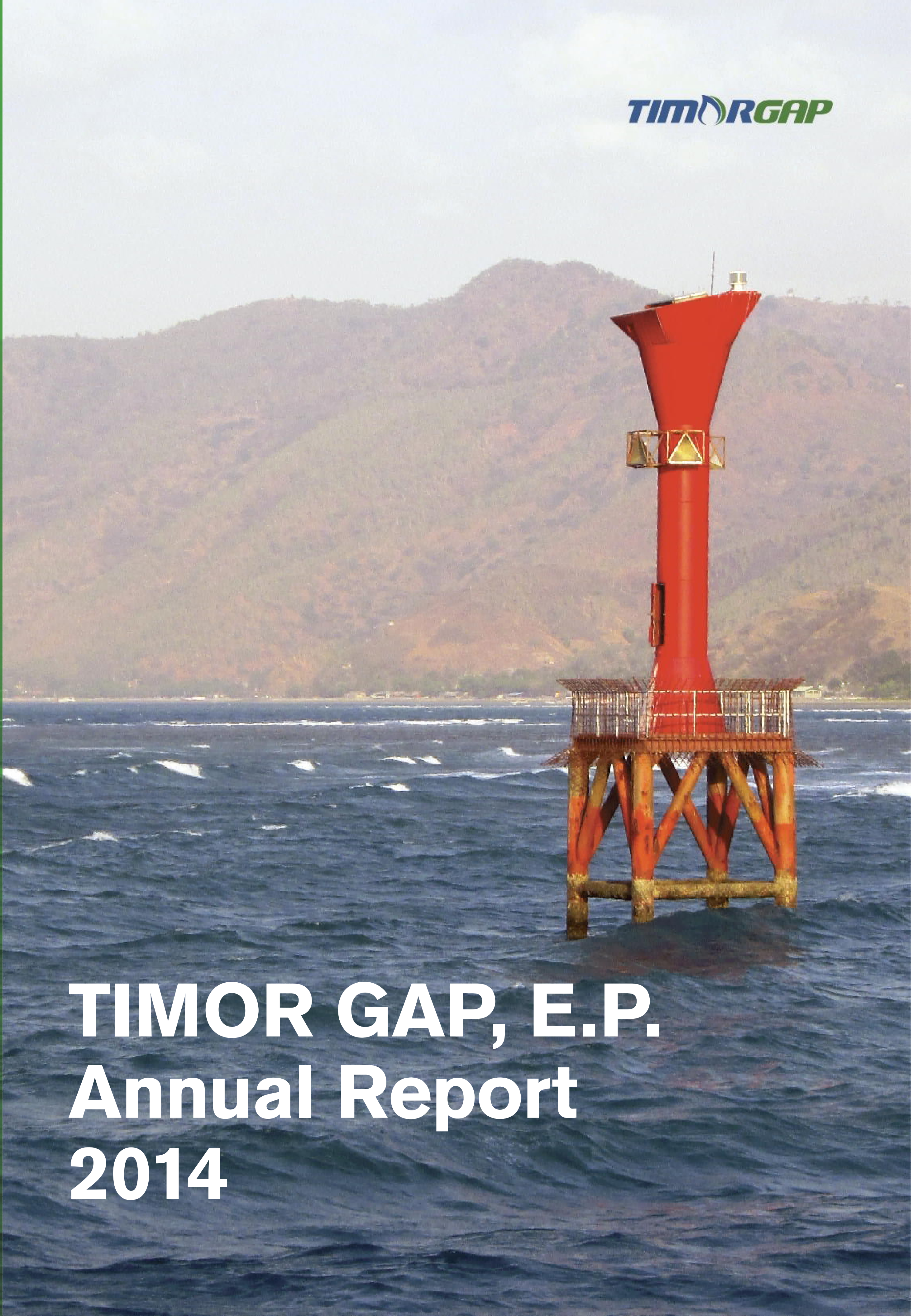


TIMOR GAP, E.P. Annual Report 2014

Contents

President & CEO Message

It is with great pleasure that I present TIMOR GAP's Annual Report for 2014, which illustrates the projects we have been managing, true to our long term strategy. This Report highlights the company's major achievements for the period, building on the accomplishments of the previous years' activities.

We keep close attention to corporate and professional development, as well as on preparing and consolidating operations for the petroleum sector, with respect to international standards on quality, health, safety and environment protection. TIMOR GAP is also accommodating new personnel following a major recruitment process, through which Our People raised to more than one hundred.

Regarding TIMOR GAP's activities in the very prospective offshore Production Sharing Contract (PSC) JPDA 11-106 in Timor Sea, we are confident that this first participation in exploration will lead to good results. Although the price of oil has declined dramatically since June 2014, with some negative repercussions in the projects and plans of all the companies from this industry, we hope to begin a drilling campaign for the PSC JPDA 11-106 in 2015.

As the state owned company we also feel a lot of enthusiasm with the highly prospective onshore exploration of Timor-Leste and are looking forward to the opening by the National Petroleum Authority (ANP) of the first ever bidding round onshore the country, to be held by the end of 2015.

It is with good expectations that we work on the project of the CPLP consortium and cooperation in the energy area amongst CPLP petroleum companies and respective governments. This cooperation involves some countries with major world reserves on oil and gas, such as Brazil, Angola, Mozambique and Equatorial Guinea.

In what concerns business development through our subsidiary companies, I would like to highlight the creation of our third subsidiary, named TIMOR GAP Oil and Gas Marine & Logistic Services. Our JV Company GAP-MHS Aviation, that supports helicopter services for offshore operations in the Timor Sea, kept expanding its activities in 2014.

TIMOR GAP is entrusted to manage and administer the Tasi Mane mega project, for the development of a national petroleum industry of which this year we progressed on solving several necessary land issues, paving the way for project implementation such as Suai Airport and others.

Timor-Leste is committed to good governance of natural resources and remains a supporter and active promoter of the Extractive Industries Transparency Initiative (EITI). TIMOR GAP, as the state owned company, is proud to contribute since 2012 for the activities of the EITI and the reports therein.

I am deeply thankful to our committed staff, Executive Committee, the Board of Directors and most of all to the Timorese people for their trust on our mission as the national oil company of Timor-Leste, that will in time mark its strong presence in the region and beyond.

Francisco da Costa Monteiro
President & CEO

Executive Summary

TIMOR GAP is the state owned company of Timor-Leste and started operations in 2012, aiming to conduct business in the exploration and exploitation of the petroleum resources in national territory, both at land and sea.

Timor-Leste has been benefiting from petroleum production in the Timor Sea since 2004. Bayu-Undan and Kitan are currently the main fields offshore, operated by foreign oil companies.

The onshore area of Timor-Leste is still to be explored and is considered highly prospective and "new frontier".

Below are highlights of main activities in 2014:

Upstream – TIMOR GAP is involved in Timor Sea's exploration through the PSC JPDA 11-106 and in preparatory works for onshore exploration in Timor-Leste. Other upstream studies include the review of Greater Sunrise resources, Timor LNG upstream development concepts and possible cooperation with Shell. More information on Section 2 of this Report.

Downstream, services and subsidiaries – business development and management of several projects, including the downstream area (retail fuel stations, lifting and marketing of Bayu-Undan condensate, JPDA offshore service tenders, Metinaro petroleum import terminal, undersea telecommunication cable and Hera floating receiving terminal). Other business opportunities and partnerships are managed through the subsidiaries GAP-MHS Aviation Lda and the recently created TIMOR GAP Oil & Gas Marine and Logistics (Section 3).

Tasi Mane Project – encompasses the management and administration of several projects, foreseeing the creation of three industrial clusters in the south coast of Timor-Leste:

1. A supply base in Suai.
2. A refinery and associated petrochemical industry in Betano.
3. A pipeline from the Greater Sunrise field in Timor Sea to Beaço and the building of an LNG Plant to process the natural gas onshore.

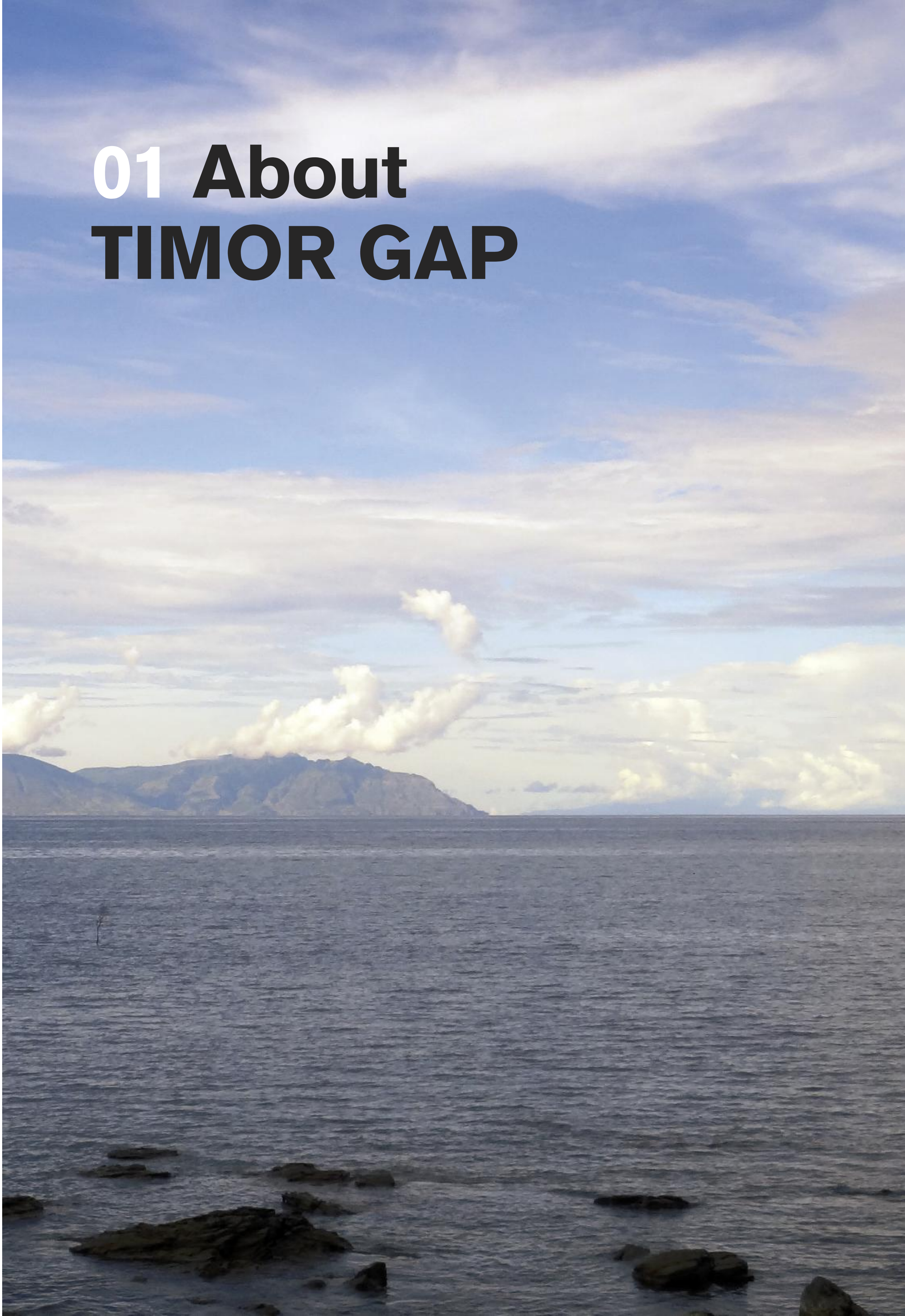
The development of the national petroleum industry also includes complementing infrastructures such as the Suai airport, a highway, as well as discussions on Suai, Betano and Beaço new towns development. A follow up on the Tasi Mane projects and their current status is available on Section 4.

Corporate and professional development – with a focus on training our people (Section 1).

Greater Sunrise – being the national oil company, TIMOR GAP plays a special role in supporting the government's aim of building a gas pipeline from Greater Sunrise, which include the Sunrise and Troubadour fields located in Timor Sea, to the south coast of Timor-Leste (in Beaço). The building of a LNG plant to process the natural gas onshore is therefore part of our planned business growth.

TIMOR GAP participates in the Joint Commission and Sunrise Commission, for the supervision of petroleum activities in the Timor Sea, alongside Government officials (Section 5).

01 About TIMOR GAP



The national oil company of Timor-Leste was 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 carrying out of downstream business activities, including the storage, refining, processing, distribution and sale of petroleum and its by-products, comprising the petrochemical industry.

TIMOR GAP's Vision is to be an integrated Oil and Gas Company and a partner of choice.

To achieve this vision, we build on strategic partnerships based on trust, mutual benefits and commitment.

TIMOR GAP's corporate values are embedded in the words:

C — **Competent and knowledgeable** skilful and accurate in its work.

A — **Assess and siege the opportunity for business** proactive, loyal and purposeful in its actions.

N — **Non-discriminatory and responsible** integer, honest, trustworthy, fair and accountable to its people/shareholders.

D — **Doer and creative** innovative, open minded and caring for its work.

O — **Optimistic of its business** professional, disciplined and dedicated to work — confident, team contributor and sharing and objective that promotes achievement of TIMOR GAP's vision and mission.

TIMOR GAP comprises five **Business Units:**

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 financial management, human resources management, management of information technology and communication systems, travel and logistics, procurement management and general administration.

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

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

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

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

Financial Overview

The audited Financial Statements are contained in Section 7 of this Report, and have attached a detailed analysis of the results for 2014, 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 $5,000,000 during the year ended 31 December 2014 (2013 - $4 million). The second main source of **Income** originated from a dividend of our subsidiary GAP-MHS ($1,409,400). Other income derived from fixed contract service fees of $ 183,431 (2013 - $223,414). The Gross profit from trading wholesale fuel sales amounted to $16,000 (2013 - $36,056). Gross profit from the

Hera oil terminal was $64,987 (2013 - $38,661). Fees received on termination of the Hera Oil Terminal Lease Agreement amounted to $ 140,205.

Expenditure for the five Business Units and the Office of the President & CEO is set out below. Besides general costs related to operational expenses, systems set up, recruitment of new staff and training, salaries and secondments, as well as travel and meetings related to each Unit's projects, the expenditure included:

Office and Units	Remarks on the main expenses incurred during the period
President & CEO Office	Costs for strategic projects. Expenses related to the Board of Directors and Executive Committee meetings. Joint Commission and Sunrise Commission's meetings and negotiations. Consultancies, studies for reserve estimation (Greater Sunrise) and TLNG upstream.
Corporate Service Unit	Expenses for human capital development, investment in ICT, assets, external annual audit fee, consultancy fees and general operational costs.
Business Development Unit	Feasibility studies, consultancies and expenses to support several business projects including Hera receiving terminal, retail fuel stations, lifting and marketing of Bayu-Undan condensate, Metinaro petroleum import terminal, marine services subsidiary, undersea telecommunication cable and Suai airport.
Exploration & Production and Supply Base Unit	Expenses related to the PSC JPDA 11-106 project, Suai supply base project, Timor-Leste Exclusive Area (TLEA) offshore study with Shell, Timor-Leste onshore prospect study and CPLP onshore cooperation program.
Refinery and Petroleum Services Unit	Expenses related to studies for the Betano refinery project and fuel stations network.
Gas Business Unit	Studies for the projects of the marine facility, pipeline from Greater Sunrise gas field to Beaço, LNG plant, as well as regular consultations and meetings with the communities in Beaço.

The main components of the 2014 Financial Year were related to the development and management of several projects, as detailed from Sections 2 to 4.

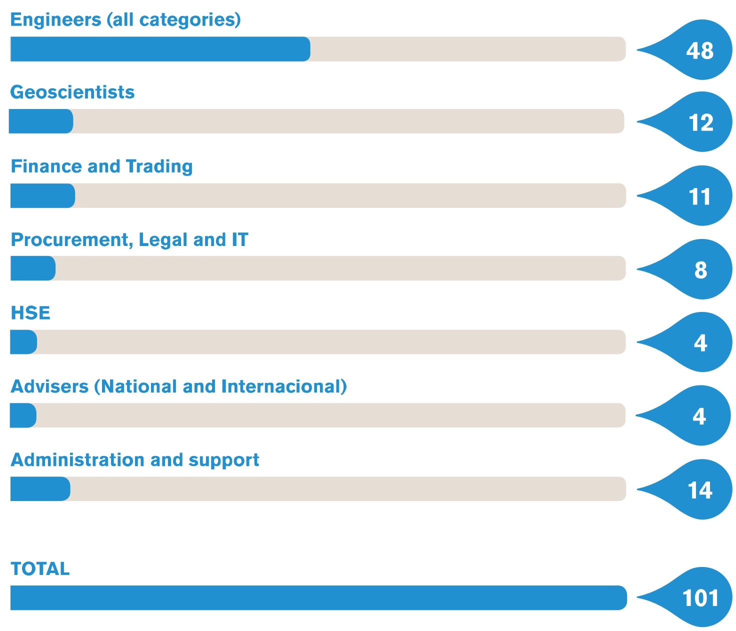
Our People

Corporate and professional development

TIMOR GAP is committed to the enhancement of skills and capabilities of staff, as well as with institutional progress. Capacity development and on-the-job-training are provided through the secondment of employees to international oil and gas companies that partner with us, as well as through cooperation programs, as for example with PTT Thailand or Shell.

In early 2012, TIMOR GAP started operations with 22 people. The numbers have grown since then and following a major recruitment process, the total employees in the company increased to 95. At the end of 2014, there were 101 employees, of which 29 women. We comprise staff in the following categories:

TIMOR GAP's Employees by category



The motivation and dedication of our employees is essential for the progression and success of the Company. TIMOR GAP will strive to provide opportunities through training courses to improve our people's skills, performance and enhance knowledge in their specific areas of expertise, as well as in the overall oil and gas industry.

Similar to previous years, throughout 2014 various training courses were attended by our people both in-house and abroad. There were also secondments to other companies and attendance of workshops and conferences, as described below.

2014 Courses and Training for TIMOR GAP

Our staff had the opportunity to attend the following courses and trainings:

- Trading training provided by PTT Thailand.
- Firefighting workshop and practice training organized by Pertamina.
- First aid and firefighting training provided by ISAT.
- Health, safety and environment training provided by Phitagoras Global Duta Consultant.
- "Basic of GIS and application of GIS advance for ArcGIS server system training", provided by Frasta Survey Indonesia.

- Metocean Survey training provided by Worley Parsons.
- Training on "The practical use of FIDIC contracts for EPC/turnkey projects".
- "Effective leaderships training", under the Ministry of Petroleum and Mineral Resources (MPRM) office training program funding.
- Training on database management system development and graphic display with access 2010 and SQL method".
- Training of ArcGIS "Building geodatabase v10.2".
- Basic behavior safety, HSE management system, conduct safety performance survey (gap analysis), international safety rating system.
- Hazard identification, hazard operability study, and job hazard analysis approach, management system internal audit, management system overview.
- Kingdom software training.
- English and Portuguese classes.

PT Badak LNG Terminal - Indonesia's operator explaining the process to TG staff

Workshops and Conferences 2014

Employees with managerial roles had the opportunity to participate in various workshops and conferences during the period:

- Geological, technological, biological, environment and legal aspects of deep sea minerals workshop organized by the MPRM.
- Environment workshops on consultancy and comments to the draft regulation and guidelines of the environment licensing decree law 5/2011, article 42, organized by SEMA and ADB.
- "Socialization process — environmental impact assessment license" workshop organized by SEMA.
- "Timor-Leste Exclusive Area (TLEA) regulation" workshop conducted by ANP.
- "West major maintenance and engineering service tender" workshop provided by Aker Solution Company.
- "Contribution of state owned companies in extractive governance for national welfare" (Asia Pacific knowledge hub on extractive industries), panel discussion organized by Gadjah Mada University Yogyakarta.
- "The Indonesia oil and gas partnership program 2014", organized by the Ministry of Energy and Mineral Resources of Indonesia.
- CGG- TLEA seismic multi-client survey workshops.
- Shell integrated workshop (technical, commercial and legal).
- Guidelines for good governance in emerging oil and gas producers' workshop with Chatham House.
- EITI 2012 pre-validation workshop for the 2012 annual report – this was the first time TIMOR GAP was included in the EITI report (with no revenue to declare to the government).
- TL-EITI 'Kolokiu' workshops in Dili Suai-Covalima and Viqueque.
- SAP implementation workshop.
- Workshop on Sunrise upstream studies by Worley Parsons.

Secondments and on-the-job-training

Through TIMOR GAP's international business partners, secondments and job placement programs are provided for some employees, as with:

PTT Thailand

Two of TIMOR GAP's chemical engineers, completed in 2014 a placement in PTT Global Chemical Public Company in Thailand, for the refinery project. During a period of two years, they assisted the operations and maintenance in the Star Petroleum Refining facility in Map Ta Phut.

Toyo-Thai and ATT Thailand

Three employees placed at the Bangkok offices of the consultants Toyo-Thai and ATT returned to TIMOR GAP this year. The on-the-job training has been part of TIMOR GAP requirements for its partners and Contractors.

One staff on-the-job training with ATT in Bangkok focused on the orientation and preliminary study on pumping test analysis and MODFLOW modeling.

Shell
One of our staff was in secondment at Shell's office in Kuala Lumpur, Malaysia, for a 4 months program (started in October 2014). The secondment involves technical studies in the TLEA and this is expected to progress into a firm project in 2015.

WorleyParsons
One staff on-the-job-training with WorleyParson in Kuala Lumpur, Malaysia, for the *TLNG Upstream Cost and Weight Estimation Conceptual Study*.
As part of the 8-months metocean and sedimentation survey in Beaço by WorleyParsons, two employees were trained on specific topics related to the metocean and sedimentation surveys (types of instruments used, operations, data downloading and laboratory analyses). This on-the-job training occurred during the field works for approximately a week every month (from March to December 2014).

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

In 2014, two employees returned to the company after completing studies in the USA: MSc of geosciences – reservoir characterization at Tulsa University, Oklahoma, and MSc of petroleum engineering at the University of Massachusetts.

In addition, 2 staff were awarded scholarships:

» Master's degree in project management at Queensland University of Technology, Australia under the Australian Awards Scholarship program.
» Master's degree in project management at George Washington University, Washington DC, USA, under SERN - Fulbright scholarship program.

Corporate Development
The performance management policy for employees, along with the contribution/performance agreement was implemented in TIMOR GAP in 2014. This human resource's policy has purposes such as reviewing employee's work performance and recognizing achievements. It covers objectives and key performance indicators (KPIs) for certain periods, which helps planning staff development needs.
As a relatively new company, TIMOR GAP has been investing heavily in an Information and Communication Technology (ICT) System and required an enterprise resource planning system that supports all business lines in an integrated way, leveraging the synergies of standardizing processes across the company. We are convinced that the SAP (system, application and product) software will assist TIMOR GAP to respond to changes in the business environment with more effectiveness and grow profitably. In 2014, preparatory works were conducted for implementation of the SAP infrastructure, which will focus on finance, human capital management, sourcing, logistics & procurement, sales & distribution, and financial project management.

TIMOR GAP Retreat 2014
TIMOR GAP's first annual retreat was held from 28 to 30 October 2014 in Maubara and Liquiçá. This was a great opportunity to have all staff meeting, briefing and discussing main goals and activities since creation of the company, as well as the vision for the future. We enhanced team building and revived our "CAN DO" spirit, without forgetting endeavors that reflect corporate social responsibility and included donation and the visit of a school in Nasuta run by 'Veterana Kasian' with the delivery of books and other necessary materials.

Visit and donation to Nasuta kindergarden school

TIMOR GAP first annual retreat, Liquiçá

Quality, Health, Safety and Environment (QHSE)

Our company is committed to the promotion of quality, health, safety and environment (QHSE), as well as social responsibility. These are the values that shape the way TIMOR GAP conducts its business. Furthermore, all of our projects are based on studies that assess potential impacts to the environment and communities that may be affected. Environmental Impact Assessments (EIA) have been carried out by TIMOR GAP and partners such as Worley Parsons, 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.

SEIA and EIA for Tasi Mane and other projects

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

These processes involved stakeholder consultations and "socializasaun" in the several south coast project areas of Tasi Mane, during the past few years and under the guidance of the Ministry of Petroleum and Mineral Resources (MPRM). The objective was to inform people and ensure that the projects were understood by local communities, benefits highlighted and concerns addressed.

In 2013, the environmental license for the Suai industrial cluster was granted by the Secretary of State for Environment (SEMA).

Under cooperation with PTT, TIMOR GAP conducted further studies for the Betano refinery and petrochemical complex, including an EIA and Health Impact Assessment (HIA), which terms of reference were submitted to SEMA in December 2014.

An EIA study for the fuel supply and fuel station development in Suai was also undertaken in 2014, encompassing public consultation with community leaders, environmental authority and other relevant entities as civil society and NGOs. An EIA report will be submitted to SEMA to obtain the necessary licence for this project.

QHSE within our company

Since the beginning of activities, TIMOR GAP has sent employees to attend QHSE trainings abroad and also organized in-house trainings, which reflect our commitment to best quality, health, safety and environment standards.

Our QHSE draft policy and procedures were completed in 2014 and relate to the establishment in the company of an integrated management system (IMS) that respects International Organization for Standardization (ISO) requirements. More specifically, the implementation of ISO 9001:2008 (Quality Management), ISO 14001 (Environment) and OHSAS 18001:2007 (Occupational Health and Safety).

The development of the QHSE management system was commissioned by Phitagoras Global Duta and focused on the IMS manual and in management, environmental, personal safety, process safety and health & hygiene procedures.

02 Upstream

JPDA PSC 11-106

Our first production sharing contract (PSC) was signed in 2013, through the wholly owned subsidiary TIMOR GAP PSC JPDA 11-106, to begin exploration offshore in the Joint Petroleum Development Area (JPDA) of the Timor Sea. In the Joint Venture partnership, TIMOR GAP has a share of 24%, which is 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 was signed on October 2013.

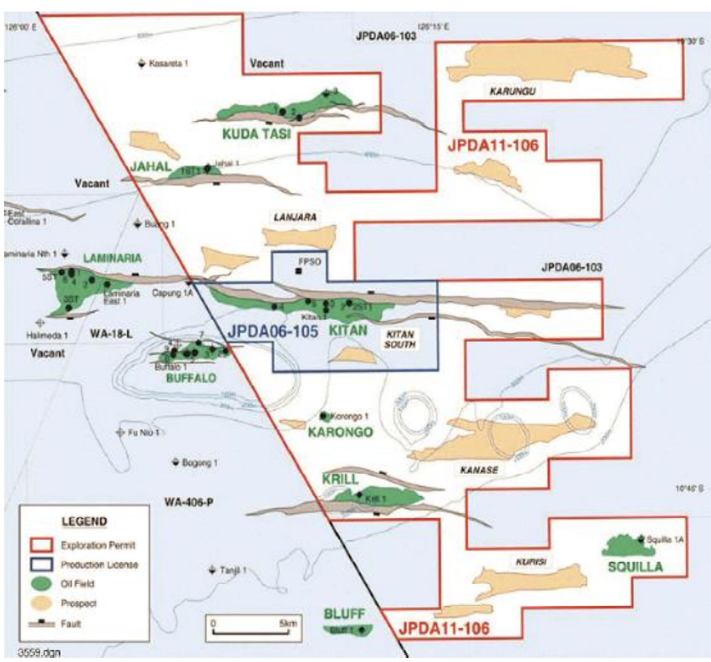
The area being explored by the PSC 11-106 JV is located approximately 240 km south of Dili and 500 km northwest of Darwin, covering an area of 662 km^2 adjacent to the Kitan oil field and lies in an average water depth of 350m. The focus of the study is on already proven but unproduced reserves at Jahal, Kuda Tasi (+/- 20MMbbls), Squilla and Krill fields, with the concept of eventual production by tie-in to Kitan field FPSO facility, which is also operated by ENI.

Initial prospect mapping is ongoing, including review of the existing sub-commercial discoveries within the PSC. A minimum of two exploration wells will be drilled to fulfil the minimum work program commitment and appraisal wells will be planned subsequently.

Furthermore, the reassessment of the greater PSC JPDA 11-106 area, using all available seismic and well data, is being carried out to fully evaluate the block.

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.

TIMOR GAP and ENI are in discussions regarding staff secondment and training, as part of the local content commitment under the PSC.



JPDA PSC 11-106 – Discoveries and Prospects in the Timor Sea

Timor-Leste Onshore Exploration

A geological assessment to define potential exploration targets onshore Timor-Leste was carried out in 2013 between TIMOR GAP and the University of Western Australia (UWA). The assessment included field mapping and photo geological interpretation, combined with the interpretation of previous onshore drilling results and a literature review. Our geologists also conducted preliminary geological surveys in several districts of the country.

Building on these achievements, the first trip to the Fatoro river area was completed in 2014.

A.

B.

Outcrops of Babulu formation in the Fotoro River.
A. Interbedded laminated grey shale and fine quartz sandstone in the river bed.
B. Bedding of the Babulu formation at NW of the river bank.

A.

B.

C.

Features of folds and faulted fold:
A. A minor anticline formed at Babulu shale and sandstone.
B. Occurrence of recumbent Z fold at Babulu Formation.
C. Existence of a chevron fold at Aitutu Limestone near Salasa village.

Gas seeps in the Fotoro River

Gas seeps in Aisaleuk, Covalima district

The current focus is on the following activities:

- Identification and mapping of the Babulu and Aitutu formations;
- Preparing type log sections;
- Documenting facies, lithology and depositional environment;
- Compiling petroleum prospectivity report;
- Training and capacity building in field geology.

A report on the geological mapping trip was presented in December 2014. A comprehensive petroleum prospectivity report aimed to be compiled in 2015 upon completion of further field mapping studies.

CPLP consortium for onshore exploration

Timor-Leste has a program for cooperation in the petroleum area with countries from the intergovernmental organization Community of Portuguese Speaking Countries (Comunidade dos Países de Língua Portuguesa, CPLP). Following instructions from the government, TIMOR GAP in coordination with the National Petroleum Authority (Autoridade Nacional do Petróleo, ANP), presented to the several national oil companies of CPLP a proposal for the establishment of a consortium onshore Timor-Leste.

Contacts and discussions are being held both at company and governmental levels, to pursue the implementation of this cooperation program in the energy area, which is also one of the initiatives of Timor-Leste's biennial Presidency of CPLP (2014-2016). The objective of the CPLP consortium project is the signing of the first production sharing contract onshore Timor-Leste, in a joint venture composed by CPLP companies, involving some petroleum producing countries with major reserves of oil and gas, such as Brazil, Angola, Mozambique or Equatorial Guinea.

TIMOR GAP and SONANGOL delegation at Pouzada Maubesi, on the way to Suai, Covalima.

The delegation visited Matai oil seeps in Matai River, Suco Matai, Subdistrict Maucatar, District Covalima.

Other Upstream Studies

Greater Sunrise Reserve Study

The Sunrise Commission, which was established by Timor-Leste and Australia to consult on issues related to the exploration and exploitation of petroleum in the area of the Greater Sunrise field, ordered for a reserve estimate study in 2012. TIMOR GAP, on behalf of Timor-Leste's government, has been managing this study that has the main objective of an independent estimation of the Greater Sunrise reserves through third party consultants.

TIMOR GAP Exploration & Production team continued to carry out technical studies to ascertain the Greater Sunrise reserve. The independent study is expected to be completed by mid-2015.

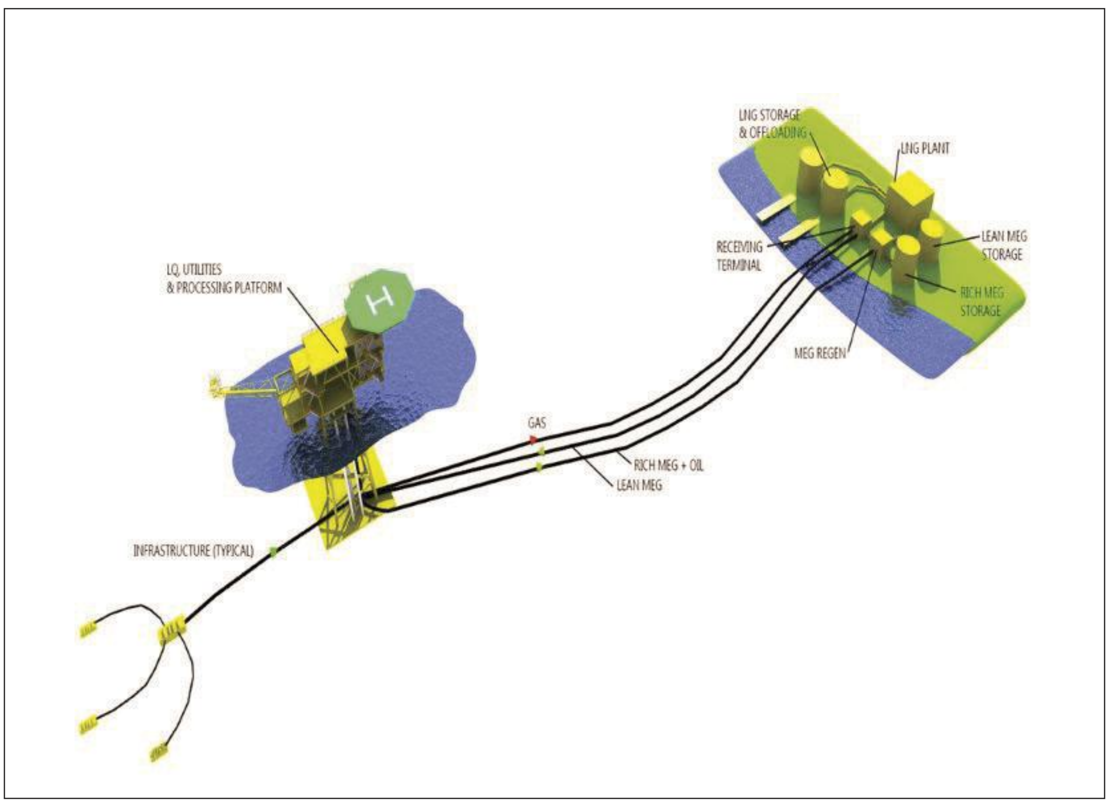
Greater Sunrise Upstream review

A study for the review and validation of the Greater Sunrise fields upstream development concept was commissioned in 2013 and early 2014, with the objective to provide an independent cost estimate for the upstream production facilities associated with the Greater Sunrise upstream concepts.

The study assesses alternative upstream development for Greater Sunrise and intends to provide a comparative costing of the options. The study indicated three options for the Greater Sunrise field upstream development:

» Option 1: FPSO (Floating Production, Storage and Offloading).
» Option 2: Fixed platform (CPP = Central Processing Platform) + FSO (Floating, Storage and Offloading).
» Option 3: A single fully Integrated CPP.

Option 3 is basically a modification of option 2 by relocating production units such as Mono Ethylene Glycol (MEG) and its storage, condensate stabilization, storage & offloading, and produced water disposal and treatment to onshore Timor-Leste.



TLNG upstream facility for Greater Sunrise - Fixed Platform Option 3 with production units such as Mono Ethylene Glycol (MEG) and its storage, condensate stabilization, storage & offloading, and produced water disposal and treatment to onshore Timor-Leste.

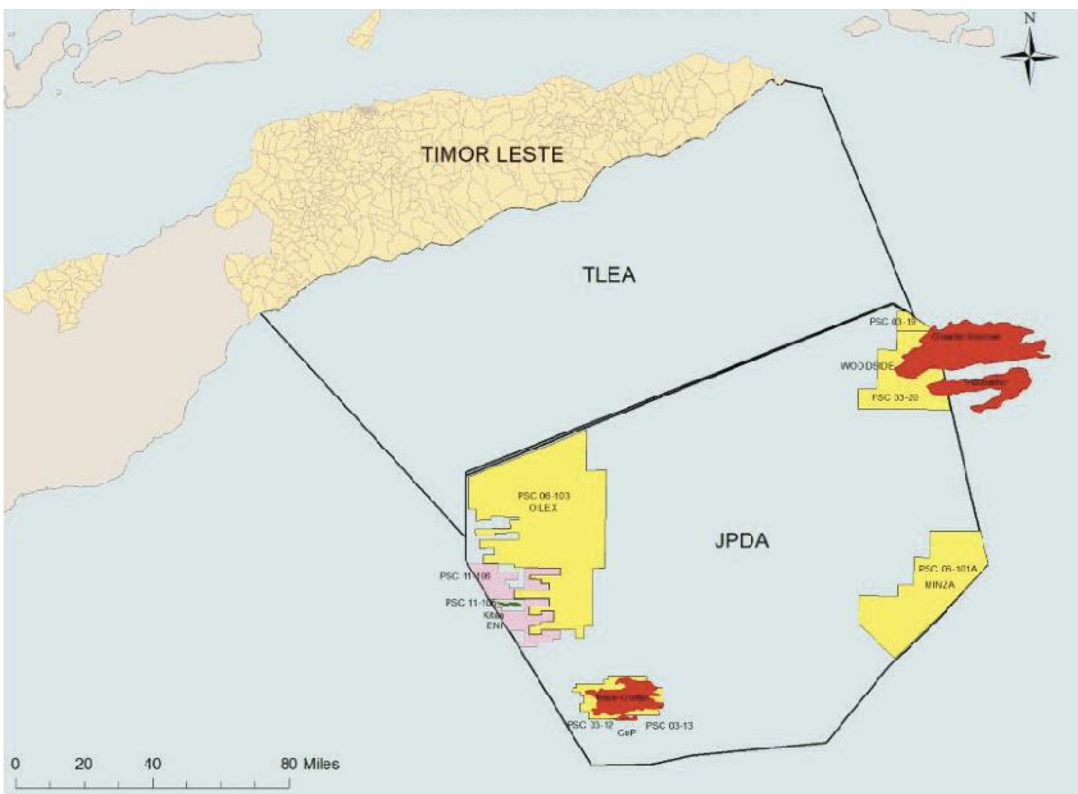
The conclusions of the study demonstrate that the Integrated CPP option is potentially the best technical improvement to option 2 and represents the lowest upstream development cost compared to the other two options.

Developing the Greater Sunrise field via the TLNG scenario brings a magnitude of benefits linked to the number of onshore production facilities. The Integrated CPP option can also provide the maximum socio-economic impact to Timor-Leste such as direct plant work-force, training and employment creation, besides TLNG related community, medical, and infrastructure facilities.

It is expected that this socio-economic impact may catalyze other local investment, economic activities and development, e.g. tourism, business and manufacturing.

Cooperation with Shell

A workshop with TIMOR GAP and Shell was held in 2013, envisioning possibilities of cooperation for studies in Timor-Leste's Exclusive Area (TLEA). This was followed by communications that resulted on Shell agreeing to host TIMOR GAP's staff for secondments. As part of the secondment, our staff was involved in evaluating the TLEA area utilizing newly acquired broadband seismic data. Discussions regarding joint exploration opportunities in the TLEA are taking place between Shell and TIMOR GAP and are expected to be finalized in 2015.



Map showing Timor-Leste Exclusive Area (TLEA), and the Joint Petroleum Development Area (JPDA) in Timor Sea

03 Downstream, Services and Subsidiary Companies

Projects Underway

Apart from the mega Tasi Mane project (Section 4), during 2014 TIMOR GAP proceeded with the management of the following other projects and studies:

» Retail fuel stations
» Lifting and marketing of Bayu-Undan condensate
» JPDA offshore service tenders
» Metinaro petroleum import terminal
» Undersea telecommunication cable
» Hera floating receiving terminal

Retail fuel stations

TIMOR GAP is planning to set up a network of retail fuel stations across the country, for which Pertamina is a possible partner. The network is planned to begin with the opening of three fuel stations in Suai, Oecusse and Baucau. The economic model for this project has been completed.

The EIA study for the retail fuel station in Suai was conducted in 2014 and included public consultation, collecting soil samples of the site, topographical survey and collecting information about hazards and cultural aspects of the site. TIMOR GAP submitted a request to SEMA for the environmental license in December 2014.

Design of TIMOR GAP fuel station in Suai

Lifting and marketing of Bayu-Undan condensate

TIMOR GAP has a joint trading agreement with PTT Public Company for the lifting and marketing of the condensate equity share of the Government of Timor-Leste from the Bayu-Undan and Kitan fields. Timor-Leste is entitled to a combined total lifting volume of ±6,750,000-10,000,000 barrels per annum (bpa) (2013) from these contract areas and we intend to market and sell our respective share of crude oil.

Petroleum activities in the Joint Petroleum Development Area (JPDA) in the Timor Sea, where Bayu-Undan is located, are managed daily by National Petroleum Authority (ANP) and overseen by a Joint Commission, composed by Commissioners from Timor-Leste and Australia.

A condensate lifting working group (WG) was established, consisting of representatives from both governments, the company ConocoPhillips on behalf of the Bayu-Undan Joint Venture partners, and the ANP of Timor-Leste as chair.

This WG assesses legal and commercial documents that relate to Bayu-Undan, in order to prepare a lifting recommendation to the Commissioners to allow Timor-Leste's condensate lifting. In 2014, several meetings were held on this behalf.

Timor-Leste presented a proposal to introduce a new article (7.12) into the existing Production Sharing Contract (PSC) as solution to address lifting issues. Timor-Leste also presented a draft framework agreement outside the PSC as an alternative solution to allow Timor-Leste lifting right.

The WG is seeking for a creative solution to allow Timor-Leste lifting to take place within a timeline of 2015.

JPDA offshore service tenders

TIMOR GAP has been participating on several offshore services tenders for the JPDA area, regarding the Bayu-Undan and Kitan petroleum fields in Timor Sea. In 2014, TIMOR GAP and a consortium partner participated in a tender for the Bayu-Undan project through the submission of several expressions of interest (EOI).

TIMOR GAP also supported Aker Solutions Australia bid for Bayu-Undan engineering services, in the development of Timor-Leste's local content plan and engineer for future secondment program in Australia.

In addition, TIMOR GAP's consortium for the service tenders submitted other EOIs for the Kitan project, particularly ENI JPDA 11-106 and 06-105, which provisions were the supply of vessel and logistics services to support production operations. Our consortium was audited by ENI as part of the tender pre-qualification process.

During the first quarter of 2014, TIMOR GAP supported SDV-Timor-Leste's bid for the Bluewater Glas Dowr FPSO vessel tender, which contract was awarded. The trading resulted in some revenue for the company.

In December 2014, TIMOR GAP as supporting partner to COSL (China Oilfield Services Limited) submitted an EOI to provide semi-submersible drilling and jack-up drilling for phase 3 development of Bayu-Undan field. A pre-qualification to prospective tender is expected to be issued in 2015.

Metinaro petroleum import terminal

TIMOR GAP plans to develop a petroleum import terminal at Metinaro bay, located 30 km east of Dili, on the northern coast of Timor-Leste.

There are two development options for the petroleum import terminal project in Metinaro:

» Option 1 provides for a 3 months national security stockpile of gasoline and diesel.

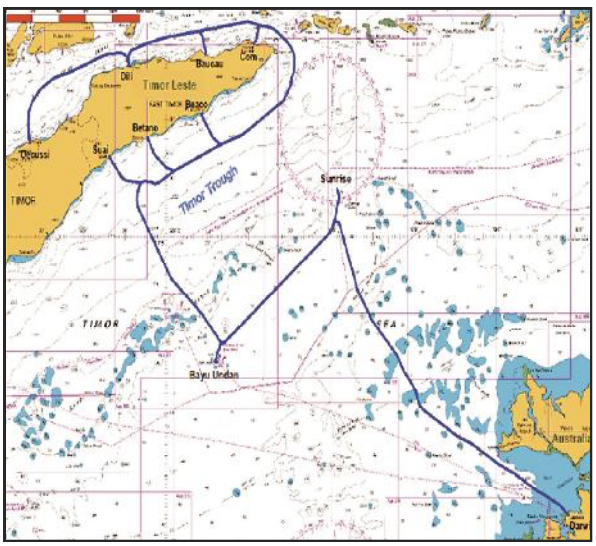
» Option 2 is a possible future expansion of the first option, which extends the petroleum import terminal into a trading hub for gasoline, diesel and potentially LPG and other products.

TIMOR GAP finalized a feasibility study in 2014 and in a way for the development of the FEED phase and final investment decision.

Undersea Telecommunication Cable

The project for the undersea telecommunication cable intends to provide for fast telecommunication, by using fiber optic connecting potential platforms in the Joint Petroleum Development Area (JPDA) with the fiber optic system in Australia. The study ensures that Timor-Leste can be connected as an extension from the lines reaching the platforms. When connected, the three petroleum hubs in the south coast (Suai, Betano and Beaço) as well as the rest of Timor-Leste's territory will have access to high speed internet connectivity.

Project for the petroleum import terminal in Metinaro



Route of the undersea telecommunication cable

The underwater cable route and feasibility study for the submarine fiber optic cable system was carried out, addressing the impact of environmental and anthropogenic factors on the cable route, as well as engineering, installation and maintenance aspects. In 2014 TIMOR GAP reported to and communicated with relevant government entities, as for example the Ministry of Transports and Telecommunications, to implement this project.

Hera floating receiving terminal

TIMOR GAP had a project for a floating receiving terminal to secure petroleum products for the national demand. In 2013, TIMOR GAP and Isar Multi Guna (IMG) set up a conventional buoy mooring with floating hose facilities to enable a direct delivery of fuel to the Hera power plant and the first fuel cargo was delivered to EDTL in June 2013. However in 2014 TIMOR GAP concluded the project was no longer viable due to the government plan for the construction of a permanent jetty on site and hence in discussions with IMG decided the venture was terminated.

Subsidiary Companies

TIMOR GAP has three subsidiary companies, to conduct specific business activities in partnership in the petroleum sector and related services:

» GAP-MHS Aviation Lda, that provides support for helicopter services for offshore operations (created in 2012).

» TIMOR GAP PSC 11-106 Unipessoal Lda, to participate in the petroleum exploration and production of a block in the JPDA (also created in 2012). More information on this subsidiary available in Section 2 of this Report.

» TIMOR GAP Oil & Gas Marine and Logistics, created in 2014. This third subsidiary provides marine support services.

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

The Consolidated Financial Statements of TIMOR GAP and its subsidiaries and associates can be seen in Section 7 and 8.

GAP-MHS Aviation

GAP-MHS Aviation Lda 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 Aviation concentrates in offshore petroleum aviation support operations in the Timor Sea. It plans to include general aviation activities in the future, including commercial flights, medical evacuation and tourism flights.

Pilots of the subsidiary GAP-MHS Aviation

Visit of HE the Prime Minister Xanana Gusmão and of the Minister of Petroleum and Mineral Resources, Alfredo Pires, to the hangar of GAP-MHS in Díli

As in 2013, during 2014 GAP-MHS operated regular helicopter flights supporting petroleum activities for the Kitan field: three flights per week for the client Bluewater and a daily flight for ENI (excluding weekends) during the drilling campaign.

GAP-MHS Aviation has currently 59 employees, from which 65% are local staff and 35% international.

Throughout the year, further training and courses on aviation industry were conducted, in a practice consistent with knowledge and technology transfer to local entities and in line with the local content aspirations. Highlights:

» Three local pilots finished in 2014 their course at Asia Pacific Flight Training Sdn Bhd in Malaysia.
» Two engineers are currently in the Malaysian Institute of Aviation Technology (MIAT), Kuala Lumpur, attending an engineering course.
» Safety training provided.
» English courses.

TIMOR GAP Oil & Gas Marine and Logistics

In 2014, TIMOR GAP created a wholly owned subsidiary TIMOR GAP Oil & Gas Marine and Logistics 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.

04 Tasi Mane Project: a National Petroleum Industry

The Tasi Mane project is envisioned in the Government's Strategic Development Plan 2011-2030, which identifies the petroleum sector as a basis for our nation's sustainable development.

Tasi Mane comprises the development of a national petroleum industry that will provide direct economic benefits from Timor-Leste's natural resources, including job creation in the oil sector as well as in related services and supporting businesses. In addition Tasi Mane project will create multiplier effects in the economy, thus assisting the raise of living standards of the people.

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. Tasi Mane is a multi-phase integrated project composed by three industrial clusters, to be built from Suai in the district of Covalima to Beaço, district of Viqueque, including:

- » The Suai Supply Base
- » The Betano Refinery and Petrochemical Industry
- » The Beaço LNG Plant

For each site there are additional facilities planned, such as:

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

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

Localization of the Tasi Mane projects, on the south coast of Timor-Leste

Suai Supply Base

The first stage for the implementation of the Tasi Mane Project is the building of a logistics marine supply base in Suai, situated in Camanasa, district of Covalima. The supply base will support all petroleum activities in Timor-Leste's Exclusive and Joint Petroleum Development Areas (TLEA and JPDA) and its vicinity, as well as industrial logistics' services.

It will also be an entry point for the materials requested to build the other two planned industrial clusters on the south coast, in Betano (refinery and petrochemical complex) and Beaço (LNG plant).

The front-end engineering and design (FEED) of the supply base was concluded in 2010 and encompasses:

» **Land facilities** - port buildings, warehouses, fuel tank farm, water storage tanks, waste management system, parking areas, recreational and community facilities, and others.

» **Marine facilities** - three jetty structures (main jetty, barge jetty, passenger jetty) and a shore connected rock breakwater to provide shelter from the waves, creating a safe operational harbor.

It is also planned that the Suai industrial cluster will include:

» The upgrading of the Suai airport facilities and standards.

» A housing complex in Camanasa and Labarai ("Nova Suai").

Furthermore, other non-oil industries, such as commercial fisheries, are expected to be incorporated to the area.

The environmental impact assessment (EIA) for the Suai supply base (SSB) was conducted in 2012 and TIMOR GAP prepared public consultations ("socializasaun") on the project. The **Environmental License** was granted in 2013 and the **construction plan** was then approved by the Council of Ministers.

Suai Supply Base procurement process

In November 2013, the National Procurement Commission (NPC), responsible for the tender process until approval of the contract by Court of Auditors ("Tribunal de Contas"), concluded that 5 companies were pre-qualified to bid for the Suai supply base project. During 2014:

» The bidding documents were issued by NPC to the pre-qualified bidders on February.

» Pre-bid site visit to Suai and meeting at NPC office in Dili were held on March.

Pre-bid site visit to the SSB project site in Camanasa, Suai on March 2014.

Bid opened and closed on August, with 3 companies submitting proposals:

» Afcons Infrastructure Ltd (India)
» BAM-VanOord-Wika Consortium (Netherlands – Indonesia)
» Hyundai (HDEC-HEC) Consortium (Korea)

Bid proposal submission and opening at NPC with the presence of the bidders representatives.

TIMOR GAP monitored the process and assisted NPC and the project consultant Eastlog throughout this tender process, including the responses to bidders' clarifications, bid evaluation and approval for the winner.

» The technical bid evaluation results report was submitted to NPC on November 2014.

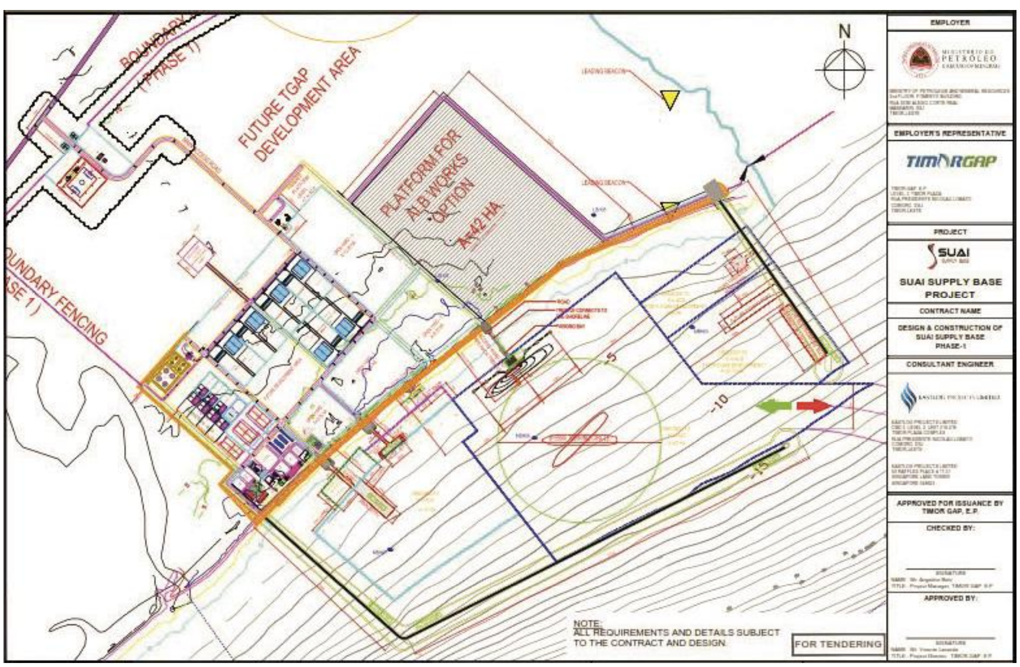
» NPC was expected to submit the final results to the Council of Ministers for approval.

Land issues

TIMOR GAP participated in the land title identification process of the Suai project area, which was executed with an inter-ministerial working group (EKI). The first stage of the program for **compensation** of land and properties was accomplished in 2014, after the **land** (1,113 hectares) was handed-over by the community to the Government, for use of the Suai industrial cluster. It is expected that the local community will receive a 10% share from the profits originated by the management of the supply base, through the creation of a commercial company.

In November 2014, inter-ministerial meetings and a field trip were conducted by TIMOR GAP, for the consultation of the draft formal agreements on direct and indirect compensation as well as data verification. It was also for the signing of agreements for the first stage of compensation (construction site area), which consist of 147 parcels of land and 32 of livestock & fisheries, in a total area of 148 hectares.

The Decree-Law on “Temporary Transfer Ownership Rights” was promulgated by the President of the Republic in November and published in the Government gazette (Jornal da República) in December 2014.



SSB revised master plan. With additional liquid jetty and requires dredging to −14m ACD

Suai Supply Base revised master plan

The readjustment of the layout for the supply base marine facilities was carried out in 2013 to integrate the marine facilities previously planned for the Betano refinery cluster. TIMOR GAP and Eastlog, the project consultant, finalized the SSB revised master plan proposal and the scope changes (additional scope – liquid jetty and dredging) were approved by the National Development Agency (Agência de Desenvolvimento Nacional, ADN).

The revised plan was presented to the Council of Ministers, which approved the Resolution No. 19/2014 for the SSB rescheduled masterplan on July.

The **construction** of the SSB is planned to begin in 2015, with completion expected 36 months after.

Another highlight of 2014 is the beginning of a partnership with the company Sang Tai Hoo for planning and developing the industrial state adjacent to the Suai supply base and Nova Suai.

Suai Airport Upgrade

The Suai airport is located between Matai and Holbelis, Covalima district, at a distance of 202 km from Dili and 15 Km from Suai town. This district airport will be upgraded to provide for expanded passenger and freight services for the petroleum industry. The airport runway will be expanded (1,500m), a new terminal building and a hangar shelter for helicopters will be built.

The airport project is based on International Civil Aviation Organization (ICAO) standards and the rehabilitation has the main purpose of allowing safe operations of light aeroplanes and helicopters to support petroleum activities and supply base operations. The new airport will mainly benefit the companies working on oil and gas platforms, the Tasi Mane project, and communities living in the south coast. The upgrade will also contribute to social and economic development and will offer new job opportunities.

TIMOR GAP along with an interministerial team, finalized in 2013 the database for verification of the land and properties identified for the airport project. The contract for the construction was then awarded to the Indonesian company PT Waskita Karya, Tbk.

2014

Through a Cooperation Protocol between MPRM and MTC, MPRM became responsible for community liaison, land title clearance and development of a new resettlement area, while the MTC is responsible for the construction and supervision of the airport.

Land and Properties issues

TIMOR GAP participated in the land and properties title identification process of the project area, executed with an inter-ministerial working group (EKI). The program for compensation of land and properties progressed in 2013, in which EKI identified a total of 122 hectares of land, with 43 hectares belonging to the government, 79 hectares to the community and 133 houses to be relocated by the government.

The master plan design for the new resettlement area in Suai

In addition, the government identified 7 hectares of land to be dedicated to the building of a new resettlement area, which “master plan design” was completed in the beginning of 2014.

In November 2014, inter-ministerial meetings and a field trip was conducted by TIMOR GAP, for the consultation of the draft formal agreement on compensation, data verification and for the signing of agreements which consist of 255 agreements for land and properties, as well as 106 for livestock.

The master plan for the new resettlement area for the airport project in Suai

Betano Refinery and Petrochemical complex

A petroleum refinery and petrochemical complex are planned as the second industrial cluster of the Tasi Mane project, to be located in Betano (Manufahi district, 70 km south from Dili), with the objective of processing petroleum from the fields offshore and onshore Timor-Leste. Currently, the main field producing in Timor Sea is Bayu-Undan, while the development of other fields, as Greater Sunrise, will take place in the future.

The refinery cluster in Betano will be established through a commercial venture, with a crucial role for TIMOR GAP. It is also planned that the development of this cluster will be supported by the construction of a new city, Nova Betano.

The refinery complex facilities are projected to enable the production of fuels (diesel, gasoline, jet-fuel, LPG, naphtha), fertilizers, pesticides and other petrochemical products that are currently imported. An initial phase will establish a relatively **small size refinery** (condensate splitter plant) with a capacity of 30,000 barrels per day (bpd), with capacity to progressively increase to 100,000 bpd.

The main objective of this project is to capture more added value on Timor-Leste's condensate or light crude oil, although currently national feedstock for the refinery is not secured.

The stakeholder consultation for the Betano refinery project was led by then Secretary of State for Natural Resources (SERN) with TIMOR GAP's participation and a Strategic Environmental Impact Assessment (SEIA) was completed in 2012.

The refinery project was executed as a co-project between TIMOR GAP and PTT from Thailand, which conducted a feasibility study and master plan for the venture. In 2013, the consultant Toyo-Thai was engaged for the marine facility and refinery FEED.Under the cooperation with PTT, TIMOR GAP conducted several studies for the refinery and petrochemical complex, which involved:

- FEED studies
- Topographic survey and soil investigation
- Land development study
- EIA and Health Impact Assessment (HIA) (project ToR submitted to SEMA in December 2014)
- Market survey (final report submitted in 2014)

A feasibility study report started being prepared in 2014 to support the creation of a JV company to implement the project.

Master plan for the refinery and petrochemical complex in Betano

Investment appraisal for the project

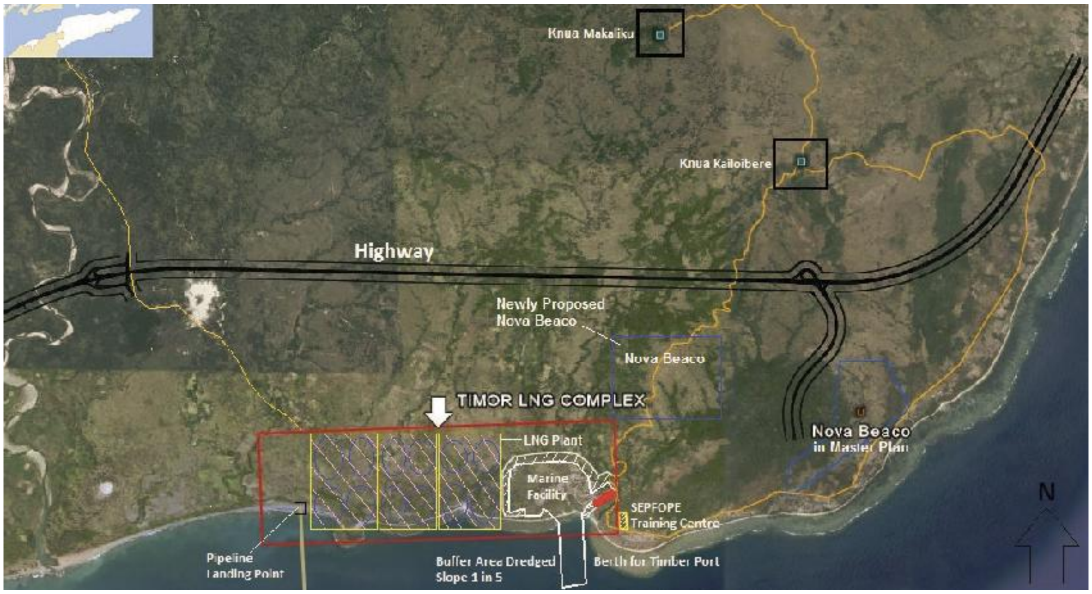
A Final Investment Decision (FID) for the Betano Refinery is still to be taken. Besides the partnership with PTT on the refinery project, TIMOR GAP may also search for other potential investors to be involved.

Regarding feedstock for the refinery, the project is expecting condensate production from Bayu-Undan field and in the future, from Greater Sunrise and other fields in the Timor Sea and onshore.

The studies for the refinery project will continue in 2015. The EIA study for the refinery is planned to be completed in 2015. In addition to this, we also plan to begin the process of land title identification for the refinery site in Betano.

Meeting on land development for the project area of the Betano refinery

Ground water and water supply study for the Betano refinery project, September 2014

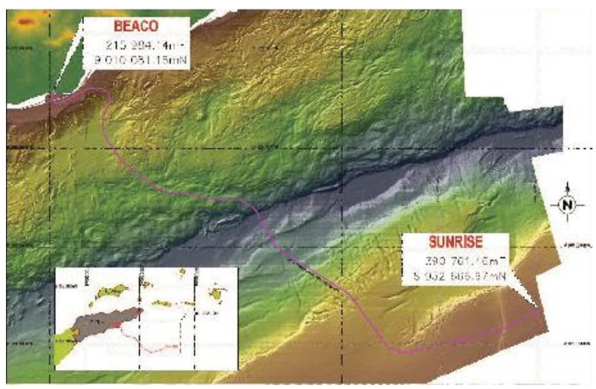


Layout of the Timor LNG Complex, Beaço industrial cluster

LNG Plant 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 with the establishment of an LNG plant to process the gas in south coast Beaço, Viqueque (100 km from Dili). The Beaço industrial cluster project comprises:

» Gas pipeline
» LNG Plant
» Marine facility
» Nova Viqueque and Nova Beaço towns
» Upgrade of the Viqueque airstrip



Final route of Greater Sunrise – Beaço pipeline

Gas Pipeline

The gas pipeline to transport natural gas from Greater Sunrise to Beaço has been well-studied from Feasibility Study to Pre-FEED and FEED. In order to meet the requirements of FEED, a specialized survey called 'Detailed Marine Survey – DMS' was commissioned. All studies have been completed by 2013 which results showed that building a 24-inch pipeline to transport natural gas from Greater Sunrise to Beaço is not only technically feasible but also commercially viable.

Moreover, potential contractors for both pipe-mills and pipe-lay confirmed having the capabilities to deliver the Greater Sunrise to Beaco pipeline project competitively in regards to the specifications requested.

The results of these studies have been fundamentals for Timor-Leste in various discussions with its stakeholders. Throughout 2014, TIMOR GAP presented these results to government and private stakeholders, including a presentation to Woodside and its JV partners in December.

LNG Plant

Once it is landed onshore, the gas will be treated in the conditions required in the liquefaction process. Gas treatment, liquefaction and product storage are grouped in the LNG plant project. The LNG plant will provide gas processing facilities onshore, in support of the petroleum exploration in Timor Sea, maximizing added value from the petroleum resources. While most of the gas landed in Beaço will be processed for exports as LNG and LPG, a relatively small percentage of it can be set aside to power Timor-Leste's power plants which are currently running on diesel. Using natural gas to fire electricity generators will give immediate benefits in two folds, not only it is cheaper than diesel but also environmentally friendlier because natural gas emits the lowest carbon dioxide (CO2) of all hydrocarbon family.

The pre-feasibility study and conceptual study for the LNG Plant were completed in 2010. The findings of the studies indicated that an LNG plant with a capacity of 5 MTPA is viable, with possible expansions of up to 20 MTPA in the future. In 2014, TIMOR GAP supported the Government's National Procurement Commission (CNA) in the procurement process for a consultant to carry out the LNG Plant Pre-FEED study. These included development of technical scope of works and provided technical clarifications during the bidding period and contract negotiations as required. The negotiation was aimed to be completed in early 2015 and commenced immediately with the studies which will be under TIMOR GAP's oversight until the project is fully delivered.

Marine Facility

Marine facility is a specially designed port dedicated for LNG. The port will be composed of material off-loading facilities and product loading facilities. While the former is mostly for unloading materials required during the project constructions, the latter is to be equipped with product loading arms and berthing for LPG and LNG tankers with typical length overall at the order of 300-meters or higher.

Studies for the marine facility have been commissioned all the way to the level of FEED. An onshore basin design port was completed in 2013 by engineering consultant HR Wallingford. A capital expenditure (CAPEX) estimates to the level of FEED for the onshore basin port was developed to the level of ±10% accuracy.

Marine facility for the TLNG project

In order to have a better understanding of the frequency of port maintenance, for instance maintenance dredging to meet the required water depth of -14m LAT inside the turning basin and -17m LAT at the approaching channel, a sedimentation survey campaign was commissioned throughout 2014. WorleyParsons collected and analyzed meteorology, oceanography and sedimentation samples from Beaço and Viqueque areas. These included recording water level rise/drop at Viqueque Cuha River and Beaço River. The data collected from the survey will be used to estimate the quantity of sedimentations in the Beaço Marine Facility and hence better define the operational expenditure (OPEX) estimates.

New Towns – Nova Beaço and Nova Viqueque

In February 2014, the community of Beaço signed a declaration that was delivered to the Prime Minister, H.E. Mr. Kay Rala Xanana Gusmão, stating that they were prepared to hand over their land to the government for the purpose of LNG project in Beaço. At the request of the Prime Minister and MPRM, a community relocation task force team was established, composed by TIMOR GAP, Ministry of Public Works (MOP) and National Development Agency (AND). The task force was mainly to follow-up with the community's request for a road access to their abandoned old villages – Knua Kailoibere and Knua Makaliku. The team visited the two 'Knuas' and underwent plans for the villages to be developed in the future in conjunction with Nova Beaço development. The road access to the Knuas has been opened.

New towns development projects

In July 2014, TIMOR GAP and the MPRM organized a short comparative study in Suai for representatives of the Beaço community which were taken to Suai, where they observed the progresses at the airport and supply base projects, as well as language and professional skills training provided by SOLS.

Highway

To support the development of the Tasi Mane Project, it is planned that a road along the south coast, connecting the three industrial clusters from Suai to Beaço, will be built in stages according to logistic and economic necessities. In 2012, TIMOR GAP initiated the project's "socializasaun" amongst local communities and the environmental impact assessment (EIA) and social impact assessment (SIA) were undertaken.

The projected highway has a distance of 151.66 km and is split into four sections:
1) Suai – Fatucai /Mola;
2) Fatucai/Mola – Betano;
3) Betano – Clacuc;
4) Clacuc – Beaço.

The design speed is 100km/h for flat areas (and 60 km/h for mountain area), with as estimated travel time from Suai to Beaço of around 2 hours.

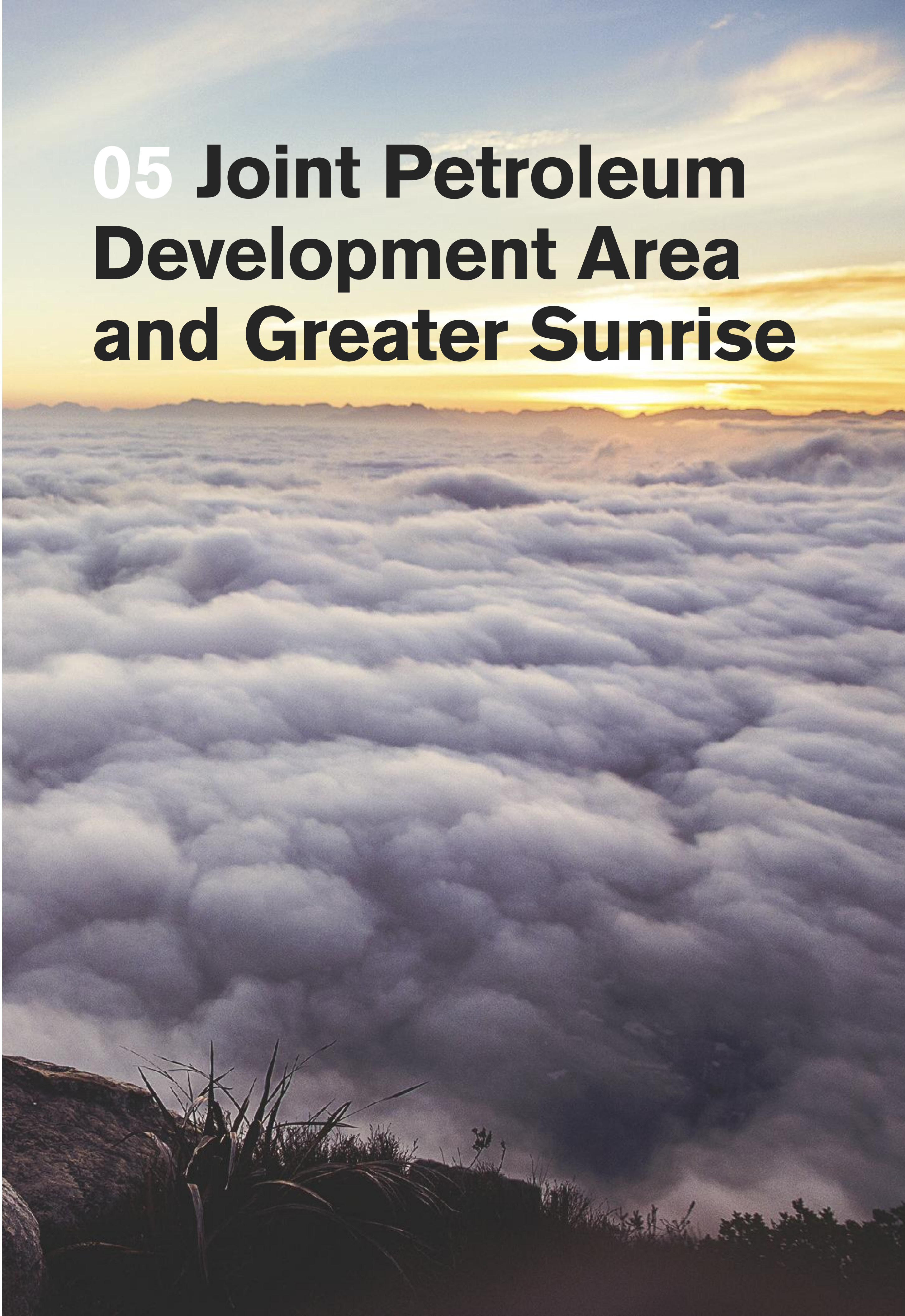
In 2013, several activities were conducted by an inter-ministerial team with TIMOR GAP participation, including "socializasaun", procurement and preparation for the supervision of the highway's construction.

In 2014 the tendering processes for construction of the highway and its supervision were completed.

However, due to no allocated budget for the highway for 2014, the process was submitted to the Council of Ministers for approval, which decided that COVEC – China Railway would be contacted for the phase one of the highway project.

Design of the highway, from Suai to Beaço

05 Joint Petroleum Development Area and Greater Sunrise



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

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

Our company provides advice and participates in the Joint Commission and Sunrise Commission, along with Government officials from Timor-Leste, the National Petroleum Authority (ANP) and Australia.

Joint Commission

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

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

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

The following Joint Commission meetings were held in 2014:

- 39th JCM on 6th March 2014 in Sydney
- 40th JCM on 14th August 2014 in Dili
- 41th JCM on 25th November in Canberra

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

Sunrise Commission

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

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

These are main features related to the Sunrise International Unitisation Agreement:

- The IUA highlights that the Commission shall facilitate coordination between the regulatory authorities to promote development of the Sunrise field
- The Sunrise Commission may review and make recommendations to the Regulatory Authorities (ANP) with regard to a Development Plan;
- The Sunrise Commission may resolve disputes referred to it by the Regulatory Authorities.

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.

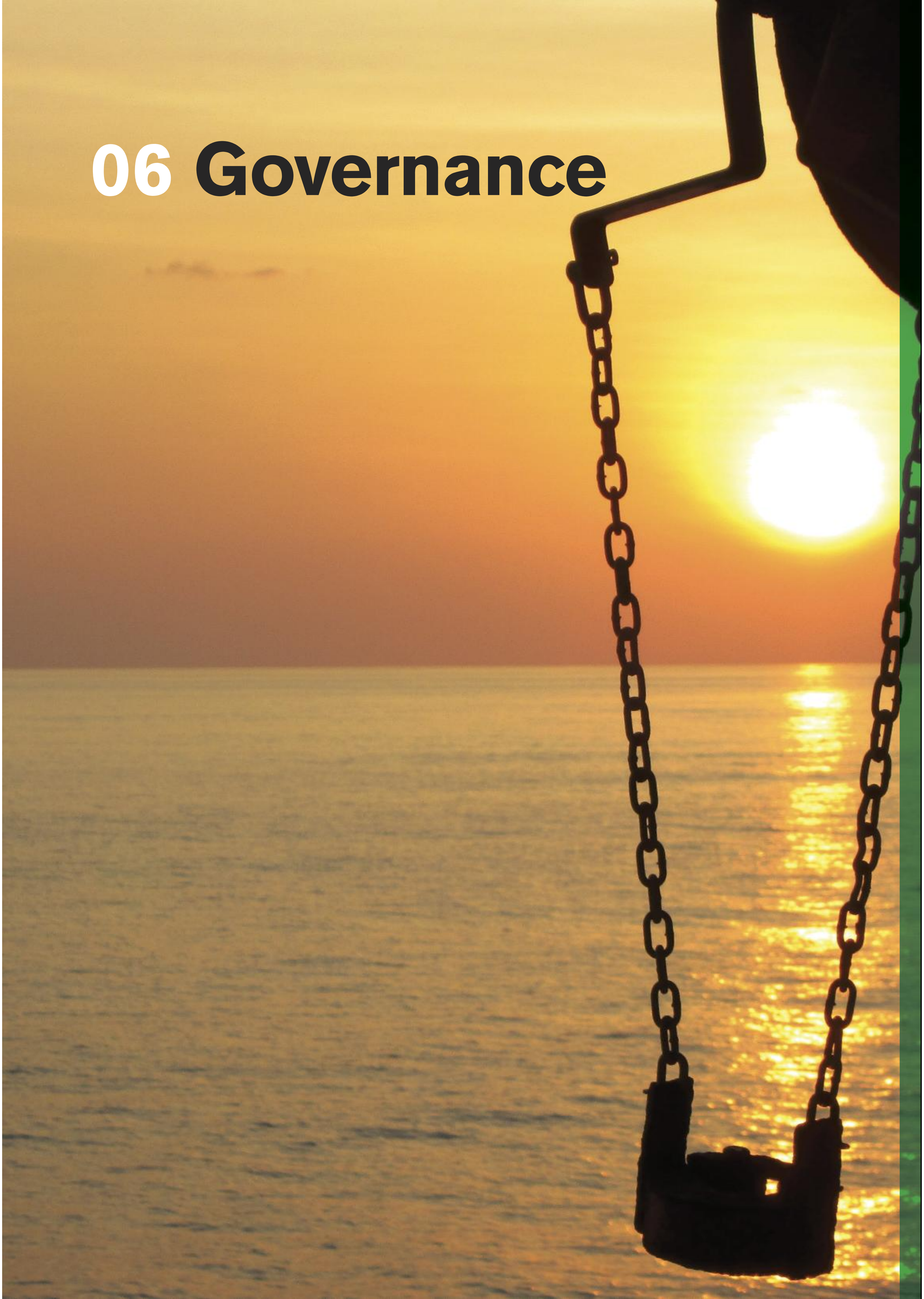
The President & CEO of TIMOR GAP, Mr. Francisco Monteiro, represents Timor-Leste in the Sunrise Commission, and Mr. António de Sousa (Vice-President) is the alternate Commissioner.

Meetings in 2014:

- The 15th Sunrise Commission meeting was held in 26 November 2014 in Canberra
- Negotiation meetings with Woodside took place in October, November and December 2014

Similar to 2013, due to the CMATS arbitration process, no major meetings were held nor were relevant decisions taken in what regards Sunrise.

06 Governance



Board of Directors

The Board of Directors (BOD) is the highest body in TIMOR GAP, responsible for defining directions, policies and management. The President of the BOD was appointed by the Government body responsible for the petroleum sector, with the approval of the Council of Ministers. All the Board members were nominated in October 2011, short after the establishment of the company.

- The President of the Board and Chief Executive Officer (CEO) is Mr. Francisco Monteiro.
- In September 2014, another Member of the Board was nominated as Vice-President: Mr. António de Sousa.
- The other Board Members are Ms. Norberta Soares da Costa and Mr. Dino Gandara.

Some of the main responsibilities of the BOD are:

- 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.

Summary of important decisions taken in BOD meetings during 2014:

24th February 2014

- Approval of Resolution for the Setting-up of a Subsidiary Company – TIMOR GAP Marine and Logistic, Ltd.
- Approval of Resolution to appoint the Board Members and Chairman for the Subsidiary Company.
- Approval of Resolution for Possible Board Members to Become Vice-President and Executive Directors of TIMOR GAP.
- Approval of Resolution to Endorse the Staff Remuneration Package Based on Competency Levels.

30th May 2014

- Approval of the Performance Management Policy and Procedures for Employees.

12th and 28th August 2014

- Approval of the Consolidated Company Group's Annual Report and Financial Statements for the Fifteenth Month Ended December 2012.
- Approval of the Consolidated Company Group's Annual Report and Financial Statements for the year of 2013.

22nd September 2014

- Endorsement of the Agreement on Joint Cooperation in relation to the Development of Fuel Stations in Suai – Timor-Leste.
- Endorsement of the Fuel Sale and Purchase Agreement between PT Pertamina (Persero) and TIMOR GAP.

6th October 2014

- Approval of the New Organizational Structure of the Company, including a Vice-President's position and two new Director Positions: Finance Director (to oversee all financial operations, project finance management) and Quality, Health and Safety Environment (QHSE) Director (to oversee all QHSE operations).

20th November 2014

- Appointment of the two new Directors Mr. Henrique Monteiro (Finance) and Mr. Rony da Costa (QHSE).

17th December 2014

- 2015 budget preparation.

Executive Committee

The Executive Committee (EC) is our corporate body that exercises daily management according to the goals and strategies of the Board of Directors. The EC is headed by the CEO who is also the President of the Board. The other members are the Vice-President and the five Executive Directors of our business units:

President & CEO
Mr. Francisco da Costa Monteiro

Vice-President
Mr. António de Sousa

Director of Corporate Service Unit
Ms. Jacinta Paula Bernardo

Director of Business Development Unit
Mr. Luís Martins

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

Director of Refinery and Petroleum Services Unit
Mr. Vicente Pinto

Director of Gas Business Unit
Mr. Domingos Lequi Siga

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

President & CEO
Mr. Francisco da Costa Monteiro

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 a decade 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 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.

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

Mr. António 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. António de Sousa has more than a decade 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. Sousa 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.

Member of the Board
Ms. Norberta Soares da Costa

Ms. Norberta Costa graduated from University of Coimbra, Portugal, with major in Geology in 2008. She has six years of experience in the areas of minerals, oil and gas, policy advocacy, management and administration in the fields of petroleum and mineral resources. Currently Ms. Costa is the Director General for Corporate Service of the Ministry of Finance in Timor-Leste.

Member of the Board
Mr. Dino Gandara

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 9 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). Duties also included supporting seismic acquisition, environmental monitoring, drilling planning, advising on commercial contracts and liaising with the Regulator, the National Petroleum Authority (ANP), and other stakeholders.

Director, Corporate Service Unit
Ms. Jacinta Bernardo

Ms. Jacinta 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 ten years with international development agencies such as the World Bank, International Organization for Migration (IOM), Australian Embassy and Oxfam International. She is Director of Corporate Service at TIMOR GAP since May 2012. She has experience in the areas of project management, financial and procurement management, human resources management and general administration.

Director, Business Development Unit
Mr. Luís Martins

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 5 years' 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.

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

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 16 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.

Director, Refinery & Petroleum Services Unit
Mr. Vicente da Costa Pinto

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 a decade 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.

Director, Gas Business Unit
Mr. Domingos Lequi Siga Maria

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 6-years of experience in both technical and managerial skills within the oil and gas sector under the Secretariat of State for Natural Resources (SERN) of Timor-Leste. Currently he is the Director of GBU, whose main responsibilities are to manage and coordinate all business activities within the field of natural gas including LNG, LPG and gas pipelines.

Extractive Industries Transparency Initiative (EITI)

TL-EITI Timor-Leste Extractive Industries Transparency Initiative

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

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

Over the next few decades, Timor-Leste is expected to continue accumulating substantial revenues from oil and gas production. Until now, production has mostly come from the Joint Petroleum Development Area (JPDA) in the Timor Sea, in particular from the Bayu-Undan and Kitan fields. Further onshore and offshore activity is projected, namely in Timor-Leste Exclusive Area (TLEA). The government adopted a legal framework for petroleum production, taxation, and revenue management that is considered international best practice.

Law on Petroleum Activities

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

Petroleum Fund

Our Petroleum Fund was created through the **Petroleum Fund Law No. 9/2005**, with the intention to contribute to the wise and sustainable management of the petroleum resources for the benefit of the people and future generations. The Petroleum Fund contributes to sound fiscal policy and is to be integrated into the State Budget. It requires prudent management and is operated in an open and transparent way, within the constitutional and legal framework.

The **Central Bank of Timor-Leste** administers the Petroleum Fund and the Ministry of Finance is responsible for the overall management and investment strategy. The President & CEO of TIMOR GAP, Mr. Francisco da Costa Monteiro, is a member of the **Fund's Investment Advisory Board.**

EITI in Timor-Leste

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.** Timor-Leste's government also invited civil society and industry to nominate representatives to form a **multi-stakeholder group** (MSG) in 2007. The then Secretary of State for Natural Resources, currently Minister of Petroleum and Mineral Resources (MPRM), H.E. Mr. Alfredo Pires, was designated focal point of the EITI process in Timor-Leste and chairs the MSG. He is also one of the EITI International Board Members.

The petroleum revenue management department of the Ministry of Finance provides advice on transparency and accountability in accordance with the EITI and participates along with TIMOR GAP as the **state owned enterprise** in the national working group on the EITI. In June 2012, six months after the start of operations, we became one of the few national oil companies in the world supporting the EITI.

The MSG holds monthly meetings, bringing together representatives from the government (MPRM, ANP, Central Bank of Timor-Leste, Ministry of Finance), petroleum industry including TIMOR GAP as the national oil company and international oil companies, civil society and international organizations.

The MSG has as objectives to develop the EITI plan of activities, monitor progresses, share ideas, discuss, evaluate and also accompanies the overall EITI decision making. This is to ensure that the **implementation of the EITI in Timor-Leste is achievable** and in line with international standard requirements.

The MSG created the **TL-EITI Secretariat** office, which has been functioning since 2008 and is under the MPRM. The Secretariat supports the activities of the MSG, and organizes trainings, workshops and seminars. It ensures that the TL-EITI reports are publicly available and comprehensible.

Participation of TIMOR GAP in EITI workshops

Participation of TIMOR GAP in EITI events in Timor-Leste in 2014:

» 26-27 June: the TL-EITI Secretariat organized a workshop on "Knowledge and information sharing to media, relating to natural resources policy & management and changes on the EITI Standard"

TIMOR GAP presented the company, the "Tasi Mane" projects and the EITI requirement 3.6, which obliges the EITI Report to include information on the state owned enterprises and its subsidiaries, regarding taxation regime, funds transfers, disclosures on expenditures and others.

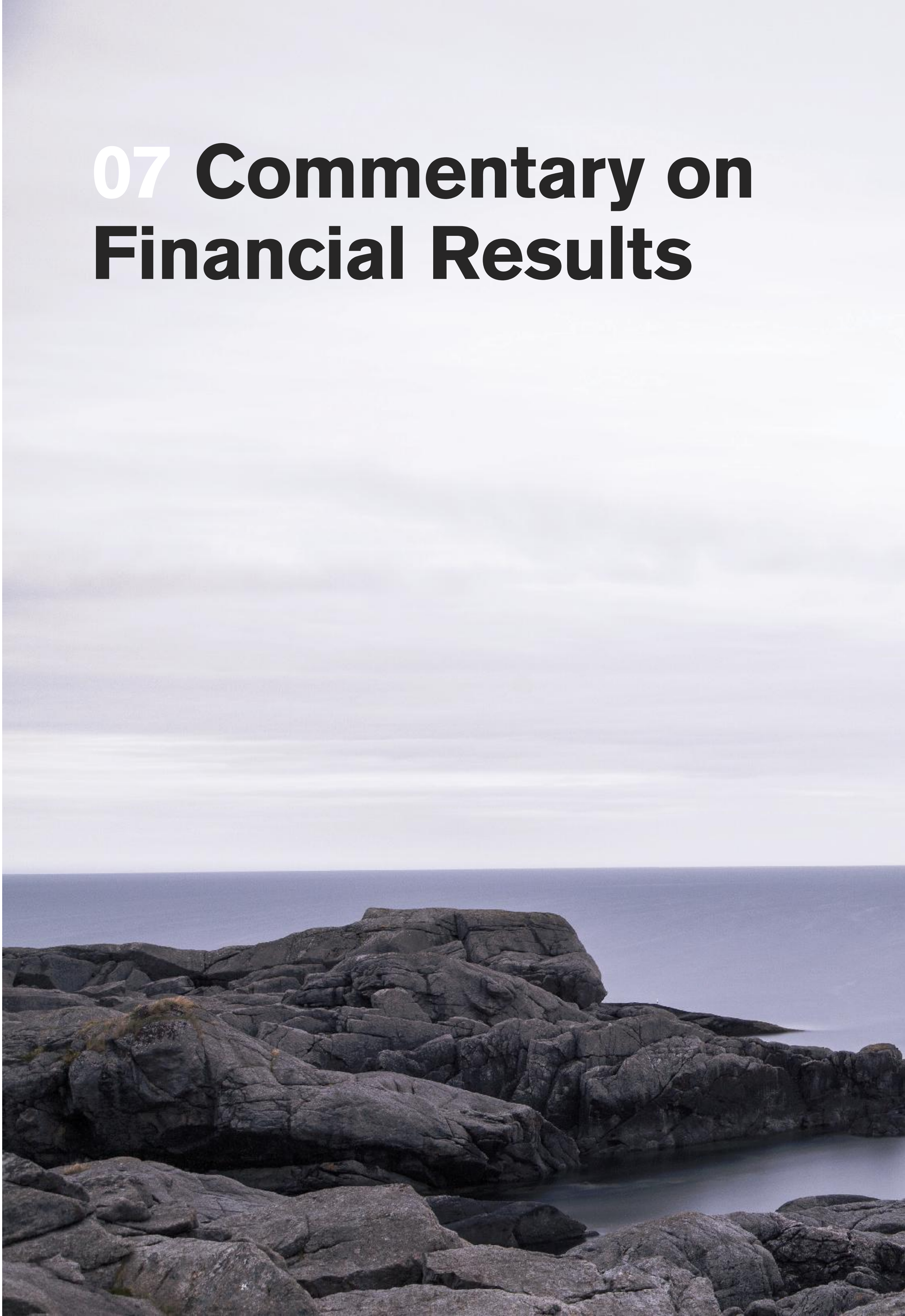
» 25 September: TIMOR GAP as a member of the MSG met with TL- EITI Secretariat and the new EITI-TL Auditor. A main subject addressed was the necessary documents to produces the annual EITI Timor-Leste Report.

» 8-9 October: TL-EITI workshop in Suai, with TIMOR GAP participation.

» November: we participated in TL-EITI workshop in Viqueque, to increase knowledge on transparency in the extractive sector, for the local community. The project of the LNG Plan in Beaço was presented.

» 15 December: TIMOR GAP received a delegation from Myanmar Alliance for Transparency and Accountability, since Myanmar is a candidate to EITI and is looking for the collaboration of TL-EITI multi-stakeholder group.

07 Commentary on Financial Results



Set out below are the audited consolidated financial statements of TIMOR GAP group for the year ended 31 December 2014. This is the group's third trading period. TIMOR GAP has adopted International Financial Reporting Standards (IFRS) to ensure that reporting is based on a well-recognized framework.

Grant Funding

During the current year a grant of $5 million (2013 — $4 million) was provided by the Government to fund the 2014 operations of the company.

Revenue

As in previous years the government grant of $5 million (2013 - $4 million) forms the majority of TIMOR GAP's revenue for the year 2014. In addition to the government funding the company earned contract fixed service fees during the year of $183,431 (2013 - $223,414). These monies were received in advance from the Government and are being released over the life of the contract on the percentage completion method based on costs incurred against the total contract value. (See sub-sections on Contract 1/2012 and Contract 2/2012 below).

In 2014 TIMOR GAP sold fuel at a wholesale level with a value of $800 000 (2013 - $3,710,179). After paying the fuel supplier, the fuel sales contributed a gross profit of $16,000 (2013 - $36,056). During the year the company also derived revenue from the Hera floating terminal of $423,603 (2013 -$267,380) and after expenses this revenue contributed a gross profit of $64,987 (2013-$38,661). This arrangement ceased during the year and $140 205 as fees was received in final settlement of the arrangement.

The company is a 60% quota holder GAP-MHS Aviation Lda (GAP-MHS). During the 2014 financial year dividends were received of $1,409,400 by TIMOR GAP. GAP-MHS continued to be profitable and contributed $854,719 (2013 - $1,085,986) to the consolidated results of the group.

Contract 1/2012

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

Contract 2/2012

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

The contract has five main components which include the following:

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

In the current year no further funds were received from the Government of Timor-Leste for either of these projects as the full contract value less the withholding taxes had been received in 2012 and 2013. During 2014 a further $2,738,741 (2013 — $2,788,268) was expended on the projects primarily to pay the contractors for the various phases of the project.

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 2014 $183,431 (2013 — $223,415) was earned as revenue from this contract with a further $106,921 still expected to be earned in 2015.

At year end $1,389,967 (2013 - $4,128,708) remained of the funds received for use in 2015 when the projects are expected to be completed.

Project Expenses

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

- Suai Supply Base
- Suai Airport project
- Greater Sunrise upstream concept review and feasibility study
- Feasibility study for Multi-User Pipeline for Beaco
- Highway project
- Concept study for the Hera terminal

These projects have been discussed in detail in Sections 2 to 4 of this report.

Financial Results
Comprehensive Loss for the Year

The company's operating loss for the year ended 31 December 2014 amounted to $1,820,968 (2013 – $1,931,410) prior to TIMOR GAP receiving a dividend of $1,409,400 (2013 – $0) from GAP MHS reducing TIMOR GAPs comprehensive loss to $411,568 (2013 – $1,931,410).

On a group basis the operating loss for the year ended 31 December 2014 of $1,766,735 (2013 -$1,986,189) was reduced by the 60% share of the GAP-MHS's result of $854,719 (2013 – $1,085,986) to a comprehensive loss on a group basis of $912,017 (2013 – $900,203).

The losses incurred to date have fully eroded the Capital received in 2012 at the Company level with the company now having an equity deficit of $1,095,003 (2013- $683,436). Due to the profitability of GAP MHS at a group level the total equity is marginally positive at $59,452 (2013 $971,468) Thus the costs have exceeded the income received for operational expenses. The company was not in a taxable position in the current year and thus there was no income tax expense.

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

Depreciation and Amortisation Expense

During the period TIMOR GAP has additions to property plant and equipment worth $455,273 (2013 – $193,762) as set out in Note 7, and additions of $548,294 (2013 – $58,325) of computer software explained in note 8 to the financial statements.

As set out in the accounting policies TIMOR GAP has adopted the straight line method of accounting for depreciation and amortisation over the expected useful lives of the assets from the date they were acquired. During 2014 depreciation and amortization of property plant and equipment amounted to $416,473 (2013 - $325,164), and for computer software the amortization for the year was $68,720 (2013 - $52,463). The SAP software was not yet in use at year end and GIS software was acquired at year end so there was limited amortization of these amounts this year.

Employee Costs/Expenses

At 31 December 2014 TIMOR GAP had a staff complement of 101 employees (2013 – 95 employees). Costs for staff increased from $1,513,856 in 2013 to $1,966,208. The increase in costs is mainly due to a grading exercise implemented during the year based on the approved career development plan (Performance Management Policy) which streamlined the rates of pay per grade.

Impairment of loan account

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

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

Other expenses

The most significant "other expenses" for the year ended 31 December 2014 include the following items:

	$	$
	2014	**2013**
Office Rent	796,303	506,721
Organisation promotion	64,229	145,664
Telephone & internet	155,966	159,114
Training & conferences	87,849	335,289
Travel & expenses	584,862	624,306

Office rent has increased due to the rental of additional offices for the full year, whereas 2013 only contained three months of the new offices.

Organisation promotion expenses included participation at various Government expositions. In 2013 the costs included the creation and design of the company's logo, as well as preparation of the company's vision and mission and corporate statements.

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 Interministerial team, etc. In addition, the Travel & Expenses also covered various activities for capacity development, participation at workshops and conferences, meetings as well as other official requests from the Government for specific purposes.

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

Taxation

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

The company has deducted and paid or accrued withholding taxes on payments to employees and suppliers at the appropriate rates. During 2014 a total of $541,524 (2013 - $288,982) was paid in withholding taxes

Statement of Financial Position

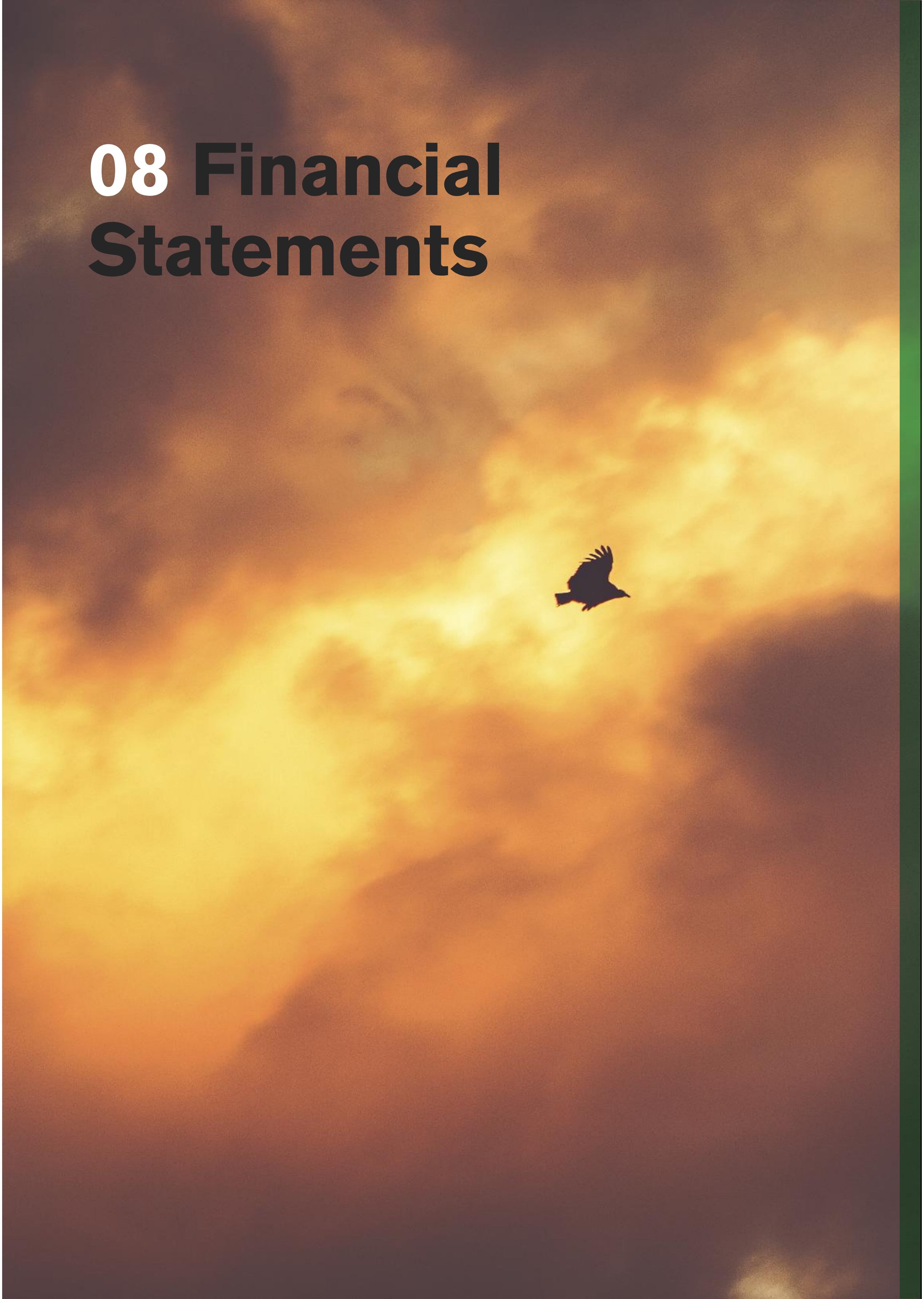
Current Assets

Current assets include amounts expected to be received within a year of the balance sheet date. Current assets of the company amount to $1,239,020 (2013 — $3,584,981) and include prepayments and receivables of $129,510 (2013 — $145,264), the rental and other deposits of $196,029 (2013 - $196,029). Included in trade receivables in 2013 was a management fee of $699,722 after taxes which was received during 2014, and there are no other amounts due in the current year. At year end 2014 cash at the bank amounted to $577,482 (2013 — $1,908,810)

As set out in Note 22 the financial statements the financial report has been prepared on the going concern basis, which assumes the realisation of assets and the discharge of liabilities in the normal course of business. The company incurred a net loss of $411,568 (2013- $1,931,410) (consolidated: $912,017) during the year ended December 31, 2014 and, as of that date, the Company's current liabilities exceeded its current assets by $2,745,917 (2013 - $1,810,975) (consolidated: $2,736,464) and the company had negative equity of $1,095,003.

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

08 Financial Statements



Consolidated statement of comprehensive income
For the period ending 31 December

		Group		Company	
		2014	2013	2014	2013
	Note	$	$	$	$
Revenue from government grant	5	5,000,000	4,000,000	5,000,000	4,000,000
Fixed contract service fees	5	183,431	223,414	183,431	223,414
Marine Oil Terminal fees	5	140,205	–	140,205	–
Gross profit on sale of fuel	5	16,000	36,056	16,000	36,056
Gross profit on lease of marine oil terminal	5	64,987	38,661	64,987	38,661
		5,404,623	4,298,131	5,404,623	4,298,131
Expenses					
Project expenses		(2,056,452)	(1,862,479)	(2,056,452)	(1,862,479)
Depreciation and amortisation expense	7&8	(485,193)	(377,627)	(485,193)	(377,627)
Employee costs		(1,966,208)	(1,513,856)	(1,966,208)	(1,513,856)
Impairment of loan account	17	–	–	(268,954)	–
Other expenses		(2,663,505)	(2,530,358)	(2,448,784)	(2,475,580)
Total expenses		(7,171,358)	(6,284,320)	(7,225,591)	(6,229,541)
Operating loss		(1,766,735)	(1,986,189)	(1,820,968)	(1,931,410)
Dividend received from associate		–	–	1,409,400	–
Share of profit of associate	10	854,719	1,085,986	–	–
Loss before tax		(912,017)	(900,203)	(411,568)	(1,931,410)
Income tax expense	6	–	–	–	–
Loss for the period		(912,017)	(900,203)	(411,568)	(1,931,410)
Other comprehensive income		–	–		–
Total comprehensive loss		(912,017)	(900,203)	(411,568)	(1,931,410)

Total comprehensive loss attributable to:					
Controlling interest		(912,017)	(900,203)	–	–

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

Consolidated statement of Financial Position
As at 31 December

		Group		Company	
		2014	2013	2014	2013
	Note	$	$	$	$
Assets					
Non-current assets					
Property, plant and equipment	7	988,205	949,405	988,205	949,405
Intangible assets	8	649,708	170,134	649,708	170,134
Investment in subsidiaries	9	—	—	10,000	5,000
Investment in associates	10	1,158,002	1,712,683	3,000	3,000
		2,795,915	2,832,222	1,650,913	1,127,539
Current assets					
Trade and other receivables	11	661,539	1,621,827	661,539	1,676,171
Cash and cash equivalents	12	581,935	1,913,375	577,482	1,908,810
Total current assets		1,243,473	3,535,202	1,239,020	3,584,981
Total assets		4,039,388	6,367,424	2,889,934	4,712,520
Equity and liabilities					
Equity					
Contributed equity	13	2,500,000	2,500,000	2,500,000	2,500,000
Accumulated losses		(2,440,548)	(1,528,532)	(3,595,003)	(3,183,436)
Total equity		59,452	971,468	(1,095,003)	(683,436)
Current liabilities					
Trade and other payables	14	2,483,048	976,896	2,488,049	976,896
Unearned fixed contract service fees and project advances	16	1,496,888	4,419,060	1,496,888	4,419,060
Total current liabilities		3,979,936	5,395,956	3,984,937	5,395,956
Total equity and liabilities		4,039,388	6,367,424	2,889,934	4,712,520

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

Consolidated Cash Flow Statement
For the year ended 31 December

		Group		Company	
		2014	2013	2014	2013
	Note	$	$	$	$
Cash flows from operating activities					
Operating loss		(1,766,735)	(1,986,189)	(1,820,968)	(1,931,410)
Adjustments for:					
Depreciation		416,473	325,164	416,473	325,164
Amortisation		68,720	52,463	68,720	52,463
		(1,281,543)	(1,608,561)	(1,335,775)	(1,553,782)
Decrease/(increase) in trade receivables	11	960,289	(444,760)	1,014,633	(499,104)
Increase in trade and other payables		1,506,154	231,465	1,511,154	231,465
Cash generated from operations		1,184,900	(1,821,856)	1,190,011	(1,821,421)
Income tax paid		—	(168,000)	—	(168,000)
Net cash from operating activities		1,184,899.53	(1,989,856)	1,190,011	(1,989,421)
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(455,273)	(193,762)	(455,273)	(193,762)
Purchase of intangible assets	8	(548,294)	(58,325)	(548,294)	(58,325)
Investment in subsidiary	9	—	—	(5,000)	—
Dividend from associate		1,409,400	—	1,409,400	—
Net cash used in investing activities		405,833	(252,087)	400,833	(252,087)
Cash flows from financing activities					
Increase / (decrease) in project advances		(2,922,172)	1,188,317	(2,922,172)	1,188,317
Net cash used in financing activities		(2,922,172)	1,188,317	(2,922,172)	1,188,317
Net increase in cash and cash equivalents		(1,331,440)	(1,053,626)	(1,331,328)	(1,053,191)
Cash & cash equivalents at start of the year		1,913,375	2,967,001	1,908,810	2,962,001
Cash & cash equivalents at end of the year		**581,935**	**1,913,375**	**577,482**	**1,908,810**

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

Consolidated statement of changes in Equity
For the period ended 31 December

		Group		Company	
		2014	2013	2014	2013
	Note	$	$	$	$
Transactions with owners of the company					
Contributed Capital					
— 1 December 2011		2,000,000	2,000,000	2,000,000	2,000,000
— 23 February 2012		500,000	500,000	500,000	500,000
		2,500,000	2,500,000	2,500,000	2,500,000
Consolidated loss and comprehensive loss attributable to equity holders of the parent:					
At the beginning of the period		(1,528,532)	(628,329)	(3,183,436)	(1,252,026)
For the period		(912,017)	(900,203)	(411,568)	(1,931,410)
At the end of the period		(2,440,548)	(1,528,532)	(3,595,003)	(3,183,436)
Non-controlling interest		—	—		
Total equity at 31 December 2014		**59,452**	**971,468**	**(1,095,003)**	**(683,436)**

Accounting policies and explanatory notes to the consolidated financial statements for the year ended 31 December 2014

1. General information

The consolidated financial statements of the Group, which comprise Timor Gás e Petróleo, Empresa Publica (TIMOR GAP, as the parent) and its subsidiary and associate, for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 25 May 2015.

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 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the 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 unrealised 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 recognised at cost. The carrying amount of the investment is adjusted to recognise 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 amortised nor individually tested for impairment.

2. Basis of preparation and accounting policies (continued)

Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and gross of any sales-related withholding taxes collected on behalf of the government of Timor-Leste *Government grants* are recognised 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 recognised 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 recognised as income in equal amounts over the expected useful life of the related asset.

Revenue from contract fixed service fee is recognised 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 recognised 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.

Marine Oil Terminal Lease Income is recognised on price per litre of fuel delivered.

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 recognised 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 recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised 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 recognised 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 realised 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 (US $), 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 recognised 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 recognised on a prospective basis.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (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 derecognised.

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 amortisation and accumulated impairment losses.

Tangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised 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 recognised in the statement of profit or loss when the asset is derecognised. Intangible assets are comprised mainly of software products and are amortised 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 recognised 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 recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised 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.

<u>*Financial assets*</u>

Initial recognition and measurement

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

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

Subsequent measurement

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

Derecognition

A financial asset is primarily derecognised 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 reorganisation 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 amortised cost

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in 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 recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.

The Group's financial liabilities are classified, at initial recognition as:

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

Subsequent measurement

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

Derecognition

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

Cash and cash equivalents

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

Trade payables

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

Provision

Provisions are recognised 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 recognised as a liability on receipt.

The project advance liability is reduced by costs incurred with suppliers of services plus applicable withholding taxes.

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

3. Significant accounting judgements, estimates and assumptions

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

Judgements

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

Contingencies

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

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign income and withholding taxes. Given the company and group work in different international and tax jurisdictions, differences arising between the actual income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which it operates.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, 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

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

4.2 New and revised IFRS in issue but not yet effective

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

Standard/Interpretation	Effective date (periods beginning on or after)
IFRS 15 Revenue from Contracts with Customers	Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
5. Revenue and other income				
Government grant	5,000,000	4,000,000	5,000,000	4,000,000
Revenue from fixed contract service fee	183,431	223,414	183,431	223,414
Marine Oil Terminal fees revenue	140,205	–	140,205	–
Revenue	5,323,636	4,223,414	5,323,636	4,223,414
Sales of Fuel	800,000	3,710,179	800,000	3,710,179
Cost of fuel sold	784,000	3,674,123	784,000	3,674,123
Gross profit on Sales of Fuel	16,000	36,056	16,000	36,056
Marine Oil Terminal Lease Income	423,603	267,380	423,603	267,380
Marine Oil Terminal Lease Expenses	358,616	228,719	358,616	228,719
Gross profit on Lease of Marine oil Terminal	64,987	38,661	64,987	38,661

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
6. Income tax				
Income tax expense				
Current income tax:				
Current income tax charge	–	–	–	–
Deferred income tax:				
Relating to origination and reversal of temporary differences	–	–	–	–
Total tax expense reported in profit or loss	–	–	–	–

A reconciliation between tax expense and the accounting profit multiplied by Timor-Leste's domestic tax rate for the year is, as follows:

	Group 2014	Group 2013	Company 2014	Company 2013
Accounting loss before tax	**(912,017)**	**(900,203)**	**(411,568)**	**(1,931,410)**
At Timor-Leste's statutory income domestic tax rate of 10%	(91,202)	(90,020)	(90,020)	(193,141)
Adjusted for tax effect of:				
Dividend received exempt from tax	-	-	(140,940)	-
Deferred tax asset due to accelerated depreciation not recognised	(51,837)	12,554	(51,837)	12,554
Deferred tax liability not recognised on impaired loan	-	-	26,895	-
Share of profit of associate exempt from tax	(85,472)	(108,599)	-	
Current year - taxable loss at 10%	(228,511)	(186,065)	(255,902)	(180,587)

Deferred tax

	Group 2014	Group 2013	Company 2014	Company 2013
Deferred tax relates to the following:				
Current year - taxable loss at 10%	(228,511)	(186,065)	163,791	111,954
Accumulated tax losses at beginning of the year taxable loss at 10%	(397,639)	(211,574)	(734,204)	(500,270)
Accumulated tax losses at end of the year taxable loss at 10%	(570,413)	(388,360)	(570,413)	(388,316)

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

7. Property, plant & equipment

	Leasehold Improvements	Plant & equipment	Furniture, fixtures & fittings	Motor vehicles	TOTAL
Year ended 31 December 2014	$	$	$	$	$
Cost:					
Balance at beginning of year	317,000	430,289	313,749	521,095	1,582,132
Additions	148,543	166,153	96,247	44,330	455,273
Balance at end of year	465,543	596,442	409,996	565,425	2,037,406
Amortisation:					
Balance at beginning of year	(147,818)	(220,955)	(135,127)	(128,829)	(632,727)
Charge for the period	(87,167)	(161,721)	(79,081)	(88,504)	(416,473)
Balance at end of year	(234,985)	(382,675)	(214,208)	(217,333)	(1,049,200)
Book Value at beginning of year	169,182	209,334	178,622	392,266	949,405
Book Value at end of year	230,559	213,766	195,788	348,092	988,205
Year ended 31 December 2013					
Cost:					
Balance at beginning of year	317,000	323,836	305,989	441,545	1,388,370
Additions	-	106,452	7,760	79,550	193,762
Balance at end of year	317,000	430,289	313,749	521,095	1,582,132
Amortisation:					
Balance at beginning of year	(84,418)	(100,003)	(72,415)	(50,728)	(307,563)
Charge for the period	(63,400)	(120,952)	(62,712)	(78,100)	(325,164)
Balance at end of year	(147,818)	(220,955)	(135,127)	(128,829)	(632,727)
Book Value at beginning of year	232,582	223,833	233,574	390,817	1,080,806
Book Value at end of year	169,182	209,334	178,622	392,266	949,405

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
8. Intangible assets				
Cost:				
Balance at beginning of year	257,131	198,807	257,131	198,807
Additions	548,294	58,325	548,294	58,325
Balance at end of year	805,425	257,131	805,425	257,131
Amortisation:				
Balance at beginning of year	(86,997)	(34,534)	(86,997)	(34,534)
Charge for period	(68,720)	(52,463)	(68,720)	(52,463)
Balance at end of year	(155,717)	(86,997)	(155,717)	(86,997)
Net Book Value at beginning of year	170,134	164,273	170,134	164,273
Net Book Value at end of year	649,708	170,134	649,708	170,134

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
9. Investment in subsidiaries				
The Company holds a 100% interest in a dormant Timor Leste incorporated entity, Timor Gap Marine Oil & Gas & Logistic Services, Unipessoal, Limitada which it acquired in September 2014 at a cost of:			5000	—
The Company holds a 100% interest in a Timor Leste incorporated entity, TIMOR GAP PSC 11-106, Unipessoal, Limitada which it acquired in July 2014 at a cost of:			5,000	5,000
			10,000	5,000

During 2013 the company entered into a Joint Operating Agreement with ENI JPDA 11-106 B.V. and Inpex Offshore Timor-Leste Ltd with respect to Contract Area JPDA 11-106 Joint Petroleum Development Area, Timor Sea.

In terms of the agreement TIMOR GAP PSC 11-106, Unipessoal, Limitada 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, Limitada after the Designated authority approves a development plan and subject to other conditions specified in the agreement. The company's share of the Joint Operating Agreement is 24%.

Total approved authority for expenditure	—	—	8,370,000	8,370,000
Unaudited expenditure incurred since commencement	—	—	(4,110,901)	(1,446,348)
Unspent at year end	—	—	4,259,099	6,923,652
Unaudited contributions by the carrying parties since commencement			4,822,324	—

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**

10. Investment in associate

The Company holds an 60% interest in a Timor-Leste incorporated entity, GAP MHS Aviation Lda, and the remaining 40% interest is held by MHS Aviation (Timor-Leste) Lda.

The activities of GAP MHS Aviation Lda are to provide logistical and support services for the operations of MHS Aviation (TL) Lda who provide aviation services and facilities to other parties.

The Group's interest in GAP MHS Aviation Lda is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in GAP MHS Aviation Lda:

	Group 2014 $	Group 2013 $	Company 2014 $	Company 2013 $
Current assets	7,100,196	4,629,405		
Non-current assets	574,828	1,284,569		
Current liabilities	(5,745,021)	(3,059,502)		
Equity	1,930,003	2,854,472		
Proportion of the Group's ownership	60%	60%		
Carrying amount of the investment	1,158,002	1,712,683		
Revenue	12,275,681	7,234,335		
Cost of sales	(6,755,109)	(2,793,613)		
Administrative expenses	(3,305,347)	(2,240,091)		
Other income	1,173	–		
Profit before tax	2,216,398	2,200,631		
Income tax expense	(791,867)	(390,654)		
Profit for the year (continuing operations)	1,424,531	1,809,977		
Group's share of profit for the year	854,719	1,085,986		
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

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
11. Trade and other receivables				
Trade receivables	—	944,535	—	944,535
Payments made on behalf of subsidiary	—	—	—	54,344
Other receivables and prepayments	129,510	145,264	20,905	145,264
Withholding taxes recoverable	336,000	336,000	336,000	336,000
Refundable deposits	196,029	196,029	196,029	196,029
	661,539	1,621,827	661,539	1,676,171
12. Cash and cash equivalents				
Cash at banks and on hand	571,935	1,913,375	577,482	1,908,810
13. Contributed capital				
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
14. Trade and other payables				
Trade payables	274,609	485,338	274,609	485,338
Other payables	2,002,235	253,452	1,999,235	253,452
Withholding taxes payable	169,720	235,106	169,720	235,106
Lanpam 6 joint venture	36,486	—	36,486	—
Amount owed to associate company	—	3,000	—	3,000
Amount owed to subsidiary company	—	—	5,000	—
	2,483,049	976,896	2,488,049	976,896

Terms and conditions of the above financial liabilities:
— Trade payables are non-interest bearing are normally settled on 60 day terms
— Other payables are non-interest bearing and have an average term of 6 months

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
16. Unearned contract fixed service fees and advances				
Unearned fixed contract service fee at beginning of period	290,352	213,767	290,352	213,767
Cash received net of 4% withholding taxes	—	288,000	—	288,000
Withholding taxes treated as an advance payment of income tax	—	12,000	—	12,000
Contract fixed service fees earned based on the degree of completion of the projects	(183,431)	(223,415)	(183,431)	(223,415)
Unearned fixed contract fee at end of the year	106,921	290,352	106,921	290,352
Advances at beginning of period	4,128,708	3,016,976	4,128,708	3,016,976
Cash received for contractors net of 4% withholding taxes	—	3,744,000	—	3,744,000
Withholding taxes treated as an advance payment of income tax	—	156,000	—	156,000
Amounts disbursed and accruing to contractors	(2,738,741)	(2,788,268)	(2,738,741)	(2,788,268)
Advances at end of the year	1,389,967	4,128,708	1,389,967	4,128,708
Unearned fixed contract service fees and advances	1,496,888	4,419,060	1,496,888	4,419,060
17. Related party transactions				
Compensation of key management personnel				
Salaries and annual allowance	391,100	369,200	391,100	369,200
Due by related parties:				
TIMOR GAP PSC 11-106, Unipessoal, Limitada	—	—	268,954	54,344
Impairment of loan account	—	—	(268,954)	—
Due to related parties:				
Timor Gap Marine Oil & Gas & Logistic Services, Unipessoal, Lda	5,000	—	5,000	—
GAP MHS (Aviation) Lda	700,000	3,000	700,000	3,000
18. Taxation paid				
Withholding tax deducted at source - Petroleum taxation regime	—	—	—	—
Withholding taxes on fixed contract service fees — advance payment of income tax	—	168,000	—	168,000
	—	168,000	—	168,000

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:

	Group		Company	
Financial assets	**2014**	**2013**	**2014**	**2013**
Trade and other receivables	661,539	1,621,827	661,539	1,676,171
Cash and cash equivalents	581,935	1,913,375	577,482	1,908,810
Total financial assets	1,243,473	3,535,202	1,239,021	3,584,981
Financial liabilities				
Trade and other payables	2,483,048	976,896	2,488,049	976,896
Unearned contract fixed service fees and project advances	1,496,888	4,419,060	1,496,888	4,419,060
Total financial liabilities	3,979,936	5,395,956	3,984,937	5,395,956

g) Maturity of financial instruments

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

	Group		Company	
Financial assets	**2014**	**2013**	**2014**	**2013**
	1 -3 Months	**1 -3 Months**	**1 -3 Months**	**1 -3 Months**
Trade and other receivables	661,539	1,621,827	661,539	1,676,171
Cash and cash equivalents	581,935	1,913,375	577,482	1,908,810
Total financial assets	1,243,473	3,535,202	1,239,021	3,584,981

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

	Company & Group	Company & Group	Company & Group	Company & Group
Financial liabilities	**3 - 12 Months**	**3 - 12 Months**	**1-3 Months**	**1 -3 Months**
Trade and other payables	2,483,048	976,896	2,488,049	976,896
Unearned contract fixed service fees and project advances	1,496,888	4,419,060	1,496,888	4,419,060
Total financial liabilities	3,979,936	5,395,956	3,984,937	5,395,956

h) Financing Facilities

The Group is reliant on Government Funding for its operations.

	2014
20. Contingent liability	**$**
During 2014 the company entered into a Memorandum of Understanding (MOU) with Siglar Offshore Service Unipessoal Lda and SDV Logistics East Timor Unipessoal Lda to provide vessel services to oil and gas entities. Per the MOU the operations initially will operate as an unincorporated Joint Venture 3 partners sharing profits equally.	
A project called "Lanpan 6 " was performed during the year and the company received monies described as their profit share for the period to 31 December 2014 amounting to	36,486
Subsequently SDV informed the company that due to a misunderstanding with the client that the project may instead incur losses per partner of	32,847
	69,333
The misunderstanding is currently under discussion with client and TIMOR GAP has not determined the extent of the loss, if any that it will accept. On this basis at 31 December 2014:	
— the company considers a contingent liability exists amounting to	69,333
— the amounts received to date for this project have been treated as a liability	36,486
Amount that the company would have to pay	32,847

	Group		Company	
	2014	2013	2014	2013
21. Operating lease arrangements	$	$	$	$
Leasing arrangements				
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 recognised as an expense				
Minimum lease payments	691,722	438,433	691,722	438,433
Contingent rentals	—	—	—	—
Sub-lease payments received	—	—	—	—
	691,722	438,433	691,722	438,433
Non-cancellable operating lease commitments				
Not later than 1 year	712,473	691,722	712,473	691,722
Later than 1 year and not later than 5 years	532,892	1,245,365	532,892	1,245,365
Later than 5 years	—	—	—	—
	1,245,365	1,937,087	1,245,365	1,937,087

22. Going concern

The financial report has been prepared on the going concern basis, which assumes the realisation of assets and the discharge of liabilities in the normal course of business. The company incurred a net loss of $411,568 (Group: $912,017) for the year ended 31 December 2014 and, as of that date, the company's current liabilities exceeded its current assets by $2,745,917 (Group: $2,736,464) and the company had negative equity of $1,095,003.

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. On 27 February 2015 the company received $6,700,000 from the Government, and a further $3,000,000 was received on 26 March 2015 of which $7,450,000 is for operations and $2,250,000 is for special projects. In addition it received a dividend of $905,425 from GAP-MHS Aviation, Lda in February 2015. These receipts and others may not be sufficient to settle the liabilities of the company and fund the expenditure of the company in 2015 if expenditure remains the same or exceeds that incurred in 2014. Based upon the cash on hand at the date of signing the financial statements, the company should have sufficient funds to enable it pay its debts as and when they fall due until approximately September/October 2015. The directors consider that they may receive a further dividend from GAP-MHS aviation, Lda during the year.

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 realise 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.

ACRONYMS

ANP	Autoridade Nacional do Petróleo (National Petroleum Authority)
ADB	Asian Development Bank
ADN	Agência de Desenvolvimento Nacional (National Development Agency)
BDU	Business Development Unit
Bpd	Barrels Per Day
CEO	Chief Executive Officer
CNA	Comissão Nacional de Aprovisionamento (National Procurement Commission).
CMATS	Certain Maritime Arrangements in Timor Sea
CPLP	Comunidade dos Países de Língua Portuguesa (Communities of Portuguese Speaking Countries)
CPP	Central Processing Platform
CSU	Corporate Service Unit
DMS	Detailed Marine Survey
EDTL	Electricidade de Timor-Leste (Electricity of Timor-Leste)
EIA	Environmental Impact Assessment
EP	Empresa Pública (Public Company)
EITI	Extractive Industries Transparency Initiative
EKI	Ekipa Konjunta Interministerial (Inter-ministerial Team)
E&P	Exploration and Production
FEED	Front End Engineering Design
FPSO	Floating Production, Storage and Offloading
GBU	Gas Business Unit
HSE	Health, Safety and Environment
ICAO	International Civil Aviation Organization
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
JPDA	Joint Petroleum Development Area
JV	Joint Venture
kbbl	thousand barrels (of oil)
LAT	Lowest Astronomical Tide
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
METOCEAN	Meteorological and Oceanographic
MMbbls	Millions of Barrels
MOP	Ministério das Obras Públicas (Ministry of Public Works)
MOU	Memorandum of Understanding
MPRM	Ministério do Petróleo e Recursos Minerais (Ministry of Petroleum and Mineral Resources)
MTC	Ministério dos Transportes e Comunicações (Ministry of Transport and Communications)
MTPA	Million Tons Per Annum
NOC	National Oil Company
NGO	Non-Governmental Organization
PSC	Production Sharing Contract
QHSE	Quality, Health, Safety and Environment
R&PSU	Refinery and Petroleum Services Unit
SAP	System, Application and Product
SEIA	Strategic Environmental Impact Assessment
SEMA	Secretaria de Estado do Meio Ambiente (Secretary of State for the Environment)
SERN	Secretaria de Estado dos Recursos Naturais (Secretary of State for Natural Resources)
SSB	Suai Supply Base
TLEA	Timor-Leste Exclusive Area
TLNG	Timor LNG