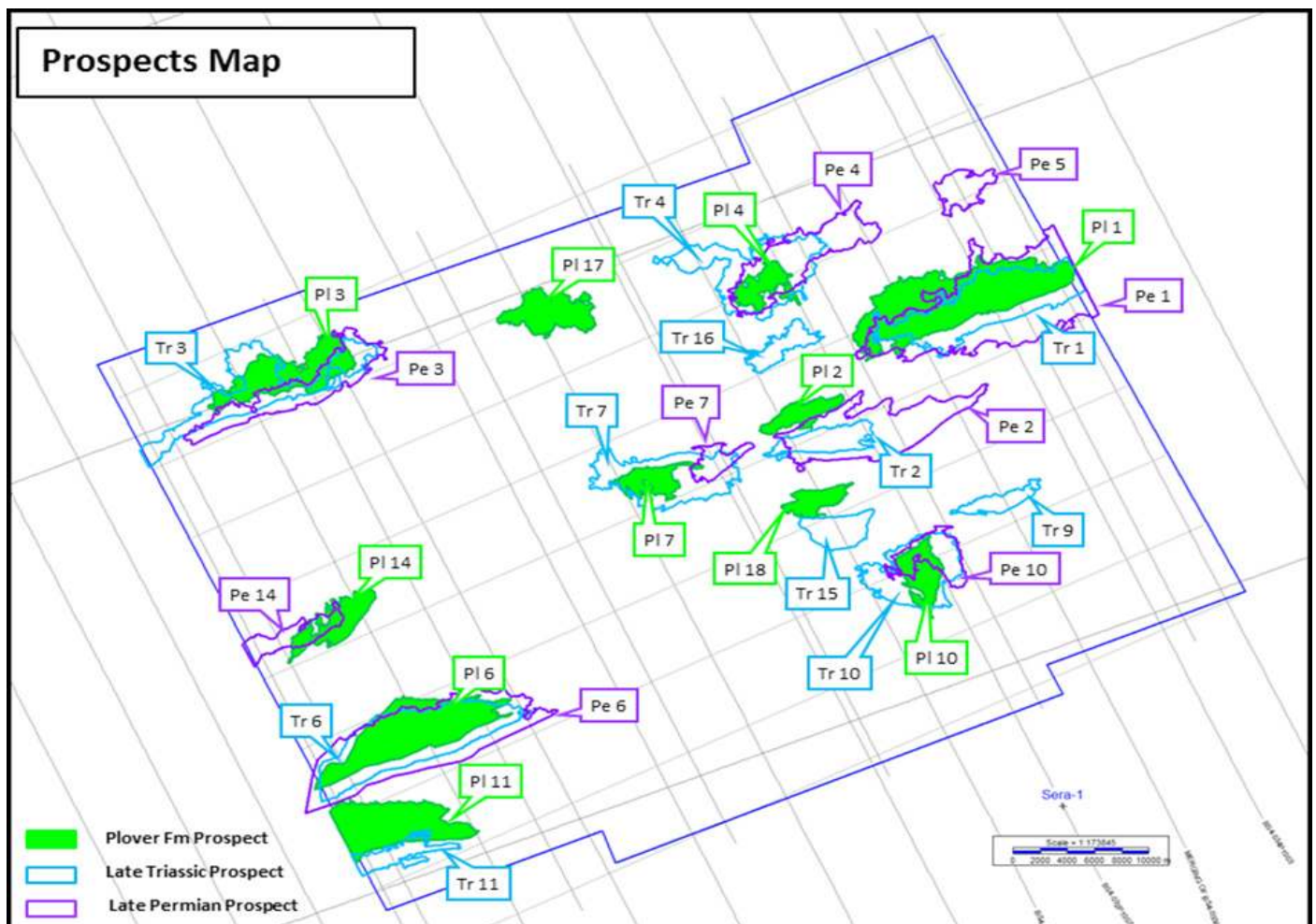


Figure 3-3: Map of the prospect in the PCS TL-SO-15-01

The study displays Proven Petroleum Systems (Late Jurassic and Late Permian) across the 3D data set with the nearby Sunrise/Troubadour gas field and the Kelp Deep gas discovery. The Triassic Petroleum System also shows indications to be a valid exploration target in the study area. The identification of prospects in the Triassic and Permian formations represent a game changer for explorations in the region, since to date many prospects and exploration plays have all been found the Jurassic formation.

The final results on the Crocodile 3D seismic data interpretation project were delivered by the CGG experts on December 2017 showing that, from the 31 prospects initially identified, approximately six have more than 1 billion of Petroleum-Initial-In-Place (PIIP). It is likely that all three Petroleum Systems identified – Jurassic, Triassic and Permian – provide

chances for preserved hydrocarbon accumulations, with greater emphasis on Jurassic Petroleum System, especially Plover Formation. Cluster 1 (PI1) deserves greatest attention in 3D Crocodile Study Area of Interest, with Cluster 6 (PI6) being second attractive.

The data acquisition and interpretation project over the PSC TL-SO-15-01 block proves to be a highly valuable investment for petroleum exploration in the sovereign territory of Timor-Leste.

TIMOR GAP technical team is actively involved in the work performed by CGG, carrying out independent technical studies to evaluate the prospectivity of the PSC area, which also provides opportunity for the team to improve their technical capabilities.

3.4 PSC TL-OT-17-08 & PSC TL-OT-17-09

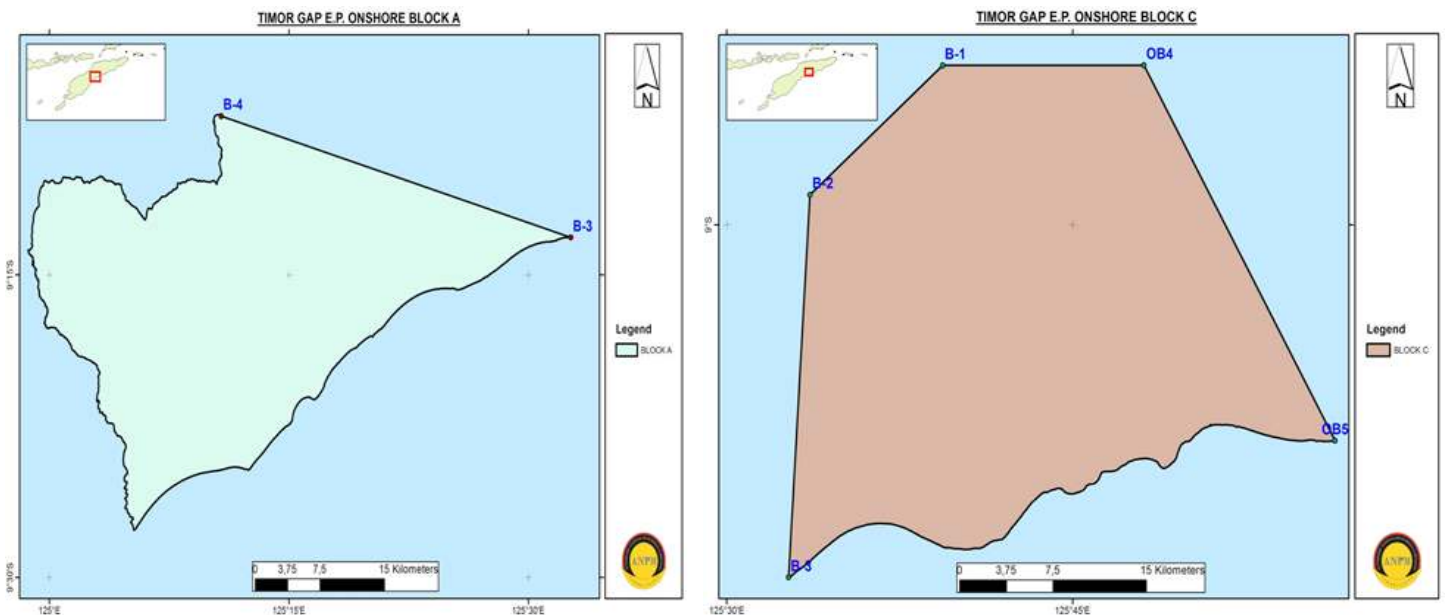


Figure 3-4: From left to right: Map of the PSC TL-OT-17-08 (Block A); Map of the PSC TL-OT-17-09 (Block C)

On April 7th 2017, TIMOR GAP, through its wholly owned subsidiary TIMOR GAP Onshore Block, Unipessoal, Lda, and Timor Resources PTY Ltd, a company incorporated in Australia and an affiliate of the NEPEAN Engineering Group of Companies, signed two PSCs with the National Petroleum and Mineral Authority (Autoridade Nacional do Petróleo e Minerais, ANPM) for oil and gas exploration in the territory of Timor-Leste. The Joint Operating Agreements (JOAs) and Deed Amendment to JOAs were signed on June 2017.

Both PSCs were awarded to TIMOR GAP through the Government Resolution No. 44/2015, which authorized the participation of TIMOR GAP in

the Production Sharing Contracts both onshore and offshore of the territory of Timor-Leste, and followed by the Government approval of the Resolution No. 39/2016 of 23rd November, based upon which the onshore block was subdivided in three distinct blocks (Block A, B and C), with the aim to increase the quantity and quality of the exploration activities in the contract areas.

The purpose of these PSCs is to commence the exploration of the two onshore blocks TL-OT-17-08 (Block A) and TL-OT-17-09 (Block C), managed by the Ministry of Petroleum, through ANPM. The two contracts cover an area of approximately 2,000 square kilometers in the south-western

part of the country considered to be highly prospective due to the several oil and gas seeps identified within the referred area, which indicate the existence of an active petroleum system.

The PSC TL-OT-17-08 covers mostly areas within the Covalima and Bobonaro Municipalities,

hosting a considerable number of oil seeps and some shallow to medium depth petroleum exploration wells drilled before 1975, by the then concessionaire Timor Oil. Based on available information, it is anticipated that the contract area will be prospective, with the potential for substantial commercial oil accumulations.



Figure 3-5: From top to bottom, left to right: Map of new gas seeps discoveries in PSC TL-OT-17-08; Gas seep in Nabuc River; Gas seep in Raiketan River; Gas seep in Foura River

The PSC TL-OT-17-09 covers mostly the areas within the Manufahi and Ainaro Municipalities, encompassing the location of the two Betano wells drilled by Timor Oil in 1972. It is expected to identify several substantial structures in this block, potentially hosting sizeable petroleum accumulations, albeit the prospects in this area have so far been identified based mainly on the information acquired prior to 1975.

TIMOR GAP and its partner Timor Resources hold 50% participating interest each in the venture, with Timor Resources assuming the role of operator.

Pursuant to the terms set forth under the PSCs, both Parties committed to an Exploration Work Program for the forthcoming 7 years with Minimum Exploration Work Requirements which cover technical studies, Geology and Geophysical studies, Environmental Impact Assessment, acquisition and interpretation of approximately 200 km 2D seismic survey and the drilling of 2 exploration wells. This is a major step for the petroleum sector development in the country, since there have been no petroleum exploration wells drilled in onshore Timor-Leste since 1973. The total investment is expected to range of \$60 to \$100 mil-

lion over the 7 years of Exploration Work Program.

Following the signature of the PSCs and JOAs, field work activities were carried out within Suai and Betano area, leading to new gas seeps discoveries in block TL-OT-17-08, located along the rivers of Raiketan (two new minor gas seeps with oily iridescence), Foura (three new minor gas seeps, no iridescence) and Nabuc (strong new gas seep, no iridescence). A total of 31 hydrocarbon indications were recognized in this block. A seismic acquisition program will commence early next year with up to

900km of 2D seismic due to be acquired during 2018.

The oil and gas onshore potential of Timor-Leste has long been recognized but has remained largely untapped and under explored for the last forty years. This opens up a major opportunity to explore the potential onshore prospects and, with TIMOR GAP's endeavor, achieve the maximum benefits for Timor-Leste and maximum participation of Timorese nationals, promoting also the capacity building and transfer of knowledge and technology.

3.5 Onshore Block B

In order to maximize the oil & gas exploration and prospecting activities in the onshore block and boost the potential for interested partners to enter into exploration in the referred contract area, TIMOR GAP subdivided the acreage of 3000km² into three separate blocks, namely Blocks A, B and C, with the Government endorsement through the Resolution No. 39/2016 dated 23rd November.

In addition to the signature of the PSCs TL-OT-17-08 (Block A) and TL-OT-17-09 (Block C) with

Timor Resources, TIMOR GAP continued to liaise with potential partners and promoting farm-out opportunity in the Block B. This block covers the Bazol Anticline and Aituto Anticline with an area of 1004.63 square kilometers.

Further technical & commercial discussions and negotiations will proceed in 2018, for the purposes of entering into a Production Sharing Contract.

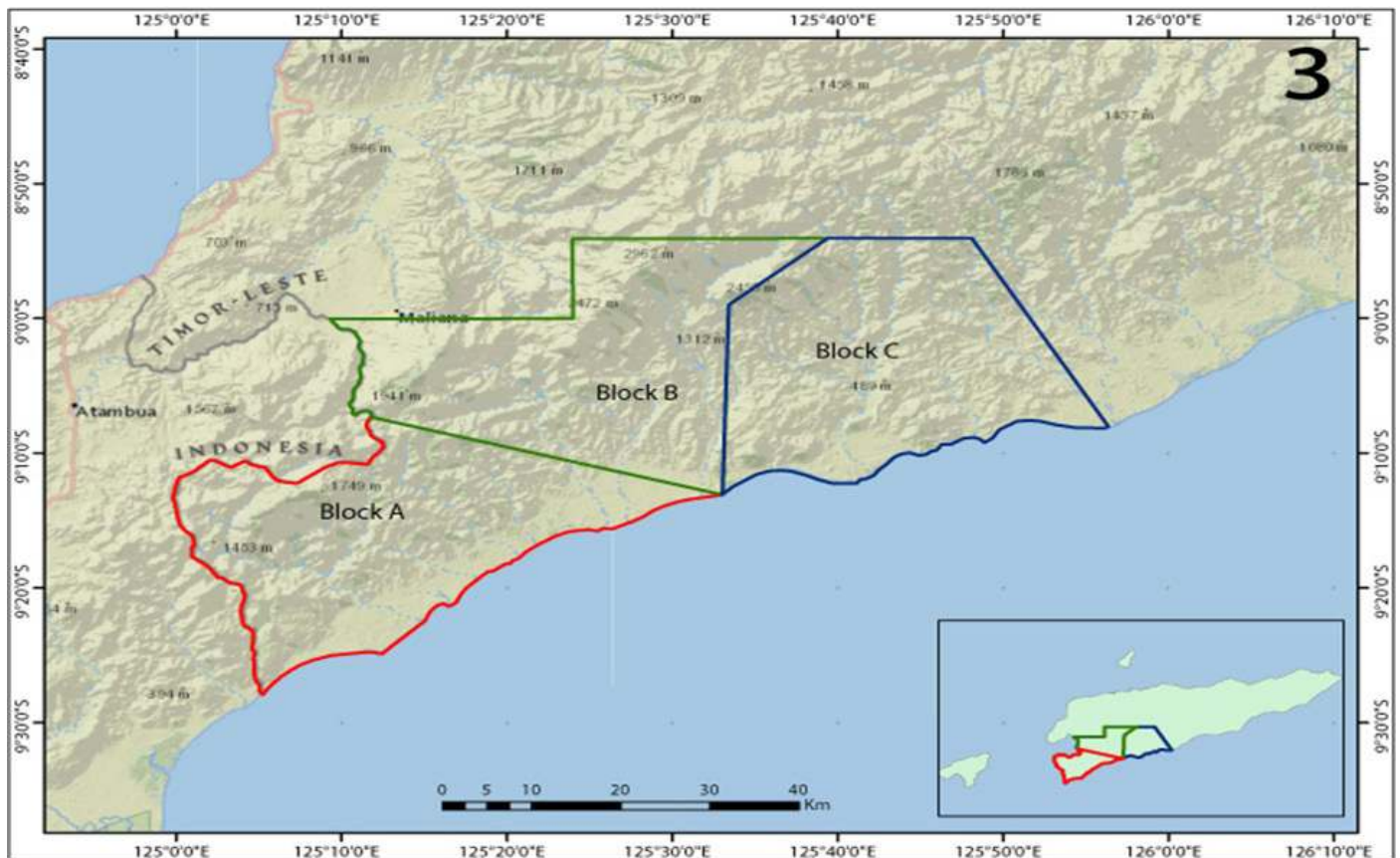


Figure 3-6: TIMOR GAP Onshore Blocks (A, B & C)

The development of these onshore blocks upstream business opportunities is considered one of the most critical and fundamental approach for TIMOR GAP and its subsidiaries over the past two years. As response to the complexity and the challenges in the upstream business, TIMOR GAP, through its subsidiaries, TIMOR GAP Seismic Ser-

vice and TIMOR GAP Drilling & Service has been fully engage and participating in discussing with the onshore block operator and its stakeholder in order to capturing the upstream exploration business opportunities such as 2D Seismic acquisition and processing as well others support services.

3.6 Other Upstream Studies

3.6.1 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-Initial-In-Place of the Greater Sunrise Field study has been completed and the results have been reviewed by both Timor-Leste and Australia.

3.6.2 Bayu-Undan Reservoir Management & Technical Study Post PSC 2022

TIMOR GAP was entrusted by the Government of Timor-Leste through the Joint Commissioners and the Ministry of Petroleum (former Ministry of Petroleum and Mineral Resources) 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-Initial-In-Place (GIIP) and review of the production till date has been completed. The Exploration & Production team has completed the Geomodeling and the Full Field Reservoir Modelling for the Bayu-Undan field, with the results of the study being submitted to the Government. The reservoir simula-

tions carried out by TIMOR GAP indicate that after 2022, when the PSC is expected to terminate, approximately 4Tcf of gas still remains in the reservoir. TIMOR GAP is working with experts to evaluate the remaining potential of the Bayu-Undan field.

In regards to technical studies for production optimization post PSC, on May 2017, TIMOR GAP and AIBEL entered into a Service Agreement pursuant to which the latter was engaged with TIMOR GAP to provide a feasibility study for the Bayu-Undan topsides modification post PSC. The feasibility study is ongoing and it is expected to be completed in 2018.



UP VALUE

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for our values

4. Downstream, Services and Subsidiary Companies

4.1 Strategic Goals & Overview

In addition to the Tasi Mane Project (Section 5), over time TIMOR GAP intends to develop a series of services to become truly an integrated oil & gas company. In the short term, we aim to gain a foothold in the trading and marketing market, establishing and developing a range of services in compliance with the high operational standards, practices and requirements of the oil and gas industry including for health, safety, quality and environment. We continue to participate in the Joint Petroleum development Area offshore tenders with the aim to provide services for the Bayu-Undan Infill Wells project and JPDA 11-106 drilling campaign.

It is also planned to set a trading business to market crude, condensate and fuel and establish a TIMOR GAP-branded wholesale and retail petroleum services in the south coast. TIMOR GAP first retail fuel station commenced its operations in 2016 generating profit for the company. In the medium term, the

future expansion of additional retailers throughout the country will boost the company's market share up to 30%. TIMOR GAP also foresees to supply jet fuel at the newly upgraded Suai airport and the construction of the avtur storage facility is ongoing.

To conduct specific business activities in the petroleum sector and related services, TIMOR GAP is authorized to incorporate subsidiaries, which may be associated with other national or foreign companies. Business opportunities and partnerships are managed through TIMOR GAP's subsidiaries.

With demands of Timor-Leste's growing economy, more business opportunities will arise in the future with modern and international standard infrastructure foreseen to be built in the country and this will be an opportunity for the company to expand its services.

4.2 Downstream & Services

4.2.1 Retail Fuel Stations



Figure 4-1: TIMOR GAP Fuel Station in Suai

TIMOR GAP is envisaged to promote the petroleum downstream activities by setting up fuel stations in the whole country with international services standard. The first TIMOR GAP-branded retail station was inaugurated in 2016 in Suai at the Covalima Municipality, in a joint partnership with Pertamina. In keeping with its ongoing commitment to high standards, TIMOR GAP renewed its environmental license for an additional two years and paid its annual

fee to the National Authority for Petroleum and Minerals to maintain the validity of its operational license.

The Suai fuel station offers quality diesel and gasoline at market price, with sales increasing in 2017, and further increase was reinforced by the signature of a new contract to extend the fuel supply to Covalima Municipality vehicles for another period from 1st January to 31st December 2017

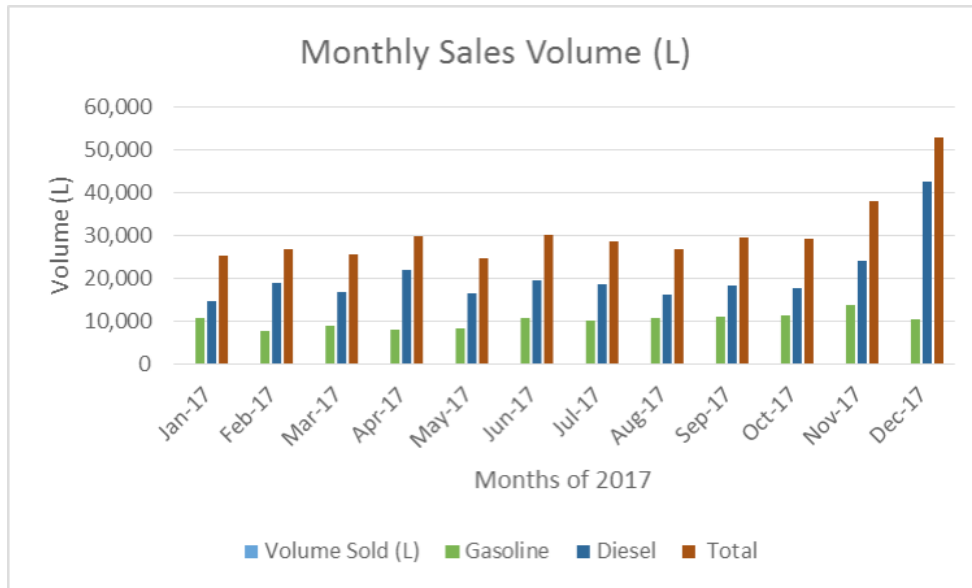


Figure 4-2: Monthly Sales of TIMOR GAP Fuel Station in Suai

While increasing our business profitability, we promote TIMOR GAP brand through the provision of products and services of high quality in a safe and secure environment. To guarantee that our operations comply with international quality, safety, security and environmental protection standards, which is of the utmost importance for our company, regular inspections on a quarterly basis are carried out. In August 2017, an inspection was performed by ANPM, covering the HSE management system at the fuel station, employees' knowledge and competence, operational & maintenance procedures for the fire extinguishers and other related emergency supporting equipment, first aid and emergency management.

As of December 2017, the fuel station em-

ployed a workforce of 14 nationals recruited locally. We continually invest in their professional and skill development providing regular training opportunities, this may correspond to First Aid Training and Fire Fighting Course, which the fuel station employees attended in March.

To secure the supply of petroleum products to meet national demand, it is foreseen the construction of a second retail fuel station, possibly located in Bobonaro, Manufahi or Oe-cusse Municipality. However due to unforeseen technical issues, the establishment of a second fuel station will be executed in 2018. We aim to have a strong retail position in the country with a distinctive trademark, helping raise the profile of our brand.



Figure 4-3: TIMOR GAP Fuel Station Daily Quality Control

4.2.2 JPDA Offshore Service Tenders

TIMOR GAP and its subsidiaries participated on several offshore service tenders for the JPDA area, predominately in the Bayu-Undan contract area

4.2.2.1 Bayu-Undan Infill Wells

ConocoPhillips foresees to drill three additional infill wells for next phase of development of the Bayu-Undan. In line to this, several tenders for the provision of services were launched.

TIMOR GAP, through its subsidiary South Horizon, a Joint venture company established between TIMOR GAP Marine and Siglar Offshore Services, participated in the ConocoPhillips re-Invitation To Tender (ITT) for the provision of topside fabrication. The tender documents were submitted in September, with South Horizon as main bidder and contractor responsible for the project management and AIBEL as a subcontractor responsible for fabrication & paintings. Commercial and technical clarifications

and PSC 11-106. In 2017, TIMOR GAP with support of its partners continues to participate in tenders.

were provided as requested by the ConocoPhillips tender.

In addition, TIMOR GAP Drilling Service, a wholly-owned subsidiary of TIMOR GAP, in bidding co-operation with COSL (the National Oil and Gas Compa of China) participated in bidding for Jack-Up Rig for Bayu-Undan Infill Well. Also for the Integrated Drilling & Services, where TIMOR GAP Drilling & Services has team-up with Schlumberger Australia to provide services such as Cementing Services, Wireline Services, Mudlogging Services, D&M Services as well local content especially for Goods and Services.

4.2.2.2 PSC JPDA 11- 106 Drilling Campaign

A dual target at Kanase prospect, located within the contract area of the PSC 11-106, is expected to be drilled in 2019. Thus, preparatory works are being conducted by the Joint Venture partners, namely TIMOR GAP, ENI, the operator, and INPEX, and several tenders were launched.

South Horizon submitted an Expression of Interest (EOI) for the ENI tender in regards to the provision of Anchor Handling Tug Supply Vessel (AHTS) and Platform Support Vessel (PSV) for the upcoming

drilling campaign at the PSC 11-106. A company overview and track record were also submitted as part of the EOI.

TIMOR GAP Oil & Gas Marine and Logistics, a wholly owned subsidiary of TIMOR GAP, submitted its EOI for the provision of marine gas & oil supply services to ENI's drilling campaign of the PSC 11-106. A company overview and track record were also submitted as part of the EOI.

4.2.3 Fuel Supply and Trading

4.2.3.1 Jet A1 Fuel Project

With the inauguration of the Suai airport, that was recently upgraded to cater for expanded passenger and freight services, presents TIMOR GAP with a potential of a new business opportunity to expand its fuel supply services, thus with the potential in generating profit for the company.

It is anticipated that TIMOR GAP will supply jet A1 fuel to the flights based in the Suai airport, becoming its sole jet fuel supplier. Therefore, several meetings were conducted with Airports and Air Navigation Administration of Timor-Leste (ANATL) and a total area of 3 674,27m² was granted to TIMOR GAP in order to accommodate jet A1 fuel storage facilities with two storage tanks with a capacity of 60 kl each.

In line to this, the Joint Ministerial Dispatch

No.01/2017 was issued according to which the former Ministry of Petroleum and Mineral Resources (through TIMOR GAP) is responsible for planning and conducting the construction works required for the installation of fuel tanks, in order to ensure the provision of fuel supply services to aircraft and for managing the referred operations and the fuel storage, filling and transport equipment and facilities; the former Ministry of Public Works, Transport and Communications is responsible for granting the licenses related to the occupation & use of the plot of land designated for carrying out fuel and lubricant supply activities; and the Ministry of Finance is responsible for providing two refuelers.

Further to this, a Request for Quotation

(RFQ) for the provision of avtur (jet A1 fuel) tanks was issued and the contract was afterwards awarded to Austank, an Australian tank manufacturer. TIMOR GAP's technical team conducted inspections to Austank's premises in Melbourne, Victoria, with the purpose to inspect the final work progress of the tanks manufactured by Austank including discussions on the requirement modifications as per Joint Inspection Group (JIG) and International Aviation Transport Association (IATA) standard requirements as recommended by Babcock Helicopter and Timor-Leste Civil Aviation Body.

TIMOR GAP entered into a Technical Service Agreement with Air British Petroleum (Air BP), pursuant to which the latter was engaged with TIMOR GAP to support the company's future operation including

training, operation manual and maintenance & emergency procedures. As per Air BP recommendation, a new contract was signed with Austank for the supply fuel/water separator & modify pipe works and fittings in order to meet JIG requirements. It is anticipated that the avtur tanks will be completed and shipped to Timor-Leste on April 2018.

In regards to the civil works associated with the avtur storage facilities, a RFQ was launched to the public and the construction contract awarded to Manu Bey Unipessoal, Lda.

The request for the location approval was submitted to ANPM and the license was then granted on October. The application process for the project approval is ongoing.



Figure 4-4: Meeting with Air BP, Australia (left); Inspection conducted to the avtur tanks (right)

4.3 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 8 and 9.

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 since established the creation of several subsidiaries aiming to conduct specific business activities in the petroleum sector and related services. All TIMOR GAP subsidiaries are depicted below.

4.3.1 GAP-MHS Aviation, Lda



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.

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. In this view, we participated in the ENI's tender for the rendering of helicopter services for the PSC 11-106 drilling campaign expected to commence in 2019.

For the purpose of pursuing further business opportunities, we retain some key personnel and, at the end of the year, the subsidiary employed both internationals and locals adding to a total of 6 staffs, breaking into 2 female and 4 male.

4.3.2 TIMOR GAP PSC 11-106, Unipessoal, Lda

TIMOR GAP established in 2012 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.

The Exploration Work Programme set forth in the PSC JPDA 11-106 focuses on the evaluation of Jahal, Kuda Tasi, Krill and Squilla fields, along with the assessment of deeper targets within the exploration area. As regards the latter, the Jurassic and Triassic play potential at Kanase prospect was being subject to extensive technical evaluation, as result of which and with the ANPM and Joint Commission endorsement, a dual target at Kanase is scheduled be drilled in early 2019, in order to test the Triassic reservoir level. The preparatory works with the Joint Venture partners for the implementation and execution of the drilling campaign are ongoing.

More information on the PSC JDPA 11-106 available in Section 3 of this Report.

4.3.3 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 in-

stallations 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%.

South Horizon Offshore Services actively continues to seek for new business ventures and opportunities to provide vessel services within the marine and oil & gas industry. Further details on this subject are provided under the above "JPDA Offshore Service Tenders".

4.3.4 TIMOR GAP Seismic Services

Established in 2015, TIMOR GAP Seismic Services (TGSS) is owned by TIMOR GAP (60%) and BGP Geopexplorer 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 Geopexplorer, 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 Broadband seismic survey, engaging TGSS and BGP Geopexplorer as the contractors to carry out the Crocodile 3D Seismic acquisition covering an area of 2780 Km² 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 in 2016.

Since completed, TGSS has a commitment to find a potential partner (PT.BGP Indonesia) to work together for the upcoming onshore 2D Seismic Acquisition in Timor-Leste area with Timor Resources as operator for this project. Therefore, TGSS and PT.BGP Indonesia were invited to field scouting trip with all the competitors for the two prospect block A and block C that conducted by Timor Resources in September 2017. The purpose is to collect the information for terrain condition and seismic surface condition, also to define the best design parameters and technology that suitable for this project.

TGSS with PT.BGP Indonesia signed Memorandum of Understanding in October 2017; the principal objective is to work together in the geophysical industry and related projects in the scope of cooperation for the coming onshore 2D seismic acquisition project. With commitment both parties agreed and signed the Cooperative Agreement for bidding to jointly participate on the tendering of 2D onshore seismic acquisition for Timor Resources in December 2017. Meanwhile, TGSS and PT.BGP Indonesia is waiting for the tendering release from the operator.



Figure 4-5: Meeting and discussion between TGSS and PT.BGP Indonesia representatives

4.3.5 TIMOR GAP Offshore Block, Unipessoal, Lda

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.

In 2015, TIMOR GAP, through its subsidiary TIMOR GAP Offshore Block, entered in its second Production Sharing Contract for the block TL-SO-15-01, which covers approximately 3,000 square kilometers in the Timor-Leste Offshore Exclusive Area. The commitments for the PSC include acquiring 3D seismic data and drilling two exploration wells contingent on results of initial exploration. Following the award of the permit, the acquisition of the 2,780 square kilometers Crocodile 3D seismic survey was completed in 2016 and afterwards, in early 2017, CGG GeoConsulting was awarded with a contract for a full prospectivity assessment including interpreta-

tion of the 3D seismic.

The evaluation of data obtained by the Crocodile 3D seismic survey indicates the presence of 31 individual closed seismic structures at three geological levels—Jurassic, Triassic, and Permian—which are frequently stacked vertically and seen in 17 geographically distinct locations, some sizable and close to shore. Of particular significance is the identification of Triassic and Permian formations, which are new to exploration in the region, and most exploration plays to date have focused on the Jurassic formations. The “world class prospectivity” will enable TIMOR GAP to open up an overlooked area of the Timor Trough where all the elements for success can be shown to be present.

TIMOR GAP Offshore Block is the operator and sole right holder of the PSC TL-SO-15-01, which will terminate on 2022. More information on the PSC TL-SO-15-01 available in Section 3 of this Report.

4.3.6 TIMOR GAP Onshore Block, Unipessoal, Lda



Figure 4-6: Onshore PSCs TL-OT-17-08 & TL-OT-17-09 Signing Ceremony

TIMOR GAP Onshore Block, Unipessoal, Lda was established in 2016 for the purpose of partaking in exploration and exploitation activities in the onshore block located in the TLEA, which was afterwards divided in three distinctive blocks, namely, Block A, Block B and Block C, in order to maximize the exploration activities within the contract area.

On the memorable date of April 7th 2017, two onshore Production Sharing Contracts, PSC TL-OT-17-08 (Block A) covering parts of Covalima and Bobonaro municipalities and PSC TL-OT-17-09 (Block C) located in Manufahi and Ainaro municipalities, were awarded to TIMOR GAP Onshore Block and Timor Resources Pty Ltd, a wholly owned subsidiary of the Nepean Group. The two contracts cover an area of approximately 2,000 square kilometers in the south-western part of the country considered to be highly prospective, with the presence of numerous oil and gas seeps. Large anticlinal structural traps with associated oil and gas seeps have been provi-

sionally identified, with the potential to host significant hydrocarbon accumulations. Anticlinal traps, such as the ones found in Timor-Leste, are the most important structural element for oil explorers, accounting for around 80% of the world's discovered petroleum resources.

The Joint Operation Agreements were signed on June and an acquisition of up to 900 line km of 2D seismic is expected to commence in early 2018. This is a major breakthrough for the country considering that albeit the onshore hydrocarbon potential of Timor-Leste is significant, it has remained largely unexplored for the last forty years.

TIMOR GAP Onshore Block holds a 50% participating interest in the two onshore blocks and Timor Resources is assuming the role of operator in the Joint Venture.

More information on the PSC TL-OT-17-08 & PSC TL-OT-17-09 and Block B available in Section 3 of this Report.

4.3.7 TIMOR GAP Drilling & Services, Unipessoal, Lda

TIMOR GAP Drilling & Services, Unipessoal, Lda, also known as TGDS, is the subsidiary of TIMOR GAP, which was established in 2017. The establishment of TGDS is important as a response to the complexity, challenges and necessities for supplying services in upstream business.

The principal objective of TGDS is to create, capture and optimize the value of commercial economy through business opportunity by providing services for drilling activities especially in exploration, development, production, abandonment and other upstream services.

Since its establishment, TGDS has participated in projects such as Bayu-Undan Infill Wells (BUIW) and ENI Drilling Campaign. In the Bayu-Undan Infills Well Project, TGDS has cooperated with China Oilfield Service Limited (COSL) for the provision of Jack Up rigs. For this cooperation TGDS and

COSL has signed a Cooperative Agreement for bidding in April 2017 and currently TGDS and COSL are awaiting result of the tender award. As part of this agreement COSL provided secondment for TGDS officials to develop their technical capability especially in Drilling Engineering & Operations, HSE and O&G Business (HR, Finance and Procurement). In addition, TGDS also cooperated with Schlumberger Australia Pty Ltd for Integrated Drilling Services such as Liquid Mud Plant (Storage) Facilities, Cementing Services, Wireline Services, Drill Bit, Drilling Fluid and other services. For this cooperation, both parties agreed and signed Memorandum of Understanding in October 2017. For the ENI Drilling Campaign Project, TGDS also cooperated with COSL for provision of mobile offshore drilling unit and the cooperation between TGDS and Schlumberger Australia Pty Ltd will provide integrated drilling services.

4.3.8 TIMOR GAP Chuditch, Unipessoal, Lda

In 2016, TIMOR GAP established a wholly owned subsidiary company, TIMOR GAP Chuditch Unipessoal Lda, as a Special Purpose Vehicle (SPV) with the purpose of participating in exploration and exploitation activities in the Chuditch gas field located with the Joint Petroleum Development Area (JPDA).

No business activities were conducted by the referred subsidiary on this financial year, however a Production Sharing Contract for the Chuditch block is anticipated to be awarded in 2018.

4.3.9 TIMOR GAP Offshore Block Resources, Unipessoal, Lda

In 2016, TIMOR GAP established a wholly owned subsidiary company, TIMOR GAP Offshore Block Resources, Unipessoal, Lda, as a Special Purpose Vehicle (SPV) with the purpose of participating in exploitation activities in the Kitan field redevelopment or others undeveloped discovery fields located

with the Joint Petroleum Development Area (JPDA).

No business activities were conducted by the referred subsidiary on this financial year, however a Production Sharing Contract for the block is anticipated to be awarded in 2018 or early 2019.



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5. Tasi Mane Project: a National Petroleum Sector Industrialization



Figure 5-1: Map of Three Clusters of Tasi Mane Project

TASI MANE PROJECT CLUSTERS

Planned developments include:

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

Supporting Infrastructure:

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

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 Beaco 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 Beaco 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 10.000 direct jobs will be created form Tasi Mane projects, and more than 50.000 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.

5.1 Suai Supply Base

5.1.1 Overview of Suai Supply Base

The Suai Supply Base (SSB) facility constitutes an important role within Timor-Leste’s government Strategic Development Plan (SDP) and is rec-

ognized as a notable project and a future landmark in the south coast.

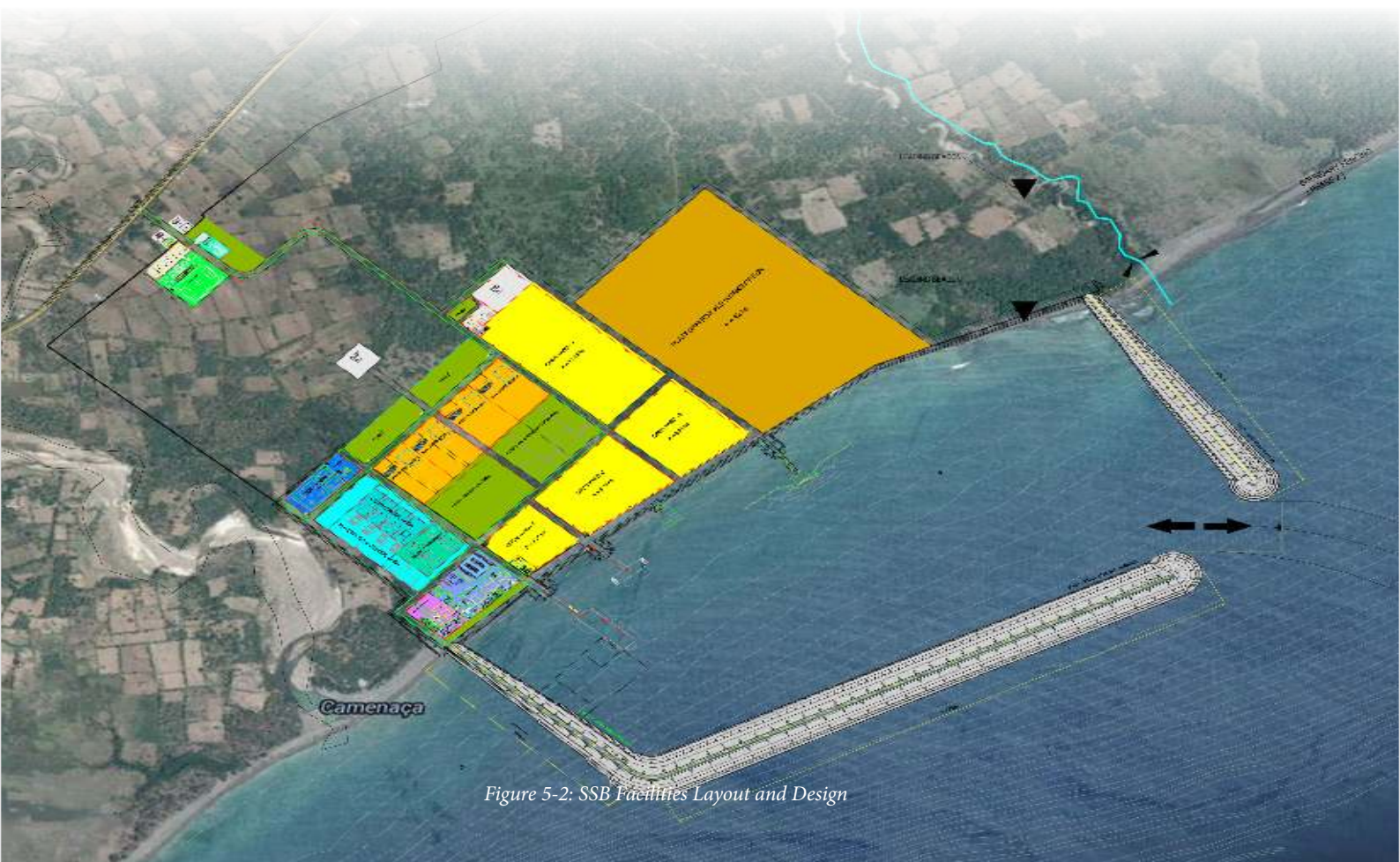


Figure 5-2: SSB Facilities Layout and Design

The settlement of Suai Municipality is located approximately 135 km south-west of Dili, 22 km from the Indonesian border and 5 km inland from the Timor Sea (southern coastline). Suai will become a center for the petroleum industry in Timor-Leste providing services, logistics, fabrication facilities and human resources of offshore and onshore oil and gas activities in the Timor-Leste Exclusive Area (TLEA) and Joint Petroleum Development Area (JPDA). It will include the building of a sea port, a housing complex

in Camanasa, a rehabilitated and expanded Suai airport and a heavy metals workshop and ship building and repair facilities.

The SSB will provide an entry point for the materials and equipment that will be needed to build and maintain petroleum industry infrastructures and plants, serving also 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 Beço's LNG plant.

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 consists of, a main jetty, barge jetty and LCT Ramp that supports 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 job creation opportunities, generating hundreds of new jobs, support a

national economic development, and potentially 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 License was granted in 2013 and renewed in June 2015. The renewal of the Environmental License for third period of the SSB project was requested this year and its foreseen to be granted in 2018.

5.1.2 Procurement and Construction Process

In the wake of the preliminary review procedure conducted by the Audit Chamber, as result of which the latter issued a ruling pursuant to which it was decided not to approve the Design-Build Contract for the SSB, the Government, through the Council of Ministers' approval, submitted its appeal on November 2015. As of this date, the appeal lodged by the Government has been under the regulatory framework of Court of Appeal until 18th July 2017, when the Court of Appeal revoked the Audit Cham-

ber's decision thus granting prior approval to the SSB contract.

The delays in obtaining a response for the appealing process led to Hyundai's withdrawal from the SSB Design-Build Contract and termination by mutual agreement of the Consultancy Agreement signed with Eastlog Projects Limited for the provision of consultancy services for the supervision of the project's construction phase.

5.1.3 Training and Skill Development Program

Upholding the commitment with the local community and in fulfilling local content requirements, a training and skill development program is being planned and prepared with the purpose to attain the maximum participation of local labors during the SSB construction phase. At the same time, some of these necessary set of skills of labors could be involved in the SSB future operation phase.

Based on SSB project scope and complexi-

ty, the construction workforce required is expected to be at least of 1,300 workers, ranging from lower level skills up to higher level of engineering skills. This opens up the opportunity to engage local labors providing the needed training to empower the local labor with skills and know-how. In this regards, a proposal for the training and skill development program has been prepared and submitted to the Government for approval. This proposal was elaborated based on an

extensive survey conducted by TIMOR GAP technical team through each training provider facility and program surrounding Dili and Suai Municipality.

The aforesaid proposal covers the provision of training in areas such as construction material test-

ing, topography service, general civil works, heavy equipment operation and maintenance, among others. It is anticipated that the training program will have duration of one year with an attendance of at least 440 trainees.

5.1.4 Land Title Clearance and Community Liaison



Figure 5-3: SSB Parcels map cleared by end of 2017

TIMOR GAP proceeded with the land title clearance process in close coordination with Inter-Ministerial Working Group (Ekiba Konjunta Interministerial Alargado), partaking in several meetings, field trips, public consultations and liaising with the local authorities, relevant stakeholders and affected community.

We continued to support and coordinate with the Directorate of Forestry under the Ministry of Agriculture and Fisheries and Directorate of State Asset under the Ministry of Finance to monetize the teakwood, which has already been compensated in first & second phase, through an auction. According to the second re-verification completed on April 2017 in the SSB compensated area, 1688 aiteka (teak) trees are eligible for auction, representing an area of 342.20m³. The aforesaid auction will take place in 2018.

A horticultural program is being prepared and developed with the main focus on establishing an agricultural cooperative for the farmers from the affect-

ed communities with the 10% share compensation option, in order to improve the farmers' agribusiness and therefore improve their livelihood. TIMOR GAP continues to support this initiative and a draft proposal for the establishment of the cooperative & draft proposal for the horticultural program funding was elaborated and submitted to the company's management.

TIMOR GAP continued to accompany and monitor the compensation/payment process of the beneficiaries who decided to change from 10% share option of their land to sell ("\$3" Option) in 2016, while organizing the third phase of compensation for SSB area and addressing grievances from affected communities and other stakeholders. In the third compensation phase were signed 50 contracts corresponding a 50 parcels of land, covering a total area of 28 hectares.

5.2 Suai Airport Upgrade

5.2.1 Overview of Suai Airport



Figure 5-4a Airport Main Entrance



Figure 5-4b Suai Airport with Air Traffic Control Tower

On 20th June 2017, a significant milestone towards the development of the country's infrastructures was attained with the inauguration of the Suai Airport, subject to an extensive upgrade to cater for an expanded passenger and freight services. The President of the Republic, H.E. Dr. Francisco Lu-Olo Guterres, officially cut the ribbon and signed the in-

auguration plaque to inaugurate the "Commander in Chief of FALINTIL Kay Rala Xanana Gusmão International Airport". H.E. Prime Minister of Timor-Leste, representatives of the Government, the President of the Court of Appeal and National Parliament, veterans and local leaders were also in attendance.



Figure 5-5: Ribbon cutting ceremony by President of the RDTL, H.E. Dr. Francisco Guterres (Lu-Olo)

The Suai International Airport is located between Matai and Holbelis, Covalima Municipality, and features a 1.5 km long runway, a new terminal building with facilities for security, customs and immigration, fire station, meteorological, air traffic control, workshop, AGL instruments, DVOR and GNSS system and helipad with Medivac air ambulance facilities. The hangar helicopter parking has a capacity for 4 unit helicopter and 1 unit overhead crane at maintenance area, with a length of 106.8m and 22m wide. The need to extend and refurbish the existing Suai runway and build new modern facilities was identified in the national Strategic Development Plan 2011-2030.

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, agriculture

and tourism sector and the communities living in the south coast. It will also assist in the delivery of services in areas such as health and security. With the new airport multiple services will be created such as tourism, catering, maintenance, transports, commercial activities, passenger handling, fuel companies, hence generating various new job opportunities and further investments.

PT. Waskita Karya was responsible for the construction under the supervision of Jurutera Perunding Zaaba SDN, Bhd. Ltd, employing a construction workforce of 20% national labors, hired pursuant to the local content requirements.

The Suai airport is a key project aiming to unlock the growth potential of the south coast by allowing the increase of national connectivity and enhancing the ongoing development of the region. The commercial flights operations commenced on January 2017 with regular and charter flight operate by ZEEMS and MAF from Monday to Saturday except on Wednesday and Sunday.

5.2.2 Construction of Infrastructure Facilities for the Support of Suai Airport

In order to allow the planned upgrading and enhancement of Suai Airport, it is envisaged the construction of a new residential neighborhood to reset-

tle the community of Lohorai and Holbelis villages affected by the project.

5.2.2.1 New Resettlement of Lohorai



Figure 5-6: Panoramic view of Lohorai resettlement

In 2014, the Government, through MPRM, entered into contract with Community Housing Limited (CHL) Industries, Unipessoal Lda, pursuant to which CHL was engaged with the MPRM to construct the infrastructure facilities for the support of Suai airport (Lohorai village).

The new resettlement area for the Lohorai affected community encompasses the construction of 72 new houses to be built in phases. The first phase comprises 25 houses completed and handed over to the community in 2016. The remaining houses for the phases 2 and 3 were finalized in early 2017 and handed over to affected community over the same period.

The new residential quarter of Lohorai provides a safe and appropriate accommodation for 71 families, totaling approximately 324 residents, offering good housing conditions, sanitation, electricity, access road and drainage system, water supply system and a comfortable environment, using mainly local construction materials such as tijolu kesi, soil bricks known for its thermal properties. Supplemen-

tary construction works such as hot mix asphalt for the access road have been fully completed in June 2017.

In addition to the design and construction of houses for the families affected by the extension of the airport in Suai, the construction contract scope included a training in production and construction using mainly locally produced building materials, for the equitable resettlement of families affected by the construction of the Suai airport. With this, we aim to involve the local community in the construction process, giving not only a sense of ownership of their new houses, but also providing them an opportunity to find jobs in future developments planned for the south coast.

In regards of the above, a Production Centre to produce local building materials such as tijolu kesi, concrete window and door frames; and Training Centre to train local workers in construction and production of the aforesaid building materials, were established. This training was provided to a total of 280 trainees.



Figure 5-7: Suai Airport with Control Tower in the backdrop



Figure 5-8: Access Road at the Lohorai Resettlement

5.2.2.2 New Resettlement of Holbelis

In 2017, we completed the land title clearance process for the new residential resettlement of Holbelis. In close coordination with National Directorate of Land & Properties and Cadastral Services (Direção Nacional de Terras, Propriedades e Serviços Cadastrais, DNTPSC), several meetings were conducted with the local authority of Labarai Village and land owners, a result of which 12 contracts were signed, including 8 land & properties contracts, 1 land contract and 3 properties contracts. These contracts were signed between the land owners and Director of DNTPSC of Covalima, as Government's repre-

sentative, at DNTPSC Covalima Office with the presence of notary, local authority of Labarai Village and TIMOR GAP's team.

The payment process of the Holbelis' community was transferred from BNCTL to affected community account on August 2017. In addition to the contracts above mentioned, 2 additional land & properties contracts for the parcels of land identified for the extension area of the new resettlement of Holbelis were signed and its payment processed accordingly.

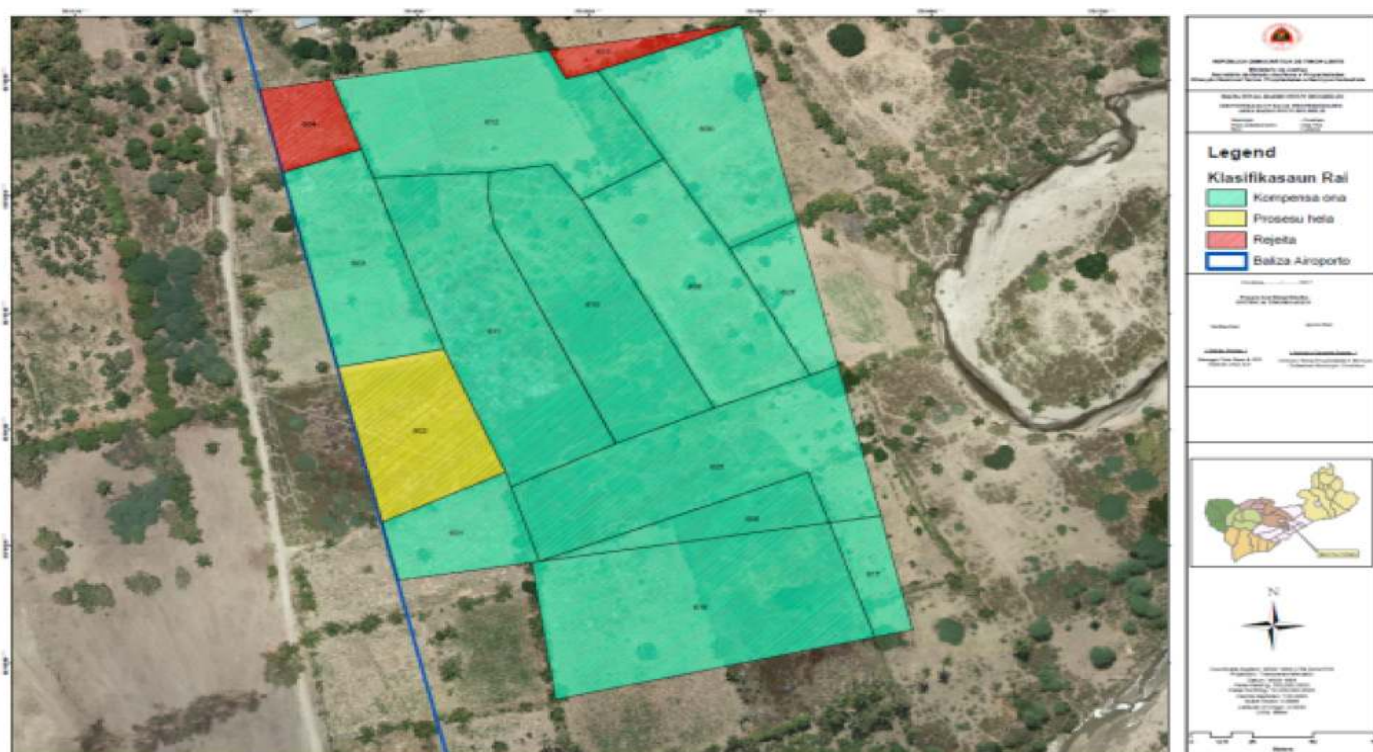


Figura 5-9: New Resettlement Holbelis Area

The construction of the new resettlement of Holbelis is expected to commence in 2018, comprising a total of 68 new houses, access roads, water supply system, Chapel and recreational area. The

new residential quarter will also use local construction materials, as the likes of tijolu kesi, and it is foreseen to be concluded in 2020.

5.2.2.3 Permanent Cemetery in Suai Airport Area

In addition to the community housing, a permanent cemetery is expected to be built within the Suai airport area in order to accommodate the cemeteries affected by construction of the airport project.

On 27th February 2017, a construction contract was signed with Joia Camenasa Construction,

pursuant to which the latter was engaged in the construction of 401 graves, and the Notice to Proceed was delivery on 8th March 2017.

By the end of 2017, the progress construction of cemetery reached 72.85 %. The project expected to be finalized in the second quarter of 2018.



Figure 5-10: Cemetery in Suai - Holbelis

5.3 Betano Refinery and Petrochemical Complex

5.3.1 Overview of Refinery and Petrochemical Complex in Betano

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.

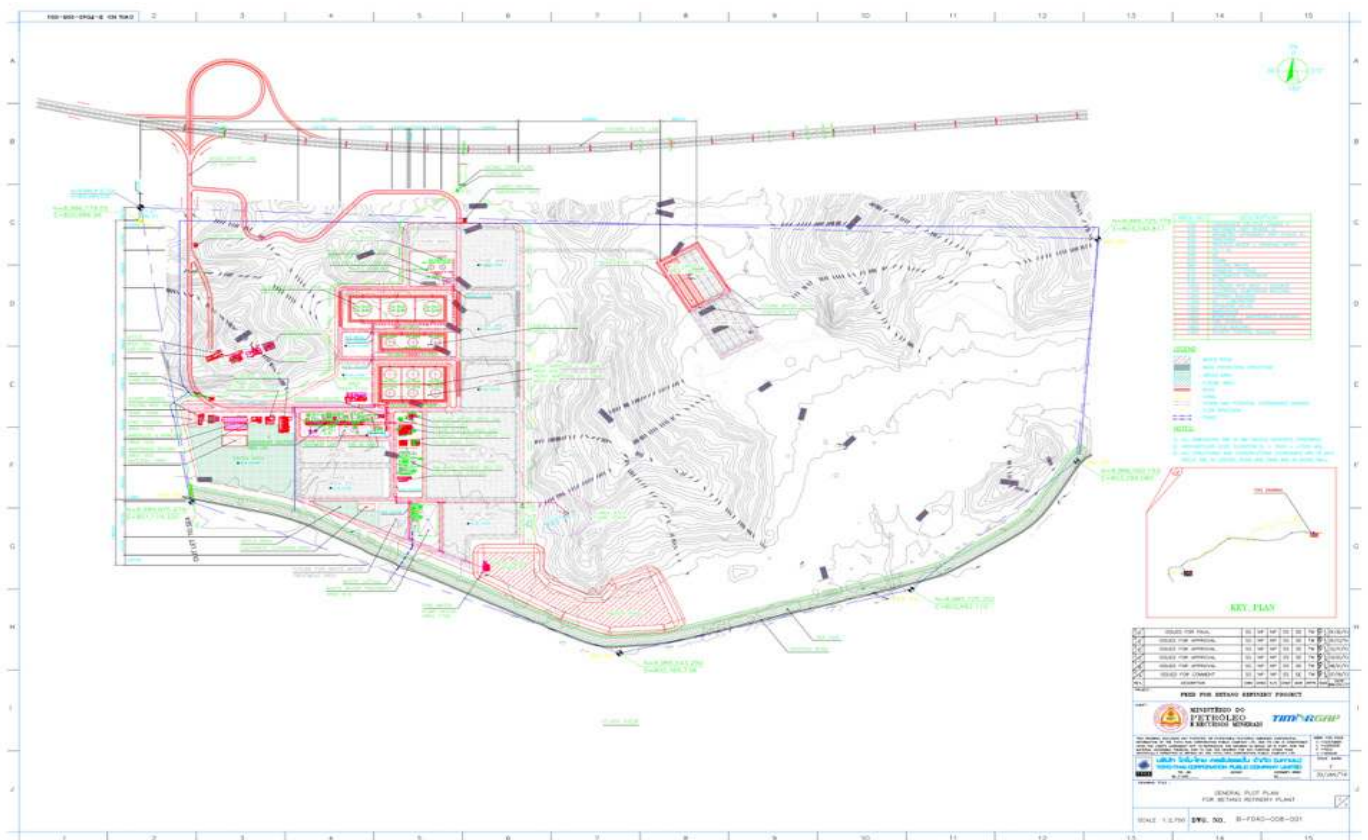


Figure 5-11: Layout of the Betano refinery and petrochemical complex

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 estab-

lished through a commercial venture, entrusted to TIMOR GAP to cater the development. 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.

The construction of the first refinery in the country will contribute to energy security, value addition of the domestically produced field condensate, contribution to economic growth, and creation of direct and indirect employments.

5.3.2 Environment Impact Assessment (EIA)

TIMOR GAP entered into a Service Agreement with TEAM Consulting Engineering and Management Co. Ltd, pursuant to which the latter was engaged with TIMOR GAP for the provision of the Environment Impact Assessment (EIA) study for the Betano Refinery and Petrochemical Complex project. The objectives of the EIA are to identify and assess the significance of environmental and social impacts that the project may cause during the pre-construction, construction, operation, and deactivation phases of the project; and prepare an environmental management plan for addressing the significant impacts during the four phases of the project to comply with applicable national and international environmental standards and guidelines as appropriate.

In addition to the Refinery and Petrochemical Complex, the Betano project comprises three support projects: Nova Betano project to develop a new town to accommodate the refinery workforce, oil and gas businesses, and resettlement of the communities to be moved from the land acquired by the project; water supply project to supply raw water to

the refinery; and pipeline project to transport four refinery products- condensate, light naphtha, heavy naphtha and diesel- from the refinery to Suai supply base. Throughout 2017, the consultant and TIMOR GAP collected the data and undertook an assessment for each project component (refinery, Nova Betano, water supply and pipeline), including public consultations to produce the Environmental Management Plan (EMP) and Environment Impact Statement (EIS), which were reviewed by TIMOR GAP and revised in response to the technical comments from National Directorate of Pollution Control Environment Impact (Direção Nacional de Controlo de Poluição e Impacto Ambiental, DNCPIA). The final draft reports of EIS and EMP for the aforesaid four components are submitted and endorsed by DNCPIA.

On September, TEAM Consulting conducted the final presentation of the EIA study for the Betano refinery project and afterwards the final reports were submitted to the DNCPIA in order to attain the Environmental License, which is expected to be issued in 2018.

5.3.3 Land Title Identification

As a result of the land title identification, (re) verification and (re)publication process conducted in the previous years, a total of 125 land plots were considered for compensation; 27 land plots were categorized as "RDTL Claims", from which 22 land plots were subject to a claim submitted to DNTP (Direção Nacional de Terras e Propriedades) for further action; and 2 land plots were categorized as State land.

The final report on the land title identification for the Betano refinery project was concluded in early 2017 and afterwards submitted and endorsed by the Secretary of State for Land & Property, through DNTP. As part of your commitment to fully comply with public disclosure requirements and accurately

communicate with affected community for a clear understanding of the above mentioned process, a presentation on the final report of the land title identification was delivered to the Administrator and related community leaders of Manufahi Municipality on June 2017.

Based on the aforesaid report and with Ministry of Petroleum and Mineral Resources endorsement (current Ministry of Petroleum), a budget proposal for the compensation stage was presented to the Council of Administration of the Infrastructure Fund (CAFI) for further approval. The compensation stage and procedures are anticipated to commence once the proposed budget is approved and allocated.



Figure 5-12: Map of the re-verification results

5.3.4 Community Clean Water Program

The development and success of our projects require a strong support from the local community, which, in turn, requires our active contribution in order to enhance its living conditions. Aligned with this, TIMOR GAP strongly promotes and develops programs focused on the community welfare such as the access to clean drinking water.

The access to reliable, safe drinking water at villages in the refinery project site is still challenging. Therefore, TIMOR GAP is working towards the implementation of a clean water program to ensure that safe

drinking water is supplied to the local communities. This community-driven program will be developed in collaboration and coordination with community leaders, benefiting 579 households from the villages of Be-Metan and Selihasan, Suco Betano.

Site survey and data gathering of water sources will be executed upon the coordination meetings with community leaders, followed by the detail design process. These activities are anticipated to be carry out in 2018.

5.4 Beaço LNG Plant

5.4.1 Overview of LNG Plant in Beaço



Figure 5-13: Map of Timor-Leste LNG Complex in Beaço

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 the establishment of a LNG Plant to process the gas in south coast at Beaço, Viqueque (about 200 km southeast of Dili).

This project consists of four major components, which are LNG plant, marine facility, subsea pipeline and new towns development. The first phase of the LNG Plant development will establish a production capacity of 5 million tons per annum (MTPA) or one train, which may be expanded in the future to a capacity of up-to 20 MTPA or four trains. The LNG plant feedstock will be delivered through a pipeline with a route of approximately 231km across Timor trough, which will transport dry gas at 900 MMCFD flow rate during normal operation.

The marine facility is a specifically designed port dedicated for LNG and its design based upon the creation of an inland basin, with a main Product Loading Facility (PLF) wharf of 240m in length, capable of accommodating the largest LNG/LPG vessels, with operating draft of -13.5m LAT within the basin.

The design maturity of the referred components is consistent with pre-FEED/FEED level of

definition. 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 concluded in early 2016.

In addition to the new towns which are intended for resettlement of the local community, 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 presence of LNG project in Timor-Leste will provide energy security, clean energy and adding value to Timor-Leste natural resources, while boosting the revenue and job creation in the region and increasing economic growth of the country. Another benefit would be indirect employment to local community members, through spillover effects from the downstream activities, such as local entrepreneur, that may include pharmacy, restaurant, etc., thus leading improvement in the living conditions of local population in the project area.

To support the ongoing Timor-Leste negotiation team in the Conciliation Commission for the Maritime Boundary and Greater Sunrise Development, additional works on the Beaço LNG was undertaken in 2017. This included an update on the project cost

estimates for the Capital Expenditures (CAPEX) for the pipeline. The same engineering consultant that delivered Pipeline FEED study in 2012/2013 was

engaged to revise the Project CAPEX based on the prevalent low price of oil commodity in the recent years.

5.4.2 Environmental Impact Assessment (EIA)

Following the Strategic Environmental Impact Assessment (SEIA) conducted in 2012 for the LNG plant, a detailed Environmental Impact Assessment (EIA) is required to identify the aspects of the project that have an interaction, either negatively or

positively, with the environment. The identification of environmental and social aspects, their impacts and associated avoidance, management and mitigation measures form the basis of how a project will be managed to reduce potential adverse impacts.

5.4.2.1 EIA Study for LNG Plant

With this in view, we commenced the preparation for the EIA study regarding the components of LNG plant which includes marine facility, pipeline landing point (onshore section) and new towns of Nova Beço & Nova Knuas. In line with the requirements of Environmental Licensing Decree-Law No. 5/2011, the Project Documents (PD) for this study were prepared and submitted on June 2017 to the National Petroleum and Mineral Authority (Autoridade Nacional do Petróleo e Minerais, ANPM) and to the National Directorate of Pollution Control and Environmental Impact (Direção Nacional de Controlo de Poluição e Impacto Ambiental, DNCPIA). ANPM

is the entity responsible for processing environmental license in relation to petroleum industry projects and DNCPIA is the Environmental Authority of Timor-Leste.

Following its submission, ANPM and DNCPIA provided their first review on the Project Documents (PD) which was issued to TIMOR GAP towards the end of November 2017. Subsequently, an updated PD was made against the technical comments of ANPM and DNCPIA and resubmitted to the aforesaid Authorities for endorsement and/or further reviews in December 2017.

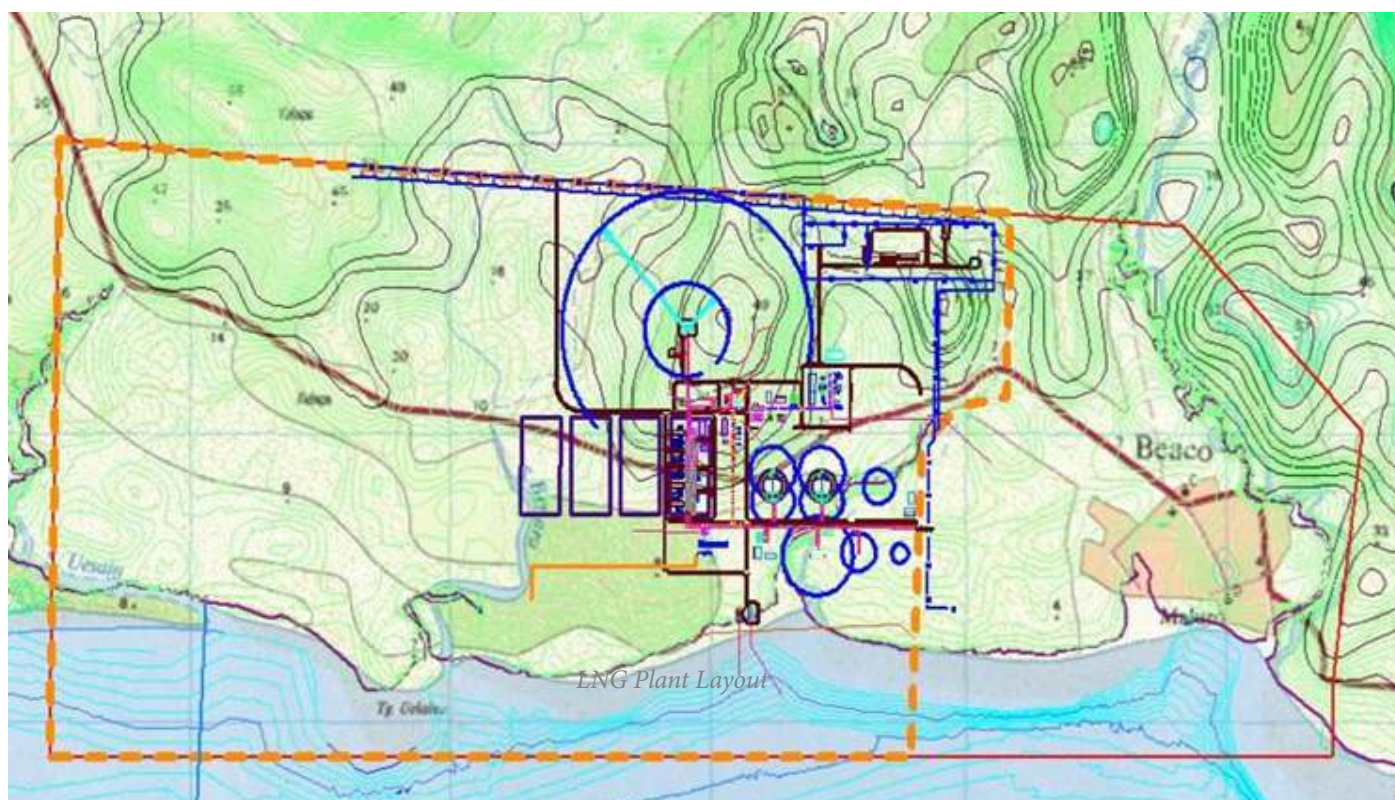


Figure 5-14: LNG Plant Layout

5.4.2.2 EIA Study for Pipeline

Timor-Leste LNG project has four major components: LNG plant, marine facility, Sunrise-Beaço pipeline and new towns. However, as Sunrise-Beaço pipeline project is quite distinct and located offshore, an EIA will be carried out independently from the other three major components. The Project Documents (PD) for the EIA study to be conducted for the subsea pipeline from Greater Sunrise to onshore Timor-Leste at Beaço were prepared and submitted to ANPM and DNCPIA in December 2017.

While awaiting responses from the Authorities, due to an immediate need, an EIA study is be-

ing conducted in parallel. Upon the completion of procurement processes, in May 2017, TIMOR GAP entered into a Service Agreement with Advisian, an Australian company part of Worley Parsons group, pursuant to which the latter was engaged by TIMOR GAP as the Consultant to develop EIA study for the Greater Sunrise - Beaço pipeline project. The consultant and TIMOR GAP collected the additional data as necessary and undertook an assessment for the subsea gas pipeline to produce the Environmental Management Plan (EMP) and Environment Impact Statement (EIS).

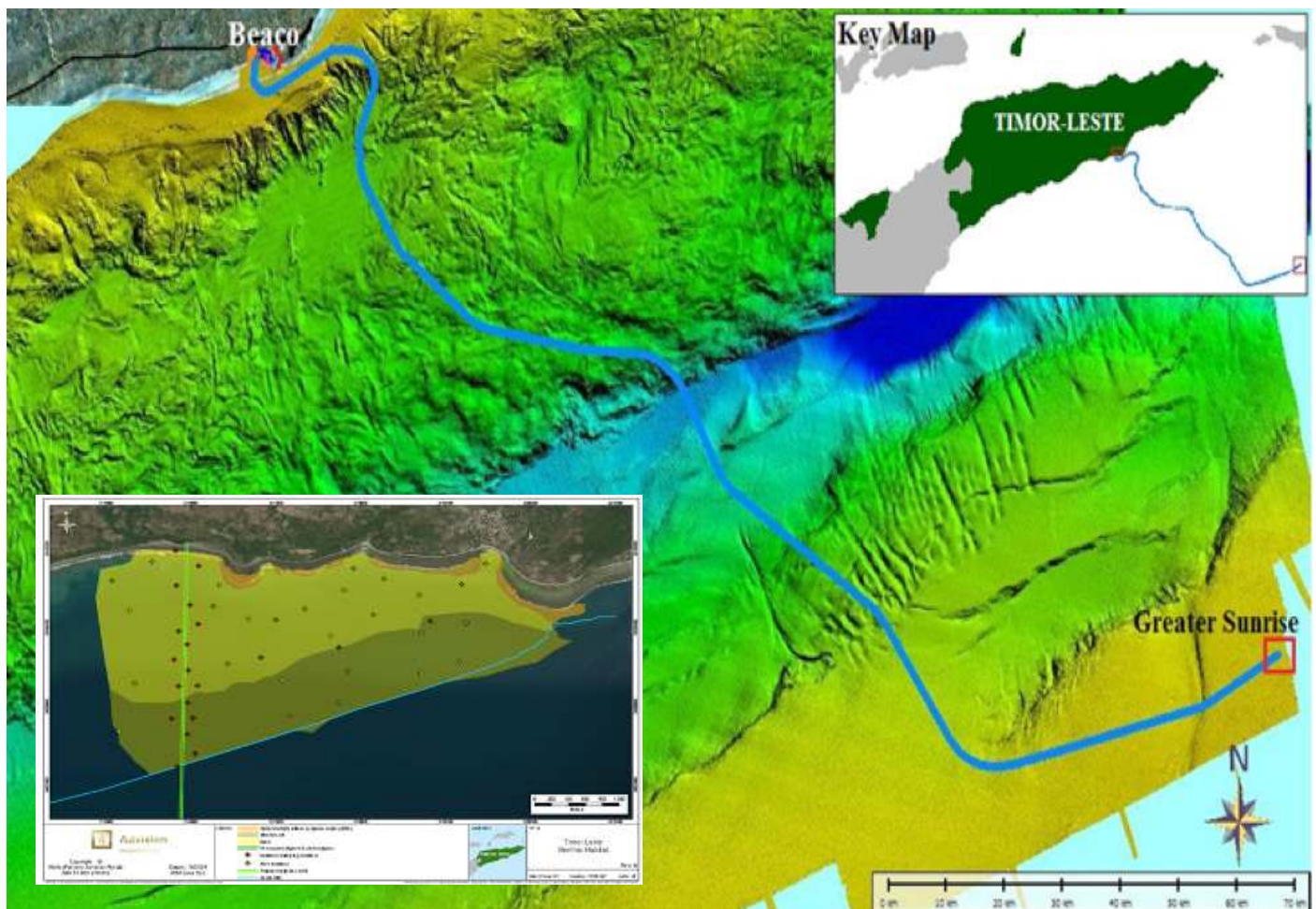


Figure 5-15: Map of pipeline route from Greater Sunrise to Beaço

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

Following on previous year with the English training program established in Beaço with the aim to enhance language skills for the affected community of Beaço LNG project, maximizing the participation of local content during the implementation of this project, we continued to carry out Phase 2 & 3 of the English Language Course delivered by Science of Life (SOLS 24/7).

The Phase 2 of the English course commenced on August 2016 and was concluded on April 2017. Students completed this 6 months training received their certificate of completion on a graduation ceremony held on 15th July 2017.

The Phase 3 of English course with focus on English for Business commenced immediately in May 2017 and completed in December 2017.



Figure 5-16: Graduation ceremony of the English Language Training (Phase 2)

5.5 Highway

5.5.1 Overview of Highway

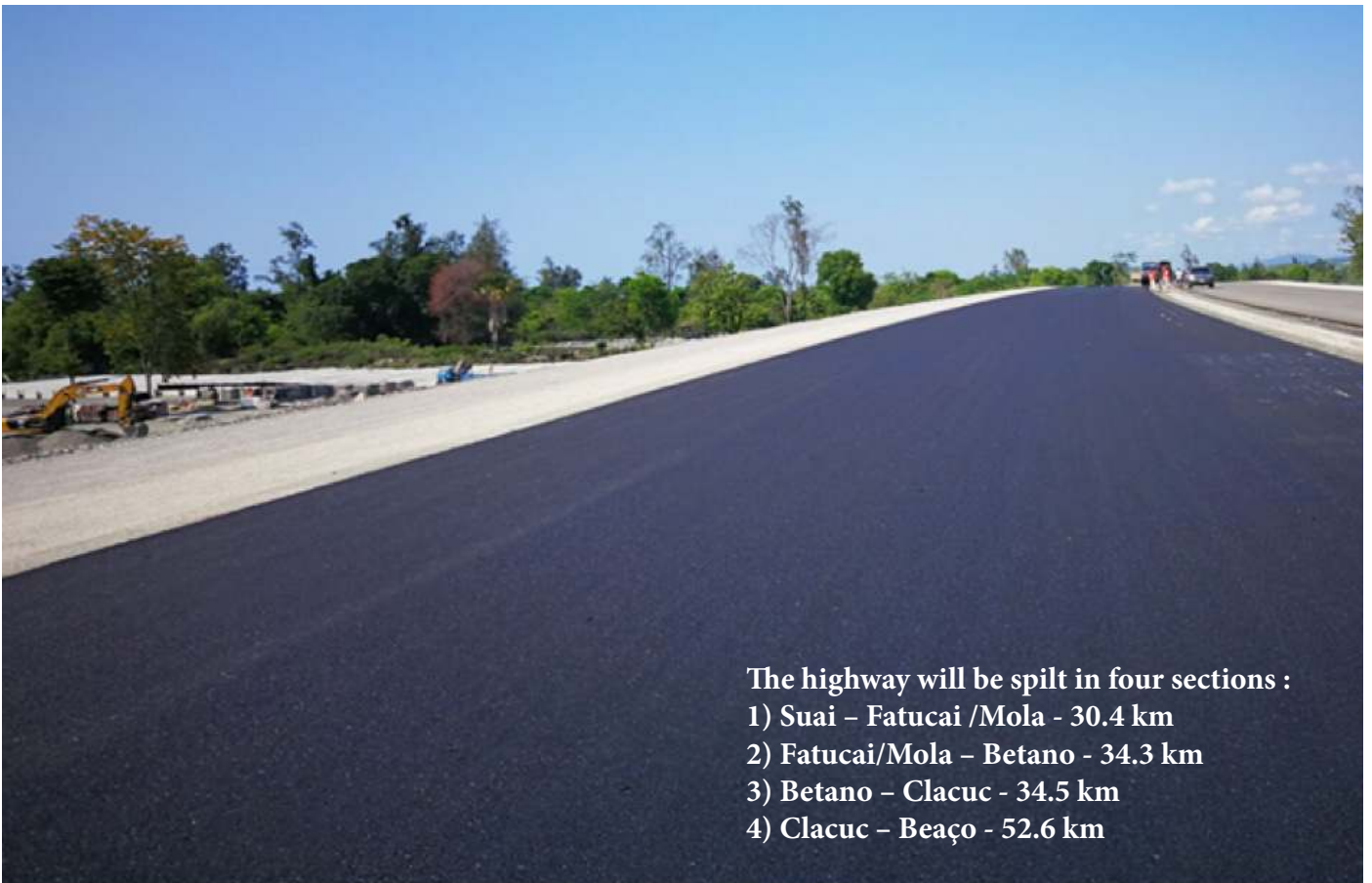
To connect the three clusters and support growth of the petroleum industry, it is planned that a road along the south coast, from Suai to Beaco, will be built in stages based on logistic and economic needs.

The highway will have four lanes (two in each direction), each 3.6m wide, with a total pavement width of about 26m and a total length of 155.7km.

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 Beaco. 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.



The highway will be split in four sections :

- 1) Suai – Fatucaí /Mola - 30.4 km
- 2) Fatucaí/Mola – Betano - 34.3 km
- 3) Betano – Clacuc - 34.5 km
- 4) Clacuc – Beaco - 52.6 km

Figure 5-17: Construction of Highway Phase 1

5.5.2 Land Title Clearance

The land title identification and compensation process for phase one of the highway project (section 1: Suai – Zumalai) was concluded in 2017, in close collaboration with an inter-ministerial team.

Due to a cutting slope, additional land acquisition for the ROW (Right of Way) at Aidantuic area was required. A site survey and identification of the two houses affected by ROW at Aidantuic area was conducted, followed by a house estimation cost made in coordination with DNE – MOPTC and negotiations with the house owners. Further to this, two contracts were signed and its beneficiaries duly compensated.

The possession of the site and land hand-

over of the additional ROW due to a sliding slope took place on 10th March 2017. The compensation for the additional land acquisition for ROW at Km9 and Km5 area is ongoing.

The possession of site and land handover of the Wemon realignment area was held on November 2016 and the compensation payment of the remaining 9 beneficiaries was concluded on the second quarter of 2017.

The land title identification and acquisition process for phase two of the highway project (section 2: Fatuca/Mola – Betano) is assumed to commence in 2018.

5.5.3 Construction Progress

China Overseas Engineering Group C.Ltd. in joint venture with China Railway First Group C., Ltd. (COVEC – CRFG JV) was awarded 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 77.006% by the end of 2017. The project employs a construction workforce of approximately 1,500 workers, of which nearly 1,200 are local workers engaged under the local content requirements.

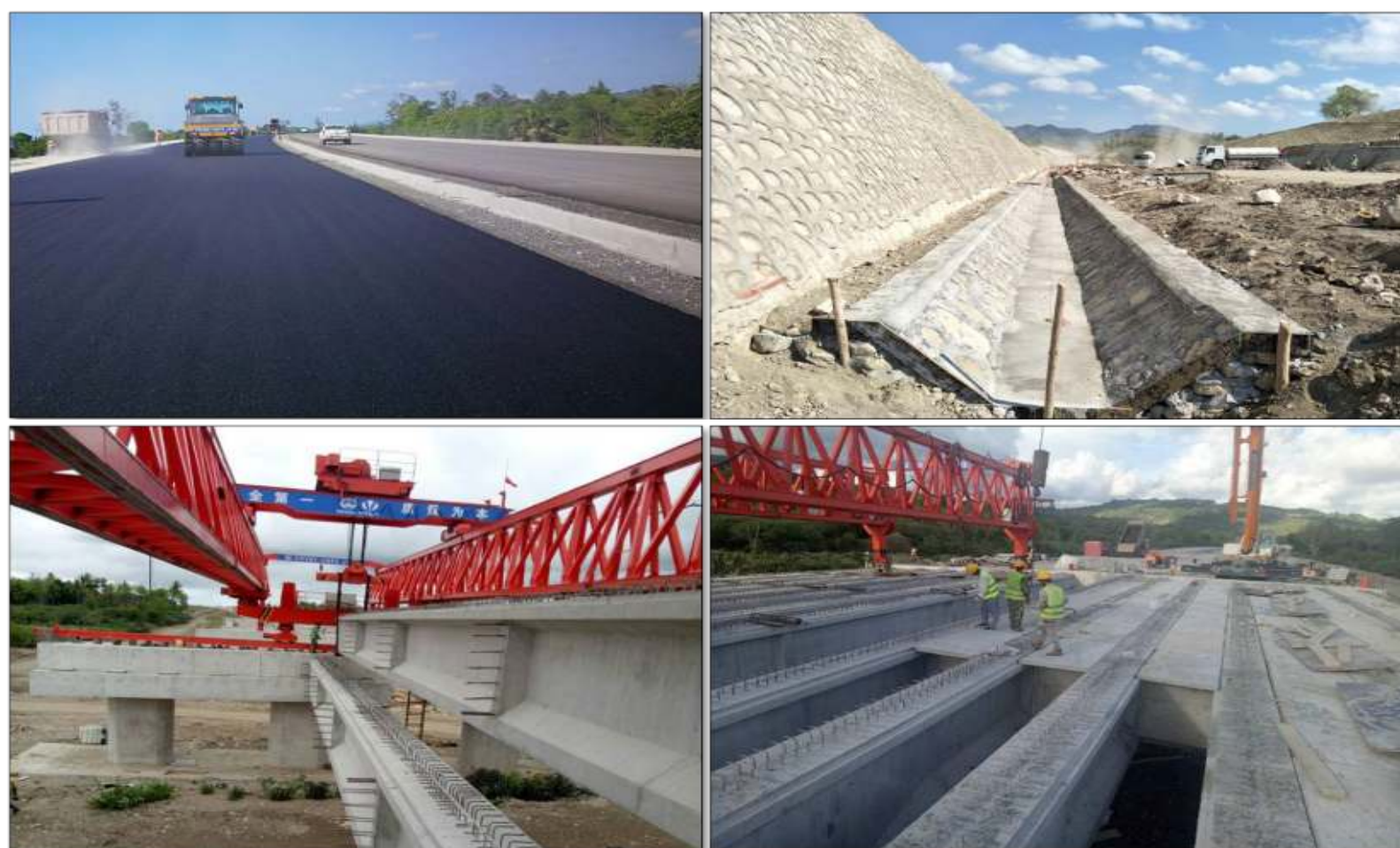


Figure 5-18: From top to bottom, left to right: Wearing Course Paving; Side Drain; Girder Launching of Karau-Ulun Bridge; Deck Plate of Karau-Ulun Bridge



Dream BIG



Dream

6. Joint Petroleum Development Area and Greater Sunrise

TIMOR GAP, as Timor-Leste's State owned national oil company, supports the Government aim to develop the Greater Sunrise gas field via an on-shore LNG Plant in Beço, Timor-Leste, using a submarine pipeline system across the Timor Trough, from the Greater Sunrise field to landfall at Beço on the south coast.

The Sunrise and Troubadour gas and condensate fields, collectively known as the Greater Sunrise fields, were discovered in 1974 and are located in the Timor Sea, 140km south-east of Timor-Leste and 450km north-west Australia. The Greater Sunrise development forms a key part of the Tasi Mane project which the Government of Timor-Leste has initiated to facilitate and encourage the country's petroleum development, with subsequent general social and economic benefits for the country. Processing of the Greater Sunrise reserves to the south coast of Timor-Leste is therefore a major driver in relation to the overall project development strategy.

TIMOR GAP has elected to rigorously document the technical and commercial viability and competitiveness of a TLNG project, and with the support of the Government it has undertaken to present the TLNG Development Concept as Timor-Leste's preferred option for the Greater Sunrise project development. Over the last years, the Timor-Leste Government, via TIMOR GAP, has undertaken a significant

number of development studies in relation to the upstream (subsea wells and associated production system, offshore production/processing facilities, and onshore facilities for processing and storage and offloading of condensate, liquids and MEG) and downstream (export pipeline to shore, LNG plant and marine facility) project technical concepts. The Greater Sunrise Timor LNG Development Concept was completed in 2017. Also this year, a delegation of Timor-Leste paid a visit to Badak LNG facility located in Indonesia in order to see firsthand its direct contribution towards the State's development through Corporate Social Responsibility (CSR) programs.

TIMOR GAP partakes in the Greater Sunrise stakeholder discussions and negotiations, including the ongoing negotiations between the Government of Timor-Leste and Australia on the development of the Greater Sunrise field, under the UN Compulsory Commission process. The outcome of the referred negotiations is expected to be announced in the early 2018.

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.



Figure 6-1: Delegation of Timor-Leste introduced to the whole liquefaction process through an OTS (Operator Training Simulator) at Badak LNG, Indonesia

6.1 Joint Commission

The Timor Sea Treaty was signed between Australia and Timor-Leste in 2002 and establishes a Joint Commission with the purpose 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. Mr. Francisco da Costa Monteiro, President & CEO of TIMOR GAP, and Mr. António de Sousa, Vice-President and Board

of Directors member at TIMOR GAP, are Timor-Leste's JPDA Commissioner. The alternate Commissioners are Mr. Vicente Lacerda and Mr. Domingos Lequi Siga, both Executive Committee members and Unit Directors at TIMOR GAP.

The Commission should meet regularly and the meetings may be requested by each Commissioner or the ANPM. Throughout 2017, only one Joint Commission meeting was held on 27th April, in Sydney, Australia. Similar to the preceding years, Timor-Leste emphasized commission meetings had no prejudice to the Certain Maritime Arrangements in Timor Sea (CMATS) arbitration and the Government to Government discussions.

6.2 Sunrise Commission

The Sunrise International Unitization Agreement (IUA) was signed in March 2003 between Timor-Leste and Australia, and relates to the Unitization 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 petro-

leum 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 2017.





"If every one is moving forward together, then success takes care of itself."

- Henry Ford



7. Corporate Governance

7.1 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.

7.2 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.

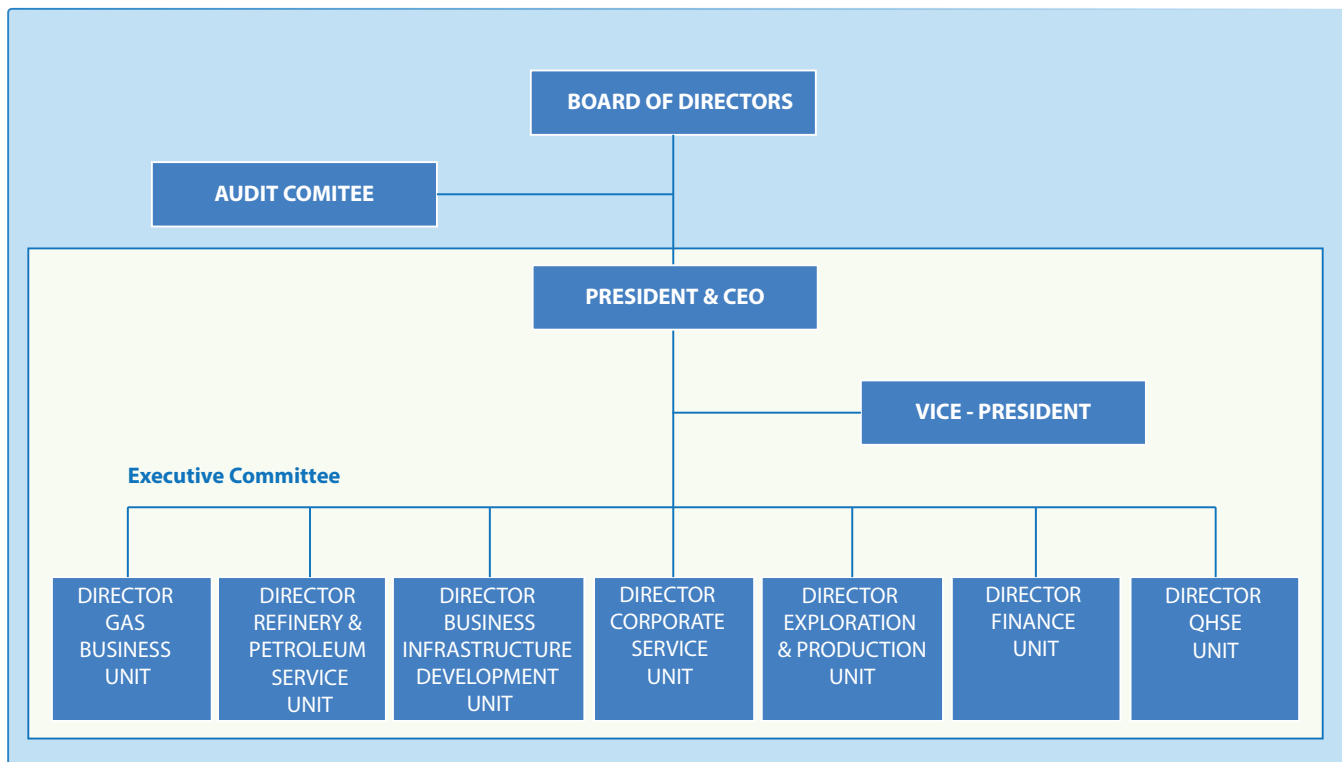


Figure 7-1: Organization Structure of TIMOR GAP, E.P.

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 Infrastructure Development Unit

Mr. Luís Martins

Director of Exploration & Production 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 Resources”



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 15 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 19 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 8 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 11 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, Business Infrastructure 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 7 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 11 years of experience in both technical and managerial skills within the oil and gas sector, research institutions and International Agencies. 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 11 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 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 18 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 17 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 ANPM 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.

7.3 Governance Framework

7.3.1 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 terri-

tory, 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.

7.3.2 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.

7.3.3 Extractive Industries Transparency Initiative (EITI)



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). Upon its establishment, the MSWG created the TL-EITI Secretariat office, which has been functioning since 2008 under the former Ministry of Petroleum and Mineral Resources and current Ministry of Petroleum, with the aim to ensure

the transparency of resources generated by the oil and mineral sector and guaranteeing the technical and administrative support to the MSWG.

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. TIMOR GAP, as the state owned enterprise, participates in the MSWG's monthly meetings, which brings together relevant key stakeholders, such as representatives from the Government (MP, ANPM, Central

Bank of Timor-Leste, Ministry of Finance), petroleum industry, civil society and international organizations. This working group is responsible for discuss and approve by unanimously the EITI-TL reports, prepared by an Independent Administrator (IA) selected by public tender, the supplementary EITI reports, the annual plan and the progress report. Following its approval by the MSWG, the reports are published by the Secretariat in accordance with the standard set by the International Council of EITI. The published reports are intended to transparently demonstrate the payments made by the extractive companies as well as the revenues collected by the State (reconciliation).

Pursuant to this procedure, the publication of the VII report for the fiscal year of 2014 was held on 30th June 2017. The report, prepared by Ernst & Young Audit and Associates as IA, contained important information related to the transparency of the oil

and mining sectors as well as annexed models of financial data collection tailored to each type of institution.

On 24th and 25th April 2017, the EITI National Secretariat held a seminar to serve as a training for civil society at the Timor Hotel, where members of the International Secretariat of EITI were invited as keynote speakers. The objective was to present the mainstreaming process to MSWG members and to improve civil society's knowledge of the subject. TIMOR GAP participated in this seminar along with representatives from ANPM, ENI and Ministry of Finance.

TIMOR GAP also partook in the EITI Regional Workshop for the Asia & Pacific Implementing Countries held on 25th to 27th October in Manila, Philippines. TIMOR GAP's presentation focused on the State participation and the applicable requirements to the State-owned enterprises (SOEs).



Figure 7-2: EITI Regional Workshop for the Asia & Pacific Implementing Countries



Be Bright



Bright

8. Commentary on the Financial Results

Set out below are the audited consolidated financial statements of TIMOR GAP group for the year ended 31 December 2017. This is the group's sixth trading period. TIMOR GAP has adopted International

Financial Reporting Standards (IFRS) to ensure that reporting is based on a well-recognized framework.

8.1 Grant Funding

During the current year a grant of \$11.9 million (2016: \$6 million) was provided by the Government to fund the 2017 operations of the company including

to carry out some related studies on asset evaluation and transaction support on the Greater Sunrise Reserve Studies.

8.2 Revenue

As in previous years the government grant of \$11.9 million (2016: \$6 million) forms the majority of TIMOR GAP's revenue for the year 2017. In addition to the government funding the company earned contract fixed service fees during the year of \$8,902 (2016: \$8,498). These monies were received in advance from the Government and are being released over the life of the contract on the percentage com-

pletion 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). During the 2017 financial year dividends were received of \$ 162,201 by TIMOR GAP (2016: No dividend was declared).

8.3 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 Beço, 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.

8.4 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.

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 2017, a further \$136,712 was expended on the projects (contract 2) primarily to pay the contractor for the Environmental Impact Assessment (EIA) study.

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 in frastructure (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.

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 2017, \$8,902 (2016: \$8,498) was earned as revenue from this contract.

At year end \$894,058 (2016: \$1,030,770) remained of the funds received for use in 2018 when the projects are expected to be completed.

8.5 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
- Retail fuel station
- Fuel supply and trading

These projects have been discussed in detail in Sections 3 to 6 of this report.

8.6 Financial Results

8.6.1 Comprehensive Profit/Loss for the Year

The company's operating profit/loss for the year ended 31 December 2017 amounted to \$5,812,482 (2016: \$2,521,217) prior to TIMOR GAP receiving a dividend of \$162,201 from GAP MHS which gives a comprehensive profit/loss of \$5,974,683 (2016: \$2,521,217).

On a group basis the operating profit/loss for the year ended 31 December 2017 of \$1,630,100 (2016: -\$35,937) and decreased by the share of profit of associates (GAP-MHS Aviation, Lda: -\$127,730, TIMOR GAP Seismic Services, Lda: \$11,860, and South Horizon Offshore Services, Lda: -\$204) result of -\$116,074 (2016: \$419,959) to a comprehensive profit/loss on a group basis of \$1,514,026 (2016: \$384,021).

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 \$9,583,224 (2016: \$3,972,046) and the group level is at \$4,992,368 (2016: \$2,035,756). During the year, the income received has exceeded the operational expenses. The company's retained earnings as at 31 December 2017 of \$7,083,224 and the accumulated tax losses at the beginning of the year \$213,445 (2016: \$438,361), which was superior to the taxable profit in the current year at 10% of \$455,237.

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

8.6.1.1 Depreciation and Amortization Expense

During the period TIMOR GAP has additions to property, plant and equipment worth \$34,323 (2016: \$835,438) as set out in Note 8, and additions of \$157,609 (2016: \$154,981) 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 amortization over the

expected useful lives of the assets from the date they were acquired. During 2017 depreciation of property, plant and equipment amounted to \$258,129 (2016: \$467,118), and for computer software the amortization for the year was \$266,676 (2016: \$251,241). The increase in the amortization amount was due to the additional software purchased in 2017 and in use by the Exploration and Production Unit.

8.6.1.2 Employee Costs/Expenses

At 31 December 2017 TIMOR GAP had a total of 130 employees (2016: 128 employees). Costs for staff increased from \$2,692,248 in 2016 to \$2,849,489 in 2017. The increase in costs is mainly due to the additional recruitment, 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 and Implementing of Social Security Contribution regime from Timor-Leste Government

8.6.1.3 Project Expenses

The company's project expense was primarily for covering project consultant expenses such as technical and legal consultant on JPDA and Greater Sunrise Negotiation and Tasi Mane Project. In addition to that, the project expense was also expended for project overhead disbursement and community liaisons on Tasi Mane Project.

tion to that, the project expense was also expended for project overhead disbursement and community liaisons on Tasi Mane Project.

8.6.1.4 Other expenses

The most significant "other expenses" for the year ended 31 December 2017 include the following items:

	2017	2016
Consultant Expenses	147,784	231,586
Staff Training & Development Expenses	220,974	176,622
Office Lease & Related Expenses	691,951	779,780
Telephone & Internet Expenses	123,715	170,717
Travel & Expenses		
Local	155,533	166,297
Overseas	249,627	84,039
Motor Vehicle Expenses	47,890	44,875
General Overhead Expenses	458,226	753,761
	2,095,699	2,407,677

The company's consultant expense was primarily for covering SAP Consultant on Corporate Service Unit for implementation of SAP system 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. However, on October 2017 Office rent also has increased due to the annual escalation rate of 3% of the rental fees as per outlined from the contract agreement.

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-minis-

terial 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 electricity, outsource service, 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.

8.7 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 2017 a total of \$536,352.64 (2016: \$420,030) was paid in withholding taxes.

8.8 Statement of Financial Position

8.8.1 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 \$10,180,347 (2016: \$3,893,254) and include prepayments and receivables of \$228,904 (2016: \$137,533), the rental and other deposits of \$179,514 (2016: \$179,514). At year end 2017 cash at the bank and on hand amounted to \$1,991,301 (2016: \$780,090).

As set out in Note 23 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 \$5,519,446 (2016: \$2,185,217) (Group: \$2,864,880) during the

year ended December 31, 2017 and, as of that date, the Company's current assets exceeded its current liabilities by \$7,625,989 (2016: \$2,030,945), while for the group the current assets exceeded the current liabilities by \$2,718,782 and the company had an equity of \$9,583,224 (2016: \$3,972,046).

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.



9. Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2017

	Note	Group		Company	
		2017	2016	2017	2016
		\$	\$	\$	\$
Revenue					
Revenue from government grant	5	11,900,000	6,000,000	11,900,000	6,000,000
Income - Onshore exploration farm-out	5	2,000,000	3,000,000	2,000,000	3,000,000
Offshore vessel service income	5	-	44,777	-	44,777
Fixed contract service fees	5	8,902	8,498	8,902	8,498
Other income – Man Power Cost	5	23,730	11,864	23,730	11,864
Profit on Sale of Fuel	5	65,071	36,960	65,071	36,960
Total revenue		13,997,703	9,102,098	13,997,703	9,102,098
Expenses					
Project expenses		(6,325,608)	(3,038,673)	(2,715,228)	(762,597)
Depreciation and amortization expense	8 & 9	(527,650)	(718,359)	(524,805)	(718,359)
Employee costs		(3,157,796)	(2,866,350)	(2,849,489)	(2,692,248)
Other expenses	6	(2,356,549)	(2,514,653)	(2,095,699)	(2,407,677)
Total expenses		(12,367,603)	(9,138,035)	(8,185,222)	(6,580,881)
Operating Profit/ (Loss)		1,630,100	(35,937)	5,812,482	2,521,217
Dividend received from associate		-	-	162,201	-
Share of profit of associate	11	(116,074)	419,959	-	-
Profit /(Loss) before tax		1,514,026	384,021	5,974,683	2,521,217
Income tax expense	7	(455,237)	-	(455,237)	-
Deferred Tax Asset	7	1,806,092	-	-	-
Income Tax paid in advance written off		-	(336,000)	-	(336,000)
Profit / (Loss) for the period		2,864,880	48,021	5,519,446	2,185,217
Other comprehensive income		-	-	-	-
Total comprehensive Profit / (Loss)		2,864,880	48,021	5,519,446	2,185,217
Total comprehensive Profit / Loss attributable to: Controlling interest		2,864,880	48,021	-	-

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	Group		Company	
		2017	2016	2017	2016
		\$	\$	\$	\$
Assets					
Non-current assets					
Property, plant and equipment	8	938,528	1,154,588	930,782	1,154,588
Intangible assets	9	654,447	763,513	654,447	763,513
Capital Work in progress		326,005	-	326,005	-
Investment in subsidiaries	10	-	-	40,000	20,000
Investment in associates	11	354,606	624,783	6,000	3,000
		2,273,586	2,542,884	1,957,234	1,941,102
Current assets					
Deferred Tax Asset	7	1,806,092	-	-	-
Trade and other receivables	12	276,260	226,130	8,139,909	3,067,376
Inventory	13	49,138	45,788	49,138	45,788
Cash and cash equivalents	14	3,184,183	1,090,918	1,991,301	780,090
Total current assets		5,315,672	1,362,836	10,180,347	3,893,254
Total assets		7,589,258	3,905,720	12,137,582	5,834,355
Equity and liabilities					
Equity					
Contributed equity	15	2,500,000	2,500,000	2,500,000	2,500,000
Retained Earnings / (Accumulated losses)		2,492,368	(464,244)	7,083,224	1,472,046
Total equity		4,992,368	2,035,756	9,583,224	3,972,046
Current liabilities					
Trade and other payables	16	1,186,995	769,692	1,144,463	762,038
Provision for Income Tax	7	455,237	-	455,237	-
Unearned fixed contract service fees and project advances	17	954,658	1,100,272	954,658	1,100,272
Total current liabilities		2,596,890	1,869,964	2,554,358	1,862,309
Total equity and liabilities		7,589,258	3,905,720	12,137,582	5,834,355

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	Group		Company	
		2017	2016	2017	2016
		\$	\$	\$	\$
Cash flows from operating activities					
Operating Profit / (Loss)		1,630,100	(35,937)	5,812,482	2,521,217
Adjustments for:					
Depreciation		260,974	467,118	258,129	467,118
Amortization		266,676	251,241	266,676	251,241
		2,157,750	682,422	6,337,287	3,239,576
Decrease / (increase) in trade receivables	12	(50,130)	365,368	(5,072,533)	(2,475,878)
Increase / (decrease) in trade and other payables		417,303	(121,271)	382,425	(132,926)
Cash generated from operations		2,524,923	926,519	1,647,179	630,772
Income tax paid		91,731	(427,731)	91,731	(427,731)
Net cash from operating activities		2,616,654	498,788	1,738,910	203,041
Cash flows from investig activities					
Purchase of property, plant and equipment	8	(44,913)	(835,438)	(34,323)	(835,438)
Purchase of intangible assets	9	(157,609)	(154,981)	(157,609)	(154,981)
Decrease / (increase) in Capital Work-in-Progress		(326,005)	(449,813)	(326,005)	(449,813)
Decrease / (increase) in Inventory		(3,350)	(45,788)	(3,350)	(45,788)
Investment in subsidiary	10	-	-	(20,000)	(10,000)
Investment in associate		(8,100)	-	(3,000)	-
Dividend from associate		162,201	-	162,201	-
Net cash used in investing activities		(377,776)	(586,393)	(382,086)	(596,393)
Cash flows from financing activities					
Increase / (decrease) in project advances		(145,614)	3,931	(145,614)	3,931

	Note	Group		Company	
		2017	2016	2017	2016
		\$	\$	\$	\$
Net cash used in financing activities		(145,614)	3,931	(145,614)	3,931
Net increase in cash and cash equivalents		2,093,265	(83,674)	1,211,211	(389,421)
Cash & cash equivalents at start of the year		1,090,918	1,174,592	780,090	1,169,511
Cash & cash equivalents at end of the year		3,184,183	1,090,918	1,991,301	780,090

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2017

	Note	Group		Company	
		2017	2016	2017	2016
		\$	\$	\$	\$
Transactions with owners of the company					
<u>Contributed Capital</u>					
- 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		(464,244)	(420,534)	1,472,046	(621,439)
Profit /(Loss) for the period		2,864,880	48,021	5,519,446	2,185,217
Income tax paid during the year		91,731	(91,731)	91,731	(91,731)
At the end of the period		2,492,368	(464,244)	7,083,224	1,472,046
Non-controlling interest		-	-	-	-
Total equity at 31 December		4,992,368	2,035,756	9,583,224	3,972,046

Accounting policies and explanatory notes to the Consolidated Financial Statements for the year ended 31 December 2017

1. General information

The Consolidated Financial Statements of the Group, which comprise Timor Gas e Petroleo, Empresa Publica (TIMOR GAP, E.P. as the parent) and its subsidiary and associate, for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the directors on 27 April 2018.

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 2017. 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.

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 col-

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.

lected 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.

De-recognition

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 un-disbursed 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.

De-recognition

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.

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

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 United State Dollars (USD or \$) 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.

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. Application of new and revised International Financial Reporting Standards (IFRS)

4.1 New and revised IFRSs applied with no effect on the 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 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 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	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue and other income				
Government grant	11,900,000	6,000,000	11,900,000	6,000,000
Income - Onshore exploration farmout	2,000,000	3,000,000	2,000,000	3,000,000
Offshore vessel service income	-	44,777	-	44,777
Revenue from fixed contract service fee	8,902	8,498	8,902	8,498
Other income – Manpower cost	23,730	11,864	23,730	11,864
Revenue	13,932,632	9,065,138	13,932,632	9,065,138
Sales of Fuel	370,015	176,013	370,015	176,013
Cost of fuel sold	304,944	139,053	304,944	139,053
Gross profit on Sales of Fuel	65,071	36,960	65,071	36,960

6. Other Expenses

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Other Expenses				
Consultant Expenses	300,976	231,586	147,784	231,586
Staff Training & Development Expenses	220,974	176,622	220,974	176,622
Office Lease & Related Expenses	691,951	779,780	691,951	779,780
Telephone & Internet Expenses	124,392	170,717	123,715	170,717
Travel & Expenses				
Local	191,674	166,297	155,533	166,297
Overseas	288,107	84,039	249,627	84,039
Motor Vehicle Expenses	47,890	44,875	47,890	44,875
General Overhead Expenses	490,585	860,737	458,226	753,761
Total	2,356,549	2,514,653	2,095,699	2,407,677

7. Income Tax

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Income tax				
Income tax expense:				
Current income tax:				
Current income tax charge	455,237	-	455,237	-
Deferred income tax:				
Relating to origination and reversal of temporary differences	(1,806,092)	-	-	-
Total tax expense reported in profit or loss	(1,350,855)	-	455,237	-

8. Property, plant & equipment

Group					
	Leasehold Improvements	Plant & Equipment	Furniture, fixtures, & fittings	Motor Vehicles	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2017					
Cost:					
Balance at beginning of year	492,403	1,459,694	420,420	739,540	3,112,057
Additions	-	42,023	2,890	-	44,913
Balance at end of year	492,403	1,501,718	423,310	739,540	3,156,970
Depreciation:					
Balance at beginning of year	(475,847)	(690,750)	(365,986)	(424,886)	(1,957,468)
Charge for the period	(12,914)	(151,841)	(26,000)	(70,218)	(260,974)
Balance at end of year	(488,761)	(842,591)	(391,985)	(495,105)	(2,218,442)
Book value at beginning of year	16,556	768,945	54,434	314,653	1,154,588
Book value at end of year	3,642	659,127	31,325	244,436	938,528
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	314,653	1,154,588

Company					
	Leasehold Improvements	Plant & Equipment	Furniture, fixtures, & fittings	Motor Vehicles	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2017					
Cost:					
Balance at beginning of year	492,403	1,459,694	420,420	739,540	3,112,057
Additions	-	31,773	2,550	-	34,323
Balance at end of year	492,403	1,491,468	422,970	739,540	3,146,380

Company					
	Leasehold Improvements	Plant & Equipment	Furniture, fixtures, & fittings	Motor Vehicles	Total
	\$	\$	\$	\$	\$
Depreciation:					
Balance at beginning of year	(475,847)	(690,750)	(365,986)	(424,886)	(1,957,468)
Charge for the period	(12,914)	(149,053)	(25,943)	(70,218)	(258,129)
Balance at end of year	(488,761)	(839,803)	(391,929)	(495,105)	(2,215,598)
Book value at beginning of year	16,556	768,945	54,434	314,653	1,154,588
Book value at end of year	3,642	651,664	31,041	244,436	930,782
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	314,653	1,154,588

9. Intangible Assets

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cost:				
Balance at beginning of year	1,311,271	1,156,290	1,311,271	1,156,290
Additions	157,609	154,981	157,609	154,981
Balance at end of year	1,468,880	1,311,271	1,468,880	1,311,217
Amortization:				
Balance at beginning of year	(547,756)	(296,515)	(547,756)	(296,515)
Charge for period	(266,676)	(251,241)	(266,676)	(251,241)
Balance at end of year	(814,433)	(547,756)	(814,433)	(547,756)
Net Book Value at beginning of year	763,513	859,774	763,513	859,774
Net Book Value at end of year	654,447	763,513	654,447	763,513

10. Investment in Subsidiaries

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
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	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	5,000
The Company holds a 100% interest in a Timor-Leste incorporated entity, TIMOR GAP Onshore Block B, Unipessoal, Lda which was formed on 3 April 2017 at a cost of:	-	-	5,000	-
The Company holds a 100% interest in a Timor-Leste incorporated entity, TIMOR GAP Onshore Block C, Unipessoal, Lda which was formed on 3 April 2017 at a cost of:	-	-	5,000	-
The Company holds a 100% interest in a Timor-Leste incorporated entity, TIMOR GAP Drilling Service, Unipessoal, Lda which was formed on 11 March 2017 at a cost of:	-	-	5,000	-
The Company holds a 100% interest in a Timor-Leste incorporated entity, TIMOR GAP Chuditch, Unipessoal, Lda which was formed on 3 April 2017 at a cost of:	-	-	5,000	-
			40,000	20,000
Disclosure of Subsidiary Company operations				
<p>TIMOR GAP PSC 11-106, Unipessoal, Lda</p> <p>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.</p> <p>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</p>				

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
conditions specified in the agreement. The company's share of the Joint Operating Agreement is 24%.				
Total approved authority for expenditure	-	-	26,705,000	18,753,000
Unaudited expenditure incurred since commencement	-	-	(15,032,129)	(10,365,130)
Unspent at year end	-	-	11,672,871	8,387,870
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.				
Total approved authority for expenditure	-	-	30,000	30,000
Unaudited expenditure incurred since commencement	-	-	(498)	(350)
Unspent at year end	-	-	29,502	29,650
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 TESO-15-01 contract area of the Timor Leste Exclusive Area. The PSC was signed on 23rd December 2015 and followed by the signing of Service 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	-	-	6,463,223	2,692,945
Unaudited expenditure incurred since commencement	-	-	(3,623,107)	(2,373,966)
Unspent at year end	-	-	2,840,116	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	-	-	519,445	224,205
Unaudited expenditure incurred since commencement	-	-	(323,247)	(155,337)
Unspent at year end	-	-	196,198	68,868

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
TIMOR GAP Onshore Block B, Unipessoal, Lda TIMOR GAP Onshore Block B, Unipessoal, Lda is a 100% subsidiary of TIMOR GAP and the object of the company is to participate in oil exploration & production activities in Timor-Leste. The Company is dormant till now				
Total approved authority for expenditure	-	-	110,375	-
Unaudited expenditure incurred since commencement	-	-	(65)	-
Unspent at year end	-	-	110,310	-
TIMOR GAP Onshore Block C, Unipessoal, Lda TIMOR GAP Onshore Block C, Unipessoal, Lda is a 100% subsidiary of TIMOR GAP and the object of the company is to participate in oil exploration & production activities in Timor-Leste. The Company is dormant till now				
Total approved authority for expenditure	-	-	70,181	-
Unaudited expenditure incurred since commencement	-	-	(65)	-
Unspent at year end	-	-	70,116	-
TIMOR GAP Drilling Service, Unipessoal, Lda TIMOR GAP Drilling Service, Unipessoal, Lda is a 100% subsidiary of TIMOR GAP and the object of the company is to provide drilling services and other related services for the oil & gas industry The Company is dormant till now				
Total approved authority for expenditure	-	-	-	-
Unaudited expenditure incurred since commencement	-	-	(90)	-
Unspent at year end	-	-	(90)	-
TIMOR GAP Chuditch, Unipessoal, Lda TIMOR GAP Chuditch Unipessoal, Lda is a 100% subsidiary of TIMOR GAP and the object of the company is to participate in exploration and exploitation activities in the JPDA, including exploration & production of crude oil and natural gas and respective sale activities. The Company is dormant till now				
Total approved authority for expenditure	-	-	50,000	-
Unaudited expenditure incurred since commencement	-	-	-	-
Unspent at year end	-	-	50,000	-

11. Investment in Associate

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
GAP MHS Aviation, Lda				
<p>The Company holds a 60% interest in a TimorLeste incorporated entity, GAP MHS Aviation Lda, and the remaining 40% interest is held by MHS Aviation (TL) Lda.</p> <p>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.</p> <p>The Group's interest in GAP MHS Aviation Lda is accounted for using the equity method in the consolidated financial statements.</p> <p>The following table illustrates the summarized financial information of the Group's investment in GAP MHS Aviation Lda:</p>				
Current assets	632,197	2,123,731	-	-
Non-current assets	-	-	-	-
Current liabilities	(74,113)	(1,082,426)	-	-
Equity	558,084	1,041,305	-	-
Proportion of the Group's ownership	60%	60%	-	-
Carrying amount of the investment	334,850	624,783	-	-
Revenue	-	806,928	-	-
Cost of sales	-	(53,759)	-	-
Administrative expenses	(226,816)	(809,180)	-	-
Other income	13,932	-	-	-
Profit before tax	(212,884)	(56,012)	-	-
Income tax expense	-	(43,574)	-	-
Over provision of taxation for prior years written back	-	799,517	-	-
Profit for the year (continuing operations)	(212,884)	699,931	-	-
Group's share of profit for the year	(127,730)	419,959	-	-
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
TIMOR GAP Seismic Services, Unipessoal, Lda				
<p>TIMOR GAP Seismic Services was established on 26 November 2015 through a joint venture agreement between TIMOR GAP, E.P. (60%) and BGP Geopexplorer Pte Ltd. (40%).</p> <p>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.</p> <p>The group's interest in TIMOR GAP Seismic Service, Unipessoal, Lda is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarized financial information on the group's investment in TIMOR GAP Seismic Service, Unipessoal, Lda:</p>				

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Current assets	32,278	5,000	-	-
Non-current assets	-	-	-	-
Current liabilities	(7,511)	-	-	-
Equity	24,767	5,000	-	-
Proportion of the Group's ownership	60%	60%	-	-
Carrying amount of the investment	14,860	3,000	-	-
Revenue	27,278	-	-	-
Cost of sales	-	-	-	-
Administrative expenses	(200)	-	-	-
Other income	-	-	-	-
Profit before tax	27,078	-	-	-
Income tax expense	(7,311)	-	-	-
Over provision of taxation for prior years written back	-	-	-	-
Profit for the year (continuing operations)	19,767	-	-	-
Group's share of profit for the year	11,860	-	-	-
The 60% interest held by TIMOR GAP, E.P. was acquired by the Company in November 2015 at a cost of:	-	-	3,000	3,000
South Horizon Offshore Services, Unipessoal, Lda South Horizon Offshore Services was established on 25 March 2015 through a joint venture agreement between TIMOR GAP Marine Oil & Gas Logistic Services (51%) and Siglar Offshore Services Timor (49%). The object of the company is to provide support services to vessels and offshore facilities operating in the Timor Sea (both JPDA and TLEA), to own and operate offshore support vessels and to render any other services for the marine and oil & gas industry. The Group's interest in South Horizon Offshore Services, Unipessoal, 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 South Horizon Offshore Services, Unipessoal, Lda:				
Current assets	10,000	10,000	-	-
Non-current assets	-	-	-	-
Current liabilities	(400)	-	-	-
Equity	9,600	10,000	-	-
Proportion of the Group's ownership	51%	51%	-	-
Carrying amount of the investment	4,896	5,100	-	-
Revenue	-	-	-	-
Cost of sales	-	-	-	-
Administrative expenses	(400)	-	-	-
Other income	-	-	-	-
Profit before tax	(400)	-	-	-
Income tax expense	-	-	-	-

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Over provision of taxation for prior years written back	-	-	-	-
Profit for the year (continuing operations)	(400)	-	-	-
Group's share of profit for the year	(204)	-	-	-
The 60% interest held by TIMOR GAP Marine Oil & Gas Logistic Services was acquired by the Company in March 2015 at a cost of \$5,100	-	-	-	-

12. Trade and Other Receivables

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Other receivables and prepayment	96,746	46,616	228,904	137,533
Refundable deposits	179,514	179,514	179,514	179,514
Loan receivable from subsidiaries:				
TIMOR GAP Offshore Block, Unipessoal, Lda	-	-	6,510,000	2,510,000
TIMOR GAP Onshore Block, Unipessoal, Lda	-	-	840,329	140,329
TIMOR GAP PSC 11-106, Unipessoal, Lda	-	-	650,116	368,954
Impairment of Loan Account	-	-	(268,954)	(268,954)
	276,260	226,130	8,139,909	3,067,376

13. Inventory

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Inventory - Suai Fuel Station (Diesel)	23,186	27,510	23,186	27,510
Inventory - Suai Fuel Station (ULP)	25,952	18,278	25,952	18,278
	49,138	45,788	49,138	45,788

14. Cash & Cash Equivalents

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cash at banks and on hand	2,258,336	1,036,209	1,066,776	727,381
Cash at Bank – ANZ Bank (Project Accounts)	808,130	-	808,130	-
Cash at Bank - Mandiri	371	619	371	619
Cash at Bank – BNCTL	100,804	44,017	100,804	44,017
Cash on hand (Petty Cash)	16,541	10,074	15,220	8,074
Cash at banks and on hand	3,184,183	1,090,918	1,991,301	780,090

15. Contributed Capital

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
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	
	2017	2016	2017	2016
	\$	\$	\$	\$
Trade payables	292,723	77,512	292,723	77,512
Other payables	788,382	495,064	749,984	461,374
Withholding taxes payable	97,790	197,116	81,256	219,151
Amount owed to subsidiary company				
Timor Gap Marine Oil & Gas & Logistic Services, Unipessoal, Lda	-	-	-	4,000
Timor Gap Onshore Block B, Unipessoal, Lda	-	-	5,000	-
Timor Gap Onshore Block C, Unipessoal, Lda	-	-	5,000	-
Timor Gap Drilling and Service, Unipessoal, Lda	-	-	2,500	-
Timor Gap Chuditch, Unipessoal, Lda	-	-	5,000	-
Amount owned to Associate company:				
Timor Gap Seismic Services, Unipessoal, Lda	3,000	-	3,000	-
South Horizon Offshore Services	5,100	-	-	-
	1,186,995	769,692	1,144,463	762,038

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and 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	
	2017	2016	2017	2016
	\$	\$	\$	\$
Unearned fixed contract service fee at beginning of period	69,502	78,000	69,502	78,000
Contract fixed service fees earned based on the degree of completion of the projects	(8,902)	(8,498)	(8,902)	(8,498)
Unearned contract fixed fee at end of the year	60,600	69,502	60,600	69,502
Advances at beginning of period	1,030,770	1,018,341	1,030,770	1,018,341
Amounts disbursed and accruing to contractors	(136,712)	12,429	(136,712)	12,429
Advances at end of the year	894,058	1,030,770	894,058	1,030,770
Unearned contract fixed service fees and advances	954,658	1,100,272	954,658	1,100,272

18. Related Party Transactions

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Compensation of key Management personnel:				
Salaries and annual allowance	930,227	829,558	705,793	653,772
Due by related parties:				
TIMOR GAP Offshore Block, Unipessoal, Lda	-	-	6,510,000	2,510,000
TIMOR GAP Onshore Block, Unipessoal, Lda	-	-	840,329	140,329
TIMOR GAP PSC 11-106, Unipessoal, Lda	-	-	650,116	368,954
Impairment of loan account	-	-	(268,954)	(268,954)
Due to related parties:				
Timor Gap Marine Oil & Gas & Logistic Services, Unipessoal, Lda	-	-	-	4,000
Timor Gap Onshore Block B, Unipessoal, Lda	-	-	5,000	-
Timor Gap Onshore Block C, Unipessoal, Lda	-	-	5,000	-
Timor Gap Drilling and Service, Unipessoal, Lda	-	-	2,500	-
Timor Gap Chuditch, Unipessoal, Lda	-	-	5,000	-
Timor Gap Seismic Services, Unipessoal, Lda	-	-	3,000	-

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	
	2017	2016	2017	2016
Trade and other receivables	276,260	226,130	8,139,909	3,067,376
Cash and cash equivalents	3,184,183	1,090,918	1,991,301	780,090
Total financial assets	3,460,442	1,317,048	10,131,210	3,847,466
Financial liabilities				
Trade and other payables	1,186,995	769,692	1,144,463	762,038
Unearned contract fixed service fees and project advances	954,658	1,100,272	954,658	1,100,272
Total financial liabilities	2,141,653	1,869,964	2,099,120	1,862,309

g) Maturity of financial instruments

The table below details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscount-

ed contractual maturities of the financial assets. No interest will be earned as the company does not have surplus funds.

Financial assets	Group		Company	
	2017	2016	2017	2016
	1-3	1-3	1-3	1-3
	Months	Months	Months	Months
Trade and other receivables	276,260	226,130	8,139,909	3,067,376
Cash and cash equivalents	3,184,183	1,090,918	1,991,301	780,090
Total financial assets	3,460,442	1,317,048	10,131,210	3,847,466

The table below details the Group's financial guarantee contracts are for the maximum amount 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	
	2017	2016	2017	2016
	3-12	3-12	3-12	3-12
	Months	Months	Months	Months
Trade and other payables	1,186,995	769,692	1,144,463	762,038
Unearned contract fixed service fees and project advances	954,658	1,100,272	954,658	1,100,272
Total financial liabilities	2,141,653	1,869,964	2,099,120	1,862,309

h) Financing Facilities

The Group is reliant on Government funding for its operations.

20. Contingent Liability

There is no contingent liability as on 31 December 2017.

21. Operating Lease Arrangements Leasing Arrangements

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
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	573,301	578,611	573,301	578,611
Contingents rentals	-	-	-	-
Sub-lease payments received	-	-	-	-
	573,301	578,611	573,301	578,611

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Non-cancelable operating lease commitments				
No Later than 1 year	584,767	573,301	584,767	573,301
Later than 1 year and not later than 5 Years	445,121	1,029,889	445,121	1,029,889
Later than 5 years	-	-	-	-
	1,029,889	1,603,190	1,029,889	1,603,190

22. Prior period expense

In the financial statements for the year 2017, the company has reported expenditure of \$ 159,891.68 which relates to the year 2016.

23. 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 \$ 5,519,446 (Group: \$ 2,864,880) for the year ended 31 December 2017.

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

ANPM	Autoridade Nacional do Petróleo e Minerais (National Petroleum and Minerals Authority)
BIDU	Business Infrastructure Development Unit
Bpd	Barrels Per Day
CEO	Chief Executive Officer
CMATS	Certain Maritime Arrangements in Timor Sea
CNA	Comissão Nacional de Aproveitamento (National Procurement Commission).
CPLP	Comunidade dos Países de Língua Portuguesa (Communities of Portuguese Speaking Countries)
CSU	Corporate Service Unit
DNCPIA	Direção Nacional de Controlo de Poluição e Impacto Ambiental (National Directorate of Pollution Control and Environmental Impact)
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
E&PU	Exploration & Production Unit
FEED	Front End Engineering Design
FU	Finance Unit
GBU	Gas Business Unit
GIIP	Gas-Initial-In-Place
ICAO	International Civil Aviation Organization
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
IMS	Integrated Management System
ISO	International Organization for Standardization
JOA	Joint Operating Agreement
JPDA	Joint Petroleum Development Area
JV	Joint Venture
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MMbbls	Millions of barrels
MOU	Memorandum of Understanding
MP	Ministério do Petróleo (Ministry of Petroleum)
MPRM	Ministério do Petróleo e Recursos Minerais (Ministry of Petroleum and Mineral Resources)
MSWG	Multi-Stakeholder Working Group
PIIP	Petroleum-Initial-In-Place
Pre-FEED	Pre-Front End Engineering Design
PSC	Production Sharing Contract
QHSE	Quality, Health, Safety and Environment
QHSEU	Quality, Health, Safety and Environment Unit
R&PSU	Refinery and Petroleum Services Unit
SAP	System, Application and Product
SEIA	Strategic Environmental Impact Assessment
SSB	Suai Supply Base
Tcf	Trillion Cubic Feet
TGSS	TIMOR GAP Seismic Services
TLEA	Timor-Leste Exclusive Area
TLNG	Timor LNG



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