January – December 2013

Annual Report

CONTENTS

President & CEO message

On behalf of the Board of Directors and Executive Committee of TIMOR GAP I am pleased to present the 2nd Annual Report of the national oil company. This report highlights many projects and activities that are being developed with a long term view. They are projects onshore and offshore Timor-Leste and in the downstream as well as upstream business areas. The Report addresses the main accomplishments of the Company for the 2013 period, following the beginning of TIMOR GAP's functioning last year.

As recently established, the Company maintained its focus on corporate institutional development, recruitment and professional development of staff, as well as on consolidating operations. More job opportunities were created, to ensure the maximum participation of Timor-Leste in the exploration and exploitation of the national petroleum resources.

The year saw for the first time TIMOR GAP's participation in upstream activities through the subsidiary TIMOR GAP PSC 11-106 in the very prospective offshore exploration block JPDA 11-106, next to Kitan oil producing field, in Timor Sea. The participation of TIMOR GAP marked the first ever direct Timor-Leste's participation in petroleum exploration in its history.

Our other subsidiary, GAP-MHS Aviation, which provides support to helicopter services for offshore operations, further developed its activities and investments.

TIMOR GAP is also taking the first steps for the onshore exploration of the country, through the establishment of a consortium to be composed by CPLP national oil companies.

Moreover, 2013 testified TIMOR GAP's continuing support for the extractive industries transparency initiative (EITI). We participated at major events such as the EITI global conference held in Sydney.

The Company is also working towards the creation of a network of retail fuel stations in the country to the establishment of a subsidiary for marine services.

Regarding the management of the mega project for the development of a national oil and gas industry, known as Tasi Mane Project, several phases of works were accomplished in 2013. This Project foresees the creation of three industrial clusters on the south coast of the country, launching Timor-Leste as a new player in the petroleum sector of the Southeast Asia region, where energy demand will continue to rise.

Furthermore, as a State owned company, TIMOR GAP greatly supports the government's aim of building a gas pipeline from the Greater Sunrise field located in Timor Sea to Beaço, as well as an LNG plant to process the natural gas onshore in Timor-Leste.

Similar to previous year, in 2013 the work of Joint Commission and Sunrise Commission continued. This ensured the supervision of petroleum activities in the JPDA and Greater Sunrise is maintained.

As the year finishes we feel a high sense of enthusiasm with the development of our young national oil company and with the achievements presented in this Report. And as we maintain our strategy and long term goals, we are confident that 2014 will bring even greater success. Although the global economy is still recovering, TIMOR GAP is fortunate enough to start developing operations in the continent with the most dynamic economy in the world.

Francisco da Costa Monteiro
President & CEO

Executive Summary

TIMOR GAP is the national oil company of Timor-Leste and is establishing itself in the petroleum sector of the Southeast Asia region and in an industry typically filled with the strong presence of global oil and gas players. TIMOR GAP's main goal is to conduct business in the exploration and exploitation of the petroleum resources in national territory, both onshore and offshore, where several foreign companies have been developing operations. There are currently two main fields producing in Timor Sea, Bayu Undan and Kitan.

It is also foreseen for the future that TIMOR GAP will engage in petroleum activities at an international level.

Below are highlights of the main activities in 2013:

- **Upstream** - preparatory works to develop upstream operations, including exploration activities through the subsidiary TIMOR GAP PSC 11-106, as the Special Purpose Vehicle (SPV) Company to work in a Joint Venture partnership with Eni and Inpex for an offshore block in the JPDA.

- **Business development** and management of several projects, including the downstream area.

- **Tasi Mane Project.** A continuing management and administration of the projects which include the building of the following three industrial clusters:

  1. The establishment of a supply base in Suai
  2. A refinery and petrochemical industry in Betano
  3. A pipeline from the Greater Sunrise field in Timor Sea and an LNG Plant in Beaço to process the natural gas onshore, and
  4. Assisting development of complementing infrastructures such as Suai Airport, Highway, and discussions of Suai, Betano, Beaço New Towns development.

- **Corporate institutional and professional development** – including continuous recruitment and training of staff.

An introduction to the projects, as well as their current status of development is available on Section 5 of this Report.

As the national oil company, TIMOR GAP also supports the government's goal to build a gas pipeline from the Greater Sunrise (Sunrise and Troubadour fields) located in Timor Sea to the south coast of Timor-Leste and to build a LNG plant to process the natural gas onshore in Beaço. This support is provided through advice and strategic studies to review and validate various development concepts for Greater Sunrise development, as well as TIMOR GAP's participation in the Joint Commission and Sunrise Commission, along with Government officials (see Section 6 for further information).

1 – TIMOR GAP

1.1 About the Company

The national oil company of Timor-Leste was created through Government's Decree-Law No. 31/2011 of 27 July: *"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 and offshore, within and 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 (…)"*

The Board of Directors and the Executive Committee are the main corporate bodies in the organizational structure of the Company.

Vision, mission and values

TIMOR GAP's vision, mission and corporate values guide the way the national oil company conducts business activities in the petroleum sector.

Our Vision: *"TIMOR GAP's vision is to be an integrated oil and gas company and a partner of choice"*

TIMOR GAP's vision is to be an integrated petroleum company, developing business operations in both upstream and downstream areas. Upstream operations include exploration and production activities to be carried out onshore and offshore Timor-Leste, both in the Timor-Leste Exclusive Area (TLEA) and in the Joint Petroleum Development Area (JPDA) in Timor Sea.

Furthermore, TIMOR GAP is assigned with downstream activities, including the storage, refining, processing, distribution and sale of petroleum and its by-products, including the petrochemical industry.

To achieve its vision, the company is building 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 economic 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 Board of Directors and Executive Committee

Board of Directors

The Board of Directors (BOD) is the highest body in TIMOR GAP, responsible for defining directions, policies and management. The President of the BOD was appointed by the Government body responsible for the petroleum sector, with the approval of the Council of Ministers. Since the creation of the company in 2011, the President of the Board, who is also the Chief Executive Officer (CEO) of the Executive Committee, is:

- Mr. Francisco da Costa Monteiro

The other nominated Board Members are:

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

Some of the main responsibilities of the BOD are:

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

Summary of important decisions taken in BOD meetings during 2013:

5th April 2013

- Approval for TIMOR GAP to enter into a Joint Operation Agreement (JOA) and Production Sharing Contract (PSC) with ENI and INPEX as joint venture partners and the Autoridade Nacional do Petróleo, for the JPDA area PSC 11-106 block.

- Approval of a Joint Cooperation Agreement with PTT International Company and Joint Trading Agreement with PTT Public Company, from Thailand.

28 October 2013

- Approval of capital injection for the establishment of the subsidiary company TIMOR GAP PSC 11-106.

2 December 2013

- Approval of the performance management policy and procedures for employees.

6th December 2013

- Appreciation of the CPLP (Comunidade dos Países de Língua Portuguesa) cooperation program, an initiative from the government for the establishment of a CPLP's NOC consortium for an onshore block in Timor-Leste.

- Approval of the 2014 work program and budget.

Executive Committee

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

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

- *Director of Corporate Service Unit:*
  Ms. Jacinta Paula Bernardo

- *Director of Business Development Unit:*
  Mr. Luís Martins

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

- *Director of Refinery and Petroleum Services Unit:*
  Mr. Vicente Pinto

- *Director of Gas Business Unit:*
  Mr. Domingos Lequi Siga

In the following section the members of the Board of Directors and Executive Committee of TIMOR GAP are presented.

Biography of Board of Directors and Executive Committee

Francisco da Costa Monteiro
President & CEO

Mr. Francisco da Costa Monteiro

Mr. Francisco Monteiro graduated in 2003 with a Master of Science (MSc) in Geology from Auckland University, New Zealand and was a PhD candidate in Petroleum Geology at the Australian School of Petroleum, in the University of Adelaide.

Mr. Monteiro has more than 11 years of work experience in the fields of geology, minerals, oil & gas, policy advocacy, as well as management and administration in the areas of petroleum and mineral resources.

Mr. Monteiro has been the President & CEO of TIMOR GAP, since its establishment in October 2011. He is also Timor-Leste's Commissioner for the Joint Petroleum Development Area (JPDA) since 2007 and Timor-Leste's Greater Sunrise Commissioner since 2008. In 2012, he was appointed by the Prime-Minister as a member of the Investment Advisory Board of the Petroleum Fund.

Past jobs:

2007- 2011	Executive Petroleum Adviser to the Secretary of State for Natural Resources, H.E. Mr. Alfredo Pires (now the Minister of Petroleum and Mineral Resources).
2008 – 2011	Board Member of Autoridade Naçional do Petróleo (ANP).
2005 – 2007	Representing the President of the Republic as the Member of Petroleum Fund Consultative Council advising the Parliament of Timor-Leste.
2003-2007	Natural Resources Adviser to the President of Republic, H.E Kay Rala Xanana Gusmão (current Prime-Minister of Timor-Leste).

Norberta Soares da Costa
Member of the Board

Ms. Norberta da Costa

Ms. Norberta Costa graduated from University of Coimbra, Portugal, with major in Geology in 2008. She has six years of experience in the areas of minerals, oil and gas, policy advocacy, management and administration in the fields of petroleum and mineral resources.

Currently Ms. Costa is the Director General for Corporate Service of the Ministry of Finance in Timor-Leste. She has been a Board member of TIMOR GAP, since October 2011, when the company was established.

Past Jobs:

2013 – 2014	Chief of Staff, Ministry of Finance, Timor-Leste.
2009 – 2013	Director for National Directorate of Geology and Mineral Resources, Ministry of Petroleum and Mineral Resources.
2008	Head of Geophysics and Geoscience, Secretary of State for Natural Resources.

Dino Gandara
Member of the Board

Mr. Dino Gandara

Mr. Dino Gandara graduated (Honour degree) from Trinity College Dublin, Ireland with major in Geology in 2004**.**

Mr. Gandara has worked in minerals and oil & gas geology for more than 9 years. Returning to Timor-Leste in 2008, he undertook geological field mapping of onshore hydrocarbon prospects with Dr. Tim Charlton from 2009 until early 2013, identifying 17 onshore prospects hydrocarbon in the last 3 years.

Mr. Gandara became country manager for the gas exploration company Minza Ltd (operating a Block in the Timor Sea) and is the company representative. Duties also included supporting seismic acquisition, environmental monitoring, drilling planning, advising on commercial contracts and liaising with the Regulator, the National Petroleum Authority, and other stakeholders.

He has also been a Board Member of TIMOR GAP, since October 2011.

Past jobs:

2010-2013	Country Manager Minza Limited – Representative of the company in Timor-Leste.
2008-2010	Minza Oil and Gas Limited – geoscientist, responsible for reconnaissance and geological mapping of Timor-Leste, as well as compiling geological information on both the JPDA and onshore Timor-Leste.
2006-2008	CSA Global Pty – geo consultant to multi-clients mineral companies in Australia.
2004-2006	CSA Group Ireland – geo consultant for multi-clients for minerals, oil and gas, environment, water projects in Ireland, UK, Norway and also 14 countries in the southern Africa Development Countries, SADAC.

António José Loyola de Sousa

Member of the Board

Mr. António Loyola de Sousa

Mr. António Loyola de Sousa graduated in 1998 with a Bachelor of Science Degree in Mining Engineering, from ITB, Bandung, Indonesia, Specialization in Rock Mechanics and in 2007 with a Master of Science of Petroleum Engineering degree, from NTNU, Trondheim, Norway – Specialization in Reservoir Engineering/Simulation.

Mr. Loyola de Sousa has more than 10 years of experience in the field of oil and gas and has specialization skills in Reservoir Engineering/Simulation, Geomechanics, management, politics and advocacy. He currently holds a position as Reservoir/Simulation Engineer, in North Sea Non Operated Assets, Subsurface Department, Premier Oil Plc, Aberdeen in Scotland, United Kingdom.

Mr. Loyola has also been a Board Member of TIMOR GAP, since October 2011. He is also one of the Timor-Leste's Commissioners for the Joint Petroleum Development Area (JPDA) since 2007 and Timor-Leste's Greater Sunrise Commissioner since 2008.

Past Jobs:

2012 – 2013	Reservoir/simulation engineer, UK and North Sea Business Development Department, Premier Oil Plc, Aberdeen, UK.
2010 – 2012	Geomechanics and Reservoir/Simulation Engineer Data Consulting Services (DCS), Exploration and Production Regional Center, Schlumberger, Pau, France.
2007 – 2010	Reservoir Engineer, Schlumberger Information Solution (SIS), Schlumberger, La Defense, Paris, France.
2003 – 2005	Junior Reservoir Engineer, Petroleum Management Unit, Petroleum Nasional Bhd (Petronas), Petronas Twin Towers, Kuala Lumpur, Malaysia.
2000 – 2003	Trainee and Officer, Timor Gap Joint Authority between East Timor and Australia, Darwin, Australia.

Luís M.G.R. Martins

Director, Business Development Unit

Mr. Luís Martins

Mr. Luís Martins gained his Bachelor Degree in Industrial Engineering from Winaya Mukti University and a Master Degree in Energy and Environmental Management and Economics from Scuola Enrico Mattei – ENI University, in Millan, Italy.

Mr. Martins has over 5 years' experience in both technical and management skills within the oil and gas sector under the Secretariat of State for Natural Resources (SERN) of Timor-Leste. Prior to joining SERN, he held managerial position at the UN Agency as well as other international organizations in the country. Currently he is the Director of Business Development Unit of TIMOR GAP, whose main responsibilities are to search and seize opportunities for the development of petroleum related industries and services.

Past jobs:

2009 – 2011	Project Economics and Business Development Analyst, Pipeline Task Force, SERN office.
2007 – 2008	National Facilitator, Training and Capacity Building, Support to the Timorese Electoral Cycle, UNDP.
2007 – 2008	Head of Industrial Engineering Department, Faculty of Engineering, Universidade da Paz, Timor-Leste.
2000 – 2001	Program and Project Officer, Rede Solidariedade Jesuita, Timor-Leste.
2000 – 2000	IT and Project Assistant, UNTAET, Office of Ministry of Education, Culture, Youth and Sport.

Domingos Lequi Siga Maria

Director, Gas Business Unit

Mr. Domingos Lequi Siga

Mr. Domingos Lequi Siga received in 2006 a Bachelor of Science Degree in Natural Resources & Environmental Management from University of Hawaii at Manoa, Honolulu, USA.

In 2008-2009, he was awarded a Fulbright Scholarship to pursue his Master's Degree in Energy Management where he graduated with Distinction from New York Institute of Technology, New York, USA.

Mr. Lequi Siga has over 6-years of experience in both technical and managerial skills within the oil and gas sector under the Secretariat of State for Natural Resources (SERN) of Timor-Leste.

Currently he is the Director of Gas Business Unit of TIMOR GAP, whose main responsibilities are to manage and coordinate all business activities within the field of natural gas including LNG, LPG and gas pipelines.

Past jobs:

2010 – 2011	LNG Project Coordinator, Pipeline Task Force, SERN office.
2007 – 2008	Director of Planning, SERN office.
2007	Director of Policy, Office of Ministry of Petroleum, Minerals and & Energy Policy.
2006	Research Assistant, Hydrology Department, University of Hawaii at Manoa, Honolulu, Hawaii, USA.
1999 – 2001	Language Assistant, UNAMET and UNTAET, Office of Maliana/Bobonaro District, Timor-Leste.

Vicente da Costa Pinto

Director, Refinery & Petroleum Services Unit

Mr. Vicente Pinto

Mr. Vicente Pinto graduated in 2010 with a Master Engineering degree in Oil & Gas Management from Asian Institute of Technology (AIT) Bangkok, Thailand.

Mr. Pinto has more than ten years of work experience as a public servant in the area of administrative and management in the area of petroleum and mineral resources. Mr. Pinto has been the Director for Refinery & Petroleum Services Unit of TIMOR GAP, since October 2011.

Past jobs:

2006 – 2008	Director for Geology and Minerals, Secretary of State for Natural Resources (SERN).
2002 – 2005	Director for Energy and Mineral Resources, SERN.
1997 – 1999	Public servant - as Field staff under Mining Department of Indonesian Government.

Vicente de Paulo Angelo Lacerda

Director, Exploration & Production and Supply Base Unit

Mr. Vicente Lacerda

Mr. Vicente Lacerda graduated in 2008 with a Master of Science degree of Petroleum Geosciences, specialization in Petroleum Geophysics from The Norwegian University of Science and Technology, Trondheim Norway.

Mr. Lacerda has 16 years of experience in the oil & gas industry in both technical and management skills. He started his career in 1998 as Officer - Geologist at the Regional Department of Mines and Energy in Timor-Leste, based in Dili.

Currently he is Director of Exploration & Production and Supply Base Unit at TIMOR GAP (since January 2012). His duties are to direct and coordinate exploration and production as well as supply base activities for TIMOR GAP, in consistency with the Decree-Law of Timor GAP, the Petroleum Act and all other relevant laws and regulations in place; to manage and supervise the functions and staff of the E&P and Supply Base Unit and manage and supervise the Unit's staff, with emphasis on goals, teamwork, motivation, established systems, and effective prioritisation.

Past jobs:

2008 – 2011	Geoscience Adviser to the Secretary of State, SERN.
2003 – 2005	Technical Officer – Exploration and Development of Oil and Gas, Timor Sea Designated Authority for the Joint Petroleum Development Area (JPDA), based in Dili.
2000 – 2002	Trainee and Technical Officer – Exploration and Development of Oil and Gas, Timor Gap Joint Authority for the ZOCA/JPDA, based in Darwin, Australia.
1998 – 2000	Teacher – Chemical Subject, Hera Politec and St. Joseph College Balide, Dili.
1998 – 1999	Officer – Geologist, Regional Department of Mines and Energy, Dili.

Jacinta Paula Bernardo

Director, Corporate Service Unit

Ms. Jacinta Paula Bernardo

Ms. Jacinta Bernardo graduated from Monash University, Melbourne, Australia with a degree in Business and Commerce, double major in Human Resources Management and Management, minor in Tourism Management.

She is currently working at TIMOR GAP as Director of Corporate Service since May 2012, with the main responsibilities of ensuring the effective and efficient delivery of corporate operations and has overall responsibility including all aspects of Financial Management, HR Management, Procurement, IT, Travel and Logistics and General Administration.

Ms. Bernardo has been working for more than ten years with some international development agencies such as the World Bank, International Organization for Migration (IOM), Australian Embassy and Oxfam International. She has experience in the areas of project management, financial management, procurement management, human resources management and general administration.

Past jobs:

2010 – 2012	Operations Analyst (Consultant) – World Bank Dili, Timor-Leste.
2003 – 2006	Office Manager – Australian Embassy in Timor-Leste.
2001 – 2003	Administration and Finance Officer – International Organization for Migration (IOM) Dili.
2000 – 2001	Logistics and Procurement Coordinator, OXFAM International, Dili.
1998 – 1999	Administration and Finance Assistant, Finance Department, Oe-cusse District.

1.3 Business Units

The Company develops its activities through a structure composed by the following five Units:

- Corporate Service Unit
- Business Development Unit
- Exploration & Production and Supply Base Unit
- Refinery and Petroleum Services Unit
- Gas Business Unit

Outlined below is a short explanation of each Unit's role:

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

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

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

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

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

1.4 Financial Overview

The audited Financial Statements are contained later in this Report, in the "Commentary on Financial Statements", Section 8, and have attached a detailed analysis of the period's results. In TIMOR GAP's Annual Report 2013, the results presented are for a period of 12 months and in line with the Government of Timor-Leste, the financial year end is 31 December.

The Company adopted International Financial Reporting Standards (IFRS) to ensure that the reporting is based on a well-recognized framework. Except as otherwise noted, the figures shown in this Report are stated in US dollars.

TIMOR GAP received a government grant of $4 million during the year ended 31 December 2013 (2012 - $1.8 million). Other income was derived from fixed contract service fees of $223,414 (2012 - $86,233), and the company began trading with wholesale fuel sales amounting to $3,710,179, and received income from the Hera Oil Terminal of $267,380.

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

Office and Units	US$	Remarks on the main expenses incurred during the period
President & CEO Office	1,570,414	Costs for strategic projects. Expenses related to the Board of Directors and Executive Committee meetings. Joint Commission and Sunrise Commission's meetings and negotiations. Consultancies and studies for reserve estimation (Greater Sunrise).
Corporate Service Unit	1,619,588	Expenses for the Company's recruitment process, advertisement, human capital development, investment in information, communication and technology infrastructure, Company assets, external annual audit fee, consultancy fees and general operational costs for the Company.
Business Development Unit	1,337,726	Feasibility studies, consultancies, expenses to support several business projects: floating receiving terminal, retail fuel stations, fuel supply to EDTL, Hera terminal, marketing of Bayu Undan (condensate lifting) and Kitan feedstock, tank farm/ Metinaro petroleum import terminal, marine services subsidiary, undersea cable.
Exploration & Production and Supply Base Unit	621,882	Project expenses: JPDA 11-106 project, Suai supply base project (land title clearance, study tour for community leaders and local authorities of Covalima district to the Lamongan shorebase in Indonesia and Kemaman supply base in Malaysia, as well as procurement for design-build contract, start-up construction), Timor-Leste onshore prospect study, CPLP onshore cooperation program, TLNG upstream, EKKN re-evaluation study.
Refinery and Petroleum Services Unit	417,923	Project expenses related to studies for the Betano refinery (condensate splitter plant) and fuel stations network.
Gas Business Unit	284,381	Studies for the projects of the marine facility, pipeline from Greater Sunrise gas field to Beaço, LNG plant to process the natural gas onshore in Beaço, pipeline highway study and marketing, and regular updates with the communities in Beaço.

Depreciation and amortization	377,627	Depreciation and amortization of property plant and equipment acquired, including leasehold improvements and computer software.
Total Expenditure for the period	6,229,541	

Budget breakdown per items - the main components of the 2013 Financial Year was related to the development and management of several projects, as detailed in Sections 3 to 6.

1.5 Extractive Industries Transparency Initiative (EITI)

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 petroleum resources, which are by far the greatest source of State budget revenue. The commitment of Timor-Leste and TIMOR GAP to transparency is demonstrated through the adherence to the Extractive Industry Transparency Initiative (EITI).

The **EITI** is a global coalition of governments, companies, and civil society working together to improve openness and accountable management of revenues from natural resources. More openness around how a country manages its natural resources, such as oil, gas, metals and minerals, helps to ensure that these resources can benefit all citizens. Timor-Leste was admitted in 2008 as a candidate to implement the EITI and became in 2010 an EITI Compliant Country, meaning that it meets all requirements in the EITI Standard.

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

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

National Legal Framework

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

The **Petroleum Fund** of Timor-Leste was created through the Petroleum Fund Law No. 9/2005, with the intention to contribute to the wise and sustainable management of the petroleum resources for the benefit of the people and also future generations. The Petroleum Fund contributes to sound fiscal policy and is to be integrated into the State Budget. The Fund is required to be prudently managed and operated in an open and transparent way, within its constitutional and legal framework. The Central Bank of Timor-Leste administers the Petroleum Fund and the Ministry of Finance is responsible for the overall management and investment strategy. The President & CEO of TIMOR GAP, Mr. Francisco da Costa Monteiro, is a member of the Fund's Investment Advisory Board.

The petroleum revenue management department of the Ministry of Finance provides advice on transparency and accountability in accordance with the EITI and participates, along with TIMOR GAP, as the State Owned Enterprise (SOE), in the national working group on the EITI.

Timor-Leste's government invited civil society and industry to nominate representatives to form a multi-stakeholder group (MSG) which 1st meeting was held in May 2007.

The then Secretary of State for Natural Resources, currently Minister of Petroleum and Mineral Resources (MPRM), H.E. Mr. Alfredo Pires, was designated focal point of the EITI process in Timor-Leste and chairs the MSG.

The MSG holds monthly meetings, bringing together representatives from the government (MPRM, ANP, Central Bank of Timor-Leste, Ministry of Finance), petroleum industry including TIMOR GAP as the State Owned Enterprise, civil society and international organizations. The MSG has as objectives to develop the EITI plan of activities, monitor progresses, share ideas, discuss, evaluate and also accompanies the overall EITI decision making. This is to ensure that the implementation of the EITI in Timor-Leste is achievable and in line with international standard requirements.

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

Timor-Leste is proud to be the 1st country in Southeast Asia and the 3rd in the world to achieve the status of EITI Compliant Country.

In June 2012, six months after it began operations, TIMOR GAP became one of the few national oil companies supporting the EITI.

The President of TIMOR GAP addressing the audience at the Global Conference in Sydney.

TIMOR GAP participated with a high level representation in the EITI global conference held in Sydney from 18 to 23 May 2013. In this 6th EITI global conference, the new EITI Standard was agreed and launched, ensuring even more transparency. The conference in Sydney focused on how the EITI is leading to change in the 39 implementing countries, among these Timor-Leste.

1.6 Quality, Health, Safety and Environment (QHSE)

Among TIMOR GAP's major concerns are the protection and promotion of health, safety and environment (HSE), as well as ensuring a high level of quality, and social responsibility. These concerns shape the way the State oil company conducts its business and activities and how it relates to people and communities. Therefore, the projects managed and developed by TIMOR GAP, namely the Tasi Mane Project, are based on studies that assess potential impacts to the environment and communities.

Environmental impact assessments (EIA) have been carried out through TIMOR GAP and partners, with the objectives to identify, predict, evaluate and mitigate biophysical, social and other relevant potential impacts of projects. An EIA determines the positive and negative changes to the environmental and social parameters.

A strategic environmental impact assessment (SEIA), is a 1st step in assessing environment effects. In support of the development of the national petroleum industry, that TIMOR GAP is managing, one of the main studies conducted was a SEIA in 2012 for two industrial clusters: the refinery and petrochemical complex in Betano, and the Beaço LNG plant.

The project of the Suai supply base, which will be the 1st industrial cluster to be built and that had more detailed information available, produced a comprehensive EIA.

Integral to TIMOR GAP's studies and 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 processes conducted and participated by TIMOR GAP involved much time and efforts for stakeholder **consultations** and "socializasaun" in the three south coast project areas of Tasi Mane: Suai, Betano and Beaço. Consultation with the communities living on those areas and contacts with district, subdistrict and local village leaders continued in 2013 under the guidance of the Ministério do Petróleo e dos Recursos Minerais (Ministry of Petroleum and Mineral Resources).

The objective was to inform people and ensure that the projects were understood by local communities, benefits highlighted and concerns addressed.

After the studies were completed, TIMOR GAP submitted the EIA for the supply base and the SEIA for the refinery and LNG 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.

In 2013, the environmental license for the Suai cluster (supply base and airport) was granted.

HSE Development within the Company

In 2013, TIMOR GAP initiated works in drafting the rules, regulations and procedures on HSE, including draft TOR for the HSE management system. HSE policy and procedures are in progress and considered very important, as one of the main requirements to operate in the oil and gas area. In addition, some basic HSE equipment was purchased to assist the TIMOR GAP's ongoing projects implementation.

Presentation on safety at work

Since 2011, TIMOR GAP has sent several employees to attend HSE trainings abroad. The aim is to increase and enhance their awareness on HSE issues in order to improve work efficiency. The trainings addressed issues as basic health safety, development of an emergency response plan, safety audit and others.

It was presented ISO 14001:2004, ISO 9001:2008 and OSHAS 18001:2007, requirements for a quality management system (International Organization for Standardization).

In the interim, TIMOR GAP has initiated some temporary measures to monitor and report on accidents and incidents occurred in the Company's activities.

2 – Our People

2.1 Corporate institutional development

In these first years of activities, TIMOR GAP is committed to continually enhance and develop skills and capabilities of its employees. As a recently established company, the corporate institutional development of TIMOR GAP is of utmost importance. During 2012, several policies were approved, forming the ground for corporate development and covering vision and mission statement, employment, finance, procurement and other main issues.

TIMOR GAP has to ensure that employees are skillful and prepared to manage the development of the national oil and gas industry. Therefore, the company's human resources are constantly progressing through the development of programs and trainings in several areas of the petroleum industry, in an effort that was consolidated in 2013.

Capacity developments and on the job trainings are also being provided through the secondment of staff to international oil and gas companies, as well as by means of cooperation programs as for example the one undergoing with PTT Thailand, consultant JP Kenny, Toyo-Thai consultant, ATT, etc. Others are being envisioned, with Galp Energia from Portugal, Pertamina, ENI and Royal Dutch Shell.

2.2 Human resources professional development

In 2013, the Company's number of employees continued increasing. Having started with 22 people in early 2012, by the end of that year the number of employees had risen to 71.

Moreover, in a wide and competitive selection process that commenced in March 2013, TIMOR GAP went through a major recruitment, in which the number of interested applicants for all the positions advertised was around 1,200.

By December 2013, the total number of employees in the Company increased to 95 with a gender breakdown of 69 males and 26 females.

From a total of 95 employees, currently, TIMOR GAP's staff comprises:

- 36 engineers and technical staff
- 13 administration and support staff
- 9 petroleum engineers
- 8 geologists
- 4 finance staff
- 4 HSE staff
- 4 advisors for the President & CEO
- 3 geoscientists
- 3 project finance staff
- 3 trading staff
- 2 legal staff
- 2 procurement staff
- 2 information technology staff
- 2 international consultants.

Employees are essential resources required for the achievement of the Company's mission. Their motivation and dedication are fundamental elements for the growth and success of the national oil company. TIMOR GAP provides employees with opportunities to attend training courses in order to continuously improve their skills, performance and enhance knowledge not only in their specific areas of expertise, but also in the overall oil and gas industry.

Similar to 2012, throughout 2013 various training courses were attended by employees, in-house and abroad. There were also secondments of staff to other companies and attendance to several workshops and conferences, as detailed below.

In-house training

- Well site geology.
- Health, Safety and Environment (HSE), by St. John Ambulance of Northern Territory, Australia.

Training on HSE from St. John Ambulance

- Pipeline free span, JPK.
- Geotechnical 3-D Plaxis for civil and structural engineering designs.
- Basic and advanced flow assurance with OLGA software, provided by Schlumberger Australia, Pty Ltd.
- **English classes** – in basic and advanced levels.
- **Portuguese classes** – Portuguese classes started this year, divided into basic and advanced levels, to improve the fluency on the second official language of Timor-Leste.

Workshops

- Technical workshop on the Greater Sunrise field, 17 January 2013, Dili, TIMOR GAP Office.
- EXCITOS workshop on SAP software, Dili, 17 – 24 April 2013.
- IFRS for Oil & Gas industry workshop in Dubai, 13 – 16 May 2013.
- Marine facility FEED workshop, 10 – 12 June 2013.
- Workshop on joint cooperation between Shell and TIMOR GAP, Dili (TIMOR GAP Office), 11 July 2013.
- Maritime Boundary Delimitation, Singapore, 25 – 27 September 2013.
- EITI Regional Workshop in Jakarta, 2-5 December 2013.
- Oil terminal safety awareness seminar.
- Workshop on crocodile management, Dili.

Courses and Training

- ACCPAC and Norming Asset training in Jakarta, 4 – 15 February 2013.
- English Business Course in Singapore, 7 - 29 March 2013.
- Well drilling and engineering course, 18 – 20 March, Kuala Lumpur, Malaysia.
- International financial reporting standard (IFRS) course in Malaysia, 18 – 22 March 2013.
- Logistic management training in Bandung, 19 – 22 March 2013.
- English Business Course in Singapore, 4 – 24 April 2013.
- GIS Tools and Functionality Training (ESRI Singapore), 20 April – 1 May 2013.
- Safety training, Jakarta and Bandung, 19 May – 6 June.

QHSE Training

- Training on Basic Health & Safety, Emergency Response Plan, HSE Management system, Safety Audit and ISO 9001, Jakarta and Bandung, 20 May - 13June 2013.
- LNG and gas contract negotiation, Jakarta, 20 – 22 May 2013.
- Contract management for oil & gas procurement professional training, Malaysia, 24 – 26 June 2013.

- Plaxis 2D application, Yogyakarta, Indonesia, 24-28 June 2013.
- Natural gas transportation training, Malaysia, 19-30 August 2013.
- Lotus Domino Brow Belt R8.5 & Lotus Notes Support R8.5 Training in Jakarta, 2 – 12 September 2013.
- HRM and Payroll Administration System, Jakarta, 30 September – 8 October 2013.
- International Oil Trading & Price Risk Management & Advance Price Risk Management in Singapore, 7 – 11 October 2013.
- Travel Business Management in Bandung, 22 – 24 October 2013.
- Basic Accounting Course in Jakarta, 18 – 23 November 2013.
- Warehouse Management training in Jakarta, 19 – 21 November 2013.
- MBA, financial modeling with excel, Singapore, 18-22 November 2013.
- Leadership and team dynamics in oil and gas, Kuala Lumpur, Malaysia, 25 – 27 November 2013.
- Petroleum project economics and risk analysis workshop, Bali, 25-28 November 2013.
- Modern Office and Filling System Training in Jogjakarta, 2 - 4 December 2013.
- Corporate Communication, Modern Office, Administration and Filling System, and Effective Report Writing Technical in Jogjakarta, 16- 27 December 2013.
- Financial Analysis and Reporting for Staff in Jogjakarta, 15 - 18 December 2013.

Conferences

Conference is an event from which industries experts gather and share experience, knowledge, technology applications, research and developments findings, etc. TIMOR GAP's participation in these events is necessary not only for purpose of gaining knowledge from other industry experts but also, perhaps most importantly, for networking. Selected employees with managerial roles were provided the opportunity to participate in various international conferences during the year of 2013:

- SEAPEX (South East Asia Petroleum Exploration Society) conference, Singapore 8 – 11 April.
- Offshore Technology Conference, Houston, USA 6 – 9 May 2013.
- EITI Global Conference 2013 in Sydney, Australia, 22 – 25 May.
- Indonesia's oil and gas partnership program, 9 – 22 June 2013.
- Piling and Deep Foundation, Sydney, Australia, 26-28 November 2013.

Secondments and on-the-job-training

With the aim to offer international professional experiences to employees and strengthen their technical know-how skills, TIMOR GAP through its international business partners provides secondments and job placement programs for some of its employees.

Last year, two employees were placed in PTT Global Chemical Public Company in Thailand (for 2 years) - secondment in Map Ta Phut Refinery operations, which is ongoing (estimated completion mid-2014). During the secondment terms, they would closely assist the operations and maintenance of the refinery.

Several other employees were also placed at the Bangkok office of the consultant Toyo-Thai (for 4 months, starting in March and August 2013) focusing on project control, process engineering, cost estimation. This on-the-job training is part of local development clauses regarding the FEED for the Betano refinery project.

A classroom training scheduled in Dili was also part of this local development provision (project management and earthquake design). It was delivered by Toyo-Thai, focusing on the FEED for the refinery, from 22 – 23 April 2013.

There was also secondment of staff at ATT consultant office in Bangkok, for 4 months, directed to land development issues, civil and coastal engineering, cost estimate, water management and site selection.

As mentioned before, other secondments are being envisioned, with Galp Energia from Portugal and Royal Dutch Shell.

Study Leave

TIMOR GAP also allows its employee to undergo further studies as a professional development option. Study Leave is therefore conceded with the purpose to enable an employee to pursue a course of studies which will improve its potential to contribute to the Company in the future. Currently two of our staff members are on Study Leave:

- For a Master of Geosciences – Reservoir Characterization at Tulsa University Oklahoma, USA.

- For a Master of Petroleum Engineer at University of Massachusetts, USA.

2.3 Human Resources Policies

Performance Management

The Performance Management Policy for staff is a requirement of TIMOR GAP's Employment Policy and began to be drafted in 2012, with the purpose to:

- review employee's work performance
- determine the quality of service, recognize achievements
- identify learning and development needs
- ensure the achievement of individual objectives, linked to organizational objectives.

The Performance Management Policy and Procedures for Employees and the Contribution (Performance) Agreement were approved in 2013 and will be implemented in 2014.

This Policy is applicable to all TIMOR GAP employees on full time contracts and covers objectives and key performance indicators (KPIs) for certain work periods. It provides feedback and helps to identify and plan staff development needs and employees' KPIs, which are measures used to review individual and organizational progress, regarding its goals.

Talent Management Strategy

The Company's vision and mission required a Talent Management Strategy, in order to capture, develop, retain and multiply the best talent in Timor-Leste. In 2013, TIMOR GAP concluded that a human resources development project was necessary to define a Talent Management model that will allow for:

• The clarification and standardization of the Company's functions;

• The definition of key competencies needed to operationalize TIMOR GAP's vision and mission;

• The definition of the performance management model to be implemented, reinforcing a meritocratic culture.

It also aligns business strategy with the company's human capital development.

Competency Model

The business strategy and corporate culture determine critical competencies for performance success. Competencies are the knowledge, skills, abilities and behaviors associated with top performance in a job. TIMOR GAP recognizes the key competencies for performance (leadership, strategic, personal, and professional) and those that will enable a sustainable growth. These measurements can assist hiring, promotion and decisions and guide training and development efforts.

The competency model is useful to compare employee profiles and skill regarding job requirements.

Career Development Model

The competency model is helpful for recruiting and deploying people and also provides structure to career progression. By considering the results from the competency assessment, it is possible to manage more efficiently the career development of employees and plan their progression towards a next new role within TIMOR GAP.

3 – Upstream

3.1 TIMOR GAP PSC 11-106 Unipessoal Lda

TIMOR GAP was created with the main intention to participate in the development of Timor-Leste's petroleum resources. The Company's activities of exploration and production (E&P) are to be carried out onshore and offshore, in Timor-Leste Exclusive Area (TLEA) as well as in the Joint Petroleum Development Area (JPDA). Both Areas are located in the Timor Sea, however the JPDA is jointly administered by Timor-Leste and Australia.

The Law No. 13/2005 on Petroleum Activities, the Petroleum Mining Code (JPDA) and the Production Sharing Contracts (PSC) require the establishment of a Special Purpose Vehicle (SPV) company for entering into a PSC.

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

The First PSC of TIMOR GAP

On the memorable date of 13th April 2013, TIMOR GAP signed its first PSC, through the subsidiary TIMOR GAP PSC 11-106, to begin exploration offshore in the JPDA, with the Italian ENI and the Japanese INPEX as JV partners and the regulator National Petroleum Authority (ANP).

In the JV partnership, TIMOR GAP's subsidiary has a share of 24%, which is a good starting point for the capacity levels of the national oil company and as well a symbolic number, marking the number of years of Timor-Leste's struggle for independence. ENI, the operator, has a share of 40.53% and INPEX 35.47%.

The contract area to be explored is located approximately 240 km south of Dili and 500 km northwest of Darwin, covering an area of 662 sq km adjacent to the Kitan oil-producing field and lies in an average water depth of 350m.

The JV partners for the PSC 11-106: TIMOR GAP, ENI and INPEX

The Kitan field started production in October 2011 and is also operated by ENI. The Kitan field is being produced through deep water subsea completion wells connected to an FPSO (Floating Production Storage and Offloading) facility and reached peak production of about 40,000 bopd.

The PSC 11-106 JV is committed to drill two exploration wells during the first two years of activities and has separate options for two contingent wells.

The JPDA 11-106 project will principally focus on a study of already proven but unproduced reserves at Jahal, Kuda Tasi (+/- 20MMbbls), Squilla and Krill fields, with the concept of eventual production by tie-in to Kitan facilities.

The reassessment of the greater JPDA 11-106 area, using all available seismic and well data, may reveal further potential drilling locations. Exploration will be focused on the assessment of the Jurassic plover sandstone reservoir and on a review of fault trap integrity, which is essential to exploration in this region.

Signing ceremony of the new PSC 11-106: TIMOR GAP, JV partners and ANP

The joint operating agreement (JOA) was signed on the 23rd October 2013 (effective date of PSC).

The 1st OCM/TCM was held in Perth on the 27 and 28 of November, and included work program and budget discussions, updates on technical work, prospects and drilling program (possible drilling in Q4 2014).

3.2 Timor-Leste Onshore Prospects Study

In 2013, a geological assessment to define potential exploration targets onshore Timor-Leste was undertaken. The assessment included field mapping and photo geological interpretation, combined with the interpretation of previous onshore drilling results and a literature review.

The study also included the examination of rock outcrops and surface topography by means of short traverses in the target area for evidence of any significant high angle strike slip faulting occurring in the area.

This assessment was carried out between TIMOR GAP and the University of Western Australia (UWA).

Onshore exploration - field trip with UWA

The onshore geological mapping with UWA Professors, was undertaken from 3-18 November, covering the following areas: Soibada (Sahen river), and lab work at Hera, as well as the Culocau river at Barique and Vemasse. The final report was presented by the end of the year.

Field trip to Same - Aitutu formation exposed between Ainaro and Same road

Also, following our prospectivity plan, in early 2013 the Company's geologists went to several districts to engage in preliminary geological surveys, in order to obtain a better understanding of the petroleum source and stratigraphy of the Permian, Triassic and Jurassic within the onshore Timor-Leste.


Field trip - sample observation during onshore field trip


Stratigraphic logging in Sahem River by TIMOR GAP's field geologist

Pictures of activities from E&P


Field mapping of the Wailuli Group (Sahem River) by TIMOR GAP's field geologist


Sample collection and observation during onshore field trip


Acetate peel preparation on field by TIMOR GAP's geoscientists

Laboratory analysis of field samples at Hera laboratory

Onshore exploration- field trip with UWA

3.3 CPLP consortium for onshore exploration

TIMOR GAP, following instructions from the government, in coordination with ANP, presented to the several national oil companies of the CPLP (Comunidade dos Países de Língua Portuguesa) a proposal for the establishment of a CPLP consortium onshore Timor-Leste.

With President of GALP Energia – CPLP Consortium

In 2013, contacts and discussions were held to pursue the implementation of this cooperation program for joint exploration and production. TIMOR GAP then prepared a data package with onshore data to share with the CPLP oil companies.

Delegation of TIMOR GAP and ANP meeting with GALP Energia on CPLP Consortium

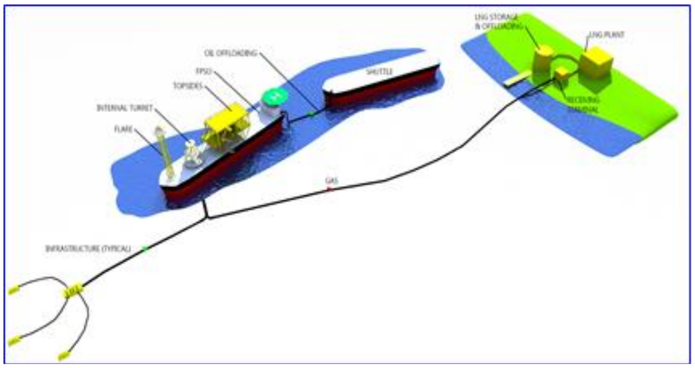
3.4 Other Upstream Studies

Timor LNG Upstream

In 2013, a strategic study for review and validating the concept for Greater Sunrise upstream development was commissioned.

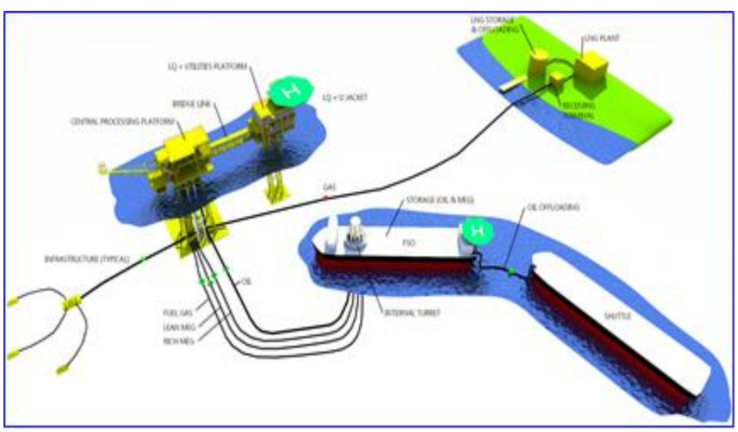
The key objective of the study is to provide an independent cost estimate for the development of the TLNG upstream, to assist in the assessment of previous work undertaken by Sunrise project proponents.

The study also aims to support TIMOR GAP in particular and Timor-Leste in general in the assessment of alternative upstream development concepts for the Greater Sunrise fields.



TLNG upstream facility for Greater Sunrise - FPSO option

Furthermore, it intends to provide a comparative costing (+/-50%) of the upstream options, in advance of more detailed front-end engineering studies that are essential to develop a class 2 (+/-30%) cost estimate.



TLNG upstream facility for Greater Sunrise - CPP+FSO option

The study is focused on the cost and weight estimation of the upstream production facilities associated with the mentioned fields. It presents two options for the TLNG development concept, subject to further confirmation in the subsequent study:

1. FPSO (Floating Production, Storage and Offloading).
2. Fixed platform (CPP = Central Processing Platform) + FSO (Floating, Storage and Offloading).

The preliminary results and conclusions of the study show that the fixed platform and FSO option is technically more preferable than the FPSO option. :

EKKN re-evaluation study

The EKKN fields complex (Elang, Kakatua and Kakatua North) are located in the JPDA. It commenced production in July 1998 and the production was shutdown in September 2007. A study is to be conducted on a petrophysical and production review of wells in these fields, concentrating on the Jurassic Plover reservoir to ascertain if significant further production can be obtained using EOR techniques.

TIMOR GAP believes that sufficient reserves remain in the field and possibly within the adjacent Elang West structure, justifying the implementation of an Improved Oil Recovery project to drain the field of its remaining producible oil.

During 2013, the EKKN review presentation material and data package was completed. Further EKKN data assessment and review is planned for the future with potential partners' engagement.

Cooperation with Shell

TIMOR GAP hosted a workshop with Shell in 2013, on the possibility of cooperation in the Timor-Leste's Exclusive Area (TLEA).

Discussions with Shell

Presentation by Shell

4 – Business Opportunities and Partnerships

4.1 Projects highlights

With the creation of TIMOR GAP, the responsibilities concerning business activities in the oil sector were transferred to the State owned company. Since 2012, with the V Constitutional Government, the company is under the supervision of the Ministry of Petroleum and Mineral Resources (MPRM).

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

During 2013, TIMOR GAP managed several projects and studies, some in continuation from last year and other new ones:

- Hera floating receiving terminal.
- Fuel supply to EDTL.
- Retail fuel stations.
- Marketing of Bayu Undan (condensate lifting).
- Condensate splitter plant (refinery).
- Metinaro petroleum import terminal/tank farm.
- Marine services subsidiary.
- Undersea cable feasibility study.

Hera floating receiving terminal

In order to secure the necessary petroleum products supply to fulfill the national demand, TIMOR GAP is endeavoring to make available a receiving and storage terminal for these products.

Several studies were therefore conducted for this purpose:

- Hera baseline environmental scoping study.
- Hera bathymetric survey.
- Hera metocean study.

In 2013, TIMOR GAP in cooperation with Isar Multi Guna (IMG), a subsidiary of IAHC, was able to set up a conventional buoy mooring (CBM) with floating hose facilities to enable a direct delivery of fuel to Hera power plant.

Soft launching of the Hera fuel terminal – 9 May 2013

In April 2013, the installation of the floating receiving terminal was completed and in June 2013, the 1st fuel cargo was delivered to EDTL.

TIMOR GAP facilitated the fuel discharge in EDTL Hera by the supplier/operator, which used the Company's terminal facility.

Retail fuel stations

TIMOR GAP is planning to set up a network of retail fuel stations, to be located on each of the 13 districts of the country.

One of the possibilities is to develop this project with Pertamina, from Indonesia. The two state owned companies are exploring the possibility of cooperating in the oil and gas business sector in Timor-Leste, and specifically in downstream activities (fuel stations).

Site survey and placard installation for the fuel stations

It was anticipated that in 2013, environmental studies would be required for the development of the retail fuel stations.

Refinery Project Development

TIMOR GAP and PTT International Company from Thailand jointly conducted a detailed study for the establishment of a condensate splitter plant in Timor-Leste. The study was based on the commitments of TIMOR GAP and the Government of Timor-Leste for the building in the country of a refinery with a capacity of up to 30,000 bpd.

Signing ceremony of the Joint Trading Agreement and Joint Cooperation Agreement between TIMOR GAP and PTT

In February 2013, TIMOR GAP signed a Joint Cooperation Agreement with PTT International. Both companies are working on the Front End Engineering Design (FEED) study for Betano refinery, domestic and international marketing study, and other related studies.

A feasibility study report will be prepared, to support the creation of a JV company to implement the project.

Marketing of Bayu Undan (condensate lifting)

TIMOR GAP also signed a Joint Trading Agreement with PTT Public Company in order to jointly lift and market the equity share of the Government of Timor-Leste from Bayu Undan and Kitan fields.

Timor-Leste is entitled a combined total lifting volume of ±6,750,000-10,000,000 barrels per annum (bpa) (2013) from the mentioned contract areas. TIMOR GAP intends to market and sell Timor-Leste's government share of crude oil from these PSCs.

JPDA offshore service tender

TIMOR GAP participated on several offshore services tenders for the JPDA area, both for the Bayu Undan and Kitan fields, which are operated respectively by ConocoPhillips and ENI/Bluewater. On October 2013, for the 1st time the ConocoPhillips qualified TIMORGAP to be eligible to bid and be part of the vendors list (for general goods and services).

On December 2013, TIMORGAP in consortium with Siglar and SDV Timor-Leste, submitted a technical and commercial proposal to ConocoPhillips for a subsea and pipeline survey. In addition, TIMORGAP and its partners also participated in other offshore tenders, such as for supply vessels or transportation, proprietary offshore corrosion resistant products and related services for the Bayu Undan facility.

Metinaro petroleum import terminal/tank farm

Several studies were conducted for this purpose:

- Metinaro bathymetric survey.
- Metinaro metocean study.
- Metinaro petroleum import terminal concept study.
- Regional Wave Model for Timor-Leste.

In order to ensure national fuel security, TIMOR GAP undertook in 2013 a feasibility study for a tank farm, to be located in Metinaro.

This project from TIMOR GAP is also known as national stock reserves.

The study anticipates for the possibility of reserve of several products and it is expected a capacity of 50,000 MT for diesel and about 30,000 MT for gasoline. It is also anticipated that this will be a large reserve (sufficient for 90 days).

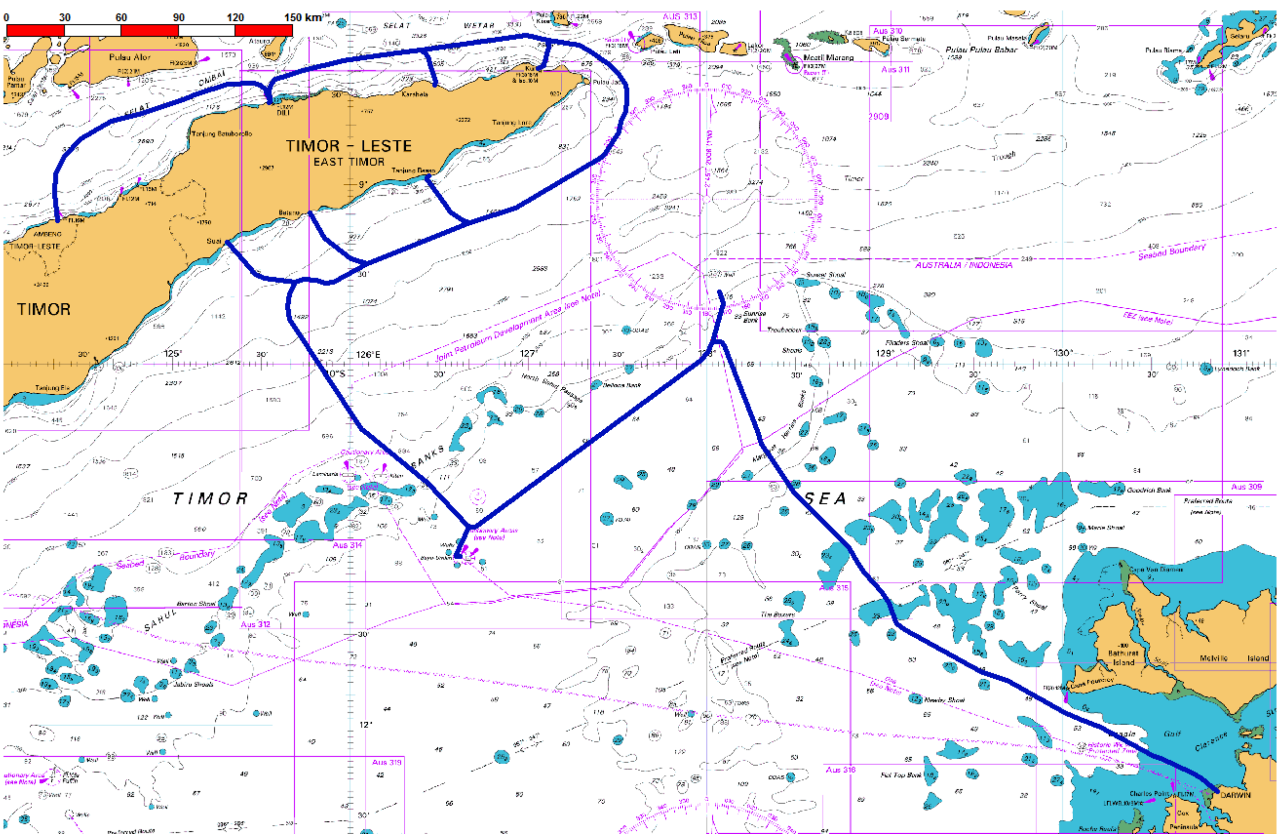
Marine Services Subsidiary

TIMOR GAP is preparing the creation of a subsidiary for the provision of general services for the marine industry and to render logistic and support services to the petroleum industry operating in the Timor Sea, Timor-Leste and elsewhere.

TIMOR GAP is exploring the possibility to form this marine company (petroleum service vessel) as a JV with a potential partner with vast experience in developing marine support operations for the oil and gas sector.

Petroleum Undersea Telecommunication Cable Study

The project for the undersea telecommunication cable is intended to enable a speedy telecommunication using fiber optic to connect potential platforms in the JPDA with



The undersea cable route, from Darwin to several landing points in Timor-Leste the fiber optic system in Australia. The study ensures that Timor-Leste could be connected as an extension from the lines reaching the platforms. When connected, the three (3) petroleum hubs in the South Coast and the rest of the Country will have access to high speed internet connectivity.

The underwater cable route and feasibility study for the submarine fiber optic cable system was then carried out, addressing also the impact of environmental and anthropogenic factors on the cable routing, as well as engineering, installation and maintenance aspects.

4.2 Subsidiary Companies

TIMOR GAP's subsidiaries refer to other companies over which it has control, either directly or indirectly. In 2012, TIMOR GAP created two subsidiaries in order to be able to conduct specific business activities in partnership in the petroleum sector and related services. The Company and its subsidiaries can form consortia or other forms of joint ventures (JV).

The Consolidated Financial Statements (Section 9) consolidate the financial statements at TIMOR GAP and its subsidiary and associate.

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

TIMOR GAP constituted the following two subsidiary companies last year:

1. GAP-MHS Aviation Lda, that provides support for helicopter services for offshore operations.

2. TIMOR GAP PSC 11-106 Unipessoal Lda, to participate in the petroleum exploration and production of a block in the JPDA.

In 2013, preparatory works commenced for the creation of a 3rd subsidiary, to provide marine support services.

GAP-MHS Aviation Lda

GAP-MHS Aviation Lda was incorporated on 26 June 2012. The company is owned by TIMOR GAP (60%) and MHS Aviation (TL) Lda (40%).

GAP-MHS Aviation Lda

MHS Aviation is a subsidiary of Malaysian Helicopter Services (MHS) Aviation Berhad, which is specialized in oil and gas aviation support operations.

GAP-MHS Aviation concentrates in offshore oil and gas aviation support operations, provides rapid transit from the capital Dili to the projects on the south coast, and plans to include general aviation activities in the future. This will include communication flights, medical evacuation and tourism flights.

During 2013, GAP-MHS operated regular flights: for Bluewater 3 flight per week and for ENI a daily flight, excluding weekends.

On the 8 November 2013, a meeting was held relating to ENI's drilling campaign for the 2nd Kitan field (discussion of 3-month contract).

The company GAP-MHS Aviation started with 28 international and local staff, and has currently 59 people, from which 65% are Timorese (37) and 35% expats (22).

Training and courses on aviation industry were conducted in 2013, in a practice consistent with the objective of knowledge and technology transfer to local entities. This is also in line with the local content's agreement with the contractor, Autoridade Nacional do Petróleo (ANP) and Timor-Leste government.

Staff Secondments:

- August 2013 - three pilots went for Asia Pacific pilot training in Malaysia (minimum six months).
- Two engineers are currently in MIAT, Kuala Lumpur (4 years).

5 – Development of the National Petroleum Industry - Tasi Mane Project

Tasi Mane is an essential project for Timor-Leste, envisioned in the Government's Strategic Development Plan 2011-2030, which identifies the careful management of the petroleum sector as a basis for the nation's sustainable development. Tasi Mane comprises the development of a national petroleum industry that will provide direct economic benefits from Timor-Leste's natural resources, including job creation in the oil sector as well as in related services and businesses.

TIMOR GAP was mandated by the Government to manage and administer this project, and the Company will support the creation of industries and the development of the necessary human resources to operate efficiently the petroleum sector.

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

1. The Suai Supply Base.
2. The Betano Refinery and Petrochemical Industry.
3. The Beaço LNG plant.

For each site there are additional facilities planned, including new towns to accommodate the workforce and relocated local residents. It is also intended to upgrade existing airstrips.

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 (Suai-Betano-Beaço).

Conceptual map of the Tasi Mane project

This mega project involves the establishment of core infrastructures on the south coast of the country and will contribute to the transformation of the country's economy into one based in a national petroleum industry with a dynamic private sector.

The Government of Timor-Leste is the proponent of the Suai supply base, the 1st stage of the Tasi Mane project. However it is expected that the development of the petroleum refinery in Betano and of the LNG plant in Beaço will be commercial ventures operated by commercial companies.

In what concerns the legal framework, 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.

5.1 Suai Supply Base

The infrastructure of a logistics marine supply base in Suai, located in Camanasa, district of Covalima, is the 1st stage on the implementation of the Tasi Mane Project. The supply base will support all offshore and onshore petroleum activities in Timor-Leste's Exclusive and Joint Petroleum Development areas, as well as industrial logistics' services. It will also be an entry point for the materials requested to build the other two planned clusters on the south coast, in Betano and Beaço.

TIMOR GAP was mandated to manage and administer the Suai supply base project on behalf of the government (Ministry of Petroleum and Mineral Resources). The budget for the construction of this project is directly funded through the Government Infrastructure Fund overseen by the Concelho de Administração do Fundo de Infraestruturas (CAFI).

The Front-End Engineering Design (FEED) of the supply base was concluded in 2010 and consists of land and marine facilities, including in summary:

- **Land facilities** **-** port buildings, warehouses, fuel tank farm, water storage tanks, waste management, parking areas, recreational and community facilities, and others.
- **Marine facilities** **-** comprising three jetty structures (main jetty, barge jetty, passenger jetty). It also encompasses a shore connected rock breakwater to provide shelter from the waves, creating a safe operational harbor under all weather conditions.

Besides the supply base, the development of the industrial cluster in Suai will include:

- The refurbishment and upgrading of the Suai airport facilities and standards.
- A housing complex in Camanasa and Labarai (i.e. a new city named Nova Suai).

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

The **environmental impact assessment** (EIA) for the Suai supply base (SSB), conducted in 2012, had the main purpose to identify possible environmental, social and economic impacts and issues associated with the construction and operation of the logistics base.

During 2012, TIMOR GAP prepared site visits and **public consultations** (“**socializasaun**”) among the Suai community, process that included dissemination of the project and facilitation of communication between stakeholders and authorities. The “ekipa konjunta interministerial (EKI)” or inter-ministerial team was established to improve coordination with the relevant ministries involved in the SSB project.

The Environmental License for the Suai supply was granted in 2013.

Breakwater quarry geotechnical study

Reconnaissance field work was conducted by TIMOR GAP from September to October 2012, aimed to investigate quarries with the potential of use as breakwater armour stones and core materials. The field work permitted to conclude that the availability of armour stone materials along the south coast was sufficient for the construction of the SSB breakwater.

The breakwater quarry geotechnical study is currently under the prospective contractor scope of work.

Engagement of consultant and tendering

The Council of Ministers approved the SSB construction plan and a consultant agreement was established between Eastlog and the Ministry of Petroleum of Mineral Resources (MPRM), in January 2013 and with the consent of the Chamber of Auditors on 16 May 2013.

In coordination with the National Procurement Commission (NPC), Eastlog was able to finalize the tendering documents for the pre-qualification process as part of the international competitive bidding (ICB). 13 companies submitted proposals and in November 2013, the NPC concluded that 5 companies were qualified to bid: Hyundai Engineering & Construction Co. Ltd from Korea, Afcons Infrastructure Ltd from India, Essar Projects Ltd from India, BAM International-Van Oord-Wijaya Karya Consortium from Netherlands/Indonesia, and Constructors San Jose SA from Spain.

Land titles acquisition and compensation

TIMOR GAP was also responsible for the process of data collection and analyses, land title identification, verification and publication. The Company supported consultation about the model of compensation to local communities, for the loss of land. These activities were executed with the inter-ministerial working group (EKI) involving Ministry of Agriculture, Ministry of Justice (Secretary of State for Land and Property), Ministry of State Administration, Secretary of State for Security, Secretary of State for Environment, Veterans, Local Authorities and Community.

The program for compensation of the community's land and properties was executed in 2013 and included a debate on the mode of compensation (payment of compensation fee and other options).

It was achieved an important milestone on the 11 April 2013 - the land (1,113 hectares) was voluntarily handed-over by the Suai community (Camenasa village) to the Government, for use of the SSB infrastructure project development and industrial cluster, for a period of 150 years.

Agreement with "Komunidade Afetadu Camenasa" for delivery of land to the State for the SSB

Delivery of the "Deklarasaun" to H.E. the Prime-Minister Xanana Gusmão

There will also be a land use agreement and compensation for plantations and other properties.

It is expected that the local community will receive a 10% share from the profits originated by the management of the Suai supply base. This is to be paid through a foundation to be created with the intention to manage the money, with Government's support.

A study tour for community leaders (23 people) and local authorities (5 people) of Covalima District, was organized from the 2–11 September 2013. It included the visits of the Lamongan shorebase (Indonesia) and Kemaman supply base (Malaysia).

Visit to the Lamongsn shore base, Indonesia

The main objective of the visits was to explain the participants about the functioning and benefits of a supply base and related facilities, as well as to elucidate about its impacts.

Visit to Kemaman supply base, Malaysia

Draft legislation on Land

During 2013, the drafting of the following legislation was finalized: Decree-Law on Temporary Ownership rights; Land Use Agreement; and By-Laws of the Community Association “Afectados”.

The consultation of the legislation within the community was prepared. TIMOR GAP conducted meetings in Suai with local stakeholders, informing about the status of the project.

TIMOR GAP also coordinated the discussions on the drafting of a compensation value table for agricultural crops and trees including land issues with MAP (Ministry of Agriculture and Fishery) and SETP (Secretary of State for Land and Property).

Master Plan readjustment - SSB revision

It was decided to integrate the marine facilities previously planned for the Betano refinery into the SSB harbor. The general layout of the supply base was therefore readjusted and rescheduled. The main adjustment is related to the dredging of the harbor basin and with the increased land areas, including the re-arrangement of:

- Supply base marine facilities layout (e.g. the main jetty is now directly shore connected).
- The bbreakwater is relocated from -18m to the shallower -14m seabed, and completed in phase 1 (vs. 3 phases); this reduces design and construction risks and costs for the breakwater works, which is a major and critical component.
- supply base land facilities (e.g. larger open areas, future expansion areas provided).

Construction

Eastlog will also be responsible for project supervision, in coordination with relevant government entities, for a 30 months period, since the beginning of the SSB construction, which is planned to 2014, with completion in late 2017.

5.2 Suai Airport Upgrade

The Suai airport is located between Matai and Holbelis, Covalima, at a distance of 202 km from Dili and 15 Km from Suai town. It is a district airport and will be upgraded to provide for expanded passenger and freight services for the oil & gas industry.

The airport upgrade will consist in expanding the airport runway from the current 900 meters to 1500 meters, and 35 meters width. Other new features will be the building of a new terminal building and a hangar shelter for helicopters.

The airport project will be based on International Civil Aviation Organization (ICAO) standards, and the rehabilitation has the main purpose of allowing safe operations of light aeroplanes and helicopters to support petroleum activities and supply base operations.

The new airport will mainly benefit the companies working on oil and gas platforms, the Tasi Mane project, and communities living in the south coast area.

The upgrade 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 to the communities.

Activity organized for the Suai Airport project – "socializasaun" phase

Highlights of achievements in 2013

TIMOR GAP in consultation with the Ministry of Petroleum and Mineral Resources and the Ministry of Transportation and Communication, undertook further works related to the Suai airport rehabilitation project. This included land title clearance, procurement activities and preparation for the supervision on the construction of the Suai airport:

"Socializasaun" within the community of Suai

Land title clearance: an interministerial team started the **identification** of properties and land concluded on August 2013. By December 2013, the interministerial team finalized the database for verification purpose.

Site survey

Meeting with community

Procurement process for the construction: the tender was announced on January 2013 and closed one month after, having been participated by more than 50 international and local companies. By the end of the process, it was decided to award the contract for the building of the airport to PT Waskita Karya, Tbk from Indonesia. The contract for the construction was signed in **December 2013**, between Waskita, NPC, MPRM and MTC.

Procurement process for the consultant for supervision of constructions: the TOR were approved and submitted to ADN in the end of August 2013. The process went then under the NPC, with the technical evaluation ongoing by the end of the year.

5.3 Betano Refinery and Petrochemical complex

The petroleum refinery and a petrochemical complex will be the 2nd industrial cluster of the Tasi Mane project, to be located in Betano, District of Manufahi, at a distance of 70 km south from Dili.

Unlike the Suai supply base, which has the government of Timor-Leste as project proponent, it is expected that the development of the refinery will be through a commercial ventures, in which TIMOR GAP will play a crucial role. Hence, the establishment of this industrial cluster is expected to be an arrangement between the public and private sectors.

The refinery and petrochemical complex are intended to process petroleum produced from the oil and gas fields located not only in the Timor Sea, but also the future productions on the shores of Timor-Leste, to meet Timor-Leste's growing demand for fuel and exports. The facilities will enable the production of fuel (diesel, gasoline, LPG, naphtha), fertilizers and pesticides, and of other currently imported petrochemical products.

An initial phase will establish a refinery with a capacity of 30,000 bpd. The main objective of this project is to capture more added value on Timor-Leste's condensate or light crude oil.

It is also planned that the development of the refinery and petrochemical industry will be supported by the construction of a new city, Nova Betano.

The Secretary of State for Natural Resources (SERN) commissioned a study to assess the likely environmental and social impacts of the development of the refinery project, which 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 of Timor-Leste in which households rely on subsistence farming. The community is looking forward to the job creation related to the development of the new facilities. The probable large-scale relocation of local residents represents one of the most significant social challenges. Economically, the local impacts include high scale financial benefits.

The stakeholder consultation for Betano was led by SERN with TIMOR GAP's participation and aimed at informing about the nature and location of the industrial cluster.

The refinery project was executed as a co-project between TIMOR GAP and PTT International from Thailand, which conducted a feasibility study and master plan for the hydrocarbon utilization.

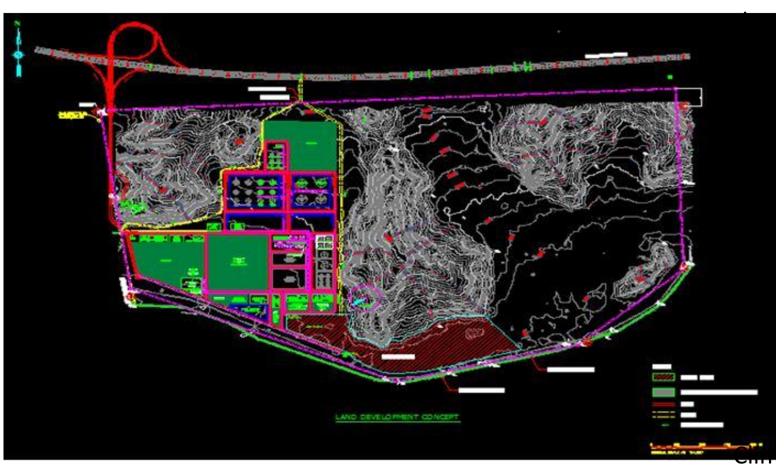
Highlights of achievements in 2013

In February 2013, TIMOR GAP engaged with Toyo-Thai for consultancy services for the marine facility and FEED (front-end engineering design) for the Betano refinery project.

Under the cooperation between TIMOR GAP and PTT Global Chemical from Thailand, a joint detailed study was being conducted for the Betano refinery and petrochemical complex, involving:

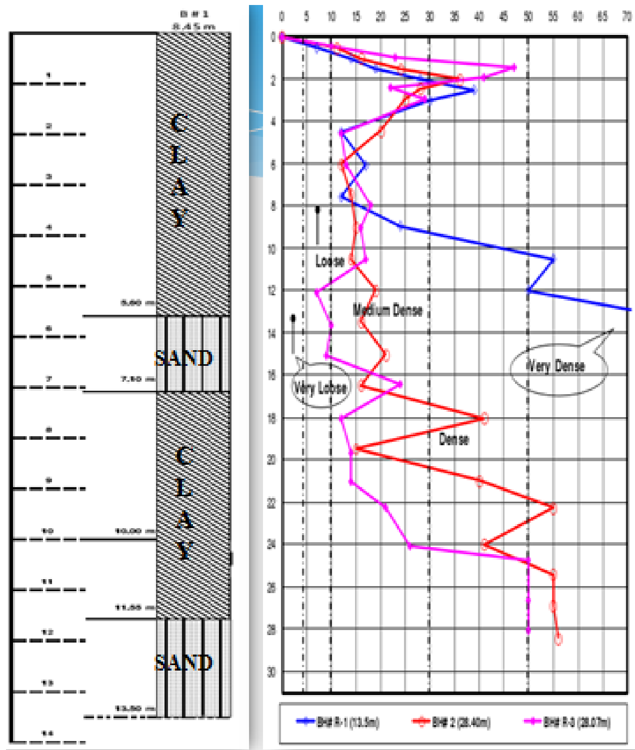
1. FEED studies (main study).
2. Topographic survey and soil investigation.
3. Land development study.
4. EIA and health impact assessment.
5. Market survey.

By year end, some preliminary designs and plot plan for the refinery were finalized.



Preliminary Land Development Conceptual Design

Topographic Survey has been completed with the results showing the maximum elevation 102.67msl.



Above figure shows the Soil Investigation properties of some Boreholes. Based on this, the recommendation is for all refinery related structures to be installed on Pile Foundations.

A Strategic Environmental Impact Assessment (SEIA) for Betano Refinery Project to assess likely environmental social impacts was completed in 2012.

majority of the Betano development area is prised of agricultural land used for subsistence ing, natural landscape and scattered dwellings along coastline. The land around the area allocated for a Betano had mostly natural vegetation and tations along the existing roads cutting through the with few scattered dwellings on the southern ndary.

Study describes the impacts for the project including: ate and meteorology, land use and visual amenity, topographic, geology and soils, air quality, noise, hydrology, drainage river water quality, hydrogeology, terrestrial biodiversity, marine ecology and social and economic values itself.

One possible environmental impact example is related to surface water. Runoff from the refinery plant may include contaminants including sediment, litter, heavy metals and hydrocarbons which could pollute receiving waters including the adjacent streams and the near shore.


Activities related to the land development study

In relation to socio-economic impacts, the Betano Refinery Project is likely to result in an influx of people in to the Betano study area. An influx of people into the development area would place increased pressure on the socio-economic infrastructure and may erode some community values. The refinery would most likely stimulate the development of local businesses and entrepreneurs. These opportunities relate to an increased market being created by jobseekers and employees moving into the area, and the latter having higher disposable incomes to purchase local produce and services.

The recommendation from the SEIA is to carry out a full Environmental and Health Impact Assessment.

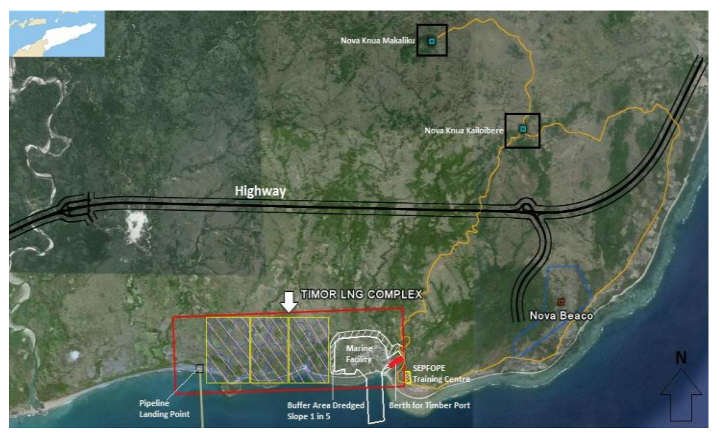
5.4 LNG Plant in Beaço

To make the most use of the national resources in Timor Sea, in particular the gas reserves from Greater Sunrise field, a LNG plant will be established in Beaço, District of Viqueque, located 100 km southeast of Dili. This will consist on the 3rd and final stage of the Tasi Mane Project, for the development of a national petroleum industry. In more detail, the project of the industrial cluster of Beaço comprises:

- LNG Plant
- Marine facility
- Gas pipeline
- New cities - Nova Viqueque and Nova Beaço
- Upgrade of the Viqueque airstrip

LNG Plant

The LNG plant will cater for the development of the petroleum exploration in the Timor Sea by providing gas processing facilities onshore Timor-Leste with the overall objectives of maximizing value added of the petroleum resources to the Country's social and economic development.



Draft layout of the LNG complex in Beaço

It is expected that the initial feed gas for LNG Plant will be piped from Greater Sunrise gas field and other adjacent offshore fields through a world class subsea pipeline(s). The plant – "Timor LNG" – initially will have a single gas train with a capacity of 5 MTPA and planned future expansion of up to 20 MTPA. The LNG plant will be a fully capable natural gas processing complex to export standards which will convert the natural gas into LNG, propane and butane for export.

A **SEIA for the Beaço LNG plant**, to assess probable environmental and social impacts, was completed in 2012. The project will have a profound impact on the local community and the whole country.

The principal impacts to the natural environment associated with the construction and operation of the LNG Plant being identified from the SEIA 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 both directly and indirectly.

Community consultation in Beaço, January 2013

During 2012, TIMOR GAP went through the stakeholder consultation process for the LNG Plant, and held meetings with the communities and authorities of Beaço.

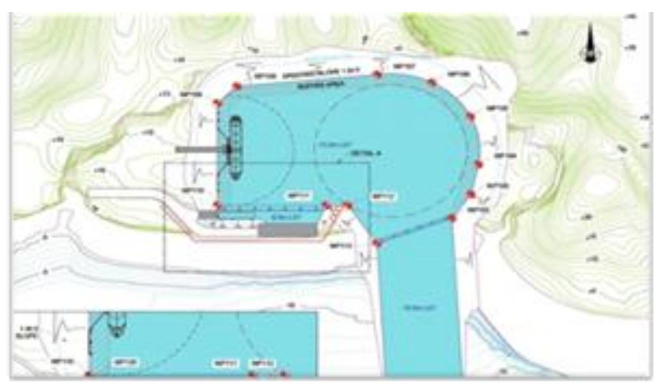
The main objective was to keep people informed about the progress of the project, providing opportunity for the presentation of issues or concerns. In 2013, the Company continued liaising with the community in Beaço to provide regular updates with respect to projects findings, status, and so on.

LNG plant study progress

This year, TIMOR GAP also prepared work programs for a pre-FEED study for the LNG plant. As a result, an estimated budget for the Pre-FEED study for LNG Plant was proposed by MPRM through CAFI. The project was to be executed in FY 2014.

Marine Facility

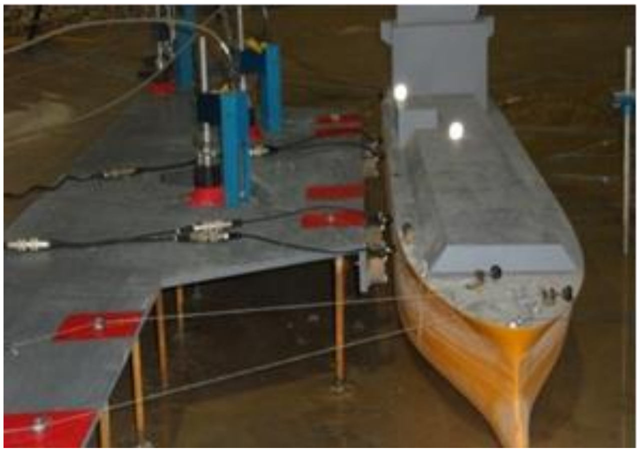
In mid-2012, the pre-FEED for the marine facility (i.e. LNG port) was completed, and two design options were presented: coastal harbor and onshore basin. Afterwards, TIMOR GAP entered into a contract with the Ministry of Petroleum and Mineral Resources (MPRM) to undertake the respective FEED and the works initiated. By the end of 2012, the optimization of the marine facilities design was completed.



Marine facility layout from FEED

During 2013, TIMOR GAP managed the FEED for the marine facility which was undertaken by the consultant

HR Wallingford. The scope of work included the design of breakwater, product loading facility, material offloading facility, jetties, etc. Further navigation simulation and physical modelling of the breakwater at HR Wallingford facility in Howbery Park, Wallingford, was included.



Marine facility physical modelling for FEED testing the strengths of berthing and mooring lines

Marine facility 3D model from FEED

The FEED for Marine Facility was completed towards mid-2013. The main outcomes showed that the Onshore Basin option was more preferred than the coastal harbor option. This was not only due to the poor ground conditions that may lead to liquefactions in the events of seismicity but also the onshore basin option provides better access for both ground excavations and dredging. The excavation could be well-delivered by the local Timor-Leste contractors during the project constructions.

Marine facility final project presentation for FEED

TIMOR GAP also engaged a Contractor to undertake additional data collection of metocean (meteorological and oceanography) in Beaço. The additional metocean data will complement those data being collected during the Pre-FEED study in 2001-2012 which are of great importance inputs not only for the engineering designs but also for the operability of the facilities during the operation of the project life.

Nova Beaço

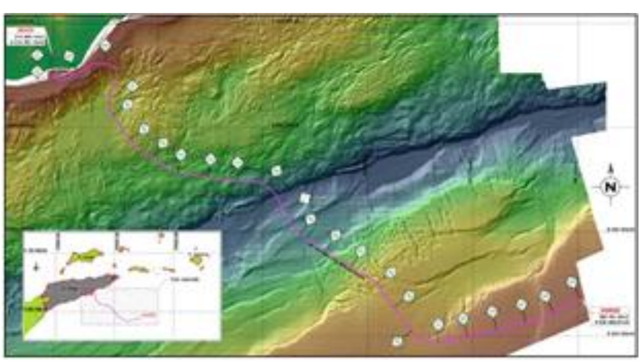
Knua Antigu Kailoibere

A site visit to Nova Beaço was conducted in September 2013, with the objectives to verify the pre-identified locations for the new city to be built in support of this industrial cluster. As a result, an inclusive map of the Timor LNG plant complex was updated and produced.

Site re-verification of land for the planned "Nova Beaço"

Pipeline from Greater Sunrise

In 2012, TIMOR GAP supervised and administered the studies for laying a pipeline from the Greater Sunrise gas field located in Timor Sea to onshore Timor-Leste, Beaço. A contract was signed by SERN, KOGAS and Wood Group Kenny to carry out the pipeline FEED and detailed marine survey (DMS). The latter was undertaken by Fugro which was sub-contracted by Wood Group Kenny. In addition to the already established bathymetry survey campaign launched by SERN in 2008-2009, the DMS was launched with the objective of specifically surveying the approximately 250 meters corridor of the pipeline route using high resolutions survey equipment mounted in an Autonomous Underwater Vehicle (AUV) flying at an altitude of 20-30m from the seabed.



Greater Sunrise to Beaço pipeline route from FEED

During 2013:

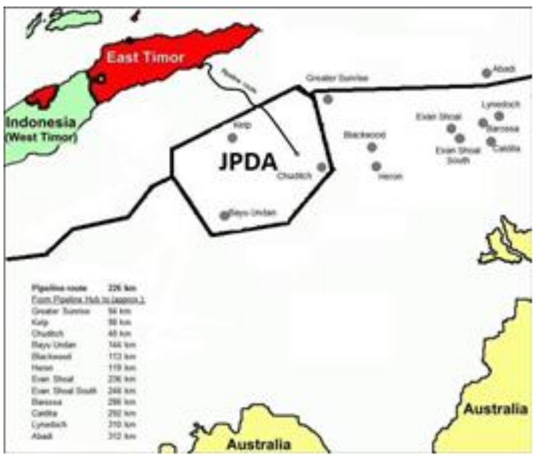
- TIMOR GAP continued with the project management for the pipeline FEED with JP Kenny, sub-contractor Fugro, and liaised with partner KOGAS for the supervision.
- Monitored the progress of the project and prepared reports for the Government – Ministry of Petroleum and Mineral Resources and CAFI (administrative council for the infrastructure fund).
- The FEED was completed in June 2013, confirming the pre-FEED conclusion that there were no issues that could challenge the feasibility of the project.

One of the FEED progress meetings for the pipeline FEED project

Delivery of final reports of FEED to PMU

Marketing Plan of the "pipeline highway"

A marketing plan for the "pipeline highway" is being prepared to compile all the available data and reports related to the Beaço-JPDA pipeline. The objective is to provide general information for operators (and respective JVs) on blocks in the JPDA and its vicinity (within Australian administered waters).



Map of pipeline highway with various gas fields in the Timor Sea

5.5 Highway Project

In 2013, TIMOR GAP in consultation with the Ministry of Petroleum and Mineral Resources (MPRM) and the Ministry of Public Works (MOP), carried out work related to the South Coast highway project, and studies were conducted by an interministerial team. This included land title clearance, procurement and preparation for the supervision on the construction of the highway.

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

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
2. Fatucai/Mola - Betano
3. Betano - Clacuc
4. Clacuc - Beaço

- Design speed: 100km/h for flat area and 60 km/h for the mountain area.
- Traveling time from Suai to Beaço ± 2hrs.

The EIA undertaken analyzed and evaluated the anticipated impacts of the highway project. The assessment involved studying the whole length of the highway, across five districts - Covalima, Ainaro, Manufahi, Manatuto and Viqueque.

During 2013, the process of land title clearance continued and the two Ministries agreed to delegate the work to a technical team from TIMOR GAP and MOP.

The **procurement process for the construction** was undertaken by NPC with technical team providing necessary technical inputs to prepare and finalize the tender documents.

In that same year, the **procurement process for the consultant for supervision** of construction was also conducted by NPC with the assistance from the technical team.

6 – 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.

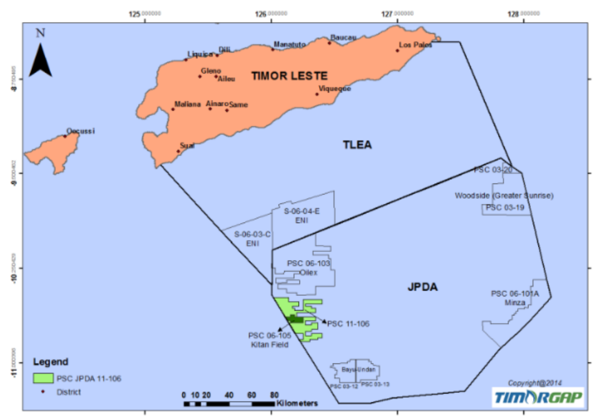
TIMOR GAP's engagement in the Greater Sunrise issue is through the provision of advice and participation in the Joint Commission and Sunrise Commission, along with Government officials from Timor-Leste, the Autoridade Nacional do Petróleo (ANP) and Australia.

Timor-Leste's Delegation at the 37th Joint Commission Meeting

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 three Joint Commission Meetings (JCM) held for the JPDA in 2013:

1. 36th JCM on 19th March 2013 in Dili.
2. 37th JCM on 17th July 2013 in Sydney.
3. 38th JCM on 24th October 2013 in Dili

Important interventions in 2013 Timor-Leste emphasized commission meetings has no prejudice to the CMATS arbitration.

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.

Two Sunrise Commission Meetings held in 2013 were:

1. 13th Sunrise Commission meeting on 20th March 2013 in Dili.
2. 14th Sunrise Commission meeting on 24th October 2013 in Dili.

Important Interventions/Matters
Due to the CMATS arbitration process, no major decisions/meetings related to Sunrise were done in this year.

38th Joint Commission & 14th Sunrise Commission meetings, Dili

7 – Moving into 2014

In order to ensure maximum participation of Timor-Leste nationals as well as capturing more value added from the exploitation 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. Being the NOC, TIMOR GAP's principal objective is to act on behalf of the State in conducting businesses through direct involvement in every chain of the petroleum sector. To achieve this, TIMOR GAP locked in its vision to become an integrated Oil and Gas Company and a partner of choice, and hence a leading driver for the 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 derived from natural resources.

Unlike in 2011 and 2012 where TIMOR GAP's budget was respectively considered as starter and enabler budgets, in 2013, TIMOR GAP moved into a new era of its corporate life: the year of investments, with an "investment budget". This was significantly marked with the Company's achievement by its participation for the first time in the upstream petroleum activity. TIMOR GAP altogether with its JV Partners Eni from Italy and Inpex from Japan signed a PSC with ANP for a block in the JPDA, PSC 11-106, a block next to Kitan oil producing field.

In the year of 2013, other main activities of TIMOR GAP achieved were not only the continuation of corporate institutional and professional development, but also execution of several extensive works with respect to the administration and management of Tasi Mane project.

Welcoming Former President of the Republic of Timor-Leste and UN-SRSG to Guinea-Bissau, Dr. Jose Ramos-Horta in his visit to TIMOR GAP

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 2013, namely in what concerns preparatory works and planning for the building of the Suai Supply Base, Suai Airport, 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, by commissioning and managing various studies on pipeline, marine facilities, metocean, and the LNG plant. TIMOR GAP also maintained the momentum with the community of Beaço through a range of community liaisons activity.

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.

Meeting with Executive Secretary of CPLP in Portugal – CPLP Consortium

In 2014, in addition to manage its existing projects, TIMOR GAP will continue to expand its business arms by searching for consortia to invest in onshore and offshore petroleum projects.

On top of its growing subsidiaries of GAP-MHS Aviation and PSC 11-106, in 2014, TIMOR GAP will also establish a new subsidiary for the marine and logistics. TIMOR GAP will begin to go international with the necessary preparation for a possible joint venture with NOCs from Portuguese speaking countries of CPLP for an exploration in the Timor-Leste's prospective onshore area.

8 – Commentary on the Financial Statements

Set out below are the audited consolidated financial statements of TIMOR GAP group for the year ended 31 December 2013. This is the group's second trading period of the National Oil Company with the comparative figures being for 15 months (October 2011-December 2012) when operations began. TIMOR GAP has adopted International Financial Reporting Standards (IFRS) to ensure that reporting is based on a well-recognized framework.

Capital and Grant Funding

The company received their capital per the Articles of Association of $2.5 million during the previous financial period. During the current year a grant of $4 million was provided by the Government to fund the 2013 operations of the company.

Revenue

The government grant of $4 million (2012 - $1.8 million) forms the majority of TIMOR GAP's revenue for the year 2013. The company earned contract fixed service fees during the year of $223,414 (2012 - $86,233). These monies were received in advance from the Government and are being released over the life of the contract on the percentage completion method based on costs incurred against the total contract value. (See sub-sections on Contract 1/2012 and Contract 2/2012 below).

During 2013 the company commenced commercial activities. TIMOR GAP imported and sold fuel at a wholesale level with a value of $3,710,179. After paying the fuel supplier, the fuel sales contributed a gross profit of $36,056. During the year the company also derived revenue from the Hera floating terminal of $367,380 for the first time. After expenses this revenue contributed a gross profit of $38,661.

In 2012 TIMOR GAP received a once-off management fee of $739,664 in respect of assistance by the Executive Committee of TIMOR GAP's assistance to MHS Aviation (Timor-Leste) Lda in managing a contract prior to GAP-MHS being incorporated.

The company is a 60% quota holder GAP-MHS Aviation Lda (GAP-MHS). During the 2013 financial year no dividends were declared by GAP-MHS but the company was profitable contributing $1,085,986 (2012 – $623,697) to the consolidated results of the group.

TIMOR GAP expects to receive a dividend in 2014 in respect of the 2012 and 2013 profits of GAP-MHS. In terms of International Financial Reporting Standards the dividend can only be recognized in the year in which it is declared.

TIMOR GAP has continued to fulfill its mandate for the creation of business activities as is illustrated in the progress being made on the two contracts 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 summarized in Note 15 to the financial statements, a total of $3,360,000 was advanced after withholding taxes from the Government of Timor-Leste in respect of this project during 2012 and 2013.
From an accounting perspective the contract fixed service fee is recognised as an income based on the percentage of costs incurred to date.
As result TIMOR GAP earned $136,590, (2012 - $82,783) for contract fixed service fees for this project in the

current period as set out in Notes 5 and 15 to the accompanying financial statements.
At year end $937,188 (2012 – $780,743) remained available to pay contractors in 2014, when the project is expected to be completed.

Contract 2/2012

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

The contract has five main components which include the following:

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

In terms of the contract $4,706,000 was received from the Government of Timor-Leste after withholding taxes 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 service fee. Similar to Contract 1/2012, the project contract fixed service fee is only recognized as income based on the percentage of costs incurred to date on the project compared to the total costs expected. During 2014 this project commenced and $86,824 was earned as revenue from this contract in the current period. At year end $3,481,872 (2012 - $2,353,000) remained of the funds received for use in 2014 when the projects are expected to be completed.

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 Sections 3 to 6 of this report.

Financial Results
Comprehensive Loss for the Year

The company's comprehensive loss for the year ended 31 December 2013 amounted to $1,931,410 (2012 - 15 month period amounted to $1,252,026). On a group basis this loss was reduced by the 60% share of the GAP-MHS's result of $1,085,986 (2012 - $623,697) to $900,203 (2012 - $628,329).

The loss for the year has fully eroded the Capital received in 2012, and a Government Grant received in 2013. As only the Government Grant can be accounted for as revenue, the costs have 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 $193,762 (2012 -$1,388,370) as set out in Note 7, and $58,325 (2012 - $198,807) of computer software as set note 8 to the financial statements.
As set out in the accounting policies TIMOR GAP has adopted the straight line method of accounting for depreciation and amortisation over the expected useful lives of the assets from the date they were acquired.

Employee Costs/Expenses

Recruitment continued throughout the year and by 31 December 2013 TIMOR GAP had a staff complement of 95 employees (2012 – 71 employees).

Other expenses

The most significant “other expenses” for the year ended 31 December 2013 and for 15 months ended 31 December 2012 include the following items:

	$ 2013	$ 2012
Legal costs	199,637	273,142
Office Rent	506,721	492,570
Organisation promotion	145,664	136,556
Telephone & internet	159,114	132,606
Training & conferences	335,289	151,689
Travel & expenses	624,306	460,881

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, participation at various Government exposition as well as preparation of the company’s vision and mission and corporate statements.

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

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

Taxation

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

During 2012 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 or accrued 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. Current assets of the company amount to $3,584,981 (2012 - $3,971,068) include the management fee receivable of $699,722 after taxes, prepayments and receivables of $145,264 (2012 - $32,967), the rental and other deposits of $196,029 (2012 - $108,378) as well as cash at the bank of $1,908,810 (2012 - $2,962,001).

The management 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. This amount was received in 2014.

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 non-current assets amounted to $1,127,539 (2012 - $1,253,080) and were composed of the property plant and equipment at net book value of $949,405 (2012 - $1,080,806), and intangible assets being computer software at amortised cost of $170,134 (2012 - $164,273) and investments of $8,000.

As previously noted TIMOR GAP invested in two 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 began operating 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. As TIMOR GAP has a 60% share of the company under IFRS 60% of the company’s profits are included in TIMOR GAPs group results. Thus in 2013 GAP MHS contributed

$1,085,986 (2012 - $623,697) to TIMOR GAPs result in the consolidated statement of profit and loss. These amounts are then transferred upon consolidation to be included in the investment amount which is reflected as $1,712,683 (2012 - $626,697) with reflects the TIMOR GAP's cumulative 60% share of the profits. The company can only receive this money by way of a dividend. No dividends were declared by GAP MHS in 2012 or 2013 but a dividend in respect of these profits is expected in 2014 after taking into account the legal reserves required by the company.

GAP MHS's summarized financial information is set out in note 10 to the financial statements.

TIMOR GAP PSC 11-106 began operations during the period incurring expenses of $54,344 for 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.

The PSC 11-106 company has a 24% interest in Joint Operating Agreement with ENI JPDA 11-106 B.V. and Inpex Offshore Timor-Leste Ltd with respect to Contract Area Joint Petroleum Development Area 11-106. This became operational during the period and in terms of the agreement TIMOR GAP PSC 11-106 is not obligated to contribute to costs incurred for the joint account for its carried interest at the current time. Expenditure in terms of Joint Operating Agreement by the carrying parties amounted to $1,446,348. In addition, the budgeted approved exploration expenditure for two wells amounted to $90,029,250.

Current Liabilities

Current liabilities include all amounts that are expected to be paid within a year of the balance sheet date. TIMOR GAP's current liabilities at year end amounted to $5,395.956 (2012 - $3,976,173). As set out in Note 14 trade amounts payable, primarily consultants on the projects being undertaken, amounted to $485,338 (2012 - $475,209). Withholding taxes outstanding amounted to $235,106 (2012 - $141,725). 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.

As discussed above under Contract 1/2012 and Contract 2/2012 above and note 15 below money has been received in advance from the Government of Timor-Leste. At 31 December 2013 $4,419,060 (2012 – $3,230,743) was owed in relation to these contracts. These figures include TIMOR GAPs unearned revenue in relation to these contracts.

Liquidity and Going Concern

As set out in Note 20 the financial statements the financial report has been prepared on the going concern basis, which assumes the realisation of assets and the discharge of liabilities in the normal course of business. The company incurred a net loss of $1,931,410 (consolidated: $900,203) and used net cash in operating activities of $1,989,421 (consolidated: $1,989,856) during the year ended December 31, 2013 and, as of that date, the Company's current liabilities exceeded its current assets by $1,810,975 (consolidated: $1,860,754).

As a young national oil company, TIMOR GAP is reliant on government grants to sustain its operations until such time as the company has viable business operations which are self-funding. In this phase of its business' development expenditure can be unpredictable as it pursues opportunities in line with Timor-Leste and TIMOR GAP's vision for the oil and gas industry in Timor-Leste. As can be seen from the funding commitments needed for the exploration of two wells amounted to $90,029,250. With this perspective in mind, the Government of Timor-Leste is committed to TIMOR GAP and the development of the oil gas industry.

9 – Financial Results

Consolidated statement of profit and loss and other comprehensive income

For the period ending 31 December

		Group		Company	
		2013	**2012**	**2013**	**2012**
	Note	**$**	**$**	**$**	**$**
Revenue	5	4,223,414	2,625,897	4,223,414	2,625,897
Gross profit on sale of fuel	5	36,056	-	36,056	-
Gross profit on lease of marine oil terminal	5	38,661	-	38,661	-
		4,298,131	2,625,897	4,298,131	2,625,897
Expenses					
Consultancy fees and project expenses		(1,862,479)	(513,886)	(1,862,479)	(513,886)
Depreciation and amortisation expense	7&8	(377,627)	(342,097)	(377,627)	(342,097)
Employee costs		(1,513,856)	(1,028,430)	(1,513,856)	(1,028,430)
Other expenses		(2,530,358)	(1,953,569)	(2,475,580)	(1,953,569)
Total expenses		(6,284,320)	(3,837,982)	(6,229,541)	(3,837,982)
Operating loss		(1,986,189)	(1,212,084)	(1,931,410)	(1,212,084)
Share of profit of associate		1,085,986	623,697	-	-
Loss before tax		(900,203)	(588,387)	(1,931,410)	(1,212,084)
Income tax expense	6	-	(39,942)	-	(39,942)
Loss for the period		(900,203)	(628,329)	(1,931,410)	(1,252,026)
Other comprehensive income		-	-	-	-
Total comprehensive loss		(900,203)	(628,329)	(1,931,410)	(1,252,026)

Total comprehensive loss attributable to:

Controlling interest	(900,203)	(628,329)	-	-

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

Consolidated statement of Financial Position

As at 31 December

		Group		Company	
		2013	**2012**	**2013**	**2012**
	Note	**$**	**$**	**$**	**$**
Assets					
Non-current assets					
Property, plant and equipment	7	949,405	1,080,806	949,405	1,080,806
Intangible assets	8	170,134	164,273	170,134	164,273
Investment in subsidiaries	9	-	-	5,000	5,000
Investment in associates	10	1,712,683	626,697	3,000	3,000
		2,832,222	1,871,776	1,127,539	1,253,079
Current assets					
Trade and other receivables	11	1,621,827	1,009,067	1,676,171	1,009,067
Cash and cash equivalents	12	1,913,375	2,967,001	1,908,810	2,962,001
Total current assets		3,535,202	3,976,068	3,584,981	3,971,068
Total assets		6,367,424	5,847,844	4,712,520	5,224,147
Equity and liabilities					
Equity					
Contributed equity	13	2,500,000	2,500,000	2,500,000	2,500,000
Accumulated losses		(1,528,532)	(628,329)	(3,183,436)	(1,252,026)
Total equity		971,468	1,871,671	(683,436)	1,247,974
Current liabilities					
Trade and other payables	14	976,896	745,431	976,896	745,430
Unearned fixed contract service fees and project advances	15	4,419,060	3,230,743	4,419,060	3,230,743
Total current liabilities		5,395,956	3,976,173	5,395,956	3,976,173
Total equity and liabilities		6,367,424	5,847,844	4,712,520	5,224,147

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

Consolidated Cash Flow Statement
For the period ending 31 December

		Group		Company	
		2013	**2012**	**2013**	**2012**
	Note	**$**	**$**	**$**	**$**
Cash flows from operating activities					
Loss before taxation		(900,203)	(588,387)	(1,931,410)	(1,212,084)
Adjustments for:					
Depreciation		325,164	307,563	325,164	307,563
Amortisation		52,463	34,534	52,463	34,534
Share of profit of associate		(1,085,986)	(623,697)	-	-
		(1,608,561)	(869,987)	(1,553,782)	(869,987)
Increase in trade receivables	11	(444,760)	(841,067)	(499,104)	(841,067)
Increase in trade and other payables	14	231,465	745,431	231,465	745,431
Cash used in operations		(1,821,856)	(965,623)	(1,821,421)	(965,623)
Income tax paid	17	(168,000)	(207,942)	(168,000)	(207,942)
Net cash used in operating activities		(1,989,856)	(1,173,565)	(1,989,421)	(1,173,565)
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(193,762)	(1,388,370)	(193,762)	(1,388,370)
Purchase of intangible assets	8	(58,325)	(198,807)	(58,325)	(198,807)
Investment in subsidiary	9	-	-	-	(5,000)
Investment in associates	10	-	(3,000)	-	(3,000)
Net cash used in investing activities		(252,087)	(1,590,177)	(252,087)	(1,595,177)
Cash flows from financing activities					
Proceeds from issue of contributed capital	13	-	2,500,000	-	2,500,000
Increase in project advances	15	1,188,317	3,230,743	1,188,317	3,230,743
Net cash used in financing activities		1,188,317	5,730,743	1,188,317	5,730,743
Net (decrease)/ increase in cash and cash equivalents		(1,053,626)	2,967,001	(1,053,191)	2,962,001
Cash & cash equivalents at start of the period	12	2,967,001	-	2,962,001	-
Cash & cash equivalents at end of the period	12	**1,913,375**	**2,967,001**	**1,908,810**	**2,962,001**

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

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

	Note	Group 2013 $	Group 2012 $	Company 2013 $	Company 2012 $
Transactions with owners of the company					
Contributed Capital					
- 1 December 2011		2,000,000	2,000,000	2,000,000	2,000,000
- 23 February 2012		500,000	500,000	500,000	500,000
		2,500,000	2,500,000	2,500,000	2,500,000
Consolidated loss and comprehensive loss attributable to equity holders of the parent:					
At the beginning of the period		(628,329)	-	(1,252,026)	-
For the period		(900,203)	(628,329)	(1,931,410)	(1,252,026)
At the end of the period		(1,528,532)	(628,329)	(3,183,436)	(1,252,026)
Non-controlling interest		-	-	-	-
Total equity at 31 December 2013		**971,468**	**1,871,671**	**(683,436)**	**1,247,974**

Accounting policies and explanatory notes to the consolidated financial statements for the year ended 31 December 2013

1. General information

The consolidated financial statements of the Group, which comprise Timor Gás e Petróleo, Empresa Publica (TIMOR GAP, as the parent) and its subsidiary and associate, for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on **28 August 2014**. The comparative financial statements are for the 15 month period ended 31 December 2012,

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. These consolidated financial statements comprise separate financial statements of the parent entity and consolidated financial statements of the Group. They are presented in United States Dollars (USD or $). The consolidated financial statements have been prepared on a historical cost basis.

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

Investment in associate

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

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

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

Accounting policies and explanatory notes to the consolidated financial statements for the year ended 31 December 2013

2. Basis of preparation and accounting policies (continued)

Revenue

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

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

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

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

Sales of Fuel are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

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

Taxation

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered. The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. Depending on the contractual arrangement, withholding taxes are either withheld against suppliers in specified industries or payment amounts are grossed up at the following rates and the monies are paid over 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

Accounting policies and explanatory notes to the consolidated financial statements for the year ended 31 December 2013

2. Basis of preparation and accounting policies (continued)

Foreign currencies

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest dollar (US $), except where otherwise indicated. The Group does not have any foreign operations.

Transactions in foreign currencies are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of transaction

Monetary assets and liabilities denominated in foreign currency are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the net cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their expected useful life using the straight-line method as follows:

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

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

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

Intangible assets

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

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

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

Accounting policies and explanatory notes to the consolidated financial statements for the year ended 31 December 2013

2. Basis of preparation and accounting policies (continued)

Impairment of non-financial assets
At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss
If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments – initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as loans and receivables. All financial assets are recognised initially at fair value. The Group's financial assets include:

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

Subsequent measurement
For purposes of subsequent measurement financial assets are classified as Trade and other receivables or Cash and cash equivalents
Derecognition
A financial asset is primarily derecognised when:

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

Impairment of financial assets
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.
Financial assets carried at amortised cost
The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of profit or loss. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.
Financial liabilities at fair value through profit or loss
Initial recognition and measurement
All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.
The Group's financial liabilities are classified, at initial recognition as:

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

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

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

2. Basis of preparation and accounting policies (continued)

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

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

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

Unearned contract fixed service fees and project advances
Cash received by the company from the Government of Timor-Leste as a project advance and for unearned contract fixed service fees is recognised as a liability on receipt.
The project advance liability is reduced by costs incurred with suppliers of services plus applicable withholding taxes.
The unearned project management fee is reduced by reference to the stage of completion of the contract as a percentage of actual expenditure incurred on the project of the total contracted amount

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

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:
Contingencies
By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.
Taxation
Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign income and withholding taxes. Given the company and group work in different international and tax jurisdictions, differences arising between the actual income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which it operates.. 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.
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together

with future tax planning strategies.

Accounting policies and explanatory notes to the consolidated financial statements for the year ended 31 December 2013

4. Changes in accounting policies and disclosures

Several amendments apply for the first time in 2013. However, they do not impact the annual consolidated Financial statements of the Group. They are described below:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards -Government Loans -Amendments to IFRS 1*
- IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities -Amendments to IFRS 7*
- IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*
- IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates and Joint Ventures*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 Fair Value Measurement
- IAS 19 Employee Benefits (Revised 2011)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Improvements to IFRSs - 2009-2011 Cycle:
  - IFRS 1 – *Repeat application of IFRS 1*
  - IFRS 1 – *Borrowing Costs*
  - IAS 1 – *Clarification of the requirement for comparative information*
  - IAS 16 – *Classification of servicing equipment*
  - IAS 32 – *Tax effects of distributions to holders of equity instruments*

Notes to the Consolidated Financial Statements
For the year ended 31 December

		Group		Company	
		2013	2012	2013	2012
		$	$	$	$
5	**Revenue and other income**				
	Government grant	4,000,000	1,800,000	4,000,000	1,800,000
	Revenue from fixed contract service fees	223,414	86,233	223,414	86,233
	Revenue from management fee	-	739,664	-	739,664
	Revenue	4,223,414	2,625,897	4,223,414	2,625,897
	Sales of Fuel	3,710,179	-	3,710,179	-
	Cost of fuel sold	3,674,123	-	3,674,123	-
	Gross profit on Sales of Fuel	36,056	-	36,056	-
	Marine Oil Terminal Lease Income	267,380	-	267,380	-
	Marine Oil Terminal Lease Expenses	228,719	-	228,719	-
	Gross profit on Lease of Marine oil Terminal	38,661	-	38,661	-

6	**Income tax**				
	Income tax expense				
	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	-	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	(900,203)	(588,387)	(1,931,410)	(1,212,084)
	At Timor-Leste’s statutory income domestic tax rate of 10%	(90,020)	(58,839)	(193,141)	(121,208)
	Adjusted for				
	Deferred tax asset for the year not recognised	198,619	195,175	193,141	195,175
	Share of profit of associate at 10%	(108,599)	(62,370)	-	-
	Withholding tax deducted at source - Petroleum taxation	-	39,942	-	39,942
	Amount not taxable under domestic taxes	-	(73,966)	-	(73,966)
	Total tax expense reported in profit and loss	-	39,942	-	39,942
	Deferred tax				
	Deferred tax relates to the following:				
	Accelerated depreciation for tax purposes	111,954	124,508	111,954	124,508
	Losses available for offsetting against future taxable income	(500,314)	(319,683)	(500,270)	(319,683)
	Deferred tax asset not recognised	(388,360)	(195,175)	(388,316)	(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

Notes to the Consolidated Financial Statements
For the year ended 31 December

7 Property, plant & equipment

	Leasehold Improvements $	Plant & equipment $	Furniture, fixtures & fittings $	Motor vehicles $	TOTAL $
Cost:					
Balance at beginning of period	317,000	323,836	305,989	441,545	1,388,370
Additions	-	106,452	7,760	79,550	193,762
Balance at end of period	317,000	430,289	313,749	521,095	1,582,132
Amortisation:					
Balance at beginning of period	(84,418)	(100,003)	(72,415)	(50,728)	(307,563)
Charge for period	(63,400)	(120,952)	(62,712)	(78,100)	(325,164)
Balance at end of period	(147,818)	(220,955)	(135,127)	(128,829)	(632,727)
Book Value at beginning of period	232,582	223,833	233,574	390,817	1,080,806
Book Value at end of period	169,182	209,334	178,622	392,266	949,405

8 Intangible assets

	Group		Company	
	2013 **$**	**2012** **$**	**2013** **$**	**2012** **$**
Cost:				
Balance at beginning of period	198,807	-	198,807	-
Additions	58,325	198,807	58,325	198,807
Balance at end of period	257,131	198,807	257,131	198,807
Amortisation:				
Balance at beginning of period	(34,534)	-	(34,534)	-
Charge for period	(52,463)	(34,534)	(52,463)	(34,534)
Balance at end of period	(86,997)	(34,534)	(86,997)	(34,534)
Net Book Value at end of period	170,134	164,273	170,134	164,273

Notes to the Consolidated Financial Statements
For the year ended 31 December

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
9 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				
The 100% interest held by TIMOR GAP E.P. was acquired by the Company in July 2012 at a cost of			5,000	5,000

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

In terms of the agreement TIMOR GAP PSC 11-106, Unipessoal, Limitada is not obligated to contribute to costs incurred for the joint account for its carried interest. Its share of such costs are borne by the carrying parties (ENI and Inpex)proportionately. Each carrying party will recover its prorated share of its costs, with an uplift, from TIMOR GAP PSC 11-106, Unipessoal, Limitada after the Designated authority approves a development plan and subject to other conditions specified in the agreement. The company's share of the Joint operating Agreement is 24%.

As at 31 December 2013:

Costs incurred by the carrying parties amounted to			1,440,348	-
The budget approved for exploration of 2 wells amounted to			90,029,250	-

Notes to the Consolidated Financial Statements
For the year ended 31 December

		Group		Company	
		2013	2012	2013	2012
		$	$	$	$
10	**Investment in associate**				
	The Company holds an 60% interest in a Timor-Leste incorporated entity, GAP MHS Aviation Lda, and the remaining 40% interest is held by MHS Aviation (Timor-Leste) Lda.				
	The activities of GAP MHS Aviation Lda are to provide logistical and support services for the operations of MHS Aviation (TL) Lda who provide aviation services and facilities to other parties.				
	The Group's interest in GAP MHS Aviation Lda is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in GAP MHS Aviation Lda:				
	Current assets	4,629,405	1,159,387		
	Non-current assets	1,284,569	316,341		
	Current liabilities	(3,059,502)	(431,233)		
	Equity	2,854,472	1,044,495		
	Proportion of the Group's ownership	60%	60%		
	Carrying amount of the investment	1,712,683	626,697		
	Revenue	7,234,335	2,280,293		
	Cost of sales	(2,793,613)	(284,654)		
	Administrative expenses	(2,240,091)	(835,289)		
	Other income	-	2,410		
	Profit before tax	2,200,631	1,162,761		
	Income tax expense	(390,654)	(123,266)		
	Profit for the year (continuing operations)	1,809,977	1,039,495		
	Group's share of profit for the year	1,085,986	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	3,000

Notes to the Consolidated Financial Statements
For the year ended 31 December

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
11 Trade and other receivables				
Trade receivables	944,535	699,722	944,535	699,722
Payments made on behalf of subsidiary	-	-	54,344	-
Other receivables and prepayments	145,264	32,967	145,264	32,967
Withholding taxes recoverable	336,000	168,000	336,000	168,000
Refundable deposits	196,029	108,378	196,029	108,378
	1,621,827	1,009,067	1,676,171	1,009,067
12 Cash and cash equivalents				
Cash at banks and on hand	1,913,375	2,967,001	1,908,810	2,962,001
13 Contributed capital				
The initial capital was subscribed and paid by appropriation from the General State budget of the Government of the Republic of Timor-Leste in the following tranches:				
- 1 December 2011	2,000,000	2,000,000	2,000,000	2,000,000
- 23 February 2012	500,000	500,000	500,000	500,000
	2,500,000	2,500,000	2,500,000	2,500,000
14 Trade and other payables				
Trade payables	485,338	475,209	485,338	475,209
Other payables	253,452	125,497	253,452	125,497
Withholding taxes payable	235,106	141,725	235,106	141,725
Amount owed to associate company	3,000	3,000	3,000	3,000
	976,896	745,431	976,896	745,431

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

Notes to the Consolidated Financial Statements
For the year ended 31 December

		Group		Company	
		2013	**2012**	**2013**	**2012**
		$	**$**	**$**	**$**
16	**Unearned contract fixed service fees and advances**				
	Unearned contract fixed service fee at beginning of period	213,767	-	213,767	-
	Cash received net of 4% withholding taxes	288,000	288,000	288,000	288,000
	Withholding taxes treated as an advance payment of income tax	12,000	12,000	12,000	12,000
	Contract fixed service fees earned based on the degree of completion of the projects	(223,415)	(86,233)	(223,415)	(86,233)
	Unearned contract fixed fee at end of period	290,352	213,767	290,352	213,767
	Advances at beginning of period	3,016,976	-	3,016,976	-
	Cash received for contractors net of 4% withholding taxes	3,744,000	3,744,000	3,744,000	3,744,000
	Withholding taxes treated as an advance payment of income tax	156,000	156,000	156,000	156,000
	Amounts disbursed and accruing to contractors	(2,788,268)	(883,024)	(2,788,268)	(883,024)
	Advances at end of period	4,128,708	3,016,976	4,128,708	3,016,976
	Unearned contract fixed service fees and advances	4,419,060	3,230,743	4,419,060	3,230,743
17	**Related party transactions**				
	Compensation of key management personnel				
	Salaries and annual allowance	369,200	224,667	369,200	224,667
	Due by related parties:				
	TIMOR GAP PSC 11-106, Unipessoal, Limitada	-	-	54,344	-
	Due to related parties:				
	GAP MHS (Aviation) Lda	3,000	3,000	3,000	3,000
18	**Taxation paid**				
	Withholding tax deducted at source - Petroleum taxation regime	-	39,942	-	39,942
	Withholding taxes on project management fees - advance payment of income tax	168,000	168,000	168,000	168,000
		168,000	207,942	168,000	207,942

Notes to the Consolidated Financial Statements

19 Financial Instruments

a) Financial risk management objectives and policies

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

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

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

b) Net fair value of financial assets and liabilities

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

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

c) Foreign Exchange Risk

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

d) Credit Risk

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

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

e) Liquidity Risk

Liquidity risk arises from the financial liabilities of the entity and the Company's subsequent ability to meet its obligations to repay its financial 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 2013**	**Group 2012**	**Company 2013**	**Company 2012**
Trade and other receivables	1,621,827	1,009,067	1,676,171	1,009,067
Cash and cash equivalents	1,913,375	2,967,001	1,908,810	2,962,001
Total financial assets	3,535,202	3,976,068	3,584,981	3,971,068
Financial liabilities				
Trade and other payables	976,896	745,431	976,896	745,430
Unearned contract fixed service fees and project advances	4,419,060	3,230,743	4,419,060	3,230,743
Total financial liabilities	5,395,956	3,976,173	5,395,956	3,976,173

20 Going concern

The financial report has been prepared on the going concern basis, which assumes the realisation of assets and the discharge of liabilities in the normal course of business.
The company incurred a net loss of $1,931,410 (group: $900,203) and used net cash in operating activities of $1,989,421 (group: $1,989,856) during the year ended December 31, 2013 and, as of that date, the Company's current liabilities exceeded its current assets by $1,810,975 (group: $1,860,754)

The ability of the company and the group to continue as going concerns is dependent on the receipt of government grants to fund their operations. During and subsequent to the end of the financial year the company relied on current liabilities for working capital until the annual government grant was received on 5 May 2014.

On 20 August 2014 the quota holders of GAP-MHS Aviation Lda an associate in whom TIMOR GAP has a 60% share, declared a dividend of $2,349,000 of which TIMOR GAP E.P. will receive 60%, this amount being $1,409,400, which should be received by September 2014. This money may not be sufficient to meet the company's working capital requirements until the 2015 government grant is received and therefore the company may require a supplementary government grant to meet its working capital obligations. The management of the company are currently re-forecasting their current working capital requirements and once this exercise has been completed appropriate action will be taken. Management are also currently finalising their 2015 budget submission to Ministry of Petroleum and Natural Resources which will take the above matters into account.

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

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

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
CPLP	Comunidade dos Países de Língua Portuguesa (Communities of Portuguese Speaking Countries)
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