



Autoridade Nacional do Petróleo

2009 Annual Report

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1 Message from the President – Chairman of the Board of Directors

It is with great pleasure that we present to you the 2009 Annual Report of the Autoridade Nacional do Petróleo (ANP) Timor-Leste.

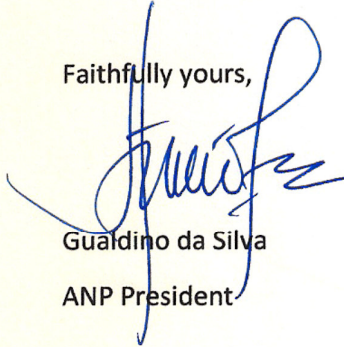
The ANP was only one and a half year old in December 2009, yet the challenges that it faced throughout the year were notably significant. Despite the challenges it faced, with the complementing roles of the executives and the Board of Directors, significant achievement was made both at the corporate level, and at the operational level with the PSC operators in which the ANP plays its role as the petroleum regulatory authority.

At corporate level, ANP managed to successfully establish its own medium term Strategic Plan covering the period 2009-2012. Further annual budgets and detail activities will be prepared based on the established plan. More policies and procedures were also established to better manage activities and resources within the organization. Another important highlight to note is the continuous investment for the staff capability development. Throughout the reporting period ANP staffs undertake trainings and internships with various training institutions and stakeholders, aiming for hands on experience and industry exposure which in turn will contribute to ANP.

At the regulatory level the ANP went through a great experience in assessing the Kitan Field Development Plan (FDP) in 2009. By the year's end, assessment for the KITAN FDP was already completed, awaiting the results of a third party review. In the area of safety, the ANP, for the first time, undertake safety inspections at the Bayu-Undan facility. Two safety inspections were conducted and the findings were acted upon accordingly by ConocoPhillips and its JV Partners. Further, an Emergency Response Plan (ERP) report was also completed following intensive consultation and a workshop between all relevant stakeholders in Timor-Leste. The report served as a base for future coordination between all relevant stakeholders for the establishment of an Emergency Response Unit catering for petroleum activities Offshore and Onshore in Timor-Leste. In the area of exploration, assessments for seismic survey's application of the PSC (JPDA) 101A and the drilling of wells in PSCs (JPDA) 06-102 and 06-103 were also completed. In the area of Production, various technical assessments were undertaken prior to granting approval to the second phase drilling campaign at the Bayu-Undan field. The drilling will continue until mid 2010. Amongst all the above, the completion of the draft regulation for the JPDA can also be considered another important achievement as the process has been in place for few years. The establishment of the regulation in 2010 will pave the way for a better resource management in the future.

To sum up, the 2009 ANP annual report covers information reflecting corporate activities and other activities related to the petroleum activities under the ANP's areas of jurisdictions. We hope that the report provides sufficient updates on the petroleum resource management in ANP's jurisdictions to public and we always welcome for suggestions and constructive criticisms for better presentation and improvement in the future.

Faithfully yours,



Gualdino da Silva

ANP President

2 Highlights

The 1st Anniversary of ANP



Figure 1 The Prime Minister delivering his speech at the ANP's Seminar



Figure 2 ANP's Seminar



Figure 3 ANP team in Maubessi & Mt. Ramelau

2.1 ANP Celebrates One Year Anniversary

In July 2009, the ANP celebrated its one year anniversary with its staff and stakeholders.

The celebration with the ANP staff was intended as a team building activity, which included visit to the district of Maubessi and hiking of Mount Ramelau.

Meanwhile the celebration with the stakeholders was organized through a one day seminar. The seminar was intended as a medium that would allow the ANP to reflect on its performance through the view of the stakeholders, such as the operators in the JPDA and TLEA, NGOs, and relevant government ministries.

At the end, the ANP team was certainly stronger than ever and it was able to see its reflection through the eyes of the stakeholders.

2.2 Kitan Commercial Discovery & FDP Assessment

Following the announcement of the Kitan Oil field discovery in 2008 processes have continued which would lead to transformation of the field into a producing field.

The first step to be achieved by the ANP and ENI is the approval of a Field Development Plan (FDP), which will become the agreed concept for the development of the field.

As required by the Production Sharing Contract (PSC), ENI shall submit its FDP within 12 months after the declaration of discovery, and it was submitted to the ANP in May 2009 for assessment and approval.

As the Kitan FDP was the first FDP to be assessed by the ANP and acknowledging its inexperience, the ANP had planned and budgeted for consultant services to assist in the assessment process.

The consultant services were acquired for several areas of specialties, including Exploration and Production, Commercial, Legal and HSE. The ANP was also able to acquired assistance from the Norwegian government through its Norwegian Petroleum Assistance Program (NPAP) for Timor-Leste.

The assessment process covered all aspects of the FDP and the ANP ensured that all the processes are well documented.

As the Designated Authority under the Timor Sea Treaty, the ANP is required by the PSC to seek consent from the Joint Commissioners prior to the approval of the FDP. Hence, the ANP provided a full report of the assessment and recommendations to the Joint Commissioners. The ANP is expecting the consent from the Joint Commissioners on the recommendation provided.

3 ANP Strategic Directions

3.1 Vision

To be a leading petroleum regulatory authority in the region and a model for institutional development in Timor – Leste

3.2 Mission

- To maximize revenue and multiply economic benefits;
- To maximize the participation of Timor – Leste in the development of its petroleum sector;
- To promote best Health, Safety and Environmental practices;
- To develop the institutional capacity of the Timor-Leste petroleum sector.

3.3 Goals

ANP has defined a number of “Strategic Goals” that will guide the organization. These are:

- Ensure that petroleum resources are effectively explored, developed, managed and regulated;
- Ensure that economic benefits are delivered to the contracting states;
- Maximize employment opportunities for Timor-Leste nationals;
- Develop organizational excellence;
- Promote and ensure best HSE practices;
- Regulate all downstream petroleum activities in Timor-Leste;
- Maximize economic activities of petroleum sector in Timor-Leste

3.4 Organisation Structure

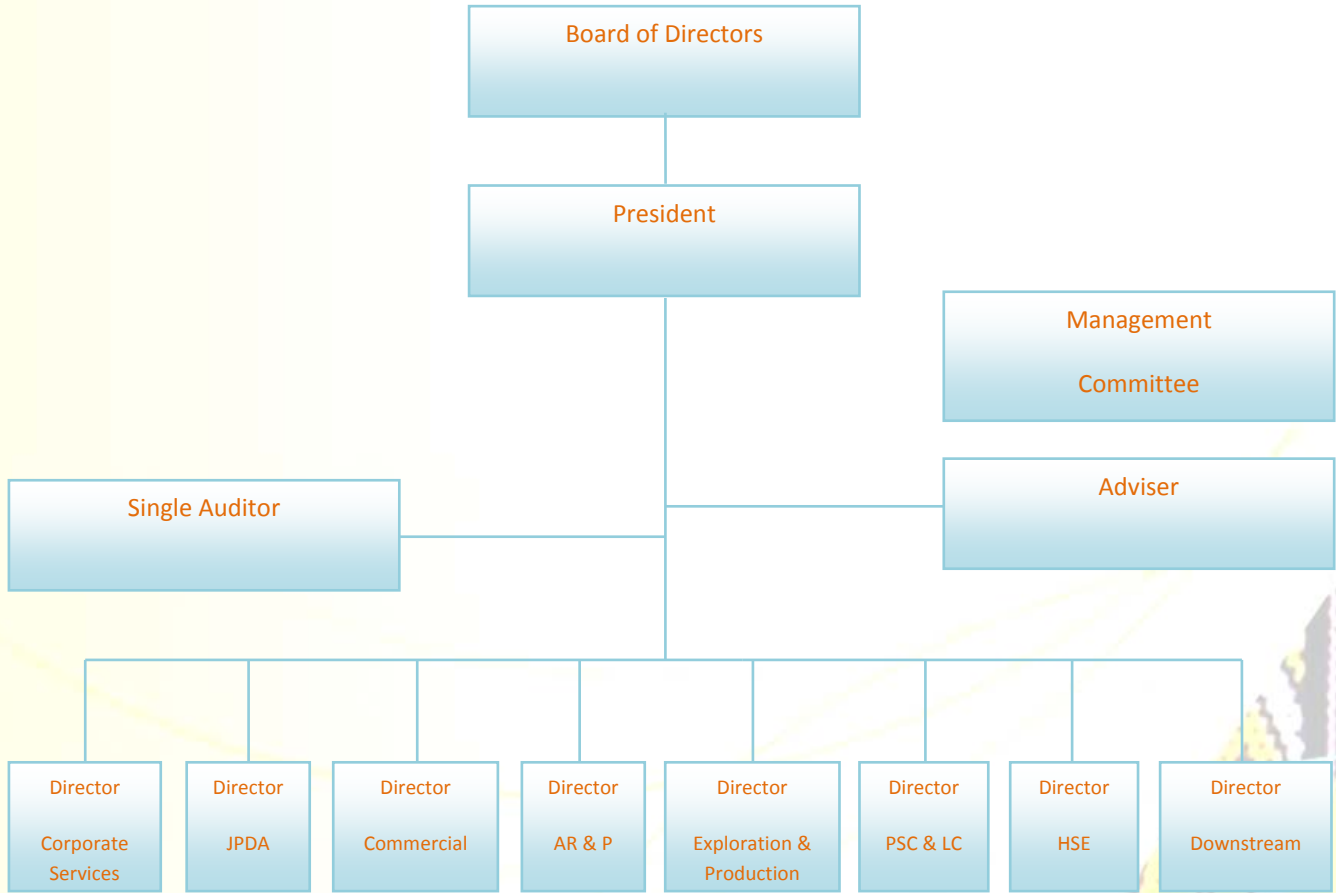


Figure 4 ANP Organisation Structure

3.5 Commissioners and Alternate Commissioners

“...The Joint Commission shall establish policies and regulations relating to petroleum activities in the JPDA and shall oversee the work of the Designated Authority;” (Article 6(c)(i) of the Timor Sea Treaty)

Therefore, in performing its function as the Designated Authority for the JPDA, the ANP continue to present quarterly report through quarterly meetings with the Joint Commissioners. The quarterly reports included the progress updates to the work program and budget approved for every financial year, the year to date expenditure of the organisation, updates on the activities in the JPDA and approvals that are necessary on certain part of the activities.

The membership of the Joint Commission for the JPDA is regulated under the Timor Sea Treaty. Article 6(c) (i) stated that: “The Joint Commission shall consist of commissioners appointed by Australia and East Timor. There shall be one more commissioner appointed by East Timor than by Australia”....

In 2009, the Joint Commissioners and Alternate Commissioners assigned to perform the role mentioned in the Timor Sea Treaty consist of:

1. Mr. Francisco da Costa Monteiro – Timor - Leste
2. Mr. Antonio Jose Loyola De Sousa – Timor - Leste
3. Mr. John Hartwell – Australia

The alternate commissioners are:

1. Mr. Vicente Lacerda – Timor - Leste
2. Mr. Bob Pegler – Australia

3.6 ANP Board of Directors

In ensuring equal representation of the upstream directors in the Board of Directors (BODs), it was decided that there should be a rotation of upstream directors to be part of the BODs. Hence, there are changes in BOD members for 2009.

The members of the ANP Board of Directors for 2009 are:

Gualdino da Silva ,BEng(GeoEng) Hons.
Chairman



Francisco da Costa Monteiro, PG Dipl, MSc
Member



Vicente da Costa Pinto, PG Dipl.
Member



Nelson de Jesus, SE
Member



Emanuel Angelo Lay ,M Comm.
(Member from Jan – June)



Rui Soares ,BEng (PetroEng) Hons.
(Member from July – Dec)



As the ANP enters into the second year, the Board of Directors dedicated its time to review and approve a number of corporate policies including its Institutional Strategic Plan for 2009 – 2012, and the 2010 Work Program and budget.

4 Achievements in 2009

4.1 Finalisation of ANP Action Plan for 2009 -2012

As a newly established organization, the management of ANP realized the importance of creating its Strategic Plan for the next three years. The Plan will act as the guide for corporate development of the organization and assist each directorate to perform its responsibilities effectively.

Since early 2009, the ANP was determined to establish an appropriate plan from 2009-2012.



The plan was established in such a way that representatives from all directorates were involved in initial discussions aiming to gather aspirations from all parties. In establishing the plan ANP also involved a third party consultant to ensure the appropriateness of the plan as a standard corporate plan.

Through the involvement and dedication of all the ANP staff, the plan was created and adopted by the end of 2009.

Figure 5 ANP 2009 -2012 Action Plan workshop

4.2 Emergency Response Plan Workshop

The workshop had been initiated by the ANP due to the increased petroleum activities and the lack of any formal Emergency Response Plan in both jurisdictional areas of ANP; the Timor-Leste Exclusive Areas (Onshore and Offshore), and in the JPDA.

As the oil & gas activities continue to increase the risk for possible disaster will also be higher, this signifies the greater need for an emergency plan to be created and adopted.

In accordance with the Timor Sea Treaty (Article 10) Australia and Timor - Leste will be equally responsible to ensure protection of environment and prevention of pollution in the JPDA.

Thus, both countries will need to be able to respond to such situations when the need arises.

Australian Government has its National Emergency Plan, which would allow it to cover for any emergency situations in its territory. However, the Timor - Leste government has not had in place a similar national plan. Hence, it is in the responsibilities of the ANP to ensure that Timor - Leste begins to consider this matter as a priority.

As a way of initiating such process, the ANP conducted a three day workshop on the creation of the Emergency Response Plan and this was conducted with involvements of the relevant government ministries in Timor - Leste.

The ANP will continue to liaise with the relevant government entities to finalize the report and recommending prioritization on the creation of the Emergency Response Plan.

4.3 Completion of draft JPDA Technical Regulation

Since early 2008, the oil & gas exploration activities have been increasing in the JPDA and this signifies a need to ensure that the activities will be well regulated.

In order to be able to regulate the activities in the JPDA, the ANP will need amongst other things, a solid and relevant legal framework. Such necessity then forced the ANP to review the existing Interim Technical Regulation and the revision process had allowed for clear identification of the gaps in the Interim Technical Regulation.

Therefore, the ANP initiated the drafting of a new Technical Regulation for the JPDA. The drafting process commenced in mid- 2008 and continued through 2009. This includes the socialization process with relevant government Ministries and NGOs. By the end of 2009, the draft Technical Regulation was ready to be reviewed by a third party prior to its submission to the Joint Commissioners for their initial appreciation. Public opinions on the draft will be sought following the completion of the Joint Commissioners initial appreciation in 2010.

5 Institutional Development

5.1 Policies Established

In 2009 the Corporate Services Directorate submitted several organisational policies and they were further approved by the Board of Directors. The policies had become the guidance for decision making processes and daily activities in the ANP.

The following is the list of ANP Policies approved and implemented since FY2008.

No	Code	Name	Remark
1	ANP/05/01/001	ANP Employee Manual Policy	Approved
2	ANP/05/01/005	Engagement of International Employees of ANP	Approved
3	ANP/05/01/035	ANP Value Code of Conduct Policy	Approved
4	ANP/05/01/036	ANP Equal Employment Opportunities	Approved
5	ANP/05/03/002	ANP Recruitment Policy	Approved
6	ANP/05/06/004	ANP Leave and Work Hours Policy	Approved
7	ANP/05/05/002	ANP Training Policy	Approved
8	ANP/07/08/001	ANP Asset Management Manual	Approved
9	ANP/06/06/007	ANP Travel Policy	Approved
10	ANP/09/01/001	ANP Information, Technology and Communication Policy	Approved
11	ANP/07/01/001	ANP Procurement Policy	Approved

Table 1 Approved policies

As a way of ensuring efficient implementation of the policies, a number of procedures corresponding to the policies were also established. These include:

- Training request and Evaluation Procedure (ANP/05/06/001)
- Recruitment and Selection Procedure (ANP/02/03/001)
- Purchasing Request Procedure (ANP/07/03/002)

5.2 Human Resources Development

5.3 Staffing levels within the ANP

By the end of FY 2009, ANP had fifty seven (57) staff of which 30% are female.

Out of the total number, six (6) were international, assisting in the specific areas such as Exploration and Development, Health, Safety and Environment, Commercial – Finance and Fiscal Assurance, Commercial – Legal, and Drilling and Production.

There was also a geological Advisor assigned to the ANP channeled through the Norwegian Petroleum Assistant Program (NPAP) to Timor-Leste. The advisor was assigned specifically to the Exploration and Production directorate and other relevant senior management team members. The program has been the fruition of the ongoing bilateral cooperation between the Timor-Leste and Norwegian Governments in the petroleum sector.

Realizing the increase of activities and responsibilities of the organisation, the management planned for additional recruitments in 2009. The positions advertised for recruitments were Local Content Officer, IT Officer – Network Administrator, and Executive Secretary. The recruitment processes for the new candidates were completed by the year's end and the selected candidates are scheduled to take office in early 2010.

5.4 Training & Professional Development of the ANP staff

The ANP value its staff as the most valuable resources for the success of the organisation. And in that, the organisation continues to provide each of the employees with necessary trainings. These include In-House, Professional, and Internship trainings to other relevant third parties outside Timor-Leste.

(a) In-house Training

There were four (4) training programs Implemented under this training category. The four programs were:

- English Course; Pre-Intermediate and Intermediate Classes,
- Basic First Aid Training - for all new staff,
- Strategic Plan and Action Plan Workshop for Management, Senior Officers, and Officers of the ANP,
- Certificate in Business Skills (CBS)

(b) Professional Training

Under this training category, staff are planned to attend training in courses relevant to each individuals role within their directorate. Professional trainings attended by the ANP staff during the period of this report are collectively listed below:

- Fundamental drilling and completion engineering.

- Process Plan Operation - Certificate II.
- Reservoir Engineering,
- Cultural Transformation Tools,
- IBM Lotus Domino 8.5 System and Administration BootCamp,
- Production Sharing Contract and International Petroleum Fiscal Regime,
- Negotiation Successful Gas and LNG Contract.
- NEBOSH
- Lead Auditor
- Sampling of Liquid Petroleum Products from Station Forecourts
- Economic of Downstream Oil
- Economic of Refining & Oil Quality
- Contract Risk Management & Assurance
- Dangerous Goods Acceptance & Shipping

(c) Internship Programs

As part of In-house and Professional trainings programs, staff secondment to various operators and relevant institutions were tailored for ANP selected staff to increase their exposure experience.

The following secondments occurred during the year:

- Drilling and Completion
- Reservoir Engineering
- Petroleum Geology

5.5 Organisational Performance Management

Considering the role of ANP as the Designated Authority for the JPDA and its responsibility in regulating oil and gas activities in TLEA, ANP's effort to ensuring continuous improvement in its performance is a priority.

In managing performance of the organization, the ANP employed several various methodologies including continued establishment of policies and procedures as a corporation, intensive HR development as well as performance reviews for all its staff at all levels, and the continues reviews of the execution of the approved work program and budget.

5.6 Single Auditor

As a continuation of setting up the internal audit function, below are the activities taken to accomplish its function:

1. The submission of the ANP Internal Audit Standard, ANP Internal Audit Policy, ANP Internal Audit Code of Ethic and ANP internal Audit to Board of Directors for Approval.
2. Reviewed the current risk management practices at ANP as well as provide recommendations to ensure that a foundation of good and sustainable practices are embedded into the culture of the ANP in order to be able to support the ANP in the achievement of its objectives.
3. The progress of setting up the function of internal audit will be continued in 2010.

The Single Auditor also participated in training to increase her knowledge and skill in internal audit as follows:

1. Joint the Finance and Fiscal Assurance – Commercial Directorate in field work activity.
2. Evaluating Internal Controls: A COSO Based Approach
3. PETRAD course of Petroleum Policy and Resource Management.

The Single Auditor had been continuing to provide advisory services to Board of Directors, Management and particularly to corporate finance including advice on systems of internal control, processes, procedures and policies.

6 Petroleum Regulatory Framework

The diagram below represents the legal framework applied by the ANP in regulating petroleum activities in the Joint Petroleum Development Area (JPDA) and Timor - Leste Exclusive Area (TLEA). These legal frameworks are the base for the requirements that the ANP had placed on the contract operators.



Figure 6 Petroleum Regulatory Framework

7 Contract Operators and their Contract Areas in JPDA

7.1 ConocoPhillips

As indicated in the Article 6 of IPMC, the contract operator represents the Co-Venturers in managing petroleum activities and in dealing with the Designated Authority. Hence, as the contract operator in JPDA 03-12 and 03-13, ConocoPhillips has been the main contact between the Designated Authority and the other Joint Venturers.

As a contract operator, ConocoPhillips has shown a high level of professionalism and dedication in conducting its daily activities and in maintaining professional relationship with the ANP.

7.1.1 JPDA 03-12 & 03-13

The Bayu Undan Field (BU) is a large gas – condensate field with a raw gas GIIP of approximately 8 Tcf including propane plus (C3+) in-place of 683 MMstb. The field is located in the Timor Sea and covers an area of over 243 Km².

Production from the field is supported by very strong aquifer support and by a partial recycling of lean gas. Total raw gas production is approximately 1.1bscf/day. This yields about 102,000 bpd of condensate and LPG. Approximately 500 MMscf/day is exported to the LNG plant in Darwin and the remaining gas is re-injected.

In 2009, the field was developed with nine producers wells (more than 7,000 acre/well spacing), four gas injectors wells and one water injection well.

Since the BU field is currently the only producing field in the JPDA, reporting on this contact area will be focussed on its production figures and on attempts to maintain a high production rate.

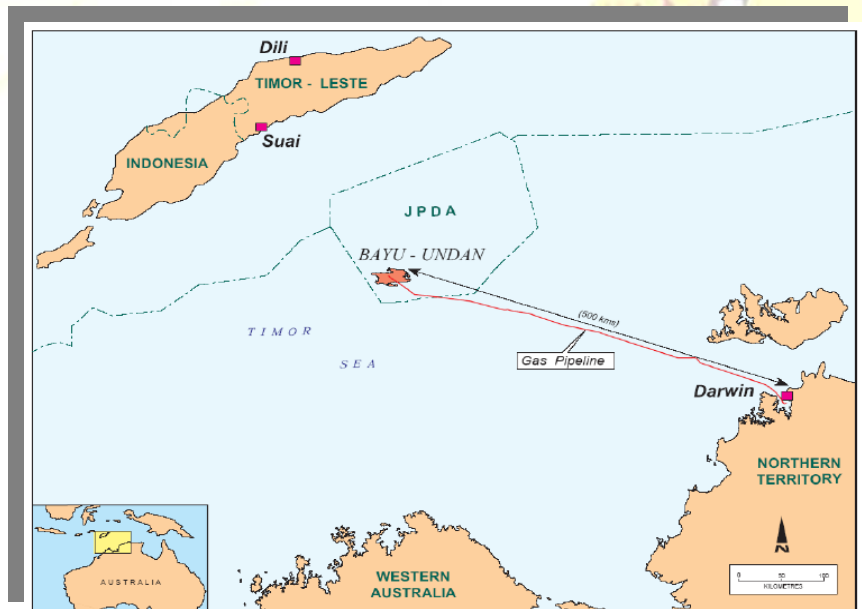


Figure 7 Map showing the location of Bayu Undan Field

Production
BU Gas Production 2009
(Msm3)

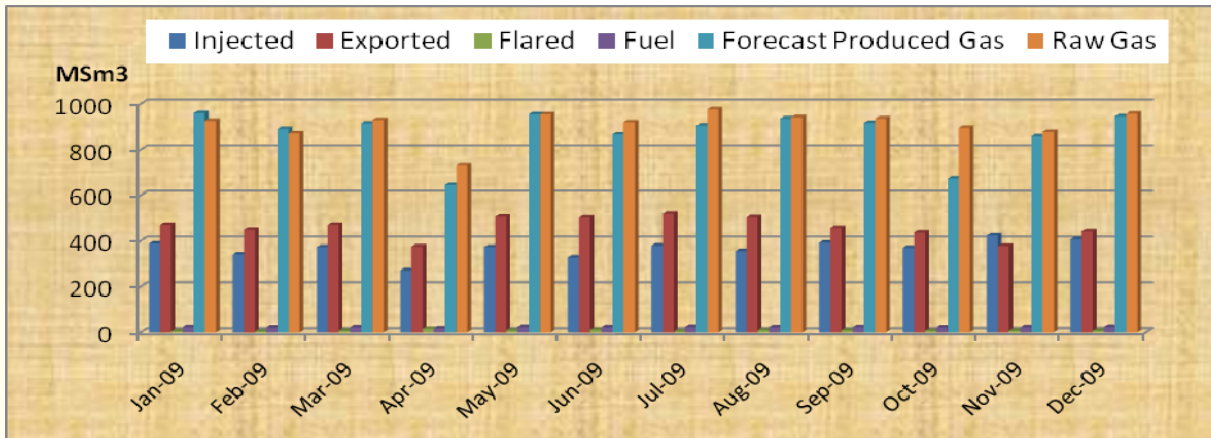


Figure 8 BU Gas Production 2009

BU Liquid Production 2009
(Msm3)

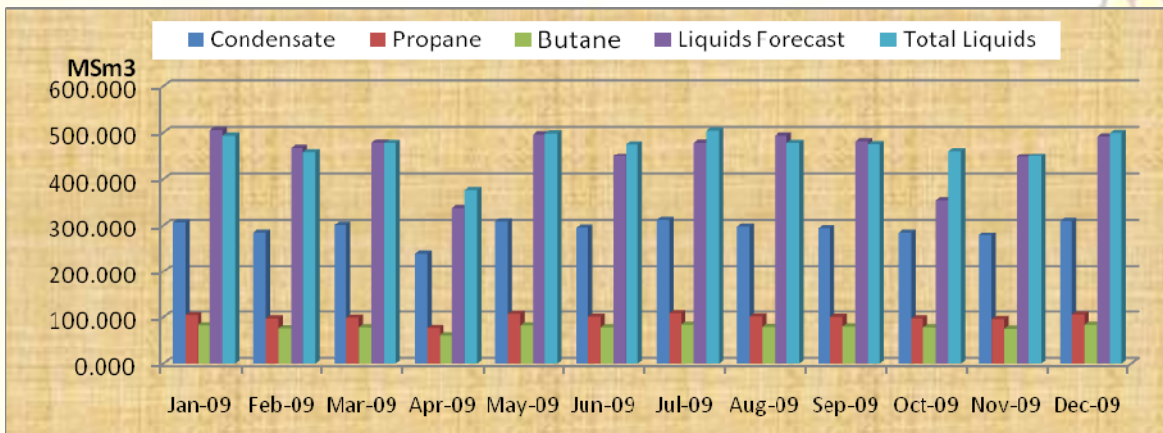


Figure 9 BU Liquid Production 2009

Total Year To Date Production of BU Field

	YTD - 2009		Cumulative from Feb – 2004 to Date	
	Sm3	Stb	Sm3	stb
Liquids Propone				
Opening Stock (01-Nov-09)				
Total Production	1,194,769	7,527,341	5,970,864	37,617,151
Total sales	1,203,592	7,582,929	5,960,272	37,550,955
Closing Stock (31-Dec-09)				
Butane	Sm3	Stb	Sm3	stb
Opening Stock (01-Nov-09)				
Total Production	943,365	5,940,448	4,898,896	30,850,432
Total Sales	950,376	5,984,592	4,890,041	30,793,232
Closing Stock (31-Dec-09)				
Condensate	Sm3	Stb	Sm3	stb
Opening Stock (01-Nov-09)				
Total Production	3,511,603	22,101,398	20,500,934	129,032,726
Total Sales	3,495,038	21,997,138	20,411,971	128,472,803
Closing Stock (31-Dec-09)				
Gas	Ksm3	MMscf	Ksm3	MMscf
Raw Gas Produced	10,912,095	385,357	59,068,776	2,085,994
Gas Injected	3,995,288	156,816	32,734,950	1,157,359
Export	5,063,332	194,427	20,006,867	706,539
PWC Gas Sales	29,393	1,038	29,393	1,038
Flaring	97,891	3,457	1,146,292	40,482
Fuel Gas	272,550	9,625	1,691,661	59,740
Produced Water	Sm3	Stb	Sm3	Stb
Water Injected	297,478	1,871,080	1,270,960	7,994,099
Water to Caisson	1,881	11,832	7,022	44,168
Total Produced Water	299,359	1,882,912	1,277,983	8,038,268

Table 2 Total Year To Date Production of BU Field

(a) Transport of Products

Condensate from Bayu Undan is transported to the market via an FSO, and the dry gas is transported via pipeline to an onshore facility in Darwin, Australia.

Dry export gas leaves the platform metering installation, travels 42 km to the border of the JPDA and from there it follows a 500km path, under constant pipeline monitoring, to reach Darwin at Wickham Point, Darwin, where it enters a metering station and reception facilities.

Four export pipelines transport Propane, Butane, Condensate and Fuel Gas from the DPP Platform to the FSO facility.

(b) Development of New Wells in the BU Field

BU Phase II Update

The year 2009 was an exciting year for both the ANP and ConocoPhillips, due to the realization of a four year plan to perform a second phase of drilling in Bayu Undan. The Second Phase drilling was conducted with the aim of improving the efficiency in production of oil & gas in the field.

The ANP was involved in meetings with the contract operator on several occasions, to review the submitted Phase II drilling plans and other relevant procurement issues. The plan involved drilling, as a side track of an existing well (D11ST3), a production well (D13ST1), a contingent water injection well (D16) and a Pilot well (W06) on the Wellhead Platform. The Pilot well will be approximately at a distance of 7kms from the main Bayu-Undan complex. The current schedule indicates that all the drilling activities can be completed by February 2010.

In preparation for the above, the ANP was involved in reviewing applications for the Drilling Rig (EnSCO 104), applications for various other contracts for support services and applications to drill, in compliance with the JPDA Interim Regulations. This also involved daily analysis and statistical reporting during the drilling activities.

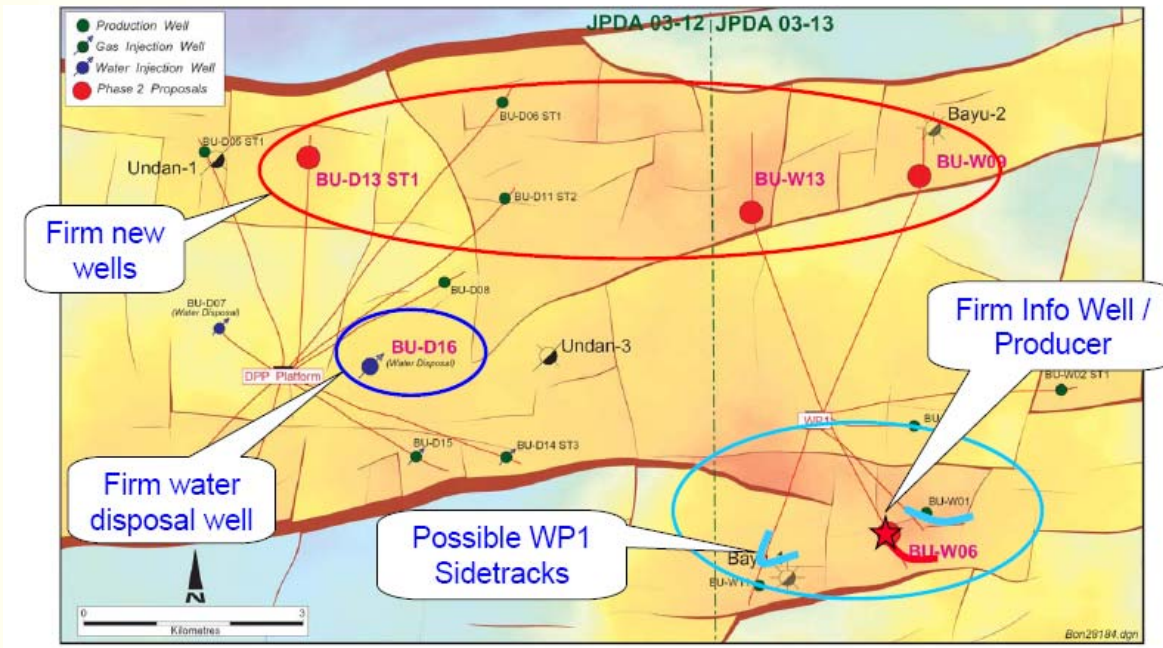


Figure 10 BU Top Reservoir Structure Map with existing and proposed phase 2 wells

		2009											
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Phase 2	Ensc 104				Rig-up D11WO	D11ST		D13			D16	W06 Pilo	

Figure 11 Drilling Schedule for BU Phase II campaign

Health, Safety & Environment

In general ConocoPhillips have been performing well in fulfilling its HSE requirements. It has shown great effort in its commitment to continuously improve in its HSE performance. Such commitment has been identified through the bi-annual inspections performed by the ANP in February and March 2009.

As stated, ConocoPhillips commenced its Second Phase Drilling Campaign in 2009. This drilling campaign increased activities in the BU field. Hence, detailed HSE preparation was also necessary for these activities.

In order to commence the second phase drilling program as planned, ConocoPhillips had to ensure that HSE documents were submitted and approved by the ANP.

Some of the documents submitted were:

- Safety Case for ENSCO 104
- Bridging documents for site specific activities
- Environment Management Plan for drilling

These documents were assessed and approved by the HSE Directorate prior to the commencement of drilling activity.

Even during this busy period in the Bayu Undan field, the types of incident which occurred were mainly minor and the number was considerably low.

There were no major accidents that caused any major injuries or environmental damage during the second phase drilling Bayu Undan. The drilling campaign is ongoing and will only be completed by the second quarter of 2010.

(a) EKKN Abandonment Process

In July 2007 ConocoPhillips made a commercial decision to end the production in the EKKN field due to the increase of water intake from the wells.

The decision to end the production meant that the field would have to be abandoned and decommissioned. The decommissioning process will have to follow the requirements indicated in the PSC and in the Interim Technical Regulations for the JPDA.

The decommissioning of EKKN field would involve detaching the FPSO from the mooring system, removing of the Sub-Sea Heat Exchanger, RTM, flow lines and other equipment.

As the operator, ConocoPhillips has shown its cooperation to fulfill the requirements for the decommissioning of the field.

ConocoPhillips and its sub-contractor has removed four Sub-Sea Heat Exchangers, flushed the flow lines for in-situ abandonment and attempted to re-use the equipment in the another field.

However, they were not able to execute all of the plans due to the inability to secure a commercial agreement for the equipment to be re-used in another field.

Hence, several revised decommissioning plans were submitted to be assessed and approved by the ANP. Plans included leaving the equipment on site, dumping the equipment in Timor - Leste waters and dumping the equipment in Australian waters.

The ANP, the relevant Timor - Leste Ministry and the Environment Ministry in Australia are reviewing the proposals for consideration of their approval.

Commercial

Bayu Undan (BU) operations in 2009 were considered stable with a slight reduction of revenue generated despite the fact that global energy demand was weak.

All petroleum products were successfully lifted or sold to the market either through term buyers or the spot market.

Darwin LNG (DLNG) had concluded its price reopen negotiation for 2009-2012 pricing. Incremental revenues have been higher as a result of the price reopen settlement. DLNG 2009-2012 negotiated price is considered a very positive outcome and in accordance with global market benchmarks.

First feed gas from BU via pipeline was delivered to Power Water Corporation (PWC) in July 2009. The supply of gas to PWC will be on emergency basis or during peak shaving. Additional revenue has been generated to stakeholders including the Designated Authority. There have been two extensions in the Deed of Variation to Gas Sales Contract with PWC.

Kitan Field Development Plan was submitted by Eni JPDA 06-105 in May 2009. The commercial team reviewed the economic part of the plan and had identified a few minor PSCs interpretation issues which both ANP and Eni agreed resulting in the full alignment of the economic models of the ANP and Eni.

(i) BU Marketing

Petroleum products produced from BU continue to be sold under term contract and spot sales for condensate, and under term contracts for LPG and LNG. Natural gas including LNG was also impacted by the weak demand in Japan and the global market. DLNG was fortunate to avoid

the effect of lower global demand mainly because of the buyers full support of the operation and by their lifting all their entitlements.

Marketing of BU products in 2009 was considered challenging for ConocoPhillips like other marketers in this sector especially when world energy demand was very negative.

Despite the effect of the world economic crisis, overall marketing results from BU have been positive with a slight reduction of revenues in all three products which was mainly the result of reduced oil prices.

Sales of Products from BU

Condensate

Condensate marketing was very challenging in the beginning of 2009 and throughout the year due to the fact that many refineries and petrochemical industries had slowed down their operating rates. Despite these pressures condensate was successfully marketed through various destinations, some new buyers were introduced and production levels were stable.

Total revenue received as FTP and Profit revenue in 2009 has decreased about 58% compared to the 2008 figure. The decreases were mainly driven by oil prices.

The graph below shows different buyers of BU condensate. GS Caltex was the dominant buyer of BU condensate followed by PTT Thailand.

GS Caltex and PTT Energy Thailand were the term buyers in the 2009 marketing program.

Condensate Customers

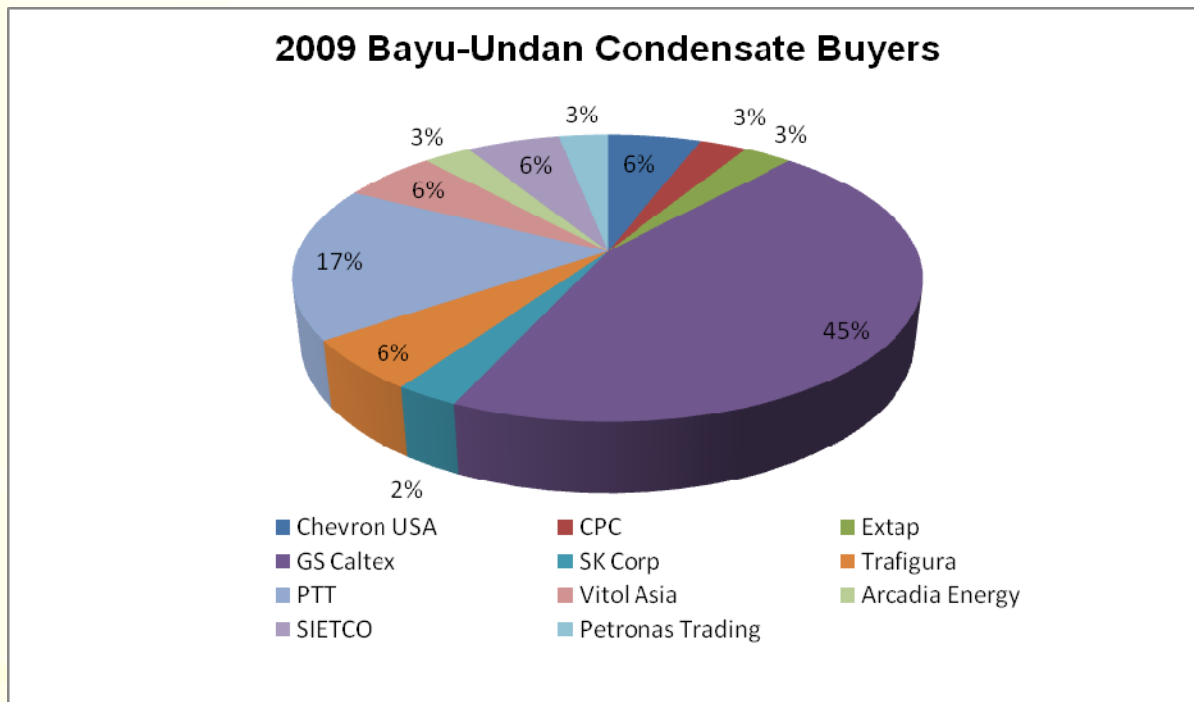


Figure 12 Condensate Customers

On the spot market, new customers including trading companies were introduced into BU condensate through spot sales. It is important to note that the ability to introduce BU condensate to new customers is fundamental as more competitors with new supplies are coming into the market at the same time that the market has been very weak.

Liquefied Petroleum Gas (LPG)

Contract with Astomos entered in 2008 was a two-year term contract, which means that ConocoPhillips will continue to sell its LPG to Astomos in 2009 and 2010.

During the year, LPG was lifted to almost 1.2 million metric tons by buyer. Total revenue generated from LPG sales was recorded at \$192 million. However, if this result is compared to 2008, it is almost a 56% drop of revenue receipts from previous year. Again, this was mainly driven by the drop of energy prices. In spite of that, terminal operation and lifting coordination has indeed minimized the demurrage costs and time waiting credits.

Liquefied Natural Gas (LNG)

Despite the fact of slow demand of natural gas in Japan and other parts of the world, Darwin LNG has successfully secured its contract volume with its existing buyers, Tokyo Electric and Tokyo Gas.

The outcome of price reopen discussions for period of 2009-2012 has been very positive with incremental revenue. Total incremental revenue resulting from this negotiation has been the significant component in the revenues stream generated in 2009. In fact, revenue received from LNG sales has recorded an increased compare to previous calendar year. This increased was mainly from the inclusion of feed gas sales to PWC.

During 2009, FTP in respect of LNG was recorded at over US\$ 46.6 million to the Contracting States. FTP from PWC gas sales was recorded about \$279,000 from July to Dec of 2009.

The following table shows the total LNG sold during 2009 and the amounts received by the contracting states.

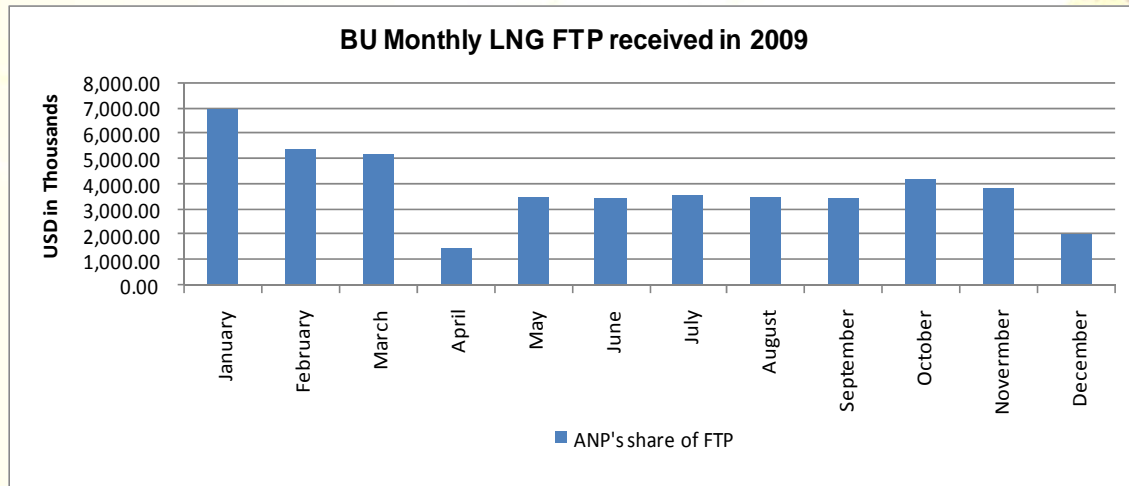


Figure 13 Bayu Undan Monthly LNG FTP received in 2009

(ii) Revenues Distributed to Contracting States

Consistent with the principles of the Extractive Industries Transparency Initiative, the ANP has compiled and reported its revenue distributions for 2008 year to the Contracting States into the EITI report.

During the year of 2009, FTP has decreased by 51% compared to last year whilst the value of Profit Oil & Gas also decreased significantly by 59%, from US\$1,418M to US\$892M. Overall revenue drop for 2009 was mainly reflective of the decreased energy prices.

Petroleum revenues received for contracting states was recorded at US\$1,021 million and these revenues have been distributed to Timor-Leste and Australia.

EITI report for 2009 would capture the details of revenue received and distributed that will be available in 2010 reporting.

The pie chart below illustrates the revenue component from the three products produced by BU produced. Condensate has been the primary revenue resource in the revenue stream, follow by natural gas and LPG (butane and propane).

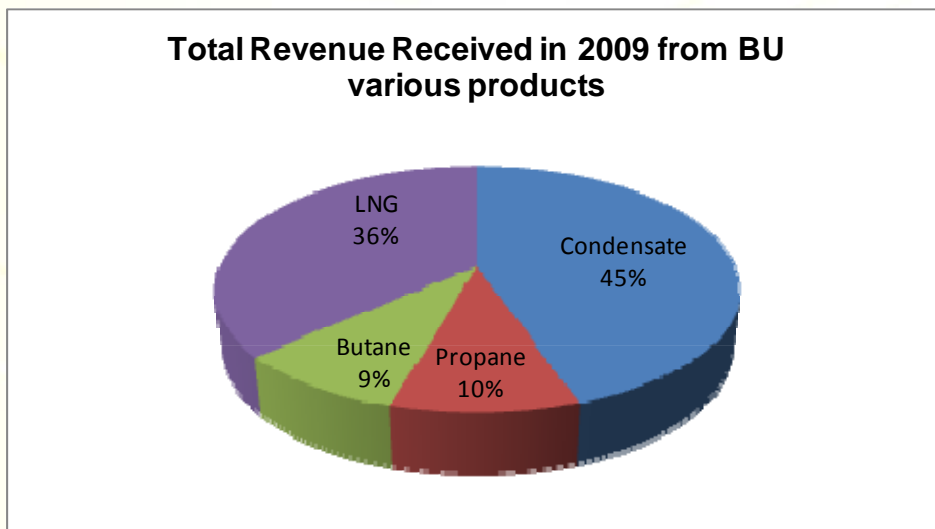


Figure 14 Total JPDA Revenue Received during 2009

Payments of Petroleum Revenues are distributed base on the actual receipts, therefore resulting in a timing difference between the royalty and profit revenue earned by the ANP during the year and the actual payments made to the Contracting States during the same period.

Exploration Costs

There was significant Exploration work undertaken by operators during the 2009 year.

Exploration wells drilled within JPDA during 2009 were:

JPDA 06-102 (Operator Petronas) – 2 Wells and

JPDA 06-103 (Operator Oilex) – 2 Wells

Other major exploration activity included seismic acquisition and interpretation in JPDA 06-101A by the operator Minza, pre-development feasibility and facility costs incurred within JPDA 06-105 by the operator Eni, and continued seismic analysis and interpretation work by Operators within the TLEA.

Table 3: Exploration Costs

	JPDA PSC					
	06-105*	03-19	03-20	06-101A	06-102	06-103
Expenditure by PSC						
Exploration Costs	37,503,000 -	1,448 -	7	942,458	90,159,348	65,759,655
Non Capital Costs						
Operating & Administration	10,306,000	8,752,563 -	115,454	368,690	2,129,127	1,539,108
Other	160,000	160,000	160,000	80,000	80,000	80,000
Capital Costs					5,000	
Other Costs						
Miscellaneous Receipts						
Net Expenditure	47,969,000	8,911,115	44,539	1,391,148	92,373,475	67,378,763

* Formerly PSC 03-01

Expenditure by PSC	TL Exclusive Area PSC					
	S-06-01	S-06-02	S-06-03	S-06-04	S-06-05	S-06-06
Exploration Cost	224,041	332,708	2,008,084	763,067	326,996	666,934
Non Capital Cost						
Operating and Administration	445,456	563,626	1,824,037	655,717	563,446	391,985
Other	42,000	60,000	85,140	69,300	42,503	77,480
Capital Costs						
Other Cost						
Miscellaneous Receipts						
Net Expenditure	711,497	956,334	3,917,261	1,488,084	932,945	1,136,399

Operator Audits

Under the PSC's entered into by Operators, there is a requirement for the Operator to provide an Independent Audit Statement on the Annual Reports provided to the ANP.

The PSC's list various reports that the Operator has to present to the ANP on a quarterly basis. The ANP only requires the Annual Report to be audited.

The ANP in agreement with Operators and their appointed independent auditors have, where possible, provided staff to attend these audits. This initiative is integral in the ANP's commitment to capacity building of the Timorese staff.

Audit activity expected to be completed in early 2010 include audits with all JPDA Operators except Minza Oil & Gas Limited for JPDA 06-101A.

Additionally the ANP has scheduled audits for the PSC's in the TLEA 2010, which will cover the first three years activities by the Operators.

Legal Commercial

(a) Darwin LNG Price Discussion

In late 2008, ConocoPhillips and LNG buyers entered into price discussions to apply for the years 2009-2012. Like many other long term LNG contracts with northeast Asia LNG buyers, the Darwin LNG contract also experienced the same situations where pricing had been disadvantageous for the Seller because of the increase of oil prices in late 2006 and onwards. The outcome of the discussion was reached in early 2009 for LNG pricing applicable to 2009-2012.

(b) Darwin LNG Helium Sale Discussion

ANP and ConocoPhillips have been discussing the issue of Helium sales since 2008. In 2009, both parties had resumed their discussions and they continue to believe, in good faith, that only negotiation would find a solution. This year, ANP is engaging a third party to assist and review the matter. ANP believes that the issue of helium needs to be resolved for the best outcome for both parties.

Local Content

Bayu-Undan local content projects include the employment and training of TL nationals, petroleum related infrastructure development, and the Corporate Social Responsibility (CSR) programs.

Recruitment of TL nationals has been undertaken since the commencement of the project in 2003.

TL nationals recruited for BU projects have gone through intensive training programs prior to their deployment offshore. The trainings included English language, basic safety and operation training, escape and safety training and oil and gas related training in Perth. As part the training programs the trainees are also assigned to DLNG in Darwin for exposure to the basic understanding of the operation.

Without taking into consideration TL nationals recruited for catering purposes, ConocoPhillip's direct and indirect employment of TL nationals by the end of this reporting period is thirty seven. TL nationals are deployed in various roles and responsibilities including trainees on FSO and CPP, on marine deck crews, in logistics and as scaffolders/riggers, and also in flange management.

Several other TL nationals have also been recruited to work onshore in TL. These TL nationals are prepared for various assistance roles in the Dili Office and on helicopter operations in Dili. Further few personnel from the ANP also attended internship programs in ConocoPhillips operations and offices. This was mainly focusing on some specific areas including LPG marketing in the Singapore office, drilling and engineering at the Perth office, and facility training offshore.

ConocoPhillips and its JVs, since the beginning of operations, have pledged to build a permanent Helicopter operation in Dili, Timor-Leste, to cater for Bayu-Undan operations. However, the plan has been put on hold, awaiting the government's future decision on a designated place.

In addition to the employment and petroleum related infrastructure programs, there have also been other Corporate Social programs undertaken in Timor-Leste. This initiative commenced in 2007. Programs executed under this category covered health, rural development, education,

and agriculture. Highlights of activities for the reporting period including, but are not limited to, refurbishment of Bidau Primary Schools, development of a literacy and book translation program for the Alola foundation, completion of the Maubessi community education centre, a 5 hectare reforestation program in the Taci-Tolu area, sponsoring 1st Lady ten kilometer fun run, and contributions to the USAID agricultural program.

7.2 Eni JPDA 06-105 Pty Ltd

Eni JPDA 06-105 Pty Ltd (40% Share), INPEX Timor Sea, Ltd. (35% share) and Talisman Resources (JPDA 06-105) Pty Ltd (25% share) are the Joint Venture Partners for contract area JPDA 06-105. As the contract operator selected by Joint Venture Partners, Eni has established a good relationship with the ANP.

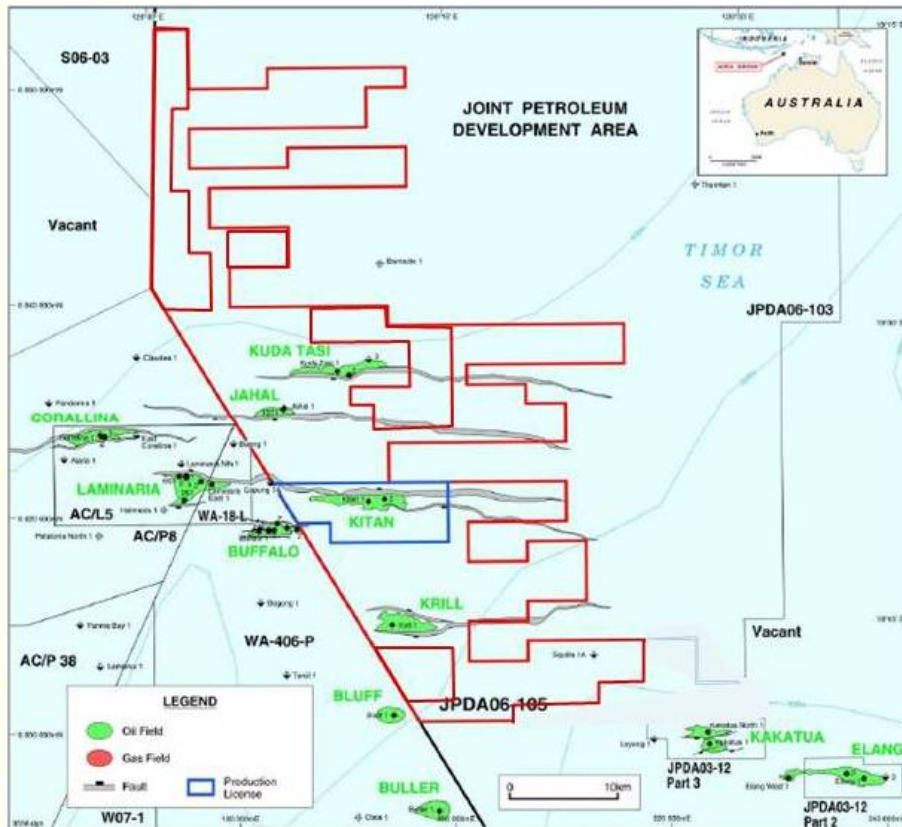


Figure 15 Block JPDA 06-105 map

7.2.1 JPDA 06-105 (Kitan)

The Kitan Development Area covers 123km² out of the 925km² of the PSC. The Kitan field is located in water depths ranging from 300 – 330 meters and is estimated to have recoverable oil reserves in the order of 34.6 million barrels.

Exploration

Interpretation of the new PSTM-processed Ikan 3D seismic survey was completed over Kitan, Jahal, Kuda Tasi and the northern leads and prospects. This mapping was an integral part of the evaluation of additional potentially drillable prospects in preparation for drilling in 2010.

In September 2009, 25% of the PSC area was relinquished as part of the Year 3 PSC work program obligation.

KITAN Field Development Plan (FDP)

Kitan oil field was discovered in 2008 and Eni spent most of 2009 preparing the Field Development Plan and planning for the commencement development. In May 2009, Eni and its Joint Ventures for JPDA 06-105 submitted the Kitan Field Development Plan to the ANP for assessment and approval. The ANP has been reviewing the plan and preparing for approval of the plan. The Field Development Plan stated the Mid Case oil reserves are 34.6 Mbbbl (base case) and that the peak production of the field is expected to be 40,000 bopd. The First Oil is currently forecast towards end of 2011.

Health Safety & Environment

Kitan field will be the second production facility in the JPDA and based on the requirements from the PSC & Interim Technical Regulation, ENI as the contract operator would need to comply with a number of HSE regulations.

According to Article 4.11 of the PSC, the Contract Operator will need to consider its HSE commitments within the FDP. These commitments would be demonstrated through the documents created to ensure implementation of mitigation measures the protection on the health safety and the environment.

Hence, ENI was required to submit a number of documents, such as:

- Safety Case
- Draft Environment Impact Statement
- Environment Impact Statement
- Environment Management Plan
- Oil Spill Contingency Plan

The documents listed above would need to be submitted to the ANP for assessment and approval.

Commercial

The Kitan Field Development Plan was submitted by Eni JPDA 06-105 in May 2009. The commercial team reviewed the economic part of the plan and had identified a few minor PSCs interpretation issues which both ANP and Eni agreed on which resulted in the full alignment of the economic models of the ANP and Eni.

Local Content

In 2009, the local content program for Eni JPDA 06-105 Pty Ltd focussed on activities associated with the Kitan Development . This included the discussions on the National Library Project; recruitment of TL nationals by Eni's contractors, FMC and Transocean; and the local content provision assessment under the Kitan Field .

Various discussions were held between ANP, the office of Secretary of State for Natural Resources(SERN), Eni, and the Ministry of Education on the conceptual ideas for the National Library project. By the year end, a steering committee and a working group had been established to respectively outline the strategic vision needed for the project and to outline the detailed actions through a phased approach. Concept definition for the project had already commenced by year end. In 2010, the focus will be directed to establishing the Basis of Design (BoD) for the project, and to make all necessary arrangements for construction. Another local content program has been the recruitment of a number of sixteen TL nationals for Transocean, Eni's drilling subcontractor. FMC, Eni's subcontractor for subsea installations, completed the recruitment of 7 trainees to work in Singapore from early 2010. In addition three TL nationals continue to be employed at Eni's Dili office in the areas of administration and social responsibility.

7.3 PC (Timor Sea 06-102) Ltd

PC (Timor Sea 06-102) Ltd [PCTSL] (50% share) is a subsidiary of PETRONAS Carigali Overseas, a Malaysian based company that had entered into exploration activities within the JPDA with three Korean JVs, Korea Gas Corporation (30% share), Samsung Corporation (10 % share) and LG Corporation (10 % share). PCTSL had been selected by the Joint Venture partners and approved by the Designated Authority as the contract operator for the block JPDA 06-102

7.3.1 JPDA 06-102

This block covers an area of 4,125km² and it is located in the southern part of the JPDA. The block is located in water depths of 80 – 100m

Exploration

As a preparation for the drilling campaign in the year 2009, PCTSL and JVs completed processing and interpretation of 645Km² of 3D seismic data over JDPA 06-102 in 2008. In accordance to their commitments, PCTSL and JVs plan to drill three wells in 2009, however due to the late arrival of the rig, the drilling campaign is expected to spill over into 2010. The Makikit-1 well was spudded on 19 September 2009 by the Ocean Shield jack-up rig (*as seen in the picture*), and reached a TD of 3,460 MDDF.

No commercial hydrocarbons were detected and further drilling of this target is planned as part of the on-going drilling program into the first quarter of 2010. Kurita-1 well was the second well

in the drilling campaign and was spudded on the 7th of December 2009, the objective of the well was the same as at Makikit-1; i.e. to explore the hydrocarbon potential of the Elang and Plover formations.



Figure 16

Ocean Shield

Drill Rig on operation in the block JPDA 06-102

Health Safety & Environment

This exploration activity in JPDA 06-102 had been performed with great HSE awareness and focus.

Prior to the commencement of the drilling activities in Makikit -A and Kurita -1 well, Petronas had to submit a number of documents to be approved by the ANP, which included:

- Safety Case for the drilling rig
- Bridging document
- Environment Impact Assessment
- Environment Management Plan
- Oil Spill Contingency Plan

These documents allowed the ANP to ensure that Petronas is committed to perform the drilling activities in safe manners with consideration on the protection of the environment.

Local Content

Local Content for the PSC (JPDA) 06-105 included the recruitment of 7 Timorese nationals working in the areas of administration, finance accounting, HSE, logistics and drilling engineering. The staff underwent training and internship programs in Malaysia.

7.4 Minza

Minza (100 % share) is a small sized oil company based in the United Kingdom and it had invested in the exploration activity in the JPDA as a single entity. Investing without any Joint Ventures meant that Minza is automatically the operator for JPDA 06-101(A).

7.4.1 JPDA 06-101(A)

This block is located at the south east of the JPDA with an area covering approximately 2,150km² of the JPDA.

Exploration

The Anita 2D seismic was completed by Minza on 7th of September 2009. Approximately 937 line km of data were acquired, resulting in over 800 km of full fold data, in comparison to Minza's minimum PSC commitment of 500 line km. The aim of the survey was to enhance the understanding of the Chuditch field and adjacent prospects in preparation for drilling a well in 2011(Contract year 5).

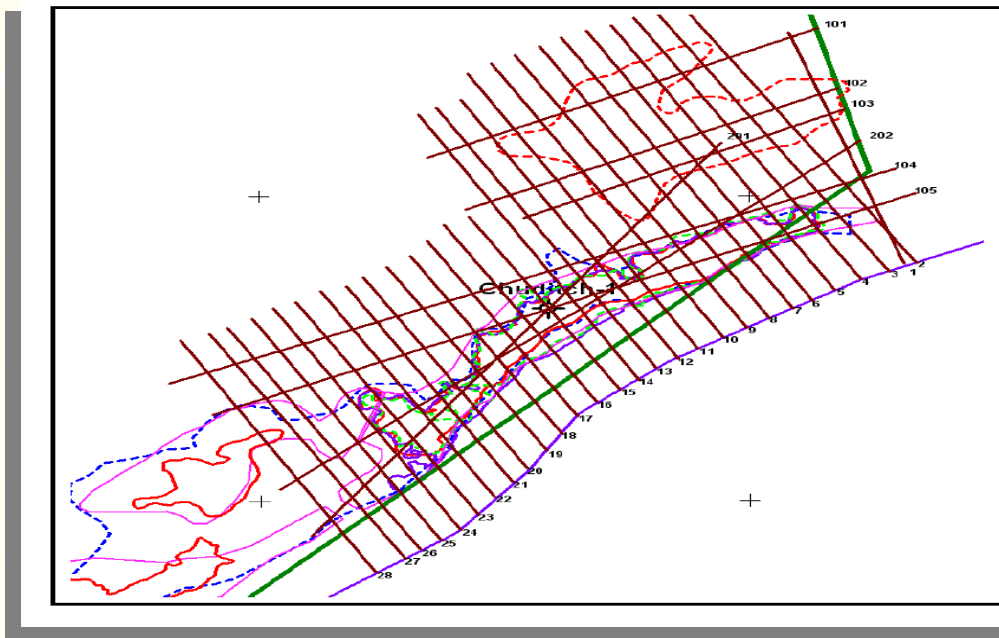


Figure 17 2009 2D seismic lines over block JPDA 06-101(A)

HSE

Based on the requirements in the Interim Technical Regulations for the JPDA, such seismic activity only required the submission of a Health, Safety & Environment Plan.

This plan incorporates vessel specifications, HSE policies and procedures and an Environment Management Plan. Additionally, an Oil Spill Contingency Plan will also be reviewed and, if found to be adequate, accepted by the ANP.

Local Content

By the year's end Minza recruited one TL geologist who has been assigned to its Dili office. The geologist also undertook marine safety training, specialized wireline log training in Indonesia, monitored the approved process and subsequent data processing for the seismic survey, after joining on board during the seismic acquisition in the contract area 06-101(A) in September 2009.

7.5 Oilex

Oilex is an Australian based company. It had entered into the petroleum activities in the JPDA with joint venture partners including GSPC, Bharat Petro Resources, and Videocon. Pan Pacific Petroleum and Japan Energy recently joined the Joint Venture through a farm-in arrangement. The equity interests of the permit holders are listed in the figure below. Oilex is the Operator of permit JPDA 06-103.

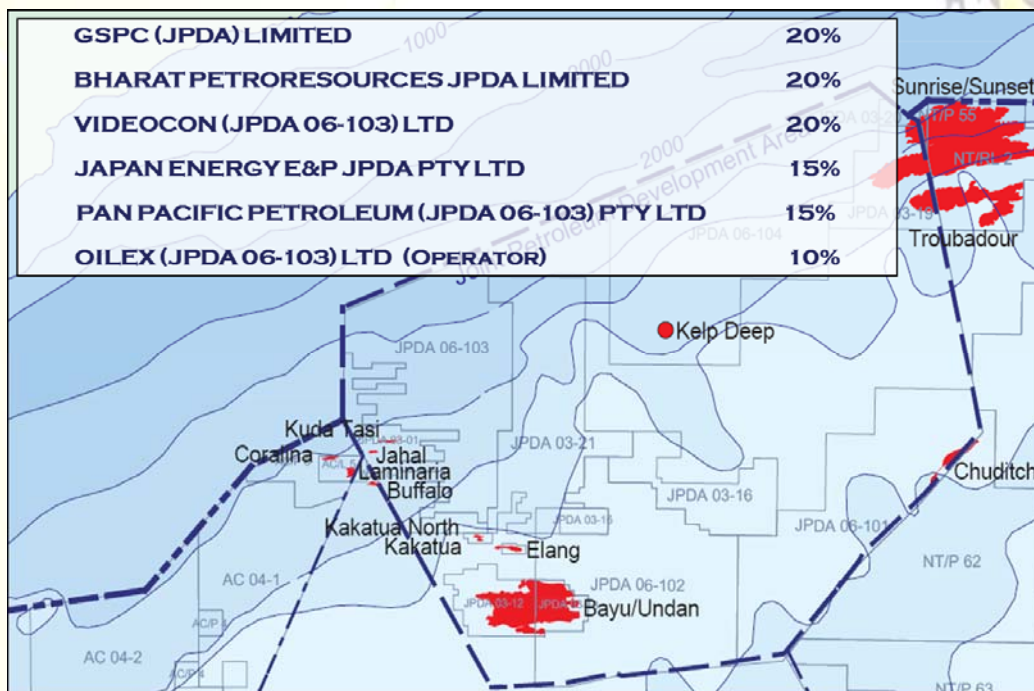


Figure 18 Oilex and Partners in JPDA 06-103

7.5.1 JPDA 06-103

As indicated in the map below, block JPDA 06-103 is located in the northwest part of the JPDA and it covers approximately 3,741km² in the JPDA.

Exploration

Oilex (JPDA 06-103) and Joint Venture partners had completed drilling two out of its four commitment wells in 2009. The two wells were drilled by the semi-submersible drill rig Songa Mercur over the period November 2009 to January 2010. The first well, Lore-1 reached a TD of 3,581m within the target Elang-Plover Formation. The second well, Lolotoe-1, reached a TD of 3,935m in the same formation. Although neither well detected movable hydrocarbons, trace amounts of oil and gas were found in the Lolotoe-1 well in the Flamingo Formation and in the Elang/Plover Formations in the Lore-1 well. The data and information gained from this program will be used in planning the remaining two commitment wells for 2010.

Commercial – Legal Commercial

In 2009 ANP was requested to approve two assignments of interest in the PSC JPDA 06 – 103.

First, the Operator Oilex (JPDA 06-103) Ltd assigned 15% of its interest to Japan Energy E&P JPDA Pty Ltd.

Second, Global Energy Inc, GSPC (JPDA) Ltd and Bharat PetroResources JPDA Limited each assigned 5% of their interests to Pan Pacific Petroleum (JPDA 06-103) PTY LTD.

HSE

In compliance with the requirements in the Interim Technical Regulations and Guidelines for the JPDA, Oilex was requested to prepare and submits the relevant HSE documents to the ANP.

The documents included, Safety Case for Songa Mercure, Bridging Document, Environment Management Plan for the drilling activity and the Oil Spill Contingency Plan.

Based on the Petroleum Sharing Contracts, these documents were requested to be submitted to the ANP 90 days prior to the commencement of the activity and they will be assessed and approved if found to be adequate.

Local Content

Initial discussions between ANP, Oilex, SERN, have been undertaken for the establishment of a Safety Training Center in Dili Institute of Technology (DIT). All parties addressed the terms and

conditions including plans for transfer of skills, standard and quality of the programs, and the roles and responsibilities between all parties. This is undertaken to ensure long term sustainability of the program in Timor-Leste. It is expected that the PSC commitment can be implemented in 2010.

7.6 Woodside Energy Limited

Woodside Petroleum is one of the Australia's largest publicly listed oil and gas company, which had invested in the JPDA with its Joint Venture Partners. Woodside was appointed by its Joint Venture Partners as the contract operator for their respective contract areas in the JPDA. The joint Venture Partners of Woodside Petroleum (33.44% share) are Shell Development (26.56% share), ConocoPhillips (30%), and Osaka Gas (10% share).

7.6.1 JPDA 03-19 & 03-20 (Sunrise)

Blocks JPDA 03-19 and 03-20 are located on the North Eastern part of the JPDA and both blocks cover an area of approximately 1,179 km².

Exploration

During 2009 Woodside and its JVs have been working on the interpretation of the reprocessed 3D seismic data over the field, as well as incorporating the results from the Sunrise 3 well. These studies were performed to mature their subsurface understanding. Further activities were focussed on the completion of concept studies following feedback provided by the ANP in the middle of the year. Woodside and its Sunrise (JPDA) Joint Venture partners confirmed to ANP, at the end of 2009, their readjustment of the Sunrise resource estimates from 7.67TCF of gas and 298MMBBL of condensate to 5.13TCF of gas and 288 MMBBL of Condensate.

ANP is yet to confirm its alignment to the resource readjustment of Sunrise.

.HSE

Due to lack of activities in these blocks, there were no HSE requirements needed to be performed.

8 Contract Operators and Their Contract Areas in Timor - Leste Exclusive Area

8.1 ENI

ENI Timor Leste SpA (80% share) has invested in exploration activities in the Timor - Leste Exclusive Area (TLEA) with Joint Venture partners GALP (10 % share) and KOGAS (10% share).

Exploration

The blocks within TLEA are covering a total area of 12,183 Km². The results of a 3D and 2D seismic survey carried out in 2008 were compiled and interpreted for delineating prospects for the drilling of two wells planned for 2010.

Eni Timor-Leste relinquished 25% of the blocks PSC S06-03, 04 and 05 as required at the end of their 3rd year of their PSC. However, one year extension was granted for the 25% relinquishment for the blocks PSC S06-01 and 02 in order to await the results of further geological and geophysical studies

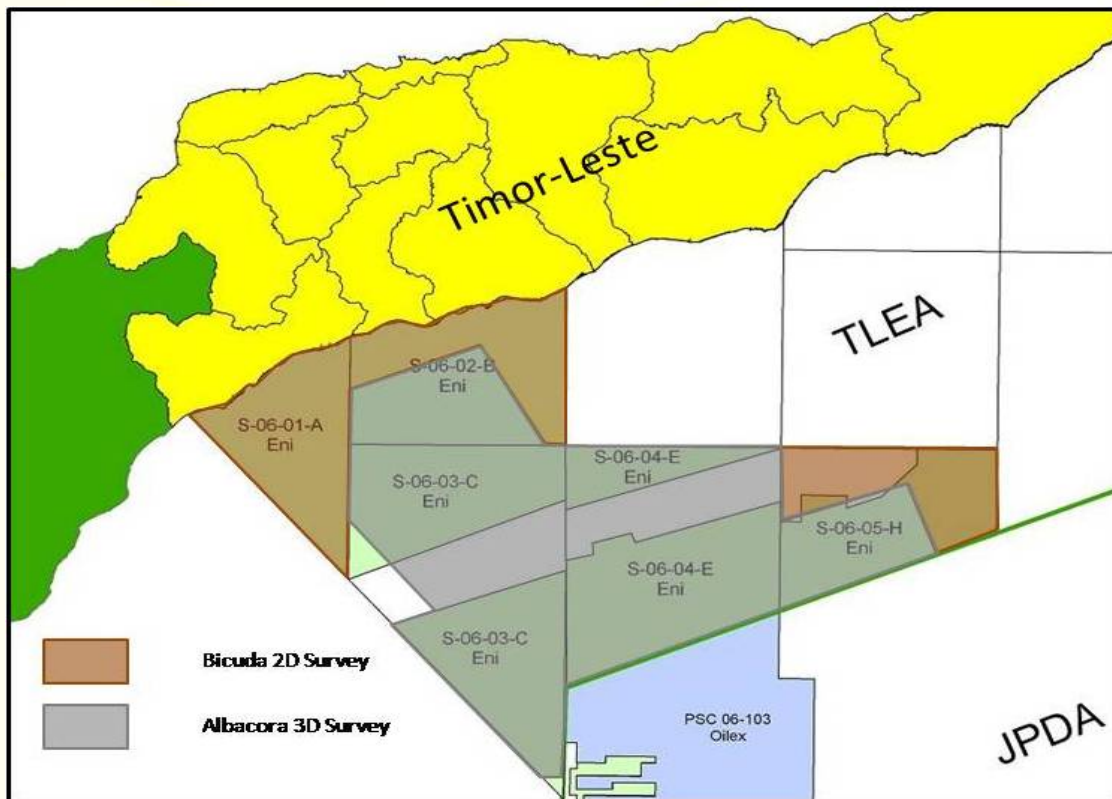


Figure 19 Map showing PSC S06-01–S06-05 with seismic coverage

Health & Safety

As part of the technical requirements for their activities, ANP requested that ENI fulfill their H&S requirements in a similar fashion to that implemented in the JPDA.

Due to the fact that the primary activity was the acquisition of seismic data, the ANP requested that a vessel HSE case should be submitted for approval.

Local Content

Local content programs of Eni Timor-Leste are attributed to five PSC areas: S06-01, S06-02, S06-03, S06-04, S06-05. For the period of this report, in line with its expenditure commitments, Eni has undertaken a range of programs:

With respect to education and training in petroleum-related activities, Eni TimorLeste has supported the development of a research program through the University of Western Australia (UWA), aimed at contributing to the knowledge of the petroleum geology of Timor-Leste. The program has included participation of Government staff during field trips and training of local technicians.

In addition, Eni Timor-Leste advertised for two Geology postgraduate scholarships to TL graduates in 2009. The two awardees have commenced their English course at UWA in 2010, prior to undertaking their graduate diploma studies in geology. The award of the scholarship was undertaken through a transparent and competitive process. ANP observed all the recruitment and selection processes whilst Eni and UWA representatives conformed a panel for all selection process, based on UWA requirements.

Following a similar selection process, Eni TimorLeste also awarded a scholarship to one Timorese postulant for the Master program in Management and Economics of Energy and the Environment (MEDEA), at The Eni Corporate University in Milan, Italy. This student successfully completed the program and returned to Timor-Leste in 2009. A further two candidates will participate in the MEDEA program during 2010.

In the area of petroleum related infrastructure, Eni Timor Leste is involved in the upgrade and refurbishment of the Geological Lab, located at the UNTL Hera campus, which includes the upgrade of the facility and laboratory equipment. Works on the lab will be completed in 2010.

Another petroleum infrastructure program undertaken in 2009 was is the preparation for the establishment of a descent core library in Hera. SERN has been in negotiation with the Ministry of Education and UNTL for a block of land within the premise of UNTL, in Hera. The two parties aim to sign an understanding on the matter in 2010. It is expected that all administrative issues

are addressed and the design, and the construction can begin by the end of 2010. Eni has been involved in discussions and aims to contribute towards this facility.

Eni Timor-Leste, apart from the commitment elaborated above, it also undertakes some other CSR programs in TL. This included the introduction of Initiative *Scuela* program, rural community development programs ranging from health, agriculture, and water sanitation.

8.2 Reliance Exploration & Production – DMCC (REPDMCC)

Reliance is an India based company, participating in Block-K PSC through its wholly owned subsidiary REP DMCC (75% share) as Operator along with its Joint Venture partners Indian Oil Corporation Limited (12.5% share) and Oil India Limited (12.5% share).

Exploration

Work undertaken by Reliance in the Initial Period of the PSC included:

- (a) reprocessing and interpretation of existing 2D seismic data (440 line kilometers),
- (b) acquisition, processing and interpretation of new 2D seismic survey (325 line kilometers), and
- (c) acquisition, processing and interpretation of new 3D seismic survey (1300km²) with the aim of assessing prospectively of the Block and identifying suitable prospects for drilling.

Reliance relinquished 25% of the PSC area at the end of Initial Period, and currently is in the Second Period of the PSC. Reliance had requested for an extension in the exploration period due to lack of availability of suitable deep water drilling rig in the market. The extension request was accepted and Reliance will be preparing for drilling in 2010. The drilling activity is planned to be conducted with the semi-submersible drilling rig, Blackford Dolphin or any other equivalent rig.

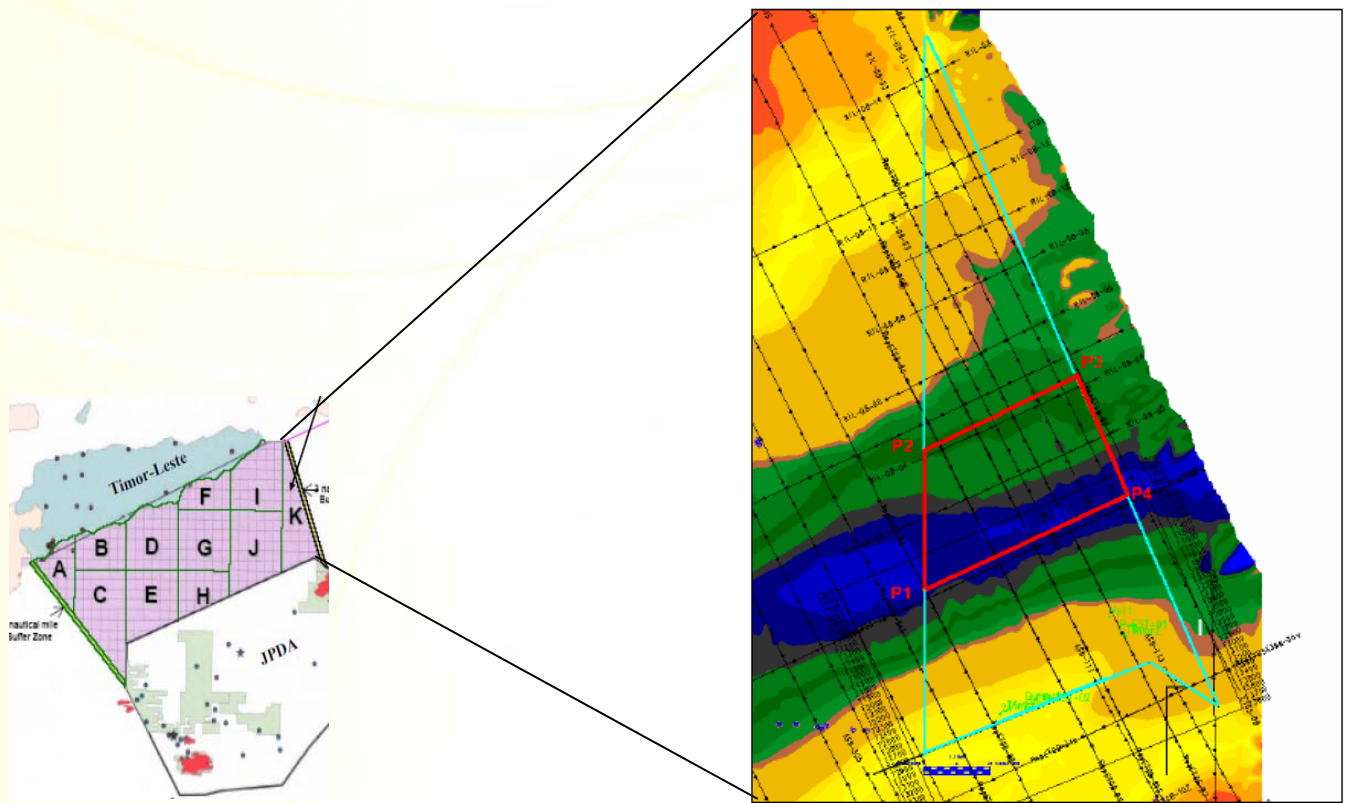


Figure 20 Map showing PSC block S06-06

Health & Safety

Due to the unavailability of deep water drilling rigs on the world market, Reliance was not able to perform its drilling activities planned for 2009. Hence there were no HSE requirements to be fulfilled.

However, Reliance was informed that they will be required to submit the Safety Case for the intended drilling rig to be used for any drilling activities in 2010. The safety case will need to be submitted to the ANP, 90 days prior to commencement of drilling activity. The Safety Case will be assessed for approval.

Commercial

As requested by Reliance Exploration and Production DMCC (REP-DMCC) ANP approved the assignment of interest in the PSC S-06-06 in favor of Oil India Corporation (OIC) and Indian Oil Limited (OIL) (Letter P/ANP/S/.08.0037, of 15 October 2008). As a result, the participating interest held by REP-DMCC, OIC and OIL in the PSC S-06-06 became respectively 75%, 12.5% and 12.5%.

8.3 Environment Assessment

Based on the current portfolio of the Secretary of State for Environment, it has been decided that the ANP will not be the responsible entity for reviewing and approving environment related documents for oil & gas activities within TLEA and onshore Timor- Leste.

Hence, oil companies will be requested to approach the Secretary of State for Environment to obtain the requirements needed to proceed with any oil & gas projects.

Local Content

Local content program under PSC S06-06 was not executed by the end of 2009. None the less all parties; SERN, ANP, and REP DMCC agreed that the commitment will be utilized to purchase geological mapping equipment for the ongoing geological mapping project which is managed under the office of SERN. It is expected that the purchase of the equipment will take place in 2010.

9 Downstream

9.1 General

Decree-Law no. 20/2008, of 19 June 2008, created the ANP entrusting it, amongst others, with the responsibility for regulating and supervising downstream activities in the country, including the use of petroleum infrastructure such as pipelines, terminals and transport infrastructure, as well as refining and processing activities. To achieve these goals, the ANP may approve regulations on technical aspects related to downstream activities, on the granting of authorizations to private entities and individuals and legal entities to carry out same activities, administrative procedures and duties, and sanctions applicable in case of non-compliance with same regulations. The Directorate of Downstream in 2009 started its work by having a qualified law firm assist the drafting of the legal framework for the downstream sector.

9.2 Downstream Legal Framework

The ANP, through its directorate, has started to establish a legal framework for the downstream sector. A Draft Decree-Law for the Downstream Sector and regulations for Fuel Quality Standards have also been prepared with the assistance of a third party which is the Miranda Law Firm. In the initial stages, the ANP has engaged a company called Intertek Australia Ltd. to perform a random fuel sampling in Dili, Timor-Leste, as the initial step for the establishment of regulations on fuel quality standards. The company conducted fuel sampling and testing, with the testing limited to diesel and petrol.

The draft Downstream Decree Law is aimed at regulating all petroleum downstream activities in Timor-Leste. Upon the approval of the Decree Law, various technical regulations will be further established by the ANP. These include regulations on fuel quality and specification, on the operation of fuel stations, on fuel storage and transportation and on other future pertinent matters.

The ANP started the process of calling for expressions of interest in early September 2009. Proposals were received from three law firm and one consulting company by the set deadline. Four proposals were finally assessed in accordance with the scope of work and the Miranda Law Firm was selected to perform the required activities. The draft law was presented to ANP by the end of the year, and will further be addressed for its submission to the Council of Ministers for approval in 2010.

10 Future Plans & Projects

10.1 JPDA

10.1.1 Acreage Release

Within 2010 ANP plans to announce its intension for a new licensing round, which is planned to take place around late 2011 to early 2012. In order to prepare for the coming licensing round, ANP will undertake prospect reviews, which might include new Seismic Spec Surveys over both TLEA and JPDA within the period from mid 2010 to late 2011.

A new road show and promotion is planned to take place between mid to late 2011 prior to the next licensing round. Besides the prospect reviews planning, the ANP has also been working on reviewing and finalizing PSC Models, and other interim Regulations to accommodate JPDA and TLEA as described below.

10.1.2 Finalisation of draft Technical Regulation

The process of drafting the Technical Regulations for the JPDA commenced in 2008 and the ANP aims at finalizing the draft by 2010. The drafting process has included review by lawyers within the ANP and external assistance from the Law Firm, SIMONSEN.

The ANP believes that the draft Technical Regulations will be able to cover the majority of the gap that currently exists in the Interim Technical Regulations. This would allow for a more efficient regulating process by the ANP.

10.1.3 PSC review

Through the execution of PSC's, the ANP has realized that there are certain areas of activity that are neither included nor well described in current PSC's.

Therefore, the ANP will be initiating a review process on the current PSC contract model and will identify areas for improvement.

10.2 TLEA

10.2.1 Drafting of Technical Regulation

Unlike the JPDA, Technical Regulations for the TLEA have not been created. Hence, petroleum activities in the TLEA have only been regulated through the Petroleum Act and by operation of the various PSC contracts.

This indicates the obvious need to draft new Technical Regulations, which will assist the ANP to regulate and the operators to plan for their activities.

Thus the ANP has initiated seeking professional assistance in the drafting of the Technical Regulations for the TLEA.

10.2.2 PSC review

As the regulator for the TLEA, the ANP has experienced difficulties in ensuring compliance with the requirements of PSC contracts. There are a number of factors that have contributed to such issues and one of the factors is the legal framework. Hence, the ANP has taken the initiative to commence a PSC review in 2010.

10.2.3 Downstream

ANP plans to submit the Downstream Decree Law to the Council of Ministers for approval in 2010.

The approved Decree Law will serve as the basis for the establishment of various technical regulations required to better manage downstream petroleum activities in T-L. Necessary inspection and monitoring activities will be launched immediately the approved Decree Law is reviewed and accepted by the public and by the relevant stakeholders.

11 ANP Financial Performance

As a financially independent institution, the ANP routinely monitor its financial performance. This is performed through annual financial audit and quarterly monitoring of budget expenditure. The ANP ensures that the approved budget is executed according to the approved work program.

Below are the 2009 financial report and the 2010 approved budget.

11.1 ANP 2009 Financial Year

Financial Statement per 31 December 2009 (Audited)			
		Actual	Budget
Development Fees	\$	3,064,000.00	\$ 3,064,000.00
Contract Services Fees	\$	1,040,000.00	\$ 1,040,000.00
Income from Timor Leste Government	\$	1,000,000.00	\$ 1,926,765.48
Interest	\$	1,661.00	\$ -
Net Gain in Foreign Exchange	\$	19,871.00	\$ -
Other Income	\$	17,821.00	\$ -
Total Income	\$	5,143,353.00	\$ 6,030,765.48
Employee Cost	\$	2,031,245.00	\$ 2,501,843.33
Depreciation and Amortisation	\$	180,141.00	\$ -
General and Administration	\$	2,026,180.00	\$ 3,044,644.82
Contingency	\$	63,605.00	\$ 591,625.32
Total Expenditure/Budget	\$	4,301,171.00	\$ 6,138,113.47
Surplus/Deficit	\$	842,182.00	\$ (107,347.99)

Table 4 ANP financial statement 2009 (Audited)

The ANP's total actual expenditure for 2009 was USD 4,301,171.00. This represents 84% of the total actual income received of USD 5,143,353.00.

12 ANP Corporate Initiative

The ANP believes that the population should be informed about the roles and responsibilities of the ANP. Thus, the institution has taken the initiative to continuously disseminate information to the public by a number of methods, including the Expo and joining KKFP and EITI in providing presentation material and information for the districts.

The ANP also has social activities, which are intended to give support to the community. The ANP makes every effort to make a positive difference to community life as an integral part of its activities.

12.1 ANP Promotion and Public Awareness

12.1.1 District Presentation

The ANP has actively participated in the dissemination of information related to petroleum into districts in Timor – Leste that is organized by local non-governmental organizations, by the Petroleum Fund Consultative Council (PFCC) and by the Extractive Industry Transparency Initiative (EITI). The aim of the ANP is to promote transparency on how the petroleum resource is managed by the ANP for the public benefit.

Information presented to the districts normally consists of legal, technical and commercial information in a form as simple as possible to aid local understanding. However the ANP also provides as much detail as necessary, depending on the audience.

In total through the year there were twelve district visits undertaken by the ANP as part of its public awareness effort. These visits were in response to invitations from the Petroleum Fund Consultative Council (KKFP) and from the Extractive Industry Transparency Initiative (EITI).

12.1.2 Dili Trade Expo

Another public awareness initiative from the ANP was ANP attendance at the Dili Trade Expo. The ANP organized a booth and displayed information on current activities offshore and future activities onshore.

This attendance was an effort to provide information to local entrepreneurs on the potential to be involved in future oil and gas activities.



Figure 21 ANP participation at Dili Trade Expo

13 ANP 2009 Social Activities

(a) Donation to Maubessi Parish

It has become a routine for the ANP to ensure that it undertakes social activities which contribute to community development or improvement.

In 2009, ANP provided some of its used computer equipment for Maubessi Parish, where it would be utilized to provide training for the youth in the area.



Figure 22 Donation to Maubessi Parish

14 Appendices

14.1 List of abbreviation

2D	: Two Dimension
3D	: Three Dimension
ANP	: Autoridade Nacional do Petróleo
bbls	: Barrels
Bpd	: Barrels per day
BU	: Bayu Undan
CPP	: Central Processing Platform
CSR	: Corporate Social Responsibility
CUQ	: Central Utilities and Quarters
DA	: Designated Authority
DLNG	: Darwin LNG
DPP	: Drilling Production Platform
EITI	: Extractive Industry Transparency Initiative
EKKN	: Elang Kakatua and Kakatua North
ETE	: Extend The Edge
FDP	: Field Development Plan
FSO	: Floating Storage Offloading
FTP	: First Tranche Petroleum
HSE	: Health Safety and Environment
IPMC	: Interim Petroleum Mining Code
JC	: Joint Commission (ers)
JPDA	: Joint Petroleum Development Area
JVs	: Joint Ventures
LABEH	: Lalenok ba Ema Hotu
LNG	: Liquefied Natural Gas
LPG	: Liquid Petroleum Gas
m	: meter
M	: Million
m ³	: Meter Cubic
MDDF	: Meter Drill Floor
MMscf/day	: Million Standard Cubic Feet per Day
MMstb	: Million Standard Barrels
Msm ³	: Million Standard Meter Cubic
NGO	: Non Governmental Organisation
PSC	: Production Sharing Contract
PSTM	: Pre Stack Time Migration
PWC	: Power Water Corporation
REPDMCC/REP dmcc	: Reliance Exploration and Production Dubai Multi Commodity Centre
RTM	: Riser Turret Mooring

SERN : Secretria de Estado dos Recursos Naturais
Sm3 : Standard Cubic Meter
Stb : Standard Barrels
Tcf : Trillion Cubic Feet
TD : Target Depth
TL : Timor-Leste
TLEA : Timor-Leste Exclusive Area
TSDA : Timor Sea Designated Authority
UNTL : Universidade Nacional Timor - Leste
YTD : Year To Date

15 Attachment

15.1 *Audited Financial Statement for Jan – Dec 2009*

Please find the ANP Audited Financial Statement for Jan – Dec 2009 in the following pages.

AUTORIDADE NACIONAL DO PETRÓLEO

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2009

**AUTORIDADE NACIONAL DO PETRÓLEO
YEAR ENDED 31 DECEMBER 2009**

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DIRECTORS' DECLARATION


In accordance with a resolution of the directors of Autoridade Nacional do Petróleo ("the Authority"), in the opinion of the directors:

- (a) the financial statements of the Authority are drawn up so as to present a true and fair view of the financial performance and cash flows of the Authority for the year ended 31 December 2009, and the financial position of the Authority as at 31 December 2009.
- (b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of Management



Gualdino da Silva
President



Dionísio Martins
Director Corporate Services

DILI

Date: 19/5/10

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Autoridade Nacional do Petróleo

We have audited the accompanying financial statements of Autoridade Nacional do Petróleo which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Autoridade Nacional do Petróleo as of 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Merit Partners



Matthew Kennon
Director

Darwin, Australia
Date: 19/5/2010

Merit Partners Pty Ltd
ABN 16 107 240 522

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a scheme approved
under Professional
Standards Legislation.

AUTORIDADE NACIONAL DO PETRÓLEO

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

(Expressed in United States Dollars)

	2009	2008
Note	\$	(six months) \$
INCOME		
Revenue		
Development Fees	3,064,000	1,588,000
Contract Service Fees	1,040,000	523,205
Income from Timor-Leste Government	1,000,000	241,520
Interest	1,661	11,229
Net gain in foreign exchange	19,871	-
Other income	17,821	-
TOTAL INCOME	5,143,353	2,363,954
EXPENSES		
Employee Benefits	(1,989,130)	(816,888)
General and Administration	(2,068,295)	(709,075)
Depreciation and Amortisation	(180,141)	(51,830)
Contingency	(63,605)	-
Net loss in foreign exchange	-	(46,867)
TOTAL EXPENSES	(4,301,171)	(1,624,660)
SURPLUS / (DEFICIT) FOR THE YEAR	842,182	739,294
Other Comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	842,182	739,294

The above statement of comprehensive income should be read in conjunction with the accompanying notes

AUTORIDADE NACIONAL DO PETRÓLEO

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009 (Expressed in United States Dollars)

	Note	2009 \$	2008 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		4,071,615	3,445,336
Trade and other receivables		34,235	19,073
Other non financial assets		7,915	3,782
Total Current Assets		4,113,765	3,468,191
NON-CURRENT ASSETS			
Property, plant and equipment		400,330	244,785
Intangibles		95,399	14,151
Total Non-Current Assets		495,729	258,936
TOTAL ASSETS		4,609,494	3,727,127
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables		179,764	163,595
Provision for annual leave		52,235	28,219
Prepaid contract service fees		642,849	642,849
Total Current Liabilities		874,848	834,663
TOTAL LIABILITIES		874,848	834,663
EQUITY			
Initial contribution		2,153,170	2,153,170
Accumulated funds		1,581,476	739,294
Total Equity		3,734,646	2,892,464
TOTAL EQUITY AND LIABILITIES		4,609,494	3,727,127

The above statement of financial position should be read in conjunction with the accompanying notes

AUTORIDADE NACIONAL DO PETRÓLEO

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009 (Expressed in United States Dollars)

	<u>Capital Contributions</u>	<u>Accumulated Funds</u>	<u>Total Equity</u>
At 1 January 2009	2,153,170	739,294	2,892,464
Capital Contributions	-	-	-
Surplus / (Deficit) for the year	-	842,182	842,182
At 31 December 2009	2,153,170	1,581,476	3,734,646

The above statement of changes in equity should be read in conjunction with the accompanying notes

AUTORIDADE NACIONAL DO PETRÓLEO

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009 (Expressed in United States Dollars)

	2009	2008 (six months)
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		
Fees from Operators	4,104,000	2,308,000
Income from Timor-Leste Government	1,000,000	241,520
Interest Received	1,661	11,229
Less: Personnel Costs	(1,938,444)	(788,669)
Less: Other Operating Expenses	(2,078,220)	(707,460)
Less: Contingency expenses	(63,605)	-
Net cash flow from operating activities	1,025,392	1,064,620
CASH FLOW FROM INVESTMENT ACTIVITIES		
Proceeds on disposal of property, plant & equipment	12,531	-
Proceeds from investments	5,290	-
Purchase of intangibles	(119,898)	(13,943)
Purchase of property, plant & equipment	(297,036)	(100,067)
Net cash flow (used in) investment activities	(399,113)	(114,010)
CASH FLOW FROM FROM FINANCE ACTIVITIES		
Cash received from preceding Authority ¹	-	2,494,726
Net cash flow from finance activities	-	2,494,726
Net increase in cash and cash equivalents	626,279	3,445,336
Add opening balance carried forward	3,445,336	-
Cash and cash equivalents ending balance	4,071,615	3,445,336
Comprising:		
Cash on hand and at banks	4,071,615	3,445,336

1. Represents the closing Cash and Cash Equivalents of Timor Sea Designated Authority.

The above statement of cash flows should be read in conjunction with the accompanying notes



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