October 2011 - December 2012

Annual Report

TIMORGAP

For the Fifteen Months Ended 31 December 2012

TIMOR GAP E.P.
ANNUAL REPORT 2011 & 2012
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President & CEO Message

I am pleased to present the first annual report of TIMOR GAP which summaries the activities and achievements of the National Oil Company of Timor-Leste in 2012 and the months from October to December 2011, following the establishment by the Government on 27th July by Decree-Law No. 31/2011.

TIMOR GAP was created to maximize the participation of Timor-Leste in the development of its petroleum sector and add value, jobs and business opportunities to the sector.

The President & CEO of TIMOR GAP, Mr. Francisco da Costa Monteiro

The oil & gas sector is fundamental for the economic growth and development of Timor-Leste and we want to ensure that our petroleum resources wealth is used to improve the lives of the Timorese people, with transparency in management. This is the main reason why TIMOR GAP became, in 2012, an Extractive Industries Transparency Initiative (EITI) supporting Company.

In 2012, we have seen great progress across the Company's activities, ranging from institutional development and human resources recruitment to the accomplishment of foundations for the Tasi Mane project, which is the basis for the development of a national petroleum industry.

TIMOR GAP is managing Tasi Mane through a mandate from the Government. The project envisions the creation of three industrial clusters on the south coast of the country, from Suai to Beaço, launching Timor-Leste as a regional player in the Oil and Gas sector.

The year's achievements are the result of close teamwork on the part of TIMOR GAP's body of Timorese professionals, in collaboration with our partners. We are in the process of building business relationships that will grow and flourish in coming years. As we move into 2013, we feel a strong sense of enthusiasm as Timor-Leste's Oil and Gas Industry develops, to the benefit of the communities in the south, as well as to the country as a whole.

Francisco da Costa Monteiro

1. TIMOR GAP

1.1 Our Vision, Mission and Corporate Values

TIMOR GAP's Vision, Mission and Corporate Values are the way we as a State owned Company conduct business.

Our Vision

"TIMOR GAP'S vision is to be an integrated oil and gas company and a partner of choice"

The vision is for TIMOR GAP to be an integrated company with upstream and downstream operations. Upstream operations will include exploration and production (E&P) activities to be carried out onshore Timor-Leste and offshore, within and outside of the national territory.

TIMOR GAP is also entrusted to involve in the services sector to the industry. Furthermore, the Company is assigned with downstream activities, including the storage, refining, processing, distribution and sale of petroleum and its by-products, including the petrochemical industry.

Moreover, to fulfil its Vision, the Company is seeking for strategic partnerships based on trust, mutual benefits and commitment.

Our Mission

- *To create additional value of oil and gas development through job creation and business opportunities*
- *To secure energy and contribute to the social and economical development*
- *To excel in providing services for the industry with quality, health, safety and environment*
- *To facilitate skill & technological transfers*
- *To enhance innovation and creativity in the energy and resources sector*

TIMOR GAP's Corporate Values are embedded in the words "**CAN DO**":

- ***Competent and knowledgeable –*** *skilful and accurate in its work*
- ***Assess and siege the opportunity for business* –** proactive, loyal and purposeful in its actions
- ***Non-discriminatory and responsible –*** *integer, honest, trustworthy, fair and accountable to its people/shareholders*
- ***Doer and creative –*** *innovative, open minded and caring for its work*
- ***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.*

1.2 About the Company

TIMOR GAP was established by Governmental Decree-Law No. 31/2011 of 27 July which stated the following:

"With the creation of TIMOR GAP, E.P., the business activities concerning upstream exploration and production, including provision of services, to be carried out onshore or offshore, within or outside of the national territory, are now entrusted to TIMOR GAP, E.P..
The new company hereby created is also entrusted with the carrying out of downstream business activities, including the storage, refining, processing, distribution and sale of petroleum and its by-products, as well as natural gas and any other hydrocarbons, and also the industrial processing of oil by-products and the carrying out of other activities in the petrochemical industry."

The organizational structure includes three main corporate bodies:

- *The Board of Directors (BoD)*
- *The Executive Committee*
- *The Audit Committee*

The Board of Directors

TIMOR GAP's Board of Directors (BOD) is the highest body in the Company, responsible for defining directions and policies, as well as management, and has deliberative responsibilities.

The President of the BOD was appointed by the member of Government responsible for the oil sector - initially the Secretary of State for Natural Resources (SERN) and since the V Constitutional Government, the Ministry of Petroleum and Mineral Resources (MPRM) - with the approval of the Council of Ministers.

The Board of Directors of TIMOR GAP

The President of the Board of Directors is:

- Mr. Francisco da Costa Monteiro.

The other Board Members are:

- Ms. Norberta Soares da Costa;
- Mr. Dino Gandara Rai;
- Mr. António José Loyola de Sousa.

Some of the main responsibilities of the Board of Directors (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, production sharing contracts (PSC) and to incorporate subsidiaries;
- To define general policies, including commercial, financial, investment, environmental and human resources management policies;
- To appoint and supervise the Executive Committee.

The President of the BOD is also the Chief Executive Officer (CEO) of the Executive Committee, which exercises the everyday affairs of TIMOR GAP according to the objectives and strategies of the Board.

Summary of some important decisions taken in BOD Meetings:

1st Meeting, 17 October 2011

- Approval of the Rules and Procedures of the Board of Directors.
- Approval of the Organisational Structure of TIMOR GAP.
- Approval of the Executive Committee members.

2nd Meeting, 6 December 2011

- Approval of TIMOR GAP's participation in a joint venture for helicopter services – TIMOR GAP and MHS Aviation (TL) Lda, a subsidiary of MHS Aviation Berhad (Malaysia). TIMOR GAP holds 60% of economic interest in this consortium.

3rd Meeting, 7 February 2012

- Approval of the incorporation of a subsidiary company, a Special Purpose Vehicle, for participating in the JPDA 11-106. The company is a sole shareholder limited liability company, a subsidiary of TIMOR GAP to be named TIMOR GAP PSC 11-106, Unipessoal, Limitada.

4th Meeting, 29 March 2012

- Approval of the adoption of the following Policies and Documents:
  1) Vision and Mission Statement
  2) Employment Policies
  3) Finance Policy
  4) Procurement Policy and Framework
  5) Procurement Procedure and Guidelines
  6) Procurement Threshold Table Procedure
  7) Shared-Values and Code of Conducts
  8) Leave and Work Hours Policy
  9) Travel Policy

- Approval of the selection and appointment of the Director for Corporate Service Unit.
- Approval of the Work Program Budget for year 2012.

5th Meeting, 13 August 2012

- Approval of the ICT Policy.

6th Meeting, 4 December 2012

- Approval of the 2013 Work Program and Budget.

- *Director of Corporate Service Unit:*
  Ms. Jacinta Bernardo
- *Director of Business Development Unit:*
  Mr. Luís Martins
- *Director of Gas Business Unit:*
  Mr. Domingos Lequi Siga
- *Director of Exploration & Production and Supply Base Unit:*
  Mr. Vicente Lacerda
- *Director of Refinery and Petroleum Services Unit:*
  Mr. Vicente Pinto

The Board of Directors and Executive Committee

The Executive Committee

The Executive Committee, amongst its key duties, has to prepare and submit, for approval by the Board of Directors, expenditure and investment budgets, proposals for raising funds, borrowing and financing, as well as for the provision of guarantees and performance assessment.

The Executive Committee is headed by the Chief Executive Officer who is also the President of the Board, and the other members are the executive directors of the business units of TIMOR GAP:

- *President & CEO:*
  Mr. Francisco da Costa Monteiro

The Executive Committee (EC) also submits manuals and rules, from the operational area to human resources internal regulations and the annual insurance plan, for approval of the Board. It holds regular meetings to address daily management issues.

The Audit Committee

The Audit Committee is intended to be the body that will monitor the legality and correctness of budgets, as well as the financial and asset management of TIMOR GAP, ensuring compliance with laws, statutes and regulations. The Audit Committee also monitors the execution of the annual budgets, activities and investment programs.

TIMOR GAP's Business Units

The Executive Committee of TIMOR GAP

TIMOR GAP comprises five units, namely Corporate Service Unit (CSU), Business Development Unit (BDU), Gas Business Unit (GBU), Exploration & Production and Supply Base Unit (EP&SBU), Refinery and Petroleum Services Unit (R&PSU). Outlined below is a summary of each Unit's role.

Corporate Service Unit (CSU)

The Corporate Service Unit is responsible for managing all activities related to Human Resources Management, Corporate Finance Management, Information, Communication and Technology, Procurement Management, General Administration, Travel and Logistics, as well as other corporate activities and services for the whole company.

Business Development Unit (BDU)

The Business Development Unit is charged with finding and seizing business opportunities for TIMOR GAP as well as providing business support to other units of the company. This support includes legal opinions/advice/drafting, database and analysis, identification of business opportunities, and QHSE (Quality, Health, Safety and Environment). In addition, BDU will liaise with the government on matters related to the company's interest.

BDU and E&P staff at work

Gas Business Unit (GBU)

The Gas Business Unit is responsible for the management and coordination of all activities within the gas business area, namely LNG, LPG and pipeline.

ANP and SEMA's HSE team in inspection at Dili Port to the ship that will perform DMS survey for the Pipeline GS - Beaço

Refinery and Petroleum Services Unit (R&PSU)

The Refinery and Petroleum Services Unit is responsible for managing and coordinating the refinery project and for all activities regarding petroleum, including petroleum products and product distribution in Timor-Leste.

Exploration & Production and Supply Base Unit (EP&SBU)

The Exploration & Production and Supply Base Unit is responsible for managing and coordinating all activities related to the exploration and production of oil and gas, and for all activities related to building & operating the oil & gas logistic supply base.

DMS activity for Greater Sunrise Pipeline Study

1.3 General Overview

TIMOR GAP aims to provide more of the Oil and Gas value chain to the people of Timor-Leste. To achieve more value to Timor-Leste, TIMOR GAP began with the skill enhancement of its employees in all key areas of the value chain:

- exploration
- production
- storage and shipping
- refining and
- marketing

TIMOR GAP was active in managing the works for the establishment of a supply base, refinery and LNG plant, included in the Tasi Mane Project.

TIMOR GAP established Joint Ventures (JV) with local and foreign companies to cover training and technology transfer in support of upstream and downstream operations, to consolidate its growth as a recently established national oil company (NOC).

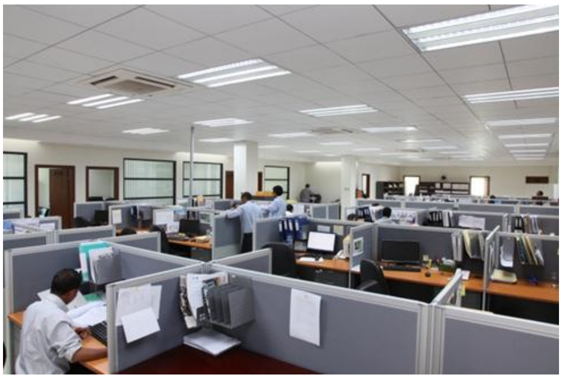
In July 2011, a Memorandum of Understanding (MoU) was signed between the Secretário de Estado dos Recursos Naturais (SERN) and Galp Energia from Portugal, to support the establishment of Timor-Leste's State owned company. In 2012, other Memorandums of Understanding (MoU) were signed with Pertamina and Isar Aryaguna Holding Company, Indonesian companies.

Ms Karen Augustiawan, CEO of Pertamina and Mr. Francisco Monteiro signing the MoU

TIMOR GAP prepared a consortium to seek business opportunities associated with onshore and offshore projects, and created two subsidiaries, GAP-MHS Aviation, which provides support to helicopter services for offshore operations, and TIMOR GAP PSC 11-106 Unipessoal Lda, to participate in the petroleum exploration and production of a block in the Joint Petroleum Development Area (JPDA).

Executive Summary

As the national oil company (NOC) created by Decree-Law No. 31/2011 of 27 July, TIMOR GAP is establishing itself in the petroleum sector of the South East Asia region, a market characterized by the presence of big international players in the oil and gas industry.



Interior of TIMOR GAP's Office

The Board of Directors and Executive Committee of TIMOR GAP were appointed in October 2011.

A transitional budget for the Company was then approved, mainly directed towards immediate work plans for the establishment of the new offices, as well as to assist TIMOR GAP in becoming fully operational by January 2012.

Purchasing of necessary goods and services were the main activities carried out during this budget period, considered a “starter budget” for TIMOR GAP. Afterwards, an interim budget for 2012 was also approved, to allow for the opening of programs and activities from the beginning of the year.

The final Work Program and Budget proposal for 2012 covered the entire year, enabling a normal year budget cycle from then on, as TIMOR GAP consolidates its operational activities to become a completely functioning oil and gas Company.

During the period $4.3 million was received from the Government of which $2.5 million was to be considered as capital injection to complete statutory requirement of the Decree Law (which required $2.5 million injection from the Government). The rest of $1.8 million was to be considered as grant from Government to fund the operations of TIMOR GAP and is accounted for as revenue. The Government Grant was accounted for as revenue, therefore the “start-up costs” exceeded the income received for operational expenses. The financial results are explained in detail in Section 7 on the Commentary on the Financial Statements.

The main activities for 2012 included:

- **Institutional Development** - recruitment and training of staff and acquiring goods and services for the operability of TIMOR GAP’s new office.

- **Business development** through business meetings and attendance of conferences.

- Management and administration of the **Tasi Mane Project**, which encompasses:

  1. The establishment of the Suai Supply Base
  2. The Betano Refinery and Petrochemical Industry, and
  3. The Pipeline from Greater Sunrise field and LNG Plant in Beaço

- The development of **complementing infrastructure** projects, namely:
  - The Suai Airport
  - The Suai-Betano-Beaço Highway, and
  - The Suai-Betano-Beaço new cities projects

- **Strategic activities supporting JPDA and Sunrise matters** – acquiring services such as legal and technical studies for various needs (e.g. Greater Sunrise project economics, Terms of References for sunrise reserve study).

All of these projects have been delegated by the Government to TIMOR GAP to manage and administer and are discussed in Section 4 and 7 of this report.

In addition to these activities and projects, as the national oil company of Timor-Leste, TIMOR GAP is supporting the Government’s goal to build a gas pipeline from Greater Sunrise (Sunrise and Troubadour fields) to Timor-Leste and to build a Liquefied Natural Gas (LNG) plant to process the natural gas onshore in Beaço, through the provision of advice and participation in the Joint Commission and Sunrise Commission meetings, along with Government officials and Australia (see Section 5 of this Report for further information).

Both the 2011 and 2012 budgets were “enabler budgets” for TIMOR GAP.

Visit of the President of the Republic of Timor-Leste H.E. Mr. Taur Matan Ruak to TIMOR GAP, 26 June 2012.

The objective was in sum, to recruit and further develop the Company's human resources, to set up the administration system, consolidate operational activities, manage the projects delegated by the Government, as well as develop and seize new business opportunities in the oil and gas sector, allowing TIMOR GAP to move into a new era of its corporate life in 2013: the year of investments, with an "investment budget".

Corporate Governance and Transparency Initiatives

Formation and Composition of the Board of Directors (Board)

In terms of the Articles of Association TIMOR GAP is subject to the supervision of the Secretary of State for Natural Resources or the organ of the Government supervising the Petroleum Sector.

The Board has its first seating on the 17^{th} of October 2011 whereby rules and procedures were approved. These Rules and Procedures are based on Decree-Law 31 of 2011 and the By-Laws of TIMOR GAP.

At year end the Board was composed of the Chairman, and three non-executive members. The Board members differing skills, qualifications and experiences strengthen the Board by bringing a diversity of experience.

Role of the Board

The Board is key to guiding and approving TIMOR GAP's strategic and business plans, and providing oversight to the Executive Committee.

On a quarterly basis the Executive Committee presents the activities and financial reporting of each Unit to the Board.

These quarterly presentations keep the Board fully informed of the activities of the company, and provide an interactive platform for the Board and Executive Committee to implement the strategic and business plans of TIMOR GAP.

The President & CEO manages the day to day activities of the company and oversees the work of the Executive Committee.

During the period Board meetings were held on the following dates:

- 17 October 2011
- 6 December 2011
- 7 February 2012
- 29 March 2012
- 13 August 2012 and
- 4 December 2012

In 2012, the Board approved the engagement of Deloitte as external auditor to audit TIMOR GAP's financials.

In order to ensure that TIMOR GAP follows the normal petroleum industry practice, the Company adopts International Financial Reporting Standards (IFRS) for its financial reporting purposes. IFRS is an international reporting framework and is adopted by companies of all sizes within the oil and gas industry.

Policies and Procedures

The Board and Executive Committee are committed to good Corporate Governance which is reflected in our corporate values as set out above.

The company has developed policies and procedures to provide a transparent framework to ensure high standards of governance and ethical conduct. Key policies and procedures reviewed and approved during this period included the following:

- Rules and Procedures of the Board of Directors
- Shared Values and Code of Conduct
- Vision and Mission Statement
- Employment Policies
- Finance Policy
- Procurement Policy and Framework
- Procurement Procedure and Guidelines
- Procurement Threshold Table Procedures
- Leave and Work Hours Policy
- Travel Policy
- Information Communications and Technology Policy

All employees are expected to adhere to the Shared Values and Code of Conduct which sets out our expected standards of behaviour and ethical conduct. To meet this expectation, employees were provided with opportunities to participate in various workshops and training which would not only enhance their understanding of our corporate values, but also sharpen their technical skills.

Staff attending administration training in 2012

The creation of policies and procedures is to support the development of TIMOR GAP's internal control systems by providing clear expectations and guidance to all employees. TIMOR GAP's internal legal department is assisting the Company to ensure that procedures adopted are based on a sound legal framework.

EITI Extractive Industries Transparency Initiative

Timor-Leste fully supports the EITI, which advocates for more openness in the extractive industries.

Extractive Industries Transparency Initiative (EITI)

In June 2012, six months after it began operations, TIMOR GAP became one of the few National Oil Companies in the world supporting the EITI. This shows our strong commitment to transparency and accountability in the sector.

The revenue from petroleum sector has been the greatest source of State Budget in Timor-Leste. Recognizing the importance of the country's natural resources wealth for a sustainable development and well-being of the people, Timor-Leste is committed to full transparency in accounting for income resulting from the exploitation of petroleum resources.

The EITI is a global coalition of governments, companies, civil society groups, investors and international organisations, with the aim to improve accountable management of revenues from natural resources.

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. Timor-Leste is proud to be the first country in Southeast Asia and the third in the world to achieve this status.

TIMOR GAP, the MPRM, ANP, IPG and EITI participate at the Same Expo

Financial Overview

The audited group and company financial statements are contained later in this report, which have attached a detailed analysis of the period's results in the "Commentary on Financial Statements". Set out in this section is an overview of the results for the period.

The results presented are for a period of 15 months. TIMOR GAP was legally established by Decree-Law on 27 July 2011, the Board of Directors and Executive Committee were appointed on 17 October 2011 when operations effectively began. In line with the Government of Timor-Leste, the financial year end is 31 December. TIMOR GAP adopts International Financial Reporting Standards (IFRS) to ensure that our reporting is based on a well-recognised and respected framework widely used by players of all sizes in the oil and gas industry.

TIMOR GAP received from the State its initial capital of $2.5 million in two tranches from the General State Budget of Timor-Leste (see section 7 for details). In addition TIMOR GAP received a government grant of $1.8 million during the 15 months ended 31 December 2012.

Expenditure of the company for each of the five Business Units, as well as to the Office of the President & CEO for the 15 months is set out below:

Units/Office	US$	Remarks
President & CEO Office	1,012,434	Costs for strategic projects, expenses related to the Board of Directors and Executive Committee meetings, Joint Commission and Sunrise Commission's meetings, staff and operational expenses.
Corporate Service Unit (CSU)	1,219,737	Office operations, staff salaries, set-up systems, training, travel and consultancy fees for the whole company.
Business Development Unit (BDU)	402,484	Staff salaries, feasibility studies, systems set-up, training, travel, consultancy fees and project expenses to support business opportunities created by the company.
Gas Business Unit (GBU)	213,960	Staff salaries, travel and meetings to support the pipeline and LNG studies.
Exploration and Production and Supply Base Unit (EP&SBU)	487,989	Staff salaries, project expenses (Suai Supply Base Project activities – consultation & "socializasaun", land title & property identification and verification, quarry identification; Timor-Leste onshore prospecting survey), travel and meetings.
Refinery and Petroleum Services Unit (R&PSU)	159,280	Staff salaries, support for FEED studies for Betano refinery, travel and meetings.
Depreciation and amortisation	342,097	Depreciation and amortisation of property plant and equipment acquired, including leasehold improvements and computer software.
Total Expenditure for the period	3,837,981	

Quality, Health, Safety and Environment (QHSE)

In the exercise of its activities as the National Oil Company, TIMOR GAP is always concerned with respecting and protecting Quality, Health, Safety and Environment, as well as to promote Social Responsibility.

In line with Decree-Law No. 5/2011 on Environmental Licensing, the Secretaria de Estado dos Recursos Naturais (SERN), commissioned studies to assess the likely environmental and social impacts of the development of the Tasi Mane Project.

This project on the south coast of the country is being managed by TIMOR GAP through a mandate from the Government. Under the mentioned Decree-Law, a series of projects require an Environmental Impact Assessment (EIA) to be approved.

In accordance with international standards, an EIA is defined as the process of identifying, predicting, evaluating and mitigating the biophysical, social, and other relevant effects of development proposals prior to major decisions being taken and commitments made.

The EIA for Tasi Mane was under carried by the engineering company Worley Parsons. The Betano refinery & petrochemical complex and the Beaço LNG plant studies resulted in a Strategic Environmental Impact Assessment (SEIA).

The SEIA is a first step in identifying, describing and assessing significant environmental effects for the Betano and Beaço projects.

The project of the Suai Supply Base, which had already more detailed information available, produced a comprehensive EIA.

Health and Safety workshop at TIMOR GAP

An EIA determines the positive and negative changes produced in the environmental and social parameters resulting from projects. The predicted environmental impacts are considered, when deciding whether to allow the project to proceed. Integral to the EIA process has been the identification of potentially adverse impacts on the environment and community, and specific measures to avoid, manage and mitigate those impacts.

The process also involved stakeholder consultation, in the three project areas of Suai, Betano and Beaço, and commencing with district, subdistrict and local village leaders. The consultation with the affected communities was led by SERN, aimed at informing about the planned development and has been underway since 2010, ensuring that the project is understood by the local communities and their concerns addressed.

After completion, TIMOR GAP submitted the EIA and SEIA to the Secretaria de Estado do Meio Ambiente (Secretary of State for Environment, SEMA) , as part of the process for the grant of the environmental license, considering the net impact of the projects are deemed to be acceptable.

2. Investing in People: Human Resources and Corporate Institutional Development

2.1 Corporate Institutional Development

In March 2012, TIMOR GAP's Board of Directors approved the Policies of the Company, which are the basis for the Corporate Institutional Development and consist of the following:

- Vision and Mission Statement
- Shared-Values and Code of Conduct
- Employment Policies
- Finance Policy
- Procurement Policy and Framework
- Procurement Procedure and Guidelines
- Procurement Threshold Table Procedures
- Leave and Work Hours Policy
- Travel Policy
- Information Communications and Technology Policy

Employment Policies – TIMOR GAP and its employees agree to work together to pursue the objectives as of the Company's vision and mission. The employment policies cover expectations, obligations, entitlements and benefits. The Human Resources Department manages, monitors , and assists employees in the implementation of said policy.

Finance Policy – the purpose of this policy is to promote and achieve the efficient, effective and ethical use of TIMOR GAP's financial resources and to ensure that the Company financial reporting meets the requirements of professional accounting and auditing standards.

Procurement Policy and Framework – this policy is to ensure that goods and services are procured by TIMOR GAP in a consistent, accountable and transparent manner that reflects value for money. It is a subset of the finance policy and is related to the procurement of the Company's property, work or services.

Procurement Procedure and Guidelines – this Procedure and Guidelines were created to assist procurement team in implementing the Procurement Policy.

2.2. Human Resources Planning

Human Resources Plans are tools required to ensure that employees have the necessary skills and experience to execute TIMOR GAP's business in the petroleum industry. In 2012 TIMOR GAP initiated its policy of investing heavily in human resources, especially in training and development. TIMOR GAP's employees received training in their specific areas of expertise, in a process expected to continue in following years.

The human resources of the Company will continuously improve through extensive programs, including training in main areas such as geology, petroleum and chemical engineering, petroleum finance, business and project management.

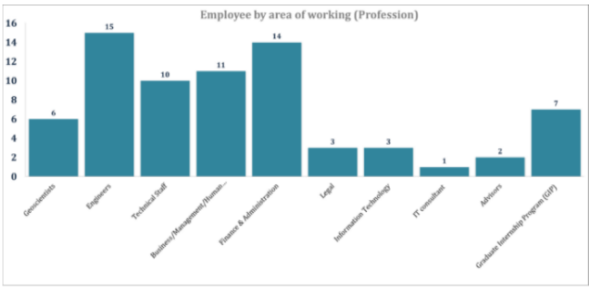
The Company has also been laying the basis for a company career development plan, which is aimed at creating a pool of talented employees whilst enhancing their career satisfaction. This program also provides employees with the opportunity to be prepared for future jobs along with their career path in the company.

2.3. Human Resources Development Summary in 2012

Employees

As the Company grows, the number of employees has increased accordingly. In the 1st quarter of 2012 the total of employees was 22, rising to 71 by the end of December, with a gender breakdown of 53 males and 18 females.

TIMOR GAP also accommodated new graduates as recommended by the Ministry of Petroleum and Mineral Resources (MPRM) through the Graduate Internship Program (GIP). A total of 7 GIPs joined the Company during 2012.



Employees by area of Profession

By the end of the year, TIMOR GAP's staff comprised 6 geoscientists, 15 engineers (petroleum engineers and civil engineers), 10 technical staff, 11 employees with business management and human resources background, 14 finance and administration staff, 3 legal staff, 3 information technology staff, 1 short term IT consultant and 2 advisors for the President & CEO.

Training and Professional Development

Employees are essential for the achievement of the Company's mission, therefore it is important to increase their capacities and provide them with the opportunities to attend training courses in order to continuously improve their performance and enhance knowledge in their specific area of expertise as well as in the oil and gas industry.

Various training courses were delivered throughout 2012, from Short Term Courses to In-House Training. There were Secondments of staff and attendance to several Conferences, as detailed in the following sections.

Short Term Courses

a. Basic Offshore Safety and Emergency Training - this course is considered a compulsory training for operators worldwide for offshore staff, and provides knowledge on safety management systems and the hazards encountered on offshore operations. It also covered offshore emergency response and proper use of emergency equipment.

b. Project Management Training - this training was attended by managers and senior officers directly involved with project management.

c. International Technical Course on Occupational Health and Safety Training - the training was provided for health and safety environment (HSE) staff.

d. Finance Training - the Accpac computerized accounting system was implemented to run financial reports and for internal control. The system contains almost all accounting modules, including a purchasing workflow module and a norming asset system. All finance staff attended SAGE Accpac training and a purchasing workflow implementation training.

e. Information and Communication Technology (ICT) Training - in the beginning of 2012, TIMOR GAP invested in the purchase of IT systems and hardware. The ICT Team worked on ICT installations, configuration, maintenance and searched solutions for better systems and implementation of a ICT infrastructure to suit the Company's needs. Since the system was new to ICT Staff, the employees received Lotus Domino training that covered server configuration and troubleshooting modules.

f. General Administration Skills and Secretarial

Skills - the objectives of this course were to enhance professional capability and service to the office, increase professional business writing for secretaries, administration, office management and professional filing and record management, as well as strategic communication skills.

In-House Training

a. Introduction to the Oil and Gas Industry - conducted in November 2012, the course was attended by all staff in Dili. It is mandatory for new staff entering the Company and especially valuable for beginners to the oil and gas industry and non-technical staff. The objective of the course was to provide TIMOR GAP's staff with an industry overview, covering particularly the phases of E&P.

Introduction to the Oil & Gas Industry training

b. Petroleum Project Economics and Risk Management - this course was conducted in Dili for staff working with projects, specifically E&P manager, petroleum engineers, refinery staff, finance manager, project managers, information systems manager, project leaders, project finance, procurement officers, legal counsel and executive advisor.

The course provided TIMOR GAP's staff with the ability to apply a structured approach to project justification, investment appraisal and decision making in the upstream petroleum business.

This course, as well as the introduction to the oil and gas industry, was delivered as in-house training by an international training provider specialized in the oil and gas sector.

c. English Classes - English classes were provided twice a week during ten months in 2012, divided into advanced and basic classes.

English classes conducted in 2012

Secondments

Secondment or job placement is a strategy that TIMOR GAP is implementing to strengthen the capacities of its employees through on-the-job-training in the offices of business partners.

As example, a junior process operator and a junior process engineer from the Refinery and Petroleum Services Unit (R&PSU) were placed in PTT Global Chemical Public Company in Rayong (Thailand), being currently on the 2nd year of their secondment.

Staff secondment at PTT Global Chemical, Rayong, Thailand

Conferences

TIMOR GAP values the exchange of knowledge and the participation in high level events related to the Oil and Gas Industry, therefore several international conferences were attended by staff in 2012:

- World Gas Conference in Kuala Lumpur.
- International Geological Congress in Brisbane.
- Offshore Northern Seas Conference, Oil for Development Program in Norway.
- National Oil Company (NOC) Petroleum Economic Forum in Singapore.
- Global Human Resources Excellence Conference in Kuala Lumpur.
- Gas Information Exchange Conference in Bali.

More details of the training, courses and conferences occurred during the period are summarized in section 9 of the report "Training our People".

2.4. Human Resources Management Policy

Performance Management

The performance management policy was drafted with the purpose to:

- periodically review staff's work performance, in order to promote the most effective use of expertise
- determine the quality of service, recognize achievements, and
- identify learning and development needs.

This policy is expected to be approved in 2013.

3. Exploring Business Opportunities and Building Partnerships in the Petroleum Sector

TIMOR GAP was created to manage commercial assets owned by the State of Timor-Leste in the oil sector. Hence, the responsibilities concerning business activities in the oil industry were transferred to the State-owned NOC, initially under the supervision of the Secretaria de Estado dos Recursos Naturais (SERN), and from 2012 on, with the V Constitutional Government, the Ministry of Petroleum and Mineral Resources (MPRM).

TIMOR GAP observes the principles of good corporate governance and efficient management, ensuring the economic feasibility and financial stability of the Company, aimed at protecting the interests of Timor-Leste and in accordance with the National Strategic Development Plan 2011-30.

3.1 Corporate Branding

In 2012, TIMOR GAP initiated the corporate brand identity and strategy project, with the objective of adding value through a strong and comprehensive corporate brand, as well as a communication strategy, through workshops and interviews with management and all employees. As a result of this process, a new logo was developed.

TIMOR GAP's logo

3.2 Projects under Memorandum of Understanding (MoU)

As part of developing its business, to seize the opportunities, TIMOR GAP enters into partnerships with several players in the sector. Several Memorandum of Understanding (MoU) were signed in 2012 by TIMOR GAP. These include:

MoU between Pertamina and TIMOR GAP

The two State owned Companies of Timor-Leste and Indoenesia signed a MoU in 2012. The Parties express their interest in exploring the possibility of cooperating in the oil and gas business sector in Timor-Leste; specifically in what concerns downstream activities, for example through the development of fuel stations in Timor-Leste. In addition, Pertamina proposes training for TIMOR GAP's employees.

MoU between TIMOR GAP and Isar Aryaguna Holding Company (IAHC)

The MoU establishes a basis upon which TIMOR GAP and IAHC may explore areas for cooperation in the promotion of oil and gas business activities, and agree to discuss the development of fuel oil supply business in Timor-Leste, as well as the identification of technical options for fuel supply and associated storage facility.

3.3 Fuel Supply

Pre-Assessment of Petroleum Demand

In 2012, TIMOR GAP conducted an assessment on the demand for petroleum products in Timor-Leste. This assessment was conducted to develop baseline information over the petroleum consumption, in relation to the future refinery output, the petroleum import terminal, as well as storage capacity. It was also important to understand the domestic demand and supply availability.

Petroleum Demand

In the absence of oil-refining facilities, Timor-Leste continues to import petroleum products from neighbouring countries.

In 2011-2012, power generation in the country took major primary energy consumption in the form of high speed diesel (HSD). The demand of power generation accounted for approximately 48-50% of diesel consumption with average of 592.91 kbbl/day.

Petroleum products demand, in the form of gasoline, diesel and jet fuel products for the transports sector, comprised approximately 48.62% from total petroleum consumption or 562.46 kbbl/day.

The diesel and gasoline demand is expected to increase steadily at an average 5.0% annually, accompanying the growth of the economy.

Meanwhile, regarding LPG and Kerosene products, the household and commercial sector are responsible for the main consumption which amounted to 215 tonnes of LPG and 3,891 tonnes of Kerosene, with an average increase of 2.24% annually, from 2007 to 2012.

Supply of Fuel to Hera Power Station

Timor-Leste electricity utility, EDTL, has been operating one major power plant in Hera on the north coast of the country, to supply electric energy for domestic consumption. The power plant operates by using imported fuel. However, it is planned that it will use the country's own fuel resources, produced by the Betano refinery, in the future.

In 2012, a feasibility study for fuel supply and delivery to the EDTL power plant in Hera was prepared with Worley Parsons' consultant engineering company. The study covered bathymetric survey, metocean, topography, pipeline, marine facilities and searched for options for a temporary system for the offloading of fuel oil from a coastal tanker to the Hera Power Station.

The power station is currently using diesel fuel which is delivered by trucks. Substantial operating cost savings may be available if diesel fuel is replaced with heavy fuel oil (HFO) shipped to the power station directly from a refinery. TIMOR GAP therefore conducted a feasibility study on a temporary (3 to 5 years) single point mooring/conventional buoy mooring/off-loading hose/barge system to deliver HFO to the Hera Power Station.

The objective of the study was to determine which option was the most viable, cost effective and environmental friendly for the temporary delivery of fuel to the Hera Power Station. Upon the completion of the study, TIMOR GAP proposed several supply alternatives to transport diesel and mogas from the point of discharge to the final destination point.

3.4. Subsidiary Companies of TIMOR GAP

While conducting business activities in the oil and gas sector, TIMOR GAP is able to create subsidiaries, which may be associated with other national or foreign companies. The Company and its subsidiaries can form consortia or other forms of joint ventures (JV), and may acquire and dispose of shareholdings. Subsidiaries which are majority owned by the national oil company (NOC) are tied to directives and strategic planning, and common corporate rules providing technical, administrative, accounting, financial or legal guidance.

Members of the Executive Committee are allowed to participate in the management of these subsidiaries and affiliates. TIMOR GAP constituted two subsidiary companies in 2012, GAP-MHS Aviation Lda, that provides support for helicopter services for offshore operations, and TIMOR GAP PSC 11-106 Unipessoal Lda, to participate in the petroleum exploration & production of a block in the JPDA.

GAP-MHS Aviation Lda

Operations began in 2011 with the two companies, TIMOR GAP and MHS Aviation (Timor-Leste) providing offshore helicopter support services for Bluewater, which is contracted to ENI's Kitan Project in the Joint Petroleum Development Area (JPDA) in Timor Sea. For this period TIMOR GAP received a management fee $739,664 (before taxation).

GAP-MHS Aviation Lda was then incorporated on 26 June 2012. The company is owned by TIMOR GAP (60%) and MHS Aviation (TL) Lda (40%), a subsidiary of Malaysian Helicopter Services (MHS) Aviation Berhad, which is specialized in oil and gas aviation support operations.

GAP-MHS Aviation Lda

The subsidiary company has been providing rapid transit from the capital Dili to the projects on south coast, is concentrating in offshore oil and gas aviation support operations and plans to include general aviation activities in the future, in particular communication flights, medical evacuation and tourism flights. Other features:

- GAP-MHS operates regular flights once or twice a week.
- Timorese staff were engaged since the beginning in this subsidiary company of TIMOR GAP, and are undergoing continuous training (e.g. engineering training in Malaysia).

GAP - MHS staff at the hangar

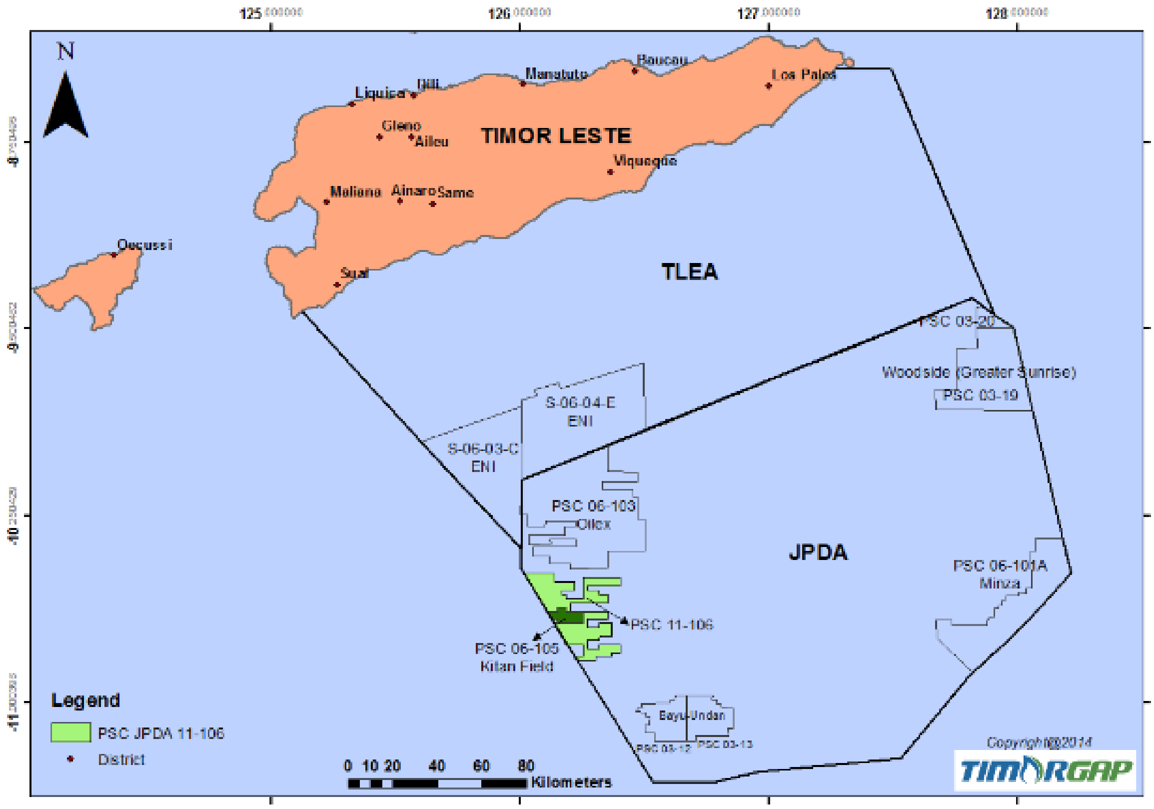
The company GAP-MHS started with 28 international and local staff, and has been growing since then. Trainings and courses on aviation industry have been conducted for all new members, a practice consistent with the company's objective of knowledge and technology transfer to local entities. This is also in line with the company's local content's agreement with client Bluewater, Autoridade Nacional do Petróleo (ANP) and Timor-Leste government.

TIMOR GAP PSC 11-106 Unipessoal Lda

One of the main reasons for the establishment of TIMOR GAP was to have the State's direct participation in the exploration and development activities of Timor-Leste's oil and gas resources. Under the Petroleum Activities Law, the Petroleum Mining Code (JPDA) and the Production Sharing Contracts, a special purpose vehicle (SPV) company is required for the purpose of entering into a production sharing contract.

The possible contract area is located approximately 240km south of Dili and 500km northwest of Darwin, covering an area of 662 Sq km adjacent to the offshore Kitan oil-producing field.

The company did not did not operate in 2012.



JPDA Block 11-106 highlighted in the JPDA, Timor Sea

In 2012, TIMOR GAP established a wholly owned subsidiary company – TIMOR GAP PSC 11-106 Unipessoal Lda, as a SPV for the JPDA 11-106 block and negotiated with potential joint-venture (JV) partners, Eni and INPEX.

4. Tasi Mane Project - the Future Hub of Timor-Leste's Oil and Gas Industry

4.1. Introduction

Tasi Mane is an essential project for Timor-Leste, envisioned in the Government's Strategic Development Plan (SDP 2011-2030), which identifies the careful management of the petroleum sector as a basis for the nation's sustainable development.

It comprises the development of a national oil and gas industry that will provide direct economic benefits from Timor-Leste's natural resources, including job creation in the oil sector and related services and businesses.

The Tasi Mane project involves the establishment of core infrastructures and will contribute to the transformation of the country's economy into one based in a successful petroleum industry with a dynamic private sector.

It will also be the first example for the government and communities of the benefits and costs associated with large-scale industrial development.

TIMOR GAP was mandated by the Government to manage this project that will be located on the south coast of the country, and the Company will support the creation of industries and the development of necessary human resources to operate the petroleum sector envisioned in the Tasi Mane Project.

In more detail, Tasi Mane is a multi-year integrated project of three industrial clusters, to be built from Suai in the district of Covalima to Beaço, district of Viqueque, and will include:

- The Suai Supply Base (SSB) cluster
- The Betano Refinery and Petrochemical Industry cluster
- The Beaço Liquefied Natural Gas (LNG) Plant cluster

For each cluster site there are additional supporting facilities planned, including upgrades of existing airstrips and new towns to accommodate not only the workforce, but also the relocated local residents.

Map of the Tasi Mane project, south coast of Timor-Leste

Hence, some of the complementary infrastructures that the Tasi Mane Project encompasses are:

- The renewal of the Suai Airport
- A Highway connecting project locations along the south coast

The Government is the project proponent of the Suai Supply Base (SSB), however it is expected that development of the petroleum refinery and LNG plant will be commercial ventures operated by international private companies.

Two principal laws rule the development of Tasi Mane: the Decree-Law No. 5/2011 on Environmental Licensing and the Decree-Law No. 1/2012 on the Downstream sector.

The Decree-Law No. 1/2012 on Downstream regulates activities associated with the supply, processing, transportation, storage, trading and marketing of petroleum, petroleum products and similar products.

A downstream licence is required for the Betano petroleum refinery and petrochemical complex, as well as for the Beaço LNG plant.

SSB data publication in Suai

Presentation of Environmental Impact Assessment (EIA) Study

SSB data publication in Suai

Presentation of EIA Study

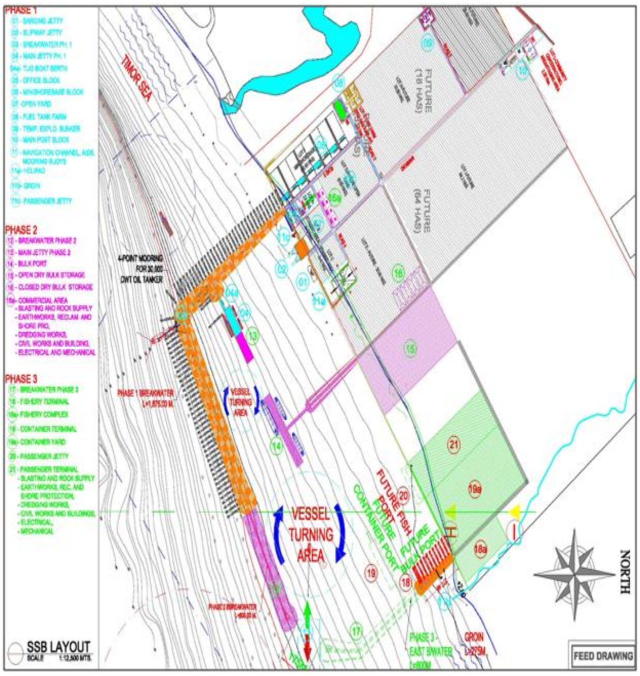
4.2. Suai Supply Base (SSB)

Project Description

The SSB is the 1st stage of the Tasi Mane Project

The building of the Suai Supply Base (SSB) is considered the first stage on the implementation of the Tasi Mane Project and includes the establishment of a logistics base in Suai, on the south coast of the country, which will provide capacity for the development of a petroleum sector and related businesses.

Other non-oil industries, such as commercial fisheries, are also expected to be attracted to the area. The SSB will be an entry point for the materials and equipment requested to build other planned core infrastructures.



The SSB general layout and its development area

The industrial cluster in Suai will also include:

- the building of a sea port and warehouse in Camanasa
- a housing complex in Camanasa (a new city, Nova Suai)
- the rehabilitation of the Suai airport and
- a heavy metals workshop, fabrication yard and repair facilities.

The Suai cluster will be a platform driving job creation, economic development and will support the establishment of the other clusters at Betano and Beaço.

The SSB will consist in a logistic marine supply base to support all offshore and onshore oil and gas activities in Timor-Leste's Exclusive Area (TLEA) and in the Joint Petroleum Development Area (JPDA), including the construction and development of E&P facilities.

The project of the Supply Base, located in the Covalima District 138 km south-west of Dili, will be built in three phases, commencing in 2014 and with the final phase to be completed in 2030.

The SSB will support the growth of general industry around the Suai area, forming the basis for Small and Medium Enterprises (SMEs) in Timor-Leste and will be constructed with high standards of health, safety, security, environment and operational efficiency.

The Front End Engineering Design (FEED) of the SSB was concluded in the 3rd Quarter of 2010 and consists of land and marine facilities:

Land-based or onshore facilities - including port operation buildings, several standalone integrated mini-shore bases, covered warehouses, fuel tanks farm, reverse osmosis water system and water storage tanks, firefighting and telecommunication systems, waste management, central kitchen and containers, pipe racks, open yards, hard stand paved parking areas, staging areas for offshore fabrication, recreational and community facilities.

Marine facilities - including three reinforced concrete jetty structure, i.e. the main jetty with tug boat berth; the barge jetty; and the passenger jetty and terminal. The infrastructure also comprises a reinforced concrete slipway jetty, navigational aids system and a shore connected rock amour breakwater to provide shelter from the waves, creating a calm harbour for the safe operations of the SSB under all weather conditions and throughout the year.

Meeting with the community in Suco Camenasa

Meetings in suco Camanasa, with SERN and EKI

Environmental Impact Assessment (EIA)

The EIA for the Suai Supply Base (SSB) was prepared to comply with regulation on environmental impacts of significant projects, being the first to occur under the Decree-Law No. 5/2011, on Environmental Licensing.

The EIA had the purpose to identify the likely environmental and social impacts associated with the construction and operation of the logistics base in Suai, to inform about the detailed design stage and determine the baseline conditions for the physical, biological and social environment at the development area, in the District of Covalima.

The EIA study covered the social and economic impacts that are likely to arise from the construction of the Suai cluster, assessing qualitative environmental impacts of the project on sensitive receptors including communities, and prescribing measures for management and mitigation to minimise likely adverse impacts.

Covalima has a population of 49,455 inhabitants and an area of 1,226 km2 (Census 2010). The vast majority of households in the project area are subsistence farmers.

The principal impacts to the natural environment during construction and operation of the project in Suai will be short-term and localised emissions of noise and dust, relocation of residences, loss of land (including farmland, crops natural resources) and trees, as well as coastal landscape changes.

The existing community that live and farm in and around Suai will experience changes to the local social and natural environment.

The main socio-economic impacts of the SSB will be job creation (both direct and indirect employment opportunities related to the construction and operation of the Supply Base), skills development, new economic opportunities, involuntary resettlement, as well as influx of new residents and workforce.

A program of monitoring for the SSB is planned, including air quality and dust particulates, noise, water quality and biodiversity.

Site visit and meeting the community in Suai

TIMOR GAP prepared site visits and consultations among the Suai community, including facilitation of contacts between stakeholders and local authorities.

The “Ekipa Konjunta Interministerial (EKI)” or inter-ministerial team was established to improve coordination with the relevant ministries involved in the Suai Supply Base (SSB) project.

The objective of the stakeholder consultation was to inform the community (“socializasaun”) about the SSB as part of a broader national project of development (Tasi Mane), and gather people’s responses and concerns, regarding the building of the logistic base in Suai and the changes that will affect them.

TIMOR GAP’s activities on this behalf included:

- Meetings and presentation of materials to be used during the introduction of the project with the inter-ministerial team.
- Presentation and dissemination of the project within Suai community.
- Data collection and verification of land title, as well as divulgation of information about the mode of compensation.

Activities of data verification

Reconnaissance Fieldwork of Breakwater Quarry Locations

A reconnaissance field trip was conducted by TIMOR GAP, aimed to follow up the quarries identified by Eastlog and to further investigate other potential quarries that are considered as having the potential of breakwater armour stones and core materials along the south coast of Timor-Leste.

The reconnaissance field work was planned to visit 19 quarries (main and alternative, located in 5 districts) and took place from September to October 2012.

From the result of hypothetical reserves calculated and geological perspectives, it was considered that the availability of the armour stone materials along the south coast was relatively sufficient for the SSB and Beaço LNG Plant breakwaters construction.

Possible quarry location for the SSB Project construction

Highlights of achievements in 2012

Regarding the development of the Suai Supply Base project, the following phases and processes accomplished in 2012 can be highlighted:

Activities of land title and properties identification

- Presentation and dissemination of information about the project, as well as consultations with the communities in the villages of Camenasa, Belacasak, Labarai and Matai of Covalima District (“socializasaun”)
- Environmental Impact Assessment (EIA) and Social Impact Assessment
- Land title identification covering an area of 1,113 hectares for the Suai industrial cluster and 213 hectares for Nova Suai
- Proposal review and detailed negotiation of terms and conditions for further construction supervision services
- Review of the breakwater design model
- Detailed quarry survey

4.3 Suai Airport

Project Description

The rehabilitation of the Suai airport and of connecting roads in the Camanasa area, is an integral part of the Tasi Mane Project.

The proposed design of the airport upgrade consists in expanding the airport runway from the current 900 meters to 1,500 meters, and 35 meters width.

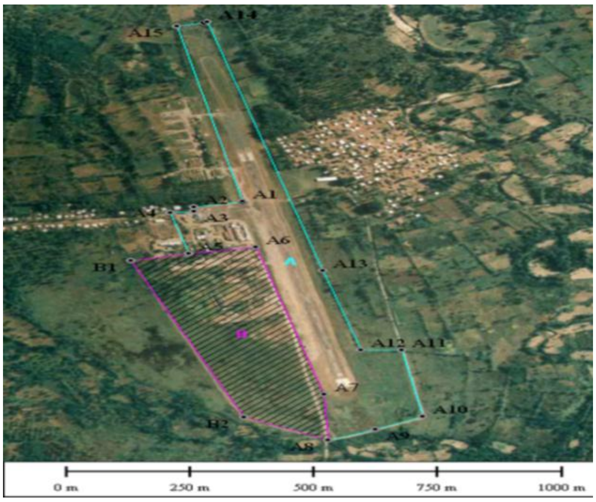
The Suai airport is located in the Covalima District, 202 km from the Capital Díli and 15 Km from Suai Town. More precisely, it is located at Holbelis, on the northern side of the Suai to Beaço south coast road, approximately 2 km inland of the coast.

The existing Suai Airport is classified as a district airport and will be upgraded to cater for expanded passenger and freight services. The main new features will be the longer runway, a new terminal building, a hangar shelter for helicopters and fire station.

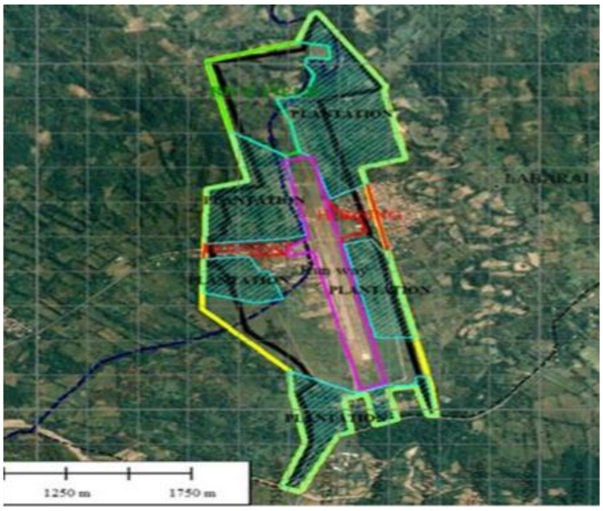
A technical study and detailed design for the Suai airport was conducted.

The proposed airport project will be based on International Civil Aviation Organization (ICAO) standards, with class C category, and the rehabilitation has the purpose of allowing safe operations of light aero-planes and helicopters to support petroleum activities and the supply base operations. It will therefore include:

- New airport facilities and a helicopter maintenance service
- The extension of the runway



Current airport in Suai



Proposed Airport

The new airport will cater for fixed wing aircraft (up to 60 seaters), and helicopters with 15-20 passenger capacity.

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 area.

It is expected that many jobs will be created in relation to the project activities (employment in the areas of natural resources, air transport and within the companies involved in the project implementation).

Overall, the rehabilitation of the Suai airport will contribute to the social and economic development of Timor-Leste, by facilitating transport from the petroleum platforms to Suai, supporting the development of south coast infrastructures and offering new job opportunities.

Environmental Impact Assessment (EIA)

Design of the new Suai airport facilities

In relation to the rehabilitation of the Suai Airport project, an EIA was carried out together with the Tasi Mane Project EIA, which was conducted by Worley Parsons.

The objective of the EIA was to analyze and evaluate the anticipated impacts of the airport upgrade.

The EIA process identified a range of mitigation measures, management actions and monitoring requirements to be implemented during the project to eliminate or reduce adverse environmental and social impacts, and enhance positive impacts.

The EIA assessment for the project was completed in May 2012.

Site visit to the existing Suai airport and meeting the community

TIMOR GAP prepared for the site visits in the Suai project area, including facilitation of contacts and coordination with local authorities and community.

As mentioned before, the EKIPA "Ekipa Konjunta Interministerial (EKI)" or inter-ministerial team was established with this objective, to improve coordination among the relevant ministries involved.

The process of site visits and meetings included:

- Coordination among relevant government entities (MTC-CAD, MPRM-TIMOR GAP, MOP, MJ-SETP, MAP, MAEOT, SEMA, SEC, SES-PNTL and other relevant stakeholders) to perform tasks on the site according to the responsibilities of each institution.

- Presenting and introducing the project to local authorities and communities ("socializasaun").

- Publication of data and verification of land titles.

- Identifying environmental and cultural heritage impacts arising from the project of the rehabilitation of the Suai airport.

Highlights of achievements in 2012

In conclusion, in what regards the development of the Suai airport project, in 2012 TIMOR GAP reached the following stages:

- Preparation of documents for identification of land and property in the areas concerned.

- EIA completed.

Proposed design of the new Suai airport facilities

- Review of the final detailed design for the rehabilitation of the airport, accomplishment of the final engineering design, as well as their submission to the project owner (MPRM and MTC), along with other tender documents.

- Site visit to the existing Suai airport and meeting with the community.

- Final monthly meeting with civil aviation department and consultants.

- The detailed design for the airport facilities was completed on May 2012 and includes a main terminal building, a VIP room, an air traffic control tower, an aerodrome fire and rescue station workshop, a shelter, a hangar and a meteorological observation station.

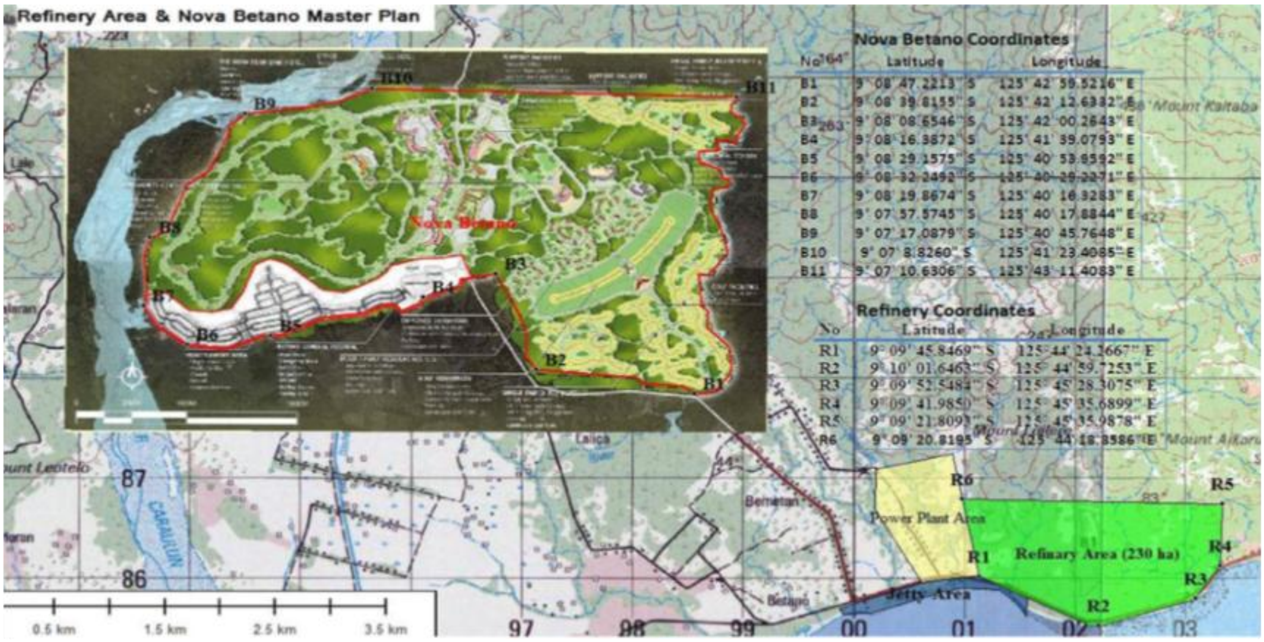
TIMOR GAP liaised with the Secretariado dos Grandes Projetos (SGP), Agência de Desenvolvimento Nacional (ADN), Comissão Nacional de Aprovisionamento (CNA) and other relevant ministries relating to the preparation of the necessary documents for the Suai airport's international tendering process to be conducted in early 2013.

4.4. Betano Petroleum Refinery and Petrochemical complex

Project Description

The 2nd industrial cluster of the Tasi Mane project will be located in the Betano area, District of Manufahi, south coast of the country, and will comprise a Refinery and a Petrochemical complex, as planned in the SDP 2011-2030.

The building of the refining facilities in Betano, approximately 70 km south of Dili, will enable the production of fuel (diesel, gasoline, jet-fuel, naphtha), fertilizers and pesticides, and of other petrochemical products that are currently imported.



Betano Master Plan Map

The Betano cluster and the Beaço LNG Plant are to be built after the Suai Supply Base (SSB). Unlike the SSB, which has the Government of Timor-Leste as project proponent, it is expected that the development of the petroleum Refinery and LNG plant will be commercial ventures operated by private companies. These industrial developments span multiple construction phases.

The Refinery and petrochemical complex are to process condensate delivered from the gas fields located in the Timor Sea, and to meet Timor-Leste's growing demand for transportation and domestic fuels.

The establishment of the industrial complex is expected to be a commercial arrangement between the public and private sectors and TIMOR GAP will play a crucial role in the development of the Betano cluster.

The initial phase will establish a refinery with a capacity of 30,000 Bpd (of petroleum products from petroleum condensate shipped to site from gas fields in the Timor Sea) and exportation is expected for the future, to increase Timor-Leste's trade in oil and gas products.

The refinery project main objective is to capture more added value on Timor-Leste's condensate or light crude oil and to support the country's economic growth.

The proposed development is intended to have modern infrastructure and facilities, with administration buildings and substantial supporting infrastructure, including a material offloading facility, jetty and marine facilities for feedstock import and product export, accommodation, airstrip/helipad for medivac, quarry with crushing plant and haul road to site.

A pre-feasibility study for the refinery and petrochemical complex has been undertaken.

The development of the refinery will be supported by the construction of a new city, Nova Betano, which will house staff, contractors and their families.


Ekipa Konjunta Interministerial in discussions with TIMOR GAP on Suai Airport project

Strategic Environmental Impact Assessment (SEIA)

The Secretaria de Estado dos Recursos Naturais (SERN) commissioned a study to assess the likely environmental and social impacts of the development of a petroleum refinery and petrochemicals complex near Betano, which is part of the strategic vision for the nation (SDP 2011/30) and is central to assure the creation of new commercial and industrial activities that can contribute to a sustainable social and economic growth for Timor-Leste.

The refinery project will have a profound impact on the local community and the whole country. With a population of 5,151, the nearest village of Betano is typical of many south coast villages in that households rely on subsistence farming.

The principal impacts to the natural environment associated with the construction and operation of the project-related facilities will include localized emissions of noise and dust, geohazards, the removal of some local residences and resettlement of families, clearance of vegetation, loss of farmland, coastal landscape changes, potential health and safety impacts associated with increased air emissions from the refinery and petrochemical complex, storage of hazardous materials such as heavy fuel oil and diesel and particulate, gas and noise emissions.

The community is looking forward to the job creation related to the development of the new facilities. However, there is some concern over the influx of outsiders and what the project may bring in terms of competition for jobs, disturbance to sacred sites, loss of agricultural land, changes to transport linkages, communicable diseases and competition for available services. The likely large-scale relocation of local residents represents one of the most significant social challenges. Economically, the local impacts include high scale financial benefits.


Activity in technical studio

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Site visit and meeting with the community in Betano

Timor-Leste´s Decree-Law No. 5/2011 on Environmental Licensing requires public consultation in the environmental impact of some projects. Stakeholder consultation for Betano has been led by SERN and aimed at informing community leaders about the nature and location of the industrial cluster, enlightening the public about the project, including potential environmental impacts and their way of mitigation.

The stakeholder consultation aimed at creating an environment of informed and constructive participation of all parties interested in, or affected by, the project at Betano.

As part of site visits, consultations were conducted between TIMOR GAP representatives, governmental officials and the local community in Betano, to explain the Tasi Mane project and update on the progresses of the Refinery project, providing opportunity for people to present their concerns.

Highlights of achievements in 2012

The Front End Engineering Design (FEED) for the Petroleum Refinery, advanced in 2012, is aimed at establishing the technical engineering design and cost estimation.

Betano Refinery Studies

In 2012, five sub-projects were planned, specifically:

- FEED Study
- EIA/HIA
- Land survey
- Land development design and cost estimate
- Market study

The refinery project was executed as a co-project between TIMOR GAP and PTT Global Chemical Public Company from Thailand which conducted a feasibility study and master plan for the hydrocarbon utilisation.

Progress achieved during 2012 was mainly related to the procurement process. In particular, TIMOR GAP:

- Engaged the company Toyo-Thai Thailand for FEED studies
- Involved Advanced Technology Team (ATT, a Thai consultant company), for the land development design and cost estimate
- Awarded two nationals companies to proceed with the land survey (KWK Consulting Unipessoal for the topographical survey and Geotechnik for the soil investigation)
- Both invitation to bid for the international market study and the detailed EIA/HIA contracts will be carried out after the technical studies are completed, by the end of 2013.

Addressing queries from students at Mercado Lama Exposition

4.5 LNG Plant in Beaço

Timor-Leste has valuable gas reserves in the Timor Sea and to make the most of these national resources, a LNG plant will be established in Beaço, District of Viqueque, 100 km southeast of Dili, consisting the 3rd and final stage of the Tasi Mane Project.

The LNG plant will develop the existing petroleum exploration in the Timor Sea and provide hydrocarbon processing facilities (downstream activities) in Timor-Leste.

Project Description

The project of the industrial cluster of Beaço therefore comprises:

- Gas pipeline
- The LNG Plant to process and store the gas
- Marine facility for the loading of LNG, LPG and to provide support on marine services.

The Beaço LNG complex

The initial feed gas will be piped from Greater Sunrise and other adjacent offshore fields through a world class subsea pipeline(s) and the Plant – "Timor LNG" – will have a single gas train with an initial capacity of 5 Mtpa and planned future expansion of up to 20 Mtpa.

The LNG plant is intended to have modern infrastructures and facilities to provide a fully capable natural gas processing complex to export standards and will process the natural gas into LNG, propane and butane.

New towns, Nova Viqueque and Nova Beaço, are also planned to accommodate residents and the workforce of the LNG plant. Each will have a commercial centre, recreation facilities, schools and civil infrastructures.

It is also planned that the currently abandoned Viqueque airstrip will be upgraded to the status of regional airport, with a new runway and terminal facilities.

Marine Facility Pre-FEED and FEED

The studies for the marine facility, to be built as part of the industrial cluster in Beaço, advanced in 2012. The Metocean data collection, including air temperature, air pressure, wind speed and direction, humidity, wave heights, sea currents, water level and tidal heights, sea temperature at various depths, and sea salinity, were completed. Regular mapping of the beach to monitor profile changes at 3-monthly intervals was also accomplished.

In mid-2012, the marine facility pre-FEED was achieved, and two design options presented:

- Coastal harbour
- Onshore basin

The options included cost estimates at +/-25% accuracy.

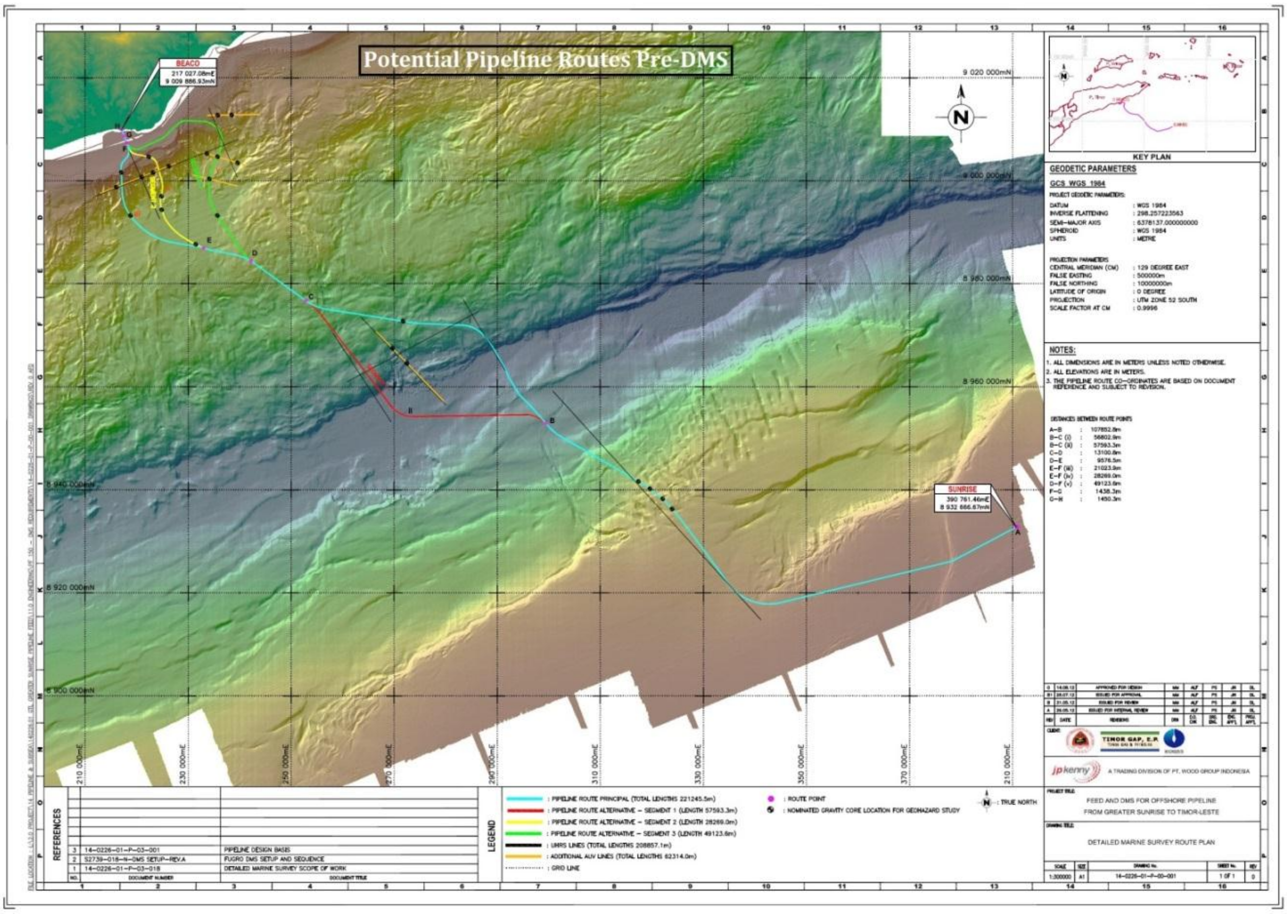
Both options, coastal harbour and marine onshore basin, were considered technically viable from the navigation viewpoint.

A wide range size of LNG and LPG vessels were successfully run during the navigation simulations by varying the inputs of the conditions of sea and weather.

At the same time, TIMOR GAP entered into a contract with the MPRM to undertake the FEED for the marine facility, including additional works of Metocean measurements. TIMOR GAP then selected the same consultant, HR Wallingford, specialized in civil engineering & environmental hydraulics, based in the UK, to undertake the FEED work, while the necessary procurement for the Metocean contractor was ongoing.

Pipeline FEED and Detailed Route Survey

Following the completion of the procurement process with the National Procurement Commission in 2011-2012, the company JP Kenny, the pipeline and subsea engineering and management contractor, as well as its subcontractor Fugro, were awarded a contract by SERN to execute the FEED study and detailed route study for the pipeline from the Greater Sunrise gas field in Timor Sea to Beaço. TIMOR GAP supervised and administered these studies.



Strategic Environmental Impact Assessment (SEIA)

Overall, the expected socio-economic impacts arising from the development of the LNG plant are as profound for Beaço and the District of Viqueque as the petroleum refinery is to the area around Betano. The project will have a profound impact on the local community and the whole country.

The SEIA for the Betano Petroleum Refinery and Beaço LNG Plant, conducted to assess the probable environmental and social impacts of these developments, was completed in June 2012. The report covered the baseline environmental information of the project sites which included G&G conditions, air quality, noise, land use, visual amenity, water quality, hydrology and socio-economic conditions.

The principal impacts to the natural environment associated with the construction

and operation of the LNG Plant are similar to the impacts caused by the Betano Refinery cluster and will include localized emissions of noise and dust, the removal of some local residences and resettlement of families, clearance of vegetation, loss of farmland and coastal landscape changes.

The community in Beaço is looking forward to the job creation related to the new industries, related businesses and services, however there is some concern about the influx of outsiders and what the project may bring in terms of disturbance to sacred sites and locals traditional way of life, loss of agricultural land, and changes to transport linkages. The relocation of local residents will be a main social challenge. Economically, and similarly to the developments in Suai and Betano, the local impacts in Beaço include high financial benefits.

Stakeholder consultation in Beaço

As part of the stakeholder consultation process for the LNG Plant through 2012, TIMOR GAP E.P. held regular meetings with the communities and local authorities of Beaço, prior to carrying out field works as well as in the course of site visits.

The main objective of these meetings was to keep the community informed about the progress of the project, providing opportunity for the presentation of issues or concerns to TIMOR GAP and the Government representatives.

Highlights of achievements in 2012

Pipeline FEED and Detailed Marine Survey (DMS)

- A Contract was signed in Dili on February by SERN, Korea Gas Corporation (KOGAS) and Wood Group Kenny Indonesia (representing JP Kenny and Fugro), to carry out the pipeline FEED and DMS.

- 1st technical meeting was held at JP Kenny's office in March. Then followed the 1st phase of pipeline training by JP Kenny and Fugro for the project management unit team, composed by TIMOR GAP and KOGAS. 2nd technical meeting and 2nd phase of pipeline training followed in May.

- 3rd technical meeting was held with the presentation of Pre-FEED results at TIMOR GAP's office in Dili in August. This marked the completion of the Pre-FEED work from which final pipeline routes to be surveyed during DMS were identified. FEED works immediately commenced.

- DMS was executed from October to November and covered the 250 meters corridor of the pipeline route including mapping the seabed at a very high resolution, ultra-high resolution seismic survey, and seabed sampling for geotechnical analysis. The high resolution bathymetry survey was done through multibeam echosounder, side scan sonar and sub-bottom profiler which were mounted in an autonomous underwater vehicle flying at an altitude of about 25 meters from seabed.

- By December 2012, most of the DMS data were analysed while laboratory analysis of the geotechnical samples was ongoing. The latter was more specifically to identify the age of the samples being collected through radio carbon age dating tests.

- Liaisons between MPRM, KOGAS, JP Kenny/Fugro and relevant Government and Regulatory Authorities such as National Petroleum Authority (ANP), Secretary of State for Environment (SEMA), Secretary of State for Security (SES), Customs and Immigration, Fishery Department, and other stakeholders were maintained by the project management unit, in order to ensure efficient execution of the project, particularly during the period of DMS.

Marine Facilities

- The marine facility pre-FEED was completed in mid-2012.
- In June 2012, TIMOR GAP signed a contract with the MPRM, to undertake the FEED for the marine facility.
- FEED works initiated.
- Optimization of the marine facilities design was completed in November 2012.

4.6 Highway Project

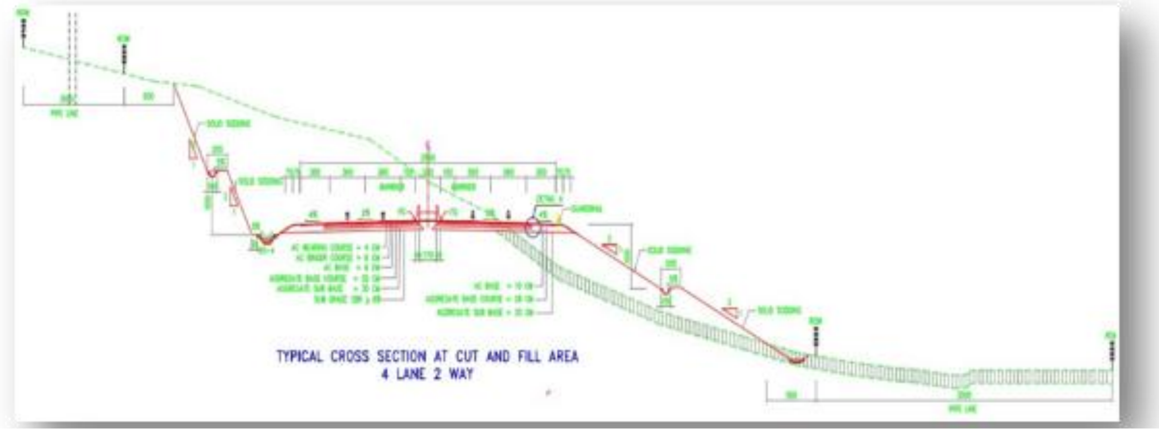
Project Description

In order to support the growth of the national petroleum industry and to connect the three industrial clusters, a road along the south coast of Timor-Leste, from Suai to Beaço, will be built in stages according to logistic and economic necessities.

- Traveling time from Suai to Beaço ± 2hrs.

Environmental Impact Assessment (EIA)

An EIA was undertaken to analyze and evaluate the anticipated impacts of the highway project from Suai to Beaço.



Highway project design

In 2012, TIMOR GAP initiated the process of presenting and introducing the project amongst local communities ("socializasaun"), and the EIA and Social Impact Assessment (SIA) were undertaken.

The necessary land title clearance is under way and it is estimated that the international tender process will take place in 2013, and is awaiting a decision from the MOP and MPRM.

This project involves the construction of a highway from Suai to Beaço, with a total distance of 151.66 km. The proposed road is split into four sections:

1. Suai – Fatucai /Mola (30.33 km)
2. Fatucai/Mola - Betano (34.50 km)
3. Betano - Clacuc (34.20 km)
4. Clacuc - Beaço (52.63 Km)

- Design speed: 100km/h for flat area and 60 km/h for the mountain area.

The assessment involved studying the whole length of the highway, across five districts - Covalima, Ainaro, Manufahi, Manatuto and Viqueque.

The EIA study was conducted by a team of experts through the collection of baseline information on the environmental status of the project area, by conducting field studies and consultations among the communities living along the project road.

The scope of the EIA included studying various project components:

- Role of the highway project in the context of national and regional development planning
- Suitability of the project to region space planning and protected areas
- Impacts concerning physical environments (topography, air quality and noise, water, soils, transportation), biological environments (plants, animals), social, economic and cultural life (population density, economic life, cultural

values, concepts and perceptions regarding the road project), community health issues.

The study also observed that mitigation measures, design features, or impacts can be monitored to ensure acceptability of the project both during and after construction works.

Site visit and meeting the communities

TIMOR GAP representatives conducted site visits to observe the conditions of the existing road (Suai-Betano-Beaço), and held meetings with local authorities and communities of the concerned districts of Covalima, Ainaro, Manufahi, Manatuto and Viqueque.

The objective of the visits and meetings was to inform the population about the preparation of the highway project in the southern coast area that will link the clusters of the Suai Supply Base, Betano refinery and petrochemical complex, LNG plant in Beaço and the new cities of Suai, Betano and Beaço.

These site visits and meetings, conducted in February 2012, were also important to collect community feedback and concerns about the impact of the project.

Highlights of achievements in 2012

The detailed design of the highway and tender documents were completed.

5. Joint Petroleum Development Area/ Greater Sunrise Development

In addition to the development of petroleum activities offshore and onshore, as well as the management of projects mentioned in previous sections related to Tasi Mane, TIMOR GAP as the national oil company is involved in the Government's goal to build a gas pipeline from Greater Sunrise field to Beaço in 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.

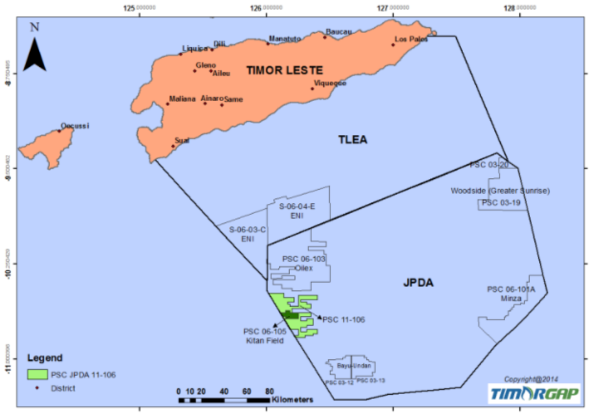
TIMOR GAP's engagement in the Greater Sunrise issue is through the provision of advice and participation in the Joint Commission and Sunrise Commission, along with Government officials from Timor-Leste, the Autoridade Nacional do Petróleo (ANP) and Australia.

December meeting of the Joint Commission

5.1. 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 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).



TLEA and JPDA in Timor Sea

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 José Loyola, member of the Board of Directors of TIMOR GAP, 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 TIMOR GAP.

There were 3 Joint Commission Meetings (JCM) held for the JPDA in 2012:

1. 33rd JCM on 20th March 2012 in Darwin.
2. 34th JCM on 27th August 2012 in Dili.
3. 35th JCM on 11th December 2012 in Melbourne.

5.2. 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 as Greater Sunrise.

The agreement came into force on February in 2007, on the same day as the **Treaty on Certain Maritime Arrangements in the Timor Sea** (CMATS).

Article 9 of the IUA 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.

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 represents Timor-Leste in the Sunrise Commission, and Mr. António José Loyola (a Board Director) and Mr Vicente Lacerda (Executive Committee members and Unit Director) are alternates.

Three Sunrise Commission Meetings held in 2012 were:

1. 10th Sunrise Commission meeting on 21st March 2012 in Darwin.
2. 11th Sunrise Commission meeting on 28th August 2012 in Dili.
3. 12th Sunrise Commission meeting on 12th December 2012 in Melbourne.

Delegation of Timor-Leste and ANP to the 12th Sunrise Commission meeting, in Melbourne

6. Moving into 2013

Due to the existence of petroleum resources in Timor-Leste territory, both offshore and onshore, TIMOR GAP E.P., the young National Oil Company of Timor-Leste, was established by the Government in late 2011, with the objective to act on behalf of the State in conducting business on the petroleum sector.

The President & CEO of TIMOR GAP delivering a speech at MPRM welcome party in 2012

The energy area is essential for the future and sustainable development of the country and TIMOR GAP was created with the Vision to become an integrated Oil and Gas Company, and a leading driver for economic growth.

The petroleum sector is expected to continue to be in coming years the major source of State budget revenue in Timor-Leste and TIMOR GAP will persist supporting the Extractive Industries Transparency Initiative (EITI), which is a global coalition of governments, companies and civil society working together to improve openness and accountable management of revenues from natural resources.

In the year 2012, the main activities of TIMOR GAP related to the corporate institutional development such as establishment of the new offices for the Company, administrative procedures to become fully operational, recruitment and training of human resources, business development, as well as management of the Tasi Mane project that will be the basis for the development of a national petroleum industry, in the south coast of the country.

H.E. Mr. Alfredo Pires 1st visit to TIMOR GAP as Minister

Envisioned in the National Strategic Development Plan 2011-30, Tasi Mane is a multi-year integrated project of three industrial clusters, and initial phases were achieved in 2012, namely in what concerns preparatory works and planning for the building of the Suai Supply Base, the Betano Refinery & Petrochemical Industry and the Pipeline & LNG Plant in Beaço, as well as other additional planned facilities.

Furthermore, as the National Oil Company TIMOR GAP provided support to the Government's goal of building a gas pipeline from the Greater Sunrise field located in Timor Sea, in association with a LNG plant onshore, TIMOR GAP will continue participating in the Joint Commission and Sunrise Commission.

During 2012 TIMOR GAP engaged in several studies to assess the likely environmental and social impacts of the projects the Company is managing through mandate from the Government.

These processes also involved stakeholder consultation with local authorities and potentially affected communities, aimed at informing the population about the planned developments, as well as to respond to their concerns.

This year's achievements are also a result from the teamwork between TIMOR GAP and its partners.

The Company is in the process of establishing joint ventures with local and foreign companies in support of growth and to better tackle business opportunities, as well as to cover improvements in human resources and technology transfer in support of upstream and downstream operations.

Other highlight of TIMOR GAP's activities in 2012 was the creation of two subsidiaries, GAP-MHS Aviation, that provides support services to offshore helicopter services for the Kitan oil-producing field in the JPDA in Timor Sea, and TIMOR GAP PSC 11-106 Unipessoal Lda, that will participate in Exploration & Production, in a possible contract area adjacent to the producing Kitan field.

For the next year, TIMOR GAP will continue searching for consortia to invest in onshore and offshore petroleum projects. Although the company's budgets for 2011 and 2012 were considered starter and enabler budgets, as we move into 2013 there is a sense of enthusiasm as the national oil and gas industry develops, allowing TIMOR GAP to seize new business opportunities and to pass into a new era of its corporate life in 2013: the year of investments, with an "investment budget".

7. Commentary on the Financial Statements

Set out below are the audited consolidated financial statements of TIMOR GAP group for the 15 months (October 2011-December 2012). Whilst TIMOR GAP was legally established by Decree-Law on 27 July 2011, the Board of Directors and Executive Committee were appointed on 17 October 2011 when operations effectively began. In line with the Government of Timor-Leste, the financial year end is 31 December. TIMOR GAP has adopted International Financial Reporting Standards (IFRS) to ensure that reporting is based on a well- recognised framework.

Capital and Grant Funding

As per the Articles of Association the share capital to be subscribed and paid from the General State Budget was $2.5 million. An initial tranche of capital of $2 million to start operations and support the transitional budget was received on 1 December 2011. The remaining $0.5 million of share capital was received, together with a Government grant of $1.8 million, on 23 February 2012. Thus TIMOR GAP has received its initial capital per the Articles of Association of $2.5 million in full by the period end, and a grant of $1.8 million for the 15 month period.

Revenue

The government grant received of $1.8 million forms the majority of TIMOR GAPs revenue for the year 2012.

As presented in further detail below, during 2012 TIMOR GAP invested in a 60% stake in GAP-MHS Aviation Lda. Prior to GAP-MHS being incorporated, the Executive Committee of TIMOR GAP assisted MHS Aviation (Timor-Leste) Lda in managing a contract for which TIMOR GAP received a once-off management fee of $739 664. Subsequent revenue to be received from the now incorporated GAP-MHS Aviation Lda will be in the form of dividends, which will be based on the future profitability of GAP-MHS.

In line with TIMOR GAP's mandate for the creation of business activities, two contracts were signed in 2012 by TIMOR GAP with the Government of Timor-Leste.

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 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 will be conducted to determine the physical environment near the planned site from both a meteorology and oceanography perspective.

In terms of the contracts signed, TIMOR GAP is to perform consultancy work with a contract fixed service fee of $300,000 for the project implementation.

As set out in Note 16 to the financial statements, an initial amount of $1,680,000 was received from the Government of Timor-Leste as an advance for this project during 2012.
From an accounting perspective the contract fixed service fee is recognised as income based on the percentage of costs incurred to date.
As result TIMOR GAP earned $86,233 for contract fixed service fees for this project in the current period as set out in Notes 1 and 16 to the accompanying financial statements.
At year end $780,743 remained available to pay contractors in 2013, when the project is expected to be completed.

Employees participating at Introduction to Oil and Gas training

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.

The initial amount of $2,352,000 was received from the Government of Timor-Leste as an advance for these projects. This money is primarily to pay the contractors for the various phases of the project, and included TIMOR GAP's contract fixed services fee. Similar to Contract 1/2012, the contract fixed service fee is only recognised as income based on the percentage of costs incurred to date on the project compared to the total costs expected. As the contract had not commenced, TIMOR GAP did not earn any revenue from this contract in the current period. At year end all $2,352,000 remained of the funds received for use in 2013 when the projects are expected to start.

Consultancy and 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 Section 4 of this report.

Workshop for Company's branding

Financial Results
Comprehensive Loss for the Year

The group's comprehensive loss for the 15 month period amounted to $628,329. The results include TIMOR GAP's 60% share of the results of GAP-MHS which amounted to $623,697.
The loss for the year was funded through Capital and a Government Grant. As only the Government Grant can be accounted for as revenue, the "start-up costs" exceeded the income received for operational expenses. Set out below are the main categories of operational expenses incurred.

Depreciation and Amortisation Expense

During the period TIMOR GAP purchased property plant and equipment worth $1,388,370 as set out in Note 10, and $198,807 of computer software as set note 11 to the financial statements. This includes the leasehold improvements for fitting out the Timor Plaza offices which cost $317,000. As these offices are leased, the improvements are amortised over the period of the lease to 30 September 2016. 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.

Employee Costs/Expenses

Recruitment continued throughout the year and by 31 December 2012 TIMOR GAP had a staff complement of 71 which was distributed to the Business Units as follows:

- Business Development	14
- Corporate Services	17
- Exploration & Production and Supply Base Unit	14
- Gas Business Unit	6
- President & CEO	6
- Refinery & Petroleum Services Unit	8
- Graduate Internship Programme	6
Employees 31/12/2012	71

Other expenses

The most significant "other expenses" for the 15 months include the following items:

	$
Legal costs	273,142
Office Rent	460,061
Organisation promotion	124,124
Telephone & internet	132,606
Training & conferences	146,072
Travel & expenses	423,776

Legal costs were primarily incurred with respect to the Sunrise negotiations and review of contracts.
Organisation promotion expenses 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.

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.
Upon receipt of the service fee a withholding tax was deducted of $39,942 which is reflected the financial statements.
The company has deducted and paid withholding taxes on payments to employees and suppliers at the appropriate rates.

Statement of Financial Position

Current Assets

Current assets include amounts expected to be received within a year of the balance sheet date. Group current assets of $3,976,068 include the service fee receivable of $699 722 after taxes, prepayments and receivables of $32,967, the rental and other deposits of $108 378, income tax paid in advance of $168,000 as well as cash at the bank of $2,967,001.
The service fee receivable of $699,722 after taxes ($739,664 before taxes), relates to management fees receivable from MHS Aviation (Timor-Leste) Lda for the period prior to GAP-MHS Aviation Lda's incorporation.
The cash at the bank includes the funds for payment of the contractors for Contract 1/2012 and Contract 2/2012 as discussed above.

Non-Current Assets

Assets which are expected to realise a benefit over a period longer than one year are classified as non-current. Total group non-current assets amounted to $1,871,671and were composed of the property plant and equipment at net book value of $1,080,806, and intangible assets being computer software at amortised cost of $164,273 and investments of $626,697.
As previously noted TIMOR GAP invested in two newly registered companies being:

- a 60% investment of $3,000 in GAP-MHS Aviation Lda and a
- 100% investment in TIMOR GAP PSC 11-106, Unipessoal, Limitada for $5,000.

GAP-MHS commenced operations on 26 June 2012. The company provides logistical and support services to the operations of MHS Aviation TL Lda which provide aviation services and facilities to third parties in the oil and gas industry. TIMOR GAP has recognised their 60% share of the profit for the period of $623,697.

TIMOR GAP PSC 11-106 did not operate during the period. The company was formed as a Special Purpose Vehicle for the purpose of preparing to be party to contracts involving the future exploration and development of the PSC 11-106 block in the JPDA.

Current Liabilities

Current liabilities include all amounts that are expected to be paid within a year of the balance sheet date. TIMOR GAP's group current liabilities at year end amounted to $3,976,173. As set out in Note 15 trade amounts payable, primarily consultants on the projects being undertaken amounted to $475,209. In terms of the Taxes and Duties Act of 2008 withholding taxes have been deducted or grossed up from the payments made to suppliers as appropriate. At year end $141,725 was outstanding for withholding taxes.

As discussed above under Contract 1/2012 and Contract 2/2012 above and note 16 below money has been received in advance from the Government of Timor-Leste. At year end $3,230,743 was owed in relation to these contracts which include the TIMOR GAPs unearned contract fixed service fees in relation to these contracts.

8. Financial Results

Consolidated statement of profit and loss and other comprehensive income for the fifteen months ended 31 December 2012

	Notes	Group 2012 $	Company 2012 $
Revenue	6	2,625,897	2,625,897
Consultancy fees and project expenses		(513,886)	(513,886)
Depreciation and amortisation expense		(342,097)	(342,097)
Employee costs		(1,028,430)	(1,028,430)
Other expenses		(1,953,569)	(1,953,569)
Operating loss		(1,212,084)	(1,212,084)
Share of profit of associate	13	623,697	-
Loss before tax		(588,387)	(1,212,084)
Income tax expense	7	(39,942)	(39,942)
Loss for the period		(628,329)	(1,252,026)
Other comprehensive income		-	-
Total comprehensive loss		(628,329)	(1,252,026)
Attributable to:			
Equity holders of the parent		(628,329)	-

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

Consolidated statement of financial position
as at 31 December 2012

	Notes	Group 2012 $	Company 2012 $
Assets			
Non-current assets			
Property, plant and equipment	10	1,080,806	1,080,806
Intangible assets	11	164,273	164,273
Investment in subsidiaries	12	-	5,000
Investment in associate	13	626,697	3,000
		1,871,776	1,253,079
Current assets			
Trade and other receivables	8	1,009,067	1,009,067
Cash and cash equivalents	9	2,967,001	2,962,001
		3,976,068	**3,971,068**
Total assets		**5,847,844**	**5,224,147**
Equity and liabilities			
Equity			
Contributed equity	14	2,500,000	2,500,000
Accumulated losses		(628,329)	(1,252,026)
		1,871,671	1,247,974
Non-controlling interests		-	-
Total equity		**1,871,671**	**1,247,974**
Current liabilities			
Trade and other payables	15	745,430	745,430
Unearned contract fixed services fees and undisbursed advances	16	3,230,743	3,230,743
		3,976,173	**3,976,173**
Total equity and liabilities		**5,847,844**	**5,224,147**

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

Consolidated Statement of changes in Equity
For the fifteen months ended 31 December 2012

	Notes	Group 2012 $	Company 2012 $
Transactions with owners of the company			
Contributed Capital			
- 1 December 2011		2,000,000	2,000,000
- 23 February 2012		500,000	500,000
		2,500,000	2,500,000
Loss and comprehensive loss for the year attributable to equity holders of the parent		(628,329)	(1,252,026)
Non-controlling interest		-	-
Total equity at 31 December 2012		**1,871,671**	**1,247,974**

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

Consolidated Cash Flow Statement
for the fifteen months ended 31 December 2012

	Notes	Group 2012 $	Company 2012 $
Loss before taxation		(588,387)	(1,212,084)
Adjustments for:			
Depreciation	10	307,563	307,563
Amortisation	11	34,534	34,534
Share of profit of associate	13	(623,697)	-
		(869,987)	(869,987)
Increase in trade receivables		(841,067)	(841,067)
Increase in trade and other payables		745,431	745,431
		(965,623)	(965,623)
Taxes paid	15 & 18	(207,942)	(207,942)
Net cash from operating activities		**(1,173,565)**	**(1,173,565)**
Purchase of property, plant and equipment	10	(1,388,370)	(1,388,370)
Purchase of intangible assets	11	(198,807)	(198,807)
Investment in subsidiary		-	(5,000)
Investment in associate		(3,000)	(3,000)
Net cash used in investing activities		**(1,590,177)**	**(1,595,177)**
Proceeds from issue of contributed capital		2,500,000	2,500,000
Increase in project advances		3,230,743	3,230,743
Net cash used in financing activities		**5,730,743**	**5,730,743**
Net increase in cash and cash equivalents		2,967,001	2,962,001
Cash & cash equivalents at start of the period		-	-
Cash & cash equivalents at end of the period	**9**	**2,967,001**	**2,962,001**

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

Accounting policies and explanatory notes to the consolidated financial statements for the fifteen months ended 31 December 2012

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 15 month period ended 31 December 2012, were authorised for issue in accordance with a resolution of the Board of Directors on **28 August 2014**.

TIMOR GAP is a state-owned enterprise created by Decree Law 31 of 2011, and domiciled in Timor-Leste. The address of its registered office and principal place of business Level 3, Timor Plaza, Rua Presidente Nicolao Lobato, Comoro, Dili.

The intended principle activities of the Group include upstream and downstream activities in the petroleum and gas sector.

2. Basis of preparation and accounting policies

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.

This is the first reporting period for the Group therefore no comparative financial information is provided.

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. 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.

2. Basis of preparation and accounting policies (continued)

Revenue recognition

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.

Contract fixed service fees are recognised by reference to the agreed contract fixed service fee and the stage of completion of the contract as a percentage of actual expenditure incurred on the project compared to the total contracted amount.

Service fee income is recognised by reference to the management services provided to a helicopter services company for the period 1 October 2011 to 25 June 2012.

Income tax

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.

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 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.

2. Basis of preparation and accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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:

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

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.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of assets

At each reporting date, property, plant and equipment 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.

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.

Operating Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Trade and other receivables

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

Accounting policies and explanatory notes to the consolidated financial statements for the fifteen months ended 31 December 2012

2. Basis of preparation and accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short term deposits with a repayment term of three months or less.

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.

Project advances

Cash received by the entity from the Government of Timor-Leste as a project advance is shown as a liability on receipt. The liability is reduced by costs incurred until the project is completed.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of 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.

3. Key sources of estimation uncertainty

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. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective activities domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

4. Changes in accounting policies and disclosures

New and amended standards and interpretations

The application of these new and revised IFRS has not had any material impact on the amounts reported for the current period but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 1 Severe Hyperinflation - (Effective for annual periods beginning on or after 1 July 2011)

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

The application of the amendments has had no effect on the amounts reported in the current period because the Group has not emerged from an economy of sever hyperinflation.

Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters - (Effective for annual periods beginning on or after 1 July 2011)

The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.

The application of the amendments has had no effect on the amounts reported in the current period because this is the Group's first period of presentation.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets - (Effective for annual periods beginning on or after 1 July 2011)

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial assets is transferred but the transferor retains some level of continuing exposure to the asset.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not entered into transactions captured by the amendment.

5. Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements listed below, are those that the Group reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards and interpretations, if applicable when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Group's financial position or performance.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and, therefore, will be applied in the Group's first annual report after becoming effective.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12 (refer below), what remains in IAS 27 is limited to accounting for subsidiaries, joint arrangements and associates in separate financial statements. The Group does not present separate financial statements.

The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment will have no impact on the Group.

The revised standard is effective for annual periods beginning on or after 1 January 2013.

5. Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 (as issued) reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 10, IFRS 11 and IFRS 12.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues covered by SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements in IAS 27.

Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the investments currently held by the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The Group is currently assessing the impact that this standard will have on the financial position and performance.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required but will have no impact on the Group's financial position or performance.

This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. Based on the preliminary analyses, no material impact is expected.

This standard is effective for annual periods beginning on or after 1 January 2013.

5. Standards issued but not yet effective (continued)

Annual Improvements May 2012

These improvements include:

IAS 1 Presentation of Financial Statements: clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

IAS 16, Property Plant and Equipment: clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32, Financial Instruments: Presentation: clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

The improvements are effective for annual periods beginning on or after 1 January 2013.

The Group expects no impact on its financial position, performance, disclosures or stated accounting policies from the adoption of these amendments.

		Group 2012 $	Company 2012 $
6	**Revenue and other income**		
	Government grant	1,800,000	1,800,000
	Revenue from contract fixed services fees	86,233	86,233
	Service fee income	739,664	739,664
	Total sales revenue	**2,625,897**	**2,625,897**
7	**Income tax**		
	Income tax expense		
	Current income tax:		
	Current income tax charge	-	-
	Deferred income tax:		
	Relating to origination and reversal of temporary differences	-	-
	Domestic taxation charge for the period	-	-
	Withholding tax deducted at source - Petroleum taxation regime	39,942	39,942
	Total tax expense reported in profit or loss	**39,942**	**39,942**
	A reconciliation between tax expense and the accounting profit multiplied by Timor-Leste's domestic tax rate for the period ended 31 December 2012 is, as follows:		
	Accounting loss before tax	**(588,387)**	**(1,212,084)**
	At Timor-Leste’s statutory income domestic tax rate of 10%	(58,839)	(121,208)
	Adjusted for		
	Deferred tax asset not recognised	195,174	195,174
	Share of profit of associate at 10%	(62,370)	-
	Withholding tax deducted at source - Petroleum taxation regime- 5.4%	39,942	39,942
	Amount not taxable under domestic taxes- service fee income	(73,966)	(73,966)
	Total tax expense reported in profit or loss	39,942	39,942
	Deferred tax		
	Deferred tax relates to the following:		
	Accelerated depreciation for tax purposes	124,508	124,508
	Losses available for offsetting against future taxable income	(319,683)	(319,683)
	Deferred tax asset/credit not recognised	(195,175)	(195,175)

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

Accounting policies and explanatory notes to the consolidated financial statements for the fifteen months ended 31 December 2012

		Group 2012 $	Company 2012 $
8	**Trade and other receivables**		
	Trade receivables	699,722	699,722
	Other receivables and prepayments	32,967	32,967
	Income tax paid in advance	168,000	168,000
	Refundable deposits	108,378	108,378
		1,009,067	**1,009,067**
9	**Cash and cash equivalents**		
	Cash at banks and on hand	**2,967,001**	**2,962,001**

10 Property plant and equipment – Group and company

	Leasehold Improvements	Plant & equipment	Furniture, fixtures & fittings	Motor vehicles	TOTAL
	$	$	$	$	$
Additions- at cost	317,000	323,836	305,989	441,545	1,388,370
Depreciation for the period	(84,418)	(100,003)	(72,415)	(50,728)	(307,563)
Net book value at 31 December 2012	**232,582**	**223,833**	**233,574**	**390,817**	**1,080,806**

		Group 2012	Company 2012
11	**Intangible Assets**	$	$
	Additions at cost	198,807	198,807
	Amortisation charge for the period	(34,534)	(34,534)
	Net Book Value: 31 December 2012	**164,273**	**164,273**

Intangible assets are represented by computer software which is being amortised over their economic useful lives of four years.

12 Investment in subsidiary

The Company holds a 100% interest in a Timor-Leste incorporated entity, TIMOR GAP PSC 11-106, Unipessoal, Limitada which dormant during the period to 31 December 2012

	Group	Company
The 100% interest held by TIMOR GAP E.P. was acquired by the Company in July 2012 at a cost of	-	**5,000**

Accounting policies and explanatory notes to the consolidated financial statements for the fifteen months ended 31 December 2012

13 Investment in associate

The Company holds an 60% interest in a Timor Leste incorporated entity, GAP MHS 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:

	$	
Current assets	1,159,387	
Non-current assets	316,341	
Current liabilities	(431,233)	
Equity	1,044,495	
Proportion of the Group's ownership	60%	
Carrying amount of the investment	**626,697**	
Revenue	2,280,293	
Cost of sales	(284,654)	
Administrative expenses	(835,289)	
Other inome	2,410	
Profit before tax	1,162,761	
Income tax expense	(123,266)	
Profit for the year (continuing operations)	1,039,495	
Group's share of profit for the year	**623,697**	
The 60% interest held by TIMOR GAP E.P. was acquired by the Company in July 2012 at a cost of		3,000

	Group 2012	Company 2012
14 Contributed capital		
The company is incorporated by virtue of Decree Law 31 of 2011, and is a 100% State owned entity.		
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
- 23 February 2012	500,000	500,000
	2,500,000	**2,500,000**

	Group 2012	Company 2012
15 Trade and other payables		
Trade payables	475,209	475,209
Other payables	125,496	125,496
Withholding taxes payable	141,725	141,725
Amount owed to associate company	3,000	3,000
	745,430	**745,430**

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 2012	Company 2012
				$	$
16	**Unearned contract fixed services fees and undisbursed advances**				
		Contract 2012/001	**Contract 2012/002**		
	Amount received to engage contractors to provide services	1,600,000	2,300,000		
	Amount received for contract fixed service fees	150,000	150,000		
	Representing 50% of the total project cost	1,750,000	2,450,000		
	Less: 4% withholding taxes deducted	(70,000)	(98,000)		
	Cash received during the period	1,680,000	2,352,000		
	Amounts disbursed to contractors during period	(883,024)	-		
	Contract fixed service fees earned based on the degree of completion of the projects	(86,233)	-		
	Withholding taxes being an advance payment of income tax	70,000	98,000		
	Unearned contract fixed service fees and undisbursed advances at 31 Dec 2012	780,743	2,450,000	3,230,743	3,230,743
17	**Related party transactions**				
	Compensation of key management personnel				
	Salaries and annual allowance			224,667	224,667
	Due to related parties				
	GAP MHS (Aviation) Lda			3,000	3,000
18	**Taxation paid**				
	Withholding tax deducted at source - Petroleum taxation regime			39,942	39,942
	Withholding taxes on contact fixed services - advance payment of income tax			168,000	168,000
				207,942	207,942

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.

Accounting policies and explanatory notes to the consolidated financial statements for the fifteen months ended 31 December 2012

19 Financial Instruments (continued)

b) Net fair value of financial assets and liabilities

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

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 as and when they fall due.

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

f) Categories of financial instruments

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

Financial assets	**Group**	**Company**
Trade and other receivables	1,009,067	1,009,067
Cash and cash equivalents	2,967,001	2,962,001
	3,976,068	**3,971,068**
Financial liabilities		
Trade and other payables	745,430	745,430
Unearned contract fixed services fees and undisbursed advances	3,230,743	3,230,743
	3,976,173	**3,976,173**

ANNEXURE 1

ACRONYMS

ANP	Autoridade Nacional do Petróleo (National Petroleum Authority)
BDU	Business Development Unit
BPD	Barrels Per Day
CBM	Conventional Buoy Mooring
CEO	Chief Executive Officer
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
GBU	Gas Business Unit
GIP	Graduate Internship Program
G&G	Geological and Geophysical
HFO	Heavy Fuel Oil
HSD	High Speed Diesel
HSE	Health and Safety Environment
ICAO	International Civil Aviation Organization
IFRS	International Financial Reporting Standards
ISBL	Inside Battery Limit
JPDA	Joint Petroleum Development Area
JV	Joint Venture
kbbl	thousand barrels (of oil)
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MAEOT	Ministério da Administração Estatal e Ordenamento do Território (Ministry of State Administration and Territorial Planning)
MAP	Ministério da Agricultura e Pescas (Ministry of Agriculture and Fisheries)
METOCEAN	Meteorological and Oceanographic
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)
MTPA	Million Tons Per Annum
NOC	National Oil Company
OSBL	Outside Battery Limit
PSC	Production Sharing Contract
QHSE	Quality, Health, Safety and Environment
R&PSU	Refinery and Petroleum Services Unit
RDTL	República Democrática de Timor-Leste (Democratic Republic of Timor-Leste)
SDP	Strategic Development Plan
SEC	Secretaria de Estado da Cultura (Secretary of State for Culture)
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)
SES	Secretaria de Estado de Segurança (Secretary of State for Security)
SPV	Special Purpose Vehicle
SSB	Suai Supply Base
TLEA	Timor-Leste's Exclusive Area

ANNEXURE 2

Training our People

The following are some of the courses that our staff members have attended during the period:

Information Technology Training

- Lotus Domino brown belt R8.5 and Lotus Support for IT Officer
- Windows Server 2008 Network training for IT Back Up
- Lotus Notes Training for All Staff, November 2012

Oil and Gas Industry Training

- Introduction to the Oil and Gas Industry for All Staff
- Petroleum Project Economics and Risk Management

Finance and Accounting System Training

- Purchasing Workflow ACCPAC System training, 27-31 August 2012
- Training on Job Costing for Finance Team, November 2012
- Training on ACCPAC and Norming Asset for 3 Finance staff in Jakarta

Conference

- ONS Conference, Oil for Development Program in Norway, 27-31 August 2012
- HR Global Excellence Conference in Malaysia, 28-31 October 2012
- 34th Geological Conference in Brisbane

HSE Department

- Two of staff from HSE department attended (1) week of International Technical Course in Oil and GAS Industry in Singapore .
- Undertook one day exam for achieving HSE training certificate in Singapore.

GIS & Database Department

- GIS & Database Manager with other Managers attended three days Effective Project Management Training in Jakarta. Provided by PT. Phitagoras Global Duta

Infrastructure Support Department

- Managers attended three days Effective Project Management Training in Jakarta. Provided by PT. Phitagoras Global Duta

Legal Department

- One week of Gas & LNG Contracts: Structure, Pricing & Negotiation Training in Malaysia. Provided by Infocus International

Conferences/Workshops

- 3 staff from HSE department attended 2 days workshop of “Management of HSE” in Dili. Provided by Norway (NPD) and ANP.
- 15 staff from all Unit attended “Half day workshop of “Policy of safety” Presented by Safety@work Consultancy from Singapore, in Dili – Organised by HSE department.
- 2 staff from Legal department attended 2 days workshop of “Issue Relevant to Auditing the Oil and Gas Sector” in Dili. Provided by Norway (NPD) and ANP.

In - House Training

- English Classes – advanced and basic
- Introduction to Oil and Gas Industry, provided by MDT International-Compulsory for all Staff BDU
- Petroleum Project Economics & Risk Management, provided by MDT International

- 5 staff attended this training (Trading Team, Project Economics & Finance Dept, and Legal team).
- MDT in-house training; Introduction to the Oil & Gas Industry and Petroleum Project Economics & Risk Management

Other meetings, workshops and conferences

- Effective Project Management training in Jakarta
- 1 Staff on Internship English Training (SERN/MPRM Program) Feb – Dec 2012 in India
- Contract Negotiation with Eastlog in Lamongan-Surabaya Indonesia
- 34th JCM & 11th SCM in Dili
- NPAP and ANP workshop on reservoir monitoring of mature fields and PSC
- Conducted one day seminar of SSB Project for public in Dili
- Contract Negotiation with Eastlog in Dili
- One day seminar of MPRM update in Dili
- Workshop on establishing HSE management system and safety culture
- Sunrise Technical first Workshop on drilling & completions – wells in Dili
- Out of Session Meeting with Australian Commissioner to the JPDA and Sunrise Commission in Canberra
- Sunrise Technical second Workshop on Subsea, flowlines, and TLNG - Offshore facilities in Perth
- Tri-lateral "Framing Workshop" on Sunrise Development in Melbourne
- 35th JCM & 12th SCM in Melbourne
- JDFSA 4th Steering Committee Meeting in Bali - Indonesia



Handover of certificates of training upon completion