



Timor Sea Designated Authority

for the Joint Petroleum
Development Area

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2004

Annual Report

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Annual Report 2004

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1 EXECUTIVE SUMMARY

Timor Sea Designated Authority's ('TSDA') Mission Statement –

“Recognising the benefits that will flow to both Timor-Leste and Australia, the Timor Sea Designated Authority (“DA”) shall manage the development of petroleum resources in the Joint Petroleum Development Area (“JPDA”) in accordance with the Timor Sea Treaty having regard to the health and safety of all personnel, protection of the environment, economic efficiency, transparency, the development of the institutional and human resource capacity of the Timor-Leste petroleum sector, and good oilfield practice”.

The TSDA regulates petroleum operations conducted in the Joint Petroleum Development Area ('JPDA') on behalf of Australia and Timor-Leste. In addition to a traditional regulatory role the TSDA is also a contract partner with the oil and gas companies that operate in the JPDA under production sharing contracts ('PSCs'). As a party to these contracts, the TSDA has an active role in ensuring that the governments' share of the oil and the gas is handled in such a way that government income is maximized. The TSDA is also responsible for the drafting of the laws and procedures which provide the regulatory framework for petroleum activities in the JPDA.

This year has been a productive and rewarding year and our organisation has continued to build upon the achievements of 2003. Consistent with the Timor Sea Treaty, we have invested considerable time and effort into the development of the skills and expertise of our Timorese staff. This investment in training coupled with the employment of additional staff has contributed to the further improvement of the TSDA as an institution. The role of capacity building in Timor-Leste, also means providing as much information as possible to the wider public, including the regional centres of Timor-Leste where communication is difficult, about the TSDA's functions and responsibilities, and about the larger picture of Timor-Leste oil and gas.

It has also been a significant year at an operational level. The year saw the first production from the Bayu-Undan gas and condensate field. Celebrations were held on 19 May 2004 on the Bayu-Undan platform to mark this important occasion in the life of the JPDA. By year's end LPG and condensate production from Bayu-Undan had reached nearly 6 and 13 million barrels respectively. This dramatic increase in JPDA petroleum volumes being sold into the international market, mostly Asian, has also required an added focus by the TSDA on issues concerning the marketing and sale of petroleum.

The transition from development into production for the Bayu-Undan project resulted in a significant number of approvals being required from our Technical Directorate. I am pleased to say that our Technical Directorate performed admirably and were able to process all of the relevant approvals and decisions in a timely and professional manner.

The TSDA also forged stronger links with other regulatory agencies. A Memorandum of Understanding ('MoU') between the TSDA and the Australian National Offshore Petroleum Safety Authority ('NOPSA') has established a practical framework for cooperation between the TSDA and the NOPSA in relation to cross jurisdictional occupational health and safety issues. Furthermore a MoU between the TSDA and the Australian Department of Industry, Tourism and Resources ('DITR') has ensured a consistent regulatory approach in relation to the pipeline from the Bayu-Undan field to the Darwin LNG liquefaction plant. It is important that the TSDA continues to build these kinds of links with other agencies so that we are able to keep abreast of improvements in other jurisdictions.

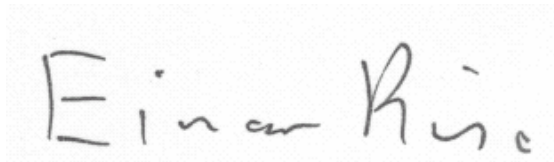
Progress towards the implementation of a new Petroleum Mining Code ('PMC') and model PSC continued during the year. Considerable effort has been taken to ensure that the PMC and PSC achieve

that fine balance of being economically attractive to operators, whilst at the same time maximizing contracting states income. It has also been important to ensure that petroleum activities take place in a manner that is safe and environmentally responsible. To this end public consultation was undertaken to ensure that the various groups that have a stake in the PMC and PSC had ample opportunity to comment on the proposed laws. These consultation rounds encompassed the petroleum related industry as well as government institutions and most importantly the general public. I believe we have developed a regulatory framework that is appropriate to the region and which is probably one of the most transparent petroleum regimes in the world.

It is anticipated that an acreage release based on the new PMC and PSC will take place in the second half of 2005. Preparatory work was undertaken during the year in preparation for such a release including an investigation of possible areas that may be suitable for release as well as the preparation of application and bidding selection criteria to complement the new regime.

The JPDA is, if not unique, at least an unusual area, and thereby the TSDA an unusual organization. Our work has to be carried out in close coordination with the authorities of the two contracting states, Timor-Leste and Australia. I am happy to report that our perception of the cooperation with the two countries' authorities is that it has worked extremely well. This also includes the cooperation with the two countries' representatives in the Timor Sea Joint Commission.

Finally, I gratefully acknowledge the efforts of all of the Directors and each staff member of the TSDA during the year covered by this report and I look forward to 2005 with great enthusiasm.

A handwritten signature in black ink that reads "Einar Risa". The signature is written in a cursive style with some loops and is positioned above the printed name and title.

Einar Risa
Executive Director

30 June 2005

2 CORPORATE GOVERNANCE

2.1 Executive Role

The TSDA is headed by an Executive Director. The Executive Director is responsible for managing and maintaining the strategic direction and effectiveness of the organisation.

There are four (4) Managing Directors that report to the Executive Director. Each Managing Director manages one (1) of the following areas (referred to as Directorates): Information & Logistics; Legal; Technical; and Finance. The Directors met formally on ten (10) occasions during 2004.

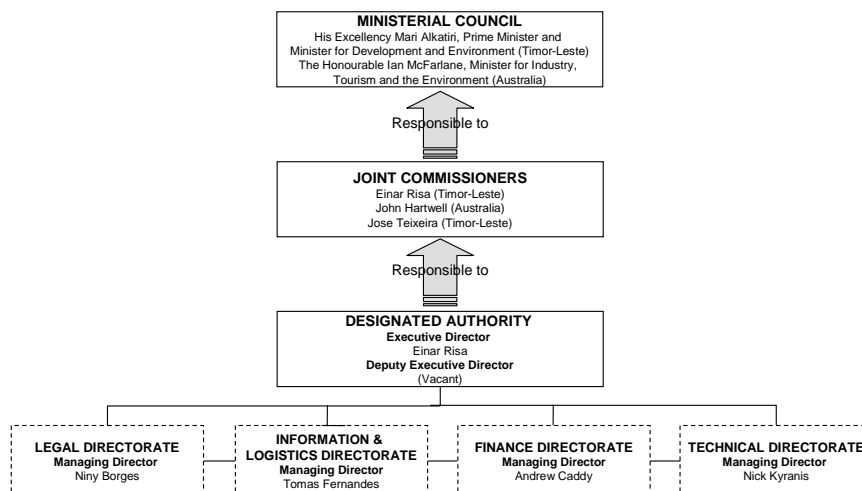
2.2 Reporting to the Joint Commission

The TSDA is responsible to a Joint Commission which consists of two (2) Commissioners from Timor-Leste, namely, Jose Teixeira and Einar Risa, and one (1) Commissioner from Australia, John Hartwell.

The Directors report regularly to the Joint Commission and are required to submit a budget for approval for each calendar year, as well as, annual reports for the previous calendar year. The Joint Commission met on three (3) occasions during 2004.

The Joint Commission may in turn refer matters to a Ministerial Council (which consists of a Minister from Timor-Leste and a Minister from Australia) for resolution although to date the Joint Commission has not needed to do so and the Ministerial Council has not met.

Profiles for each of the Managing Directors are provided at Appendix 2 and the organisational structure is outlined below.



2.3 Strategic Plan

The Strategic Plan 2003-2006 represents the core aims of the organisation. The Strategic Plan was reviewed at the annual TSDA retreat by all TSDA staff in order to identify some of the key achievements for the year and to consider those areas that required greater work. The following provides a summary of the progress achieved during 2004 against the goals of the Strategic Plan:

Goal 1: Promotion of JPDA

Through the active and positive promotion of the JPDA, enter into PSCs over vacant acreage.

Although there were no new PSCs entered into during the year, considerable progress was made on the implementation of the new PMC and the model PSC. PSC application and selection criteria were drafted and acreage selection was made in preparation for an acreage release in 2005.

Goal 2: Exploration and Appraisal

Ensure that work programs are consistent with the goals of the DA and Contracting States and performed accordingly.

There was only a very small amount of exploration and appraisal work done during the year. It is anticipated that exploration and appraisal work will increase in 2005 after the new PMC and the model PSC are finalised.

Goal 3: Field Development and Management

Ensure that field development and pipeline plans are designed, implemented and operated consistent with the interests of the TSDA and Contracting States.

The TSDA continued to regulate the diverse activities undertaken at Elang, Kakatua and Kakatua North ('EKKN') and Bayu-Undan during the year. A pipeline study was reviewed for the possible development of the Greater Sunrise gas fields in Timor-Leste. Please refer to section 4.3 of this Annual Report for further details concerning field development and management.

Goal 4: Health Safety & Environment ('HSE')

Ensure fields and pipelines are operated consistent with the HSE requirements of the TSDA and in the interests of the Contracting States.

The 2004 year was a busy year for HSE issues due to the commencement of the Bayu-Undan liquids production and the construction of the Bayu-Undan pipeline. Please refer to section 4.3 of this Annual Report for further details of the work undertaken in this area by the TSDA.

Goal 5: Timor-Leste Petroleum Sector Capacity

Develop human resources in the Timor-Leste petroleum sector. Manage the successful transfer of the TSDA from Australia to Timor-Leste.

Significant resources and efforts have been directed to the training of the Timorese employees. Further details are provided in section 4.1 of this Annual Report. The TSDA has developed a three (3) stage relocation plan to manage the transfer of Darwin staff to Dili. Further details of the relocation plan are provided at section 5 of this Annual Report.

Goal 6: TSDA operation and administration

Conduct the business of the TSDA in a responsible and efficient manner and consistent with the JPDA Legal Framework.

The Finance Directorate undertook a review of contract fees in order to address a shortfall in expenditure that occurred in 2004. A draft employee handbook was also developed during the year.

Goal 7: Transparency

Ensure that activities and decision making processes are conducted in a transparent manner.

The TSDA continued to demonstrate its commitment to conducting its business in an open, accountable and transparent manner. Public consultations were conducted in relation to the draft PMC and model PSC, and the TSDA continued to liaise with government departments in Timor-Leste and Australia on matters affecting the JPDA.

3 JPDA ACTIVITY OVERVIEW

In order to put the activities of the TSDA and the performance of the contract operators, captured in the remainder of this report, into context, the following provides an overview of the main activities associated with the JPDA PSC areas in 2004.

3.1 JPDA General

The planning for a 2D Marine Seismic survey of the waters between the JPDA and the Timor-Leste coastline, a portion of the northeast corner of the JPDA and several tie-lines into the JPDA 03-12 & 03-13 contract areas was completed at the end of December 2004 with the survey expected to commence in early January 2005.

3.2 JPDA 03-01

A. Jahal & Kuda-Tasi

The contract operator, Woodside Petroleum (Timor Sea 1) Pty Ltd, completed appraisal of the Kuda-Tasi-2 (KT-2) well which was drilled in 2003. The reserves were downgraded based on the KT-2 result. The recoverable reserves in the Jahal and Kuda-Tasi oilfields are now estimated at 15.5 MMbbl at a P50 case, i.e. with a 50% probability.

Discussions also continued throughout 2004 with the contract operator, in relation to possible development options for the Jahal and Kuda-Tasi fields.

3.3 JPDA 03-12

A. Elang, Kakatua and Kakatua North (EKKN) Project

The EKKN Project consists of a Floating Production Storage and Offloading facility (FPSO), the Modoc Venture 1 (MV1), producing oil and gas from four wells via sub-sea completions and flexible flowlines located in the JPDA 03-12 contract area.

The EKKN Project is a mature project with production now well into decline averaging approximately 4000 BOPD. The MV1 was primarily in steady state production operations mode during 2004 although there were two significant interruptions.

On 19 March 2004, in accordance with the Facility Emergency Response Plan, the MV1 disconnected from the Riser Turret Mooring (RTM) in order to avoid an approaching tropical cyclone (Faye). On returning to location four (4) days later, the RTM was found to have sunk to approximately 15m below the surface of the sea necessitating the implementation of a recovery project.

The Riser Recovery Project commenced field activities on 10 April utilising a Dive Support Vessel (DSV) to assist with the recovery and refurbishment of the RTM. The project was completed on 17 April. Production resumed on 1 May with the shutdown totalling forty-four (44) days.

The second interruption occurred after a Process Shutdown (PSD) on 30 August 2004, when the subsurface safety valve (SSSV) on the Elang-1/ST1 (E1) well remained closed. After several unsuccessful attempts to equalize and open the SSSV, it was confirmed that it would not hold pressure. The E1 well remained shut-in for the remainder of 2004.

B. Phoenix Prospect

The "Phoenix Prospect" lies to the west of the Bayu-Undan Field and is estimated to contain several trillion cubic feet of recoverable reserves, but with poor productivity rates. The TSDA approved the extension in the tenure of part of the 03-12 contract area (the area in question was due to be relinquished but for the extension) in February 2004. The contract operator has proposed to drill a well, before 31 December 2006, near the 1972 Flamingo Well that encountered hydrocarbon shows.

3.4 JPDA 03-12 & 13

A. Bayu-Undan Project

The Bayu-Undan project consists of two large, bridge-linked, fixed platforms (A Drilling, Production & Processing Platform (DPP) and a Compression, Utilities & Quarters platform (CUQ)), a Well-Head platform (WP1) and a Floating Storage and Offloading facility (FSO) producing propane, butane and condensate and recycling dry gas from wells at WP1 and DPP with a series of associated infield pipelines. The Bayu-Undan field straddles the 03-12 & 03-13 contract areas.

The first half of 2004 saw the Bayu-Undan project progress from the introduction of hydrocarbons in late December 2003 (from the four WP1 wells) through to handover from the completions team to the operations team on 30 June 2004. Other key milestones in this period included the first condensate production on 12 February 2004 followed by Butane on 25 March 2004 and Propane on 12 April 2004 with the first lifting of condensate and LPG taking place on 30 March and 21 May 2004 respectively and gas re-injection commencing on 13 April 2004.

The change in focus from primarily completion and commissioning activities to production operations (albeit with commissioning and testing of carry over items continuing into the second half of the year) was accompanied by a corresponding reduction in the offshore work force, with the departure of the principle accommodation vessel on 19 April 2004 and the secondary vessel on 28 June 2004.

Ramp-up to the design rate of 1.1 billion cubic feet of gas per day was achieved on 2 September 2004. Drilling and well testing activities continued at the DPP site throughout the year with six (6) wells having been completed by year's end. The drilling program is expected to be finished early in the second quarter of 2005 with the Mobile Offshore Drilling Unit (MODU) to be released soon thereafter.

The Bayu-Undan to Darwin Pipeline installation was commenced on 2 August 2004 and arrived at the JPDA boundary at the end of December with the pipe lay expected to be completed in early January 2005. Tie-in of the pipeline is expected to take place in the second quarter of 2005 during the planned Bayu-Undan facilities shutdown.

3.5 JPDA 03-16

The contract operator, ConocoPhillips (03-16) Pty Ltd continued its exploration activities including the interpretation of well data and the re-interpretation of seismic data.

3.6 JPDA 03-19 & 20

A number of studies associated with the potential development of the Greater Sunrise gas fields were initiated during 2004. The resultant reports addressed a wide range of options regarding the feasibility of constructing a LNG Plant in Timor-Leste, and also a pipeline to take gas from Sunrise for onshore liquefaction in Timor-Leste. The technical feasibility and the overall cost of construction of a pipeline and plant within Timor-Leste compared to the Australian alternative is the main issue. Further examination and comparison of various study parameters as well as further work on the marketing of the

gas will be required before the contract operator submits a Development Plan to the TSDA for consideration.

3.7 JPDA 03-21

The contract operator, ConocoPhillips (03-21) Pty Ltd, undertook minor exploration activities during the year in accordance with their work programme including reprocessing and re-interpretation of seismic data.

4 ROLE AND PERFORMANCE

4.1 Information and Logistics

A. Introduction

The Information and Logistics Directorate (I&L), is responsible for the management of logistics, information technology and human resources. As the TSDA operates from offices in Darwin and Dili, communication and technology have been critical in linking the organisation. The TSDA continues to develop and search for more efficient and cost effective modes of communications to narrow the gap in distance.

B. Information Technology

A satellite communication link was installed providing high speed data communication between the Dili and Darwin Offices. This link allows effective sharing of electronic information between the two offices, including email, and also provides broadband access to the Internet for the Dili Office. The TSDA website was also designed and brought on-line during the year.

C. Human Resources

i) Education and Employment of Timor-Leste Nationals within the TSDA

The organisation has seen a growth in the number of personnel since 2003, with an increase from twenty (20) employees to thirty-one (31). Two thirds of the employees are Timorese, which highlights the organisations commitment to fulfil one of the key requirements under the Timor Sea Treaty, namely, *“to facilitate, as a matter of priority, training and employment opportunities for East Timorese nationals and permanent residents”*.

The TSDA is committed to building the English language and computer skills of the Timorese employees. English language classes continued throughout 2004 with many Timorese employees also undertaking intensive English language training at educational institutions in Australia. Basic and intermediate computer training was also provided.

An introductory course to the Oil and Gas Industry was run in Dili for new staff by an external consultant. Some employees also attended industry specific courses such as a first aid course and a Helicopter and Underwater Escape Training (HUET) certificate course.

The I&L Directorate conducted in-house training during 2004 as part of an emphasis on professional skills development for Timorese nationals. There was also a strong focus on cross cultural training for all employees.

ii) Performance Reviews

All TSDA employees are subject to annual performance reviews in order to review an individual’s performance against agreed accountabilities and objectives. Reviews were conducted in November and December of 2004.

iii) Development of Human Resources in the Timor-Leste Petroleum Sector

A Petroleum Training Group was formed in Dili on 15 April 2004, bringing together all the relevant organisations, both public and private, in the Timor-Leste Petroleum sector including the TSDA, the relevant Timor-Leste Government representatives from the Energy, Minerals and Resources division, the Department of Labour and Solidarity, and the Ministry of Education, and from industry, ConocoPhillips.

The purpose of the group is to facilitate training and employment opportunities for Timor-Leste nationals in the petroleum industry. The meetings largely focused on providing information about the industry to government officials in Timor-Leste.

An Offshore Employment Working Group was formed in Dili on 3 March 2004. Representatives from the TSDA, the Department of Labour and Solidarity, Eurest, ConocoPhillips and the Timor Sea Office participated in the group meetings. The role of the Offshore Employment Working Group is to consider and discuss offshore employment issues as they arise in order to support the continued cooperation between the Government of Timor-Leste and industry. The group have met on two (2) occasions.

iv) Retreat

All TSDA employees participated in a weekend retreat in Dare, Timor-Leste, as part of the staff development program. The retreat enabled employees to participate in the organisation's forward planning and discuss issues in an open forum. The staff reviewed the TSDA's performance over the preceding year against the strategic plan and action plan. It also provided a forum for the staff to get to know one another outside of the work environment.

4.2 Legal

A. Introduction

The Legal Directorate provides expert in-house legal advice and services on the array of issues that confront the organisation. Its main responsibilities include providing advice in relation to the Timor Sea Treaty and related instruments, drafting and reviewing PSCs and other commercial agreements that the TSDA is required to enter into from time to time, legal research and strategic policy advice. In areas where internal expertise is not available the Directorate manages the outsourcing of external legal advice.

B. New Model Production Sharing Contract & Petroleum Mining Code

The key responsibility for the Legal Directorate during the 2004 year was the preparation and drafting of the PMC and a model PSC for application in the JPDA. It is intended that these documents when finalised will replace the Interim Petroleum Mining Code and interim production sharing contracts that are currently in force in the JPDA.

The TSDA's drafting of these documents was conducted in parallel with the Timor-Leste Government's own drafting process for its new petroleum law and contracts. This was done to ensure that, as far as possible, the regimes are consistent. The TSDA considers that there are a number of practical advantages in ensuring consistency between the two regimes not the least of which is the fact that it is likely to make the regimes more attractive to potential contractors.

A comprehensive public consultation process was also conducted from August to October 2004 in relation to the draft documents. The drafts were circulated to contract operators, non-government organisations and other stakeholders. The consultation process also included public fora in Dili and other major towns in Timor-Leste. As a result of the consultation process a number of detailed submissions were received from both oil and gas companies and civil society.

The main issues that were raised by civil society concerned transparency and accountability, environmental issues, employment of Timor-Leste nationals, and the use of Timor-Leste based goods and services. The main issues for the oil and gas companies concerned the compliance and regulatory costs of the regime, the TSDA's discretionary powers and the fiscal terms.

The documents are now being reviewed by each of the Governments and the TSDA. It is anticipated that the Joint Commission will be in a position to approve the PMC and the model PSC by mid-2005.

C. Interim Regulations and Directions

In the context of developing a PMC, the TSDA has commenced a comprehensive review of the existing Interim Regulations and Directions. As part of this process the TSDA has written to all contractors with interests in the JPDA seeking their views and input concerning the proposed overhaul of the existing Interim Regulations and Directions. The TSDA plans to finalise its review of the Regulations and Directions in 2005.

D. Production Sharing Contracts

There were no new PSCs entered into in 2004. The following variations to the existing PSCs within the JPDA were noted.

Registered Changes

Table 1: Name Changes for PSC 03-12 Contractor/s

Date	Existing Name	New Name
11 February 2004	ConocoPhillips (91-12) Pty Ltd	ConocoPhillips (03-12) Pty Ltd

Table 2: Name Changes for PSC 03-13 Contractor/s

Date	Existing Name	New Name
11 February 2004	ConocoPhillips (91-13) Pty Ltd	ConocoPhillips (03-13) Pty Ltd

Table 3: Name Changes for PSC 03-16 Contractor/s

Date	Existing Name	New Name
11 February 2004	ConocoPhillips (96-16) Pty Ltd	ConocoPhillips (03-16) Pty Ltd

Table 4: Name Changes for PSC 03-19 Contractor/s

Date	Existing Name	New Name
11 February 2004	ConocoPhillips (95-19) Pty Ltd	ConocoPhillips (03-19) Pty Ltd

Table 5: Name Changes for PSC 03-20 Contractor/s

Date	Existing Name	New Name
11 February 2004	ConocoPhillips (96-20) Pty Ltd	ConocoPhillips (03-20) Pty Ltd

Table 6: Name Changes for PSC 03-21 Contractor/s

Date	Existing Name	New Name
11 February 2004	ConocoPhillips (00-21) Pty Ltd	ConocoPhillips (03-21) Pty Ltd

E. MoUs for Bayu-Undan Pipeline

On 26 March 2004, the TSDA entered into a MoU with DITR relating to the regulation of the pipeline from the Bayu-Undan field in the JPDA to Wickham Point in Darwin.

Under the MoU, the DITR and the TSDA agreed to establish a set of procedures to jointly receive and manage submissions with a view to providing the companies with a common set of requirements and a single point of contact and decision making in relation to the pipeline.

These procedures have now been agreed. A further MoU regulating the Bayu-Undan Pipeline has been entered into between the DITR, the TSDA, the Northern Territory Department of Business, Industry and Resource Development; and the Western Australian Department of Industry and Resources on 2 December 2004.

This understanding makes the Northern Territory Designated Authority (NTDA) the single point of contact for the companies as envisaged under the original memorandum of understanding dated 26 March 2004. NTDA have now assumed responsibility for regulating the design, construction, commissioning, operation, maintenance, modification and decommissioning of the pipeline.

F. Memorandum of Understanding with NOPSA

The TSDA entered into a MoU with NOPSA in September 2004 (to take effect on 1 January 2005) for the purpose of cooperating in relation to the regulation of offshore petroleum activities.

NOPSA and the TSDA have agreed to maintain contact in relation to the regulation of matters that are of mutual interest including: the assessment of pipelines passing through the JPDA and the areas under NOPSA's jurisdiction; mutual recognition of safety cases for mobile facilities that will operate in the areas regulated by the TSDA and NOPSA; audits and inspections of facilities; emergency response; the preparation of guidelines, codes of practice, or guidance notes or similar material that are developed to assist contract operators and contractors to meet their legislative obligations; and decisions or actions that may impact upon petroleum operations in the area regulated by the other party.

G. Unitisation Agreement

The Unitisation Agreement for the Greater Sunrise gas fields between the Government of Timor-Leste and the Government of Australia was signed in March 2003 and ratified by Australia in December 2004. Timor-Leste has not yet ratified the Agreement and it has therefore not entered into force.

H. Litigation

The TSDA is one of five named defendants in the Oceanic Exploration Company and Petrotimor Companhia de Petroleos, S.A.R.L v ConocoPhillips proceedings ('Petrotimor Litigation') issued in the United States District Court of Columbia on 1 March 2004.

The TSDA vigorously denies all claims made against the TSDA by the Plaintiffs and is currently defending these claims in the District Court of Columbia.

4.3 Technical

A. Introduction

The Technical Directorate is primarily responsible for monitoring, evaluating, approving and reporting on HSE, exploration and development, and production activities that are planned and undertaken in the JPDA. This responsibility applies to all phases of a project from conceptual design and development planning through to decommissioning and abandonment. The Directorate also provides technical advice and assistance to the organisation as required.

In addition to its core responsibilities, Directorate staff also provided technical contributions to the PMC, model PSC and MoU drafting processes that occurred during 2004 as well as key roles in departmental and organisational capacity building, particularly with respect to the Timor-Leste technical trainees.

B. Health Safety and Environment

i) JPDA Summary

Statistics

JPDA-wide HSE statistics are presented in Table 7 and Table 8 below. Bayu-Undan data generally dominates the statistics due to its scale, the type of technology utilised and lifecycle stage. In particular only six (6) months of 2004 was spent in production operations with the remainder being completion and commissioning activities. This contrasts with 2003 where the activity was all construction or pre-hydrocarbon commissioning related. These factors should be taken into account when considering the change in the year-on-year indicators presented.

Although the Total Recordable Injury Frequency Rate (TRIFR) appears high, there have been significant improvements in all measures. Performance in 2005 can reasonably be expected to continue to improve with only a brief period of intense non-routine activity (Bayu-Undan maintenance shut-down) planned for the year ahead.

Table 7: 2004 JPDA Safety Statistics

	2004 Total	<i>% Change since 2003</i>
Hours worked	1,414,501	-25.0
Incidents (no. reported in year)		
Lost Time Injuries (LTI)	3	-40.0
Total Recordable Injuries (LTI, ADI, MTI)	13	-31.6
Frequency Rates		
Lost Time Injuries (LTI)	2.1	-20.0
Total Recordable Injuries (LTI, ADI, MTI)	9.2	-8.7

Environmental performance indicators are also significantly influenced by the Bayu-Undan data. Flaring volumes take into account both the Bayu-Undan production phase, and more significantly, the ramp-up phase when the majority of gas produced was flared. Despite this (and that EKKN routinely flares between 30% & 40% of gas it produces) overall flaring as a proportion of production has reduced dramatically, largely due to Bayu-Undan re-injecting the majority of lean gas not used for fuel, resulting in days where less than 1% of raw gas produced was flared.

In terms of produced formation water discharge, EKKN dominates the data as Bayu-Undan routinely disposes of its produced formation and waste water down-hole, hence making almost no impact on the

statistics. The “improvement” is largely attributable to the downtime that EKKN experienced during this year.

Table 8: 2004 JPDA Environment Statistics

	2004 Total	% Change since 2003
Gas production and Flaring		
Gas Produced (m3)	5,953,806,143	15,086
<i>Proportion flared</i>	<i>10.22</i>	<i>-82.2</i>
Gas Flared (m3)	608,491,022	2,603
Produced Formation Water Discharged		
PFW Discharged (m3)	1,225,652	-24.6
<i>Average OIW Content (mg/l)</i>	<i>15.78</i>	<i>-7.8</i>
Oil discharged with PFW (kg)	19,339	-30.5

ii) Elang Kakatua / Kakatua North

Health and Safety Performance

The tables below describe the incidents that occurred during the year. Although the TSDA’s jurisdiction is limited to the JPDA, for comparative purposes the onshore and project incident totals are also included in Table 10. EKKN had one (1) Lost Time Injury (LTI) incident during 2004 which resulted in eight (8) days being lost.

Given the low incident rates that this project records, improvements in these indicators presents a significant challenge to the contract operator.

Table 9: EKKN Health and Safety Incidents

	JPDA 2004	% change from 2003	Onshore 2004	Total 2004
Hours worked	144,035	-14.3	37,638	181,673
Incidents (no. reported in year)				
Lost Time Injuries (LTI)	1	0	0	1
Total Injury Incidents (LTI, ADI, MTI)	2	100	0	2
Near Miss Incidents	9	-25	0	9
Frequency Rates				
Lost Time Injuries (LTI)	6.9	17	0	5.5
Alternate Duty Injuries (ADI)	0	0	0	0
Medical Treatment Injuries (MTI)	6.9	0	0	5.5
First Aid Injuries (FAI)	55.5	134	0	44.0
Total Recordable Injuries (LTI, ADI, MTI)	13.9	134	0	11.0
Lost Time Injury measures				
Total Days Lost	8	0	0	8
Average Duration Rate (days per LTI)	8	0	0	8
Severity Frequency Rate	0.9	17	0	0.7

Note: all Frequency Rates are per million person hours on a 12 month rolling average basis

The LTI incident involved the failure of an air receiver/ dryer in an engine driven air compressor. The contract operator’s report confirms that its failure was due to over-pressuring of the unit and poor maintenance practices. The completed corrective actions included: PSV and pressure regulator settings to be certified in accordance with the manufacturers specifications; adjustments sealed to prevent tampering; maintenance programs to be conducted in accordance with the manufacturer’s specifications and to be

carried out by competent and experienced personnel; and records of maintenance are to be kept with the equipment. In June 2004 Modec also conducted an onshore audit of the sub-contractor that was responsible for the provision and maintenance of the equipment involved in this incident. The TSDA participated in this audit.

As highlighted in both Figure 1 and Figure 2 below, the TRIFR and LTIFR for this project are to a large extent captive of the small crew and, therefore, the low number of hours worked per month. In both cases the lower hours in 2004 versus 2003 (solid versus hollow bars in both graphs respectively) are responsible for the rate increases towards the latter part of 2004, with the TRIFR being further exacerbated by the incident recorded in July 2004.

Figure 1: EKKN Hours worked, Total Recordable Injuries & Frequency Rate (TRIFR)

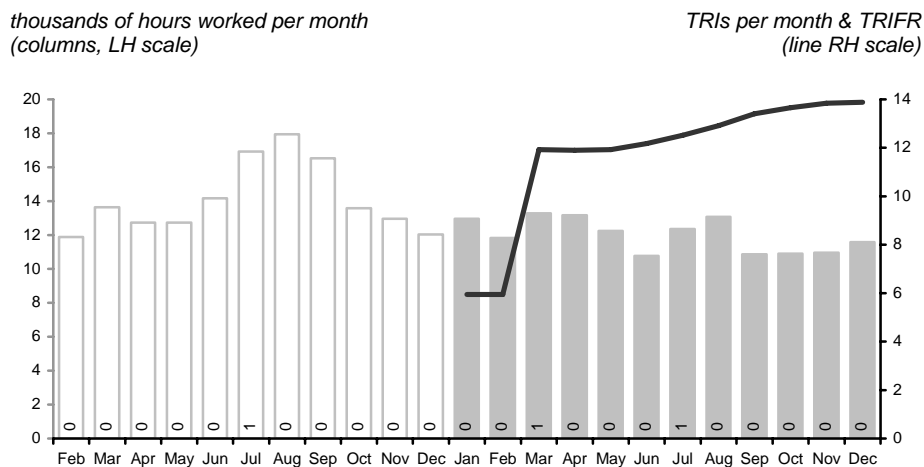
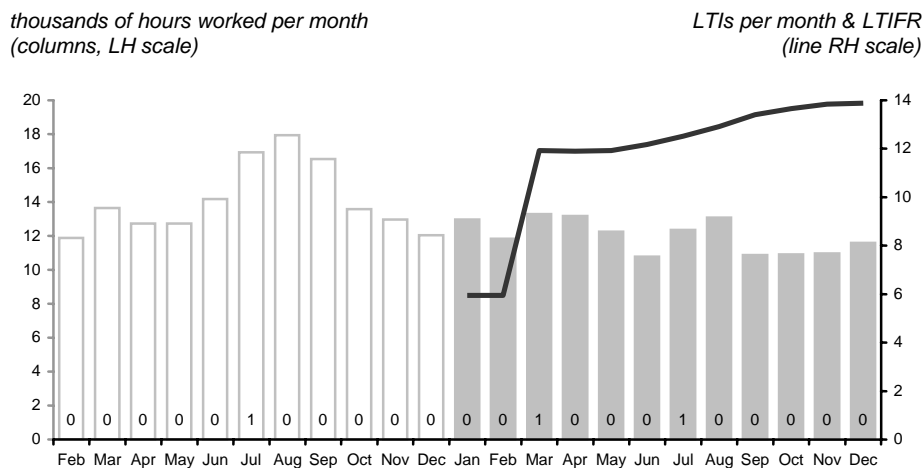


Figure 2: EKKN Hours worked, Lost Time Injuries & Frequency Rate (LTIFR)



Environment Performance

Incidents

There were no reportable environmental incidents (i.e. individual spills to the sea greater than 80 litres) during 2004 for the EKKN project, although there were three (3) releases of oil totalling 150.5 litres all of which were recovered prior to reaching the marine environment.

Gaseous Emissions (Flaring & Venting)

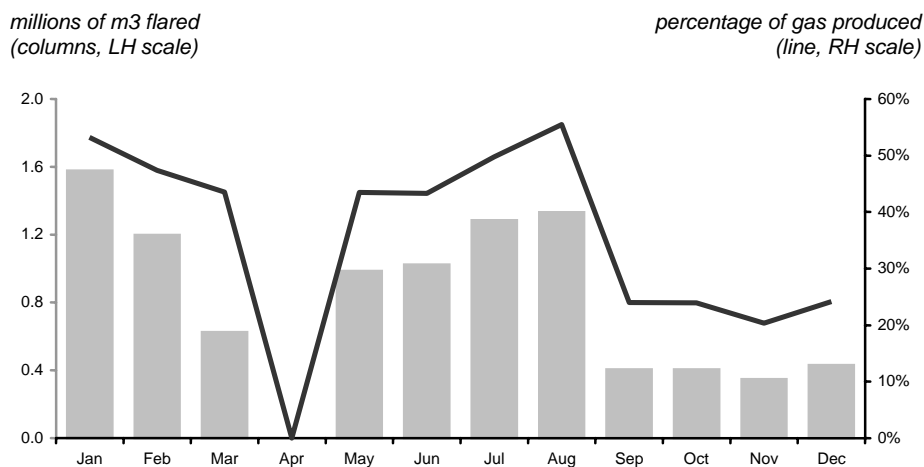
Flared and vented volumes in 2004 (quantified in Table 10) generally reflect the declining production rates (refer to Production section of this Annual Report for details). There was also a significant decline from 2003 in the volumes of hydrocarbons flared and vented due to the two significant problems that

occurred with respect to EKKN: the disconnection for cyclone Fay in March 2004 and the delayed reconnection due to the sinking of the Riser Turret Mooring (RTM); and the loss of the Elang-1/ST1 well in September due to a stuck closed subsurface safety valve coupled with the failure of several of the associated umbilical cores. Both of these events can be clearly seen in Figure 3.

Table 10: EKKN Flaring & Venting Volumes

Emission	2004 Total	% Change since 2003	Median Monthly
Hydrocarbons Flared (m3)	9,616,122	-57.3	804,860
<i>Proportion of gas produced (%)</i>	35.7	-37.8	43.4
Hydrocarbons & IG Vented (m3)	523,081	-14.6	20,438

Figure 3: EKKN Monthly flaring Volumes and Proportion of Gas Produced



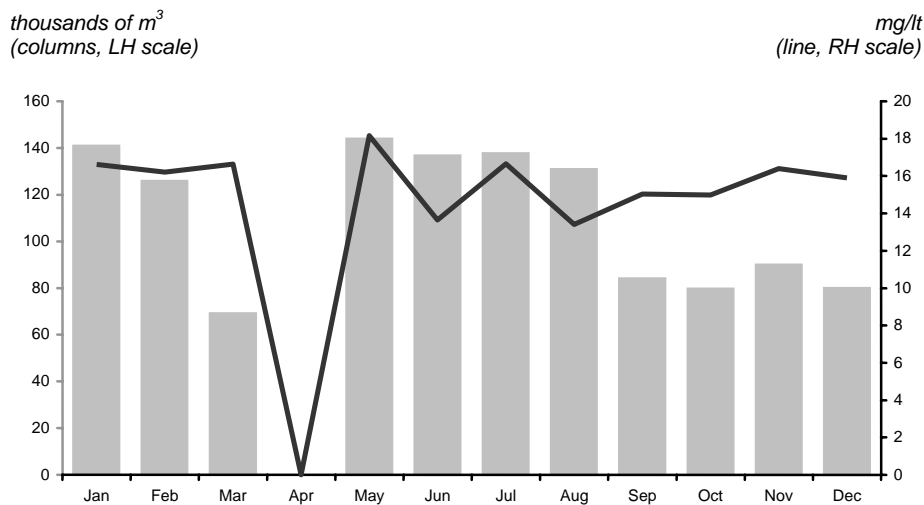
Discharges to the Marine Environment

Produced Formation Water (PFW) discharged (either directly from the process or via decanting of the slops tank) increased slightly (refer to Table 11 below). This reflects a combination of declining production rates and increasing water-cut (the proportion of water in the hydrocarbons recovered). The Oil-In-Water (OIW) content of the PFW discharged decreased in the year and remained well below the regulatory limit of 25ppm (refer to Figure 4). Although a significant volume of oil was discharged in total, to put this into context, each 1kg of oil that is discharged is diluted into 63,270 litres of water before release into the marine environment.

Table 11: EKKN Produced Formation Water

Discharges	2004 Total	% Change since 2003	Median Monthly
PFW Discharged (m3)	1,208,374	-25.0	107,954
<i>Average OIW Content (mg/l)</i>	15.8	-7.7	16.1
Oil discharged with PFW (kg)	19,266	-30.8	1,616

Figure 4: EKKN Monthly PFW Discharge Volumes and OIW Content



Key Assessments

As an established operating facility, the key assessments conducted during the year included: an updated Facility Emergency Response Plan; HSE bridging documents and diving submissions associated with the Riser Turret Mooring Recovery Project; and the planned Elang-1/ST1 Umbilical Repair and Well Intervention. An updated Facility Safety Case was also submitted in late 2004.

Logistics Approvals

A total of fifteen (15) vessels nine (9) supply vessels, four (4) offtake tankers and two (2) special purpose vessels) and four (4) helicopters were approved to enter and exit the JPDA for this project. An additional twenty-five (25) chemicals were also approved for uses associated with the project.

Audits, Reviews & Investigations

A Safety Case Audit and a Jakarta Office based review were conducted in 2004. There were no significant incidents that warranted any specific investigation by the TSDA.

HSE Issues

The presence of significant levels of Naturally Occurring Radioactive Material (NORM) in a number of production vessels was identified by the contract operator via Non-Destructive Testing (NDT) work undertaken in April 2004 and subsequently confirmed in a survey conducted in May. The contract operator undertook immediate actions to limit further exposure of the crew and a comprehensive monitoring program in-line with the relevant Australian national standard (NOHSC:1013 1995) was subsequently developed and implemented.

iii) Bayu-Undan

Health and Safety Performance

The tables below describe the incidents that occurred during the last year. Although the TSDA's jurisdiction is limited to the JPDA, for comparative purposes the onshore results are included in Table 12 below. There were two (2) LTIs in the JPDA which resulted in fifty-two (52) days being lost.

This project has seen a significant improvement over the year with all lagging indicators having been reduced although both the First Aid Injury Frequency Rate (FAIFR) and TRIFR remained unacceptably high at the end of 2004.

Table 12: Bayu-Undan Health and Safety Incidents

	JPDA 2004	% Change from 2003	Onshore 2004	Total 2004
Hours worked	1,270,466	-26.1	287,322	1,557,788
Incidents (no. reported in year)				
Lost Time Injuries (LTI)	2	-50.0	0	2
Total Injury Incidents (LTI, ADI, MTI)	11	-38.9	0	11
Near Miss Incidents	109	94.6	0	109
Frequency Rates				
Lost Time Injuries (LTI)	1.6	-32.4	0	1.3
Alternate Duty Injuries (ADI)	1.6	-32.4	0	1.3
Medical Treatment Injuries (MTI)	5.5	-5.3	0	4.5
First Aid Injuries (FAI)	44.1	-6.5	10.4	37.9
Total Recordable Injuries (LTI, ADI, MTI)	8.7	-17.3	0	7.1
Lost Time Injury measures				
Total Days Lost	52.0	-59.7	0	52.0
Average Duration Rate (days per LTI)	26.0	-19.4	0	26.0
Severity Frequency Rate	0.1	-16.1	0	0

The first LTI involved the handling of drilling tubulars on deck. There were two corrective actions that required ongoing vigilance and monitoring: the requirement for tubulars to be laid flat, moused or chocked; and for crews to identify hazards prior to work commencing. The TSDA recommended a broader approach to the hazard identification process, which considers adjacent work areas as well as the immediate work area, be applied to the entire operation. The second LTI resulted from a person's foot being jammed in a self-closing external door.

As Figure 5 and Figure 6 show, both the FAIFR and the TRIFR have declined since the hand-over to operations in July 2004 with the year-end statistics reflecting the nature of the rolling average in terms of both carry-over and the significant decline in hours worked with the number of incidents recorded.

Figure 5: BU Hours worked, Total Recordable Injuries & Frequency Rate (TRIFR)

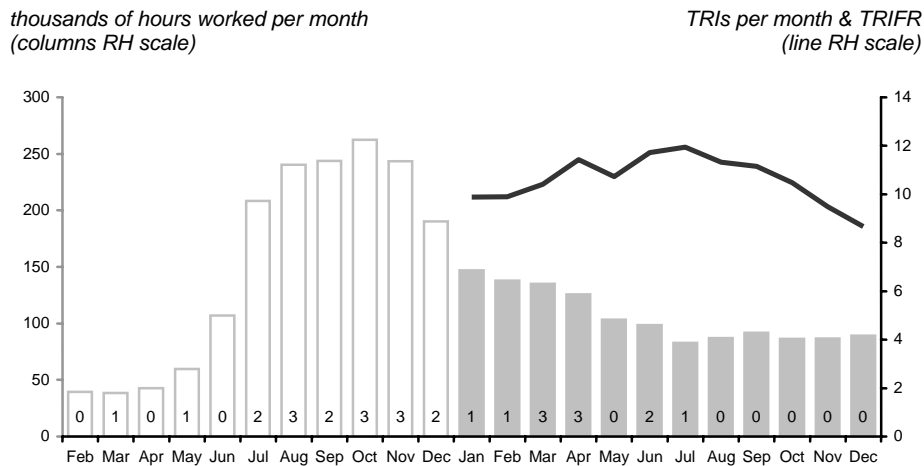
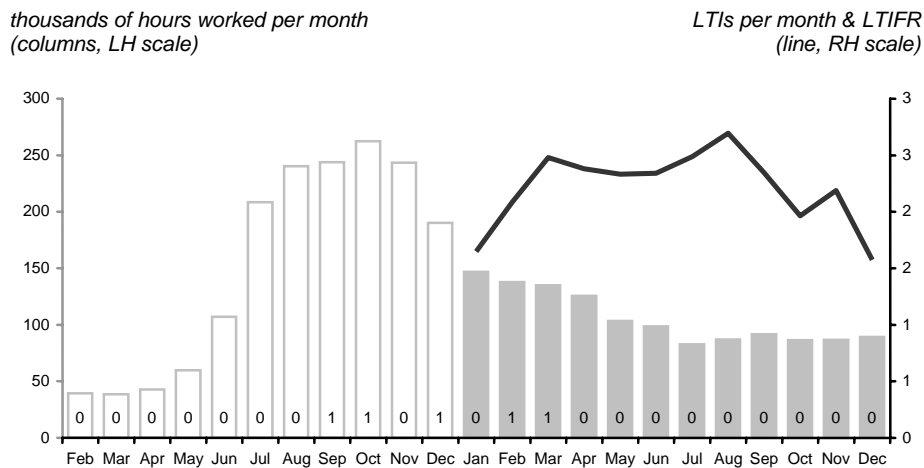


Figure 6: BU Hours worked, Lost Time Injuries & Frequency Rate (LTIFR)



Environmental Performance

Incidents

There were a total of thirty-one (31) spills of hydrocarbons in 2004, of which only two (2) exceeded the 80 litre reportable threshold. The details of these two spills as well as an unplanned release from the hazardous drains caisson are described below. The remaining twenty-nine (29) spills were all less than 80 litres and totalled 1,253 litres of which 1,160 litres were recovered prior to reaching the marine environment.

An estimated 2,454 litres of oil equivalent was spilt following the failure of a jumper hose carrying oil based drilling fluid. Changes have been made to the replacement interval for these jumper hoses in order to avoid a recurrence of such a failure.

An estimated 2,017 litres of condensate was released to the sea due to a vent valve being left open after maintenance work. The most significant action to come out of this incident was the need for a comprehensive review of the permit to work system. It is intended that this review will take place in January 2005.

Between 200 and 2000 litres of hydrocarbon liquid is estimated to have been released due to the underflow of a drain caisson during heavy rain. This involves known problems with the caissons which are expected to be addressed in the 2005 shutdown.

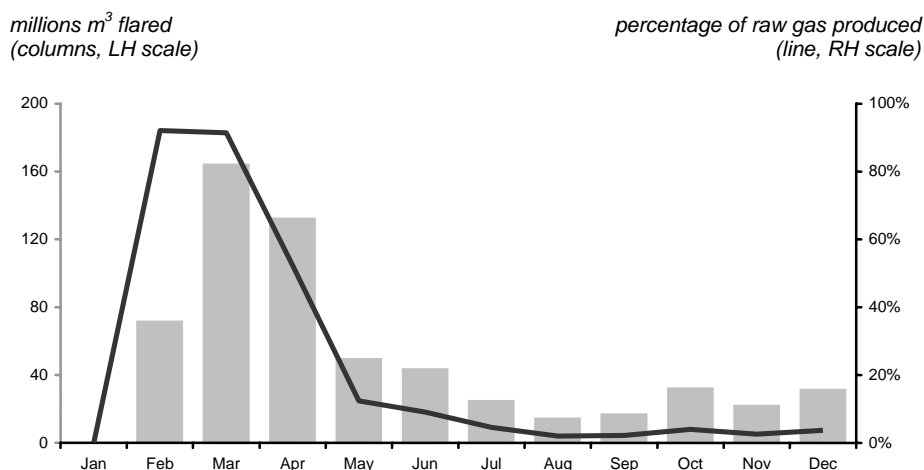
Gaseous Emissions (Flaring & Venting)

Flared and vented volumes in 2004 (quantified in Table 13) are inclusive of the plant start-up, commissioning and well clean-up activities. As shown in Figure 7, flaring has reduced significantly since hand-over to operations in July 2004 with the proportion flared being consistently below 5% of the total raw gas produced. The higher than average flaring in October and December 2004 was primarily due to problems experienced with the re-injection compressors.

Table 13: BU Flaring & Venting Volumes

Emission	2004 Total	Median Monthly
Hydrocarbons Flared (km3)	598,875	31,555
<i>Proportion of raw gas produced (%)</i>	<i>10.1</i>	<i>4.2</i>
Hydrocarbons Vented (CPP & WP1) (km3)	995	0
Hydrocarbons Vented (FSO) (km3)	1,197	131.5

Figure 7: BU Monthly flaring Volumes and Proportion of Raw Gas Produced



Discharges to the Marine Environment

Produced Formation Water (PFW) is primarily re-injected with discharge to the sea, via a dedicated PFW caisson, only occurring when the re-injection system is unavailable. The facility also has a number of drain caissons designed to separate out hydrocarbons for recovery and to allow the discharge of waste water. There have been some problems with the caissons in 2004 resulting in several discharges of hydrocarbons above the regulatory limits. The volumes of aqueous discharges and the corresponding oil content is shown in Table 14, noting that actual discharges remain very small compared to the volumes injected (shown in Table 15) with over 94% of all Produced and Waste water being injected in 2004 and injection reliability remaining at over 97% since July 2004 (as shown in Figure 8).

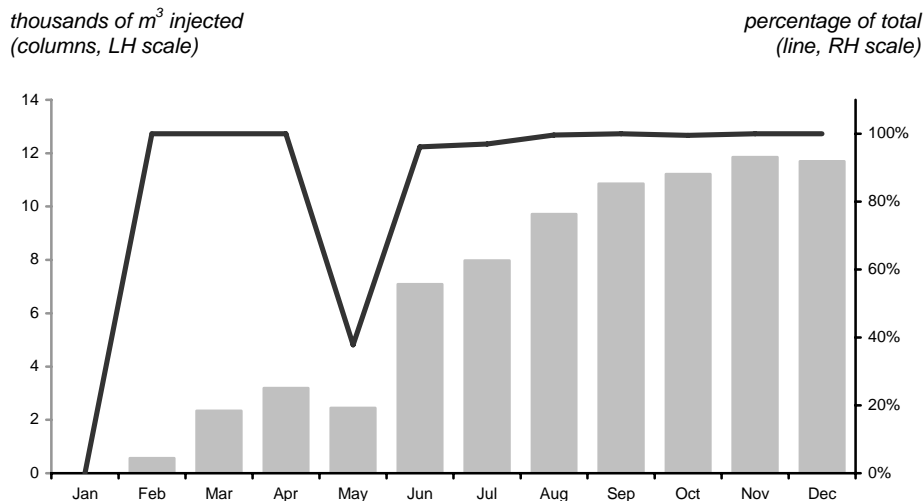
Table 14: BU Discharges to the Marine Environment

Discharges	2004 Total
PFW Discharged (m3) via PW o/b caisson	4656.6
<i>Average OIW Content (mg/lit)</i>	<i>30.275</i>
<i>No of Days</i>	<i>34</i>
Oil discharged with PFW (kg)	69.4
Oil Discharged from Hazardous Open Drain Caisson (kg)	4.2
Total Oil Discharged (kg)	73.6

Table 15: BU Produced Formation and Waste Water Injection

Produced Formation Water and Waste Water	2004 Total
PF & Waste Water Injected (m3)	78,957
Average OIW Content (mg/lt)	15.4
No of Days	297
Oil injected with PFW & WW (kg)	1,791

Figure 8: Produced and Waste Water Disposal



Key Assessments

Key assessments conducted focused on operation phase submissions including: Facility Safety Case; Bridging Document for Drilling over DPP; Field Emergency Response Plan; and Environmental Management Plan. All these plans were ultimately accepted. Conditions associated with the Phase 2 Facility and MODU Safety Case acceptance were fulfilled. Several amendments to the Certificate of Fitness process and its definitions were also assessed as were minor specific activities including engineered lifts.

Logistics Approvals

The suite of logistics procedures covering the delegation of authority to manage the day-to-day operation of vessels and aircraft and the movement of personnel and chemicals in and out of the JPDA was updated in 2004 in response to our audit in late 2003. A total of forty-five (45) vessels were approved to operate in the JPDA in support of the project including: seven (7) supply / guard vessels; two (2) special purpose vessels; and thirty-six (36) offtake vessels. A total of ten (10) helicopters were approved to operate in the JPDA in support of the project.

Audits, Reviews & Investigations

Two (2) visits to the Bayu-Undan field and one (1) visit to Perth were made to conduct or follow-up on audits. One (1) visit to the field was also made in relation to an environmental incident involving the discharge of oil based drilling fluid. Several visits to the contractor operator's Australian headquarters were also made to discuss the Operations Phase HSE submissions and the TSDA comments on them.

HSE issues

During 2004 a number of HSE issues associated with the Bayu-Undan project were brought to the attention of the TSDA by Health and Safety Representatives or employee unions.

Three (3) issues were raised associated with the MODU Ensco 104 including: designated smoking areas; safety culture; and cyclone evacuation. Where appropriate the TSDA liaised directly with the affected parties and also raised issues with the contract operator seeking clarification and/or details of action to be taken to rectify such issues. Where appropriate, information gathered during site visits was also utilised in reviewing and responding to the issues raised.

In late 2004 an employee union raised an issue with the safety record and lack of regulator oversight of the pipe laying operations of the Semac-1. The issue was taken by the union to the highest levels of State, Territory and Commonwealth Governments in Australia as well as appearing in the national print media. Whilst the vessel was not within the TSDA’s jurisdiction at the time, discussions with and planning for one or more visits to the vessel by Australian and/or TSDA Inspectors were undertaken. A visit by the Western Australian Petroleum Regulator was made in the last few days of the year with a follow-up visit by TSDA and NOPSA Inspectors arranged for when the vessel arrived in the TSDA’s jurisdiction (the Bayu-Undan 5nm “Operational Area”, at which time the vessel would come under the control of the Field Manager).

C. Production

i) Elang, Kakatua and Kakatua North

Production Performance

After better than expected production results during the first quarter of the year, EKKN suffered interruptions due to the RTM incident and E1 SSSV & umbilical problems. In total an annual production of 1.175 million barrels of oil production was reported by the contract operator for the 2004 year bringing cumulative production from the field to 29.40 million barrels of oil as at 31 December 2004.

Figure 9 summarises the cumulative oil production during the year. Figure 10 summarises monthly oil and water production.

Figure 9: EKKN Cumulative Production

*thousands of STB produced
(line, LH scale)*

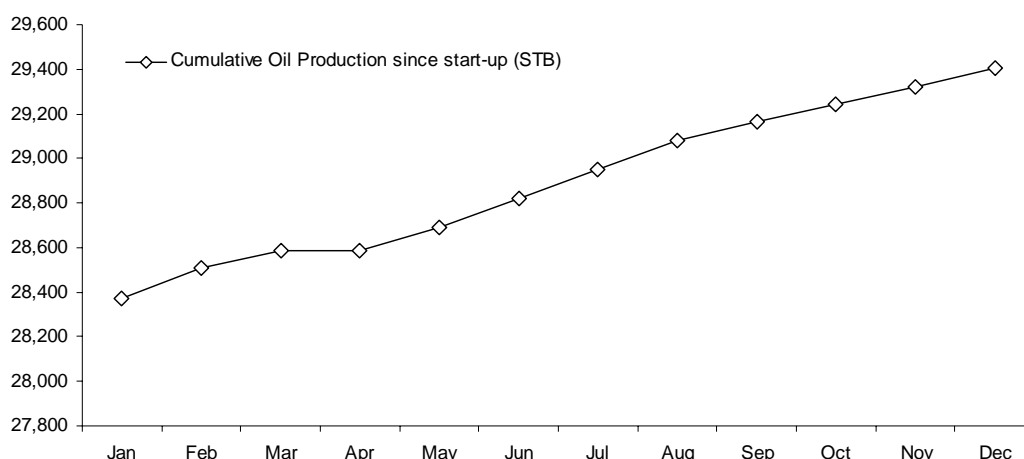
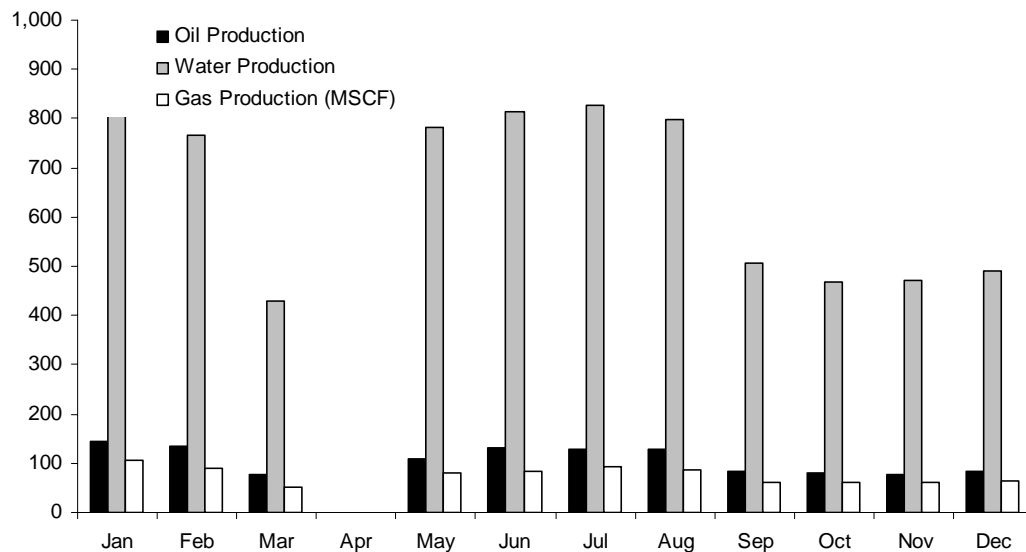


Figure 10: EKKN Monthly Production

*thousands of STB, MSCF produced
(columns, LH scale)*



Well tests were carried out regularly to monitor the performance of individual wells. Water cut and production decline rates remained within expected parameters despite the major shut-ins experienced during the year.

Four (4) offtakes were completed during the year lifting 1.069 million barrels of oil from the facility.

Operating Expenditure

Reported operating expenses were approximately 8% less than the planned operating expenditure for the year. It would appear that currency rate fluctuations have favourably contributed to cost savings as the budgeted value of the Australian dollar was 0.69 USD. The MV1 per barrel production fee was also lower due to the RTM re-connection problem and the Elang-1/ST1 shut-in at the end of August 2004.

Reviews and Approvals

Applications for the RTM Riser Recovery operations and the Elang-1/ST1 rigless Well Intervention Work and Umbilical Repairs Project were assessed and approved.

Manpower and Maintenance

The total number of regular employees of MV1 and the contract operator were sixty-six (66) and four (4) respectively. The average number of maintenance contractors was eighteen (18), not including the supply vessel's personnel.

The actual maintenance hours recorded were twelve thousand, four hundred and thirty-three (12,433) for the year; approximately 12% more than that which was planned for maintenance work. The breakdown maintenance for the year was reported at four thousand, five hundred and ninety-four (4,594) man-hours and the four (4) offtakes that occurred during the year required two hundred and eighty-eight (288) man-hours.

ii) Bayu-Undan

Drilling

Six (6) wells were drilled and completed during the year following the batch drilling of larger casing holes. Four (4) were gas injection wells and two (2) were production wells. Each well was tested and handed over to operations.

Production Performance

Raw Gas production increased steadily to a better than expected end of year production of 216.6 BSCF. Based on the predicted pressure and flow characteristics of the production and injection wells, the performance of all wells was found to be satisfactory.

The performance of the Big Bore wells exceeded expectations. At year end, actual total liquids production reached 18.97 MMBOE compared with the 15.55 MMBOE that was planned.

From the beginning of gas recycling in April 2004, 86.1% of dry gas was injected back into the reservoir after extracting the liquids from the raw gas. The contract operator reported that in line with plant capacity, the production design rates of 1.1 BSCFD raw gas and 950 MMSCFD of dry gas re-injection were achieved during the second half of the year.

Figure 11 summarises the cumulative raw gas and total liquids production during the year. Figure 12 summarises monthly condensate and LPG production.

Figure 11: Bayu-Undan Cumulative Production

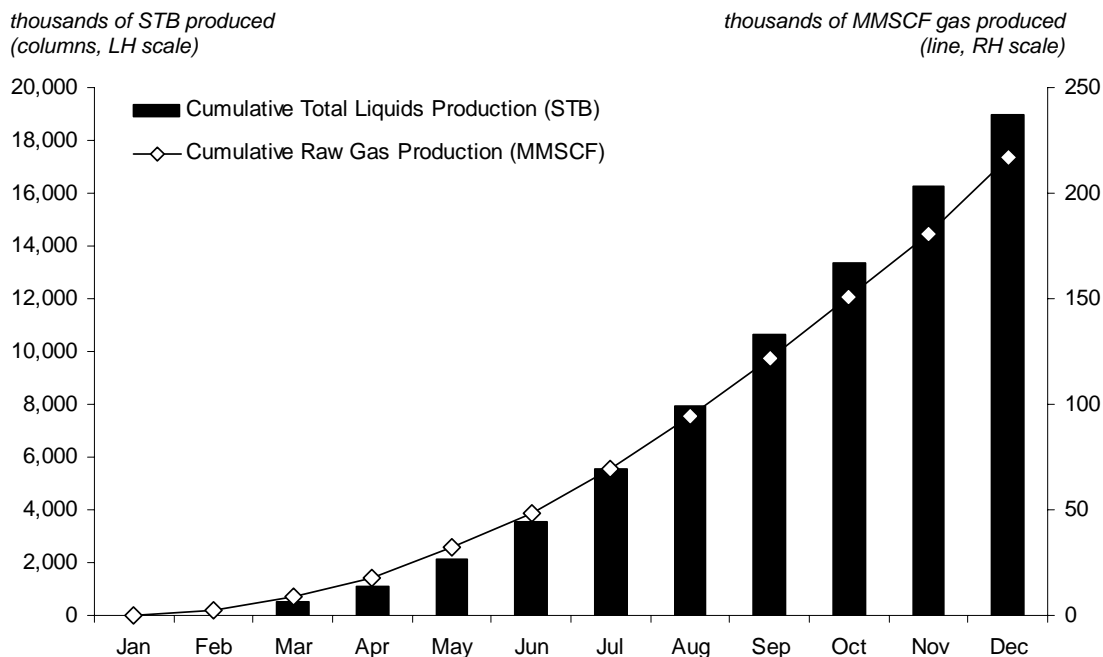
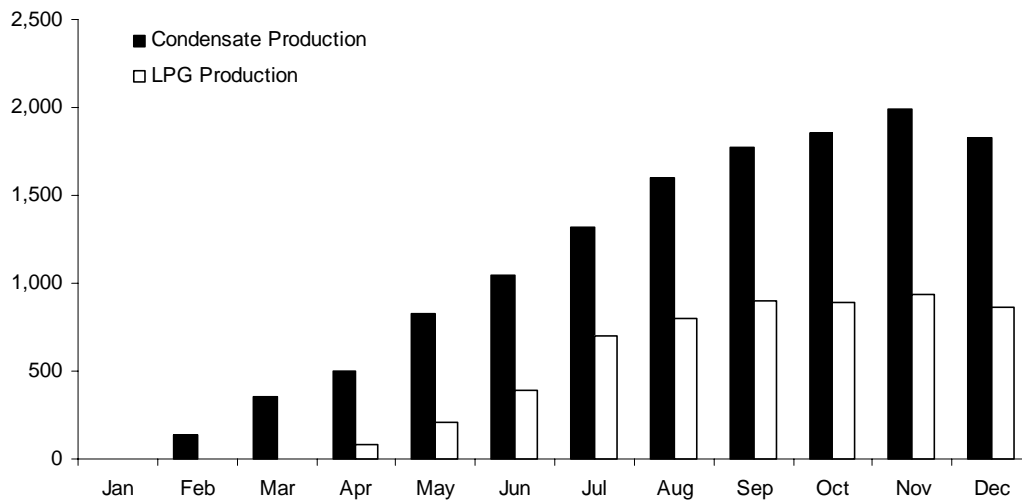


Figure 12: Bayu-Undan Monthly Production

*thousands of STB produced
(columns, LH scale)*



The first condensate offtake occurred in March 2004 and a total of 23 condensate offtakes were completed during the year, lifting 12.9 MMSTB of condensate.

In June the first “side-to-side” LPG offtake was successfully completed. Ten (10) additional LPG offtakes were completed using the same system. Of the total of 473,000 metric tonnes of LPG lifted during the year, 48.5% of the LPG product was propane and 51.5% was butane.

The November 2004 shutdown was cancelled and will be consolidated with the 2005 Shutdown. There will be a wider scope of activities required to be performed including a consideration of facility and component design issues.

Operating Expenditure

Reported operating costs were approximately 22% higher than the budgeted expenditure for the year. This was due to the relatively high usage of chemicals during the production processes as compared to the plant design usage rates. It is anticipated that the consideration of design issues during the proposed 2005 shutdown will result in modifications that will lower the usage of chemicals.

Reviews and Approvals

Subsequent to the approval of the Phase 2 drilling operations, the well designs had to be modified due to the need for accelerated production and re-injection capacity. Eighteen amendments to the Phase 2 drilling operation were, therefore, reviewed and approved. The final version of the water disposal well design was also reviewed and approved.

Manpower and Maintenance

The average number of regular employees, including production operations, drilling and support vessels in the field, was two hundred and sixty-nine (269). The total number of Timor Leste nationals employed in offshore positions was thirty-three (33) in addition to the twenty-seven (27) Timor-Leste nationals employed onshore in direct or indirect support roles.

D. Exploration & Development

Exploration staff evaluated the vacant acreage in the JPDA resulting in the recommendation for the release of four (4) areas for a competitive work program bidding round. Draft guidelines for the application for PSCs and criteria for the assessment of applications for PSCs were prepared in preparation for the acreage release.

Staff also prepared technical material for dissemination to the public sector, contributed to a regional study project, monitored development drilling at Bayu-Undan and technical programs in other areas.

4.4 Finance

A. Introduction

The Finance Directorate is responsible for ensuring the exploitation of the petroleum resources in the JPDA maximises the revenue of the contracting states. This function includes marketing of JPDA petroleum and monitoring JPDA expenditures. The Finance Directorate achieves the above through marketing agreements with the contractors and by conducting audits to ensure the expenditures of the contract operators are in accordance with work programs and are necessary for the proper conduct of petroleum operations.

In accordance with the Timor Sea Treaty, the TSDA is financed by fees collected from JPDA contractors. The Finance Directorate ensures these fees are collected and expended in accordance with annual estimates of income and expenditure approved by the Joint Commission. The financial operations of the TSDA are subject to an annual audit, a copy of which is included at Attachment 1.

B. TSDA Results for the 2004 Financial Year

The TSDA incurred a net loss of USD1,025,027 after revenues of USD1,495,296 (including depreciation & foreign exchange losses). It is recognised that these losses are unsustainable and the TSDA is taking steps to increase its income (refer to section 4.4C of this Annual Report for further details).

Despite the above loss, the TSDA utilises responsible financial management practices. This is reflected in the results compared to budget. The TSDA's actual costs of USD2,393,022 were USD335,883 less than the budgeted expenditure of USD2,728,905. This was achieved despite unexpected legal costs of USD243,591 associated with the Petrotimor Litigation (refer to section 4.2H of this Annual Report for further information).

The financial results for the year ended 31 December 2004 are summarised as follows:

Table 16: Financial results for the year ended 31 December 2004

	Actual 2004	Budget 2004
	USD	USD
Total Income	1,495,296	1,495,000
Expenses		
Employment costs	1,059,496	1,099,108
Travel & accommodation	353,635	590,621
Training & education	229,478	232,269
Consultants	68,971	149,250
Legal Costs	243,591	153,900
Office lease and related	131,743	135,465
Satellite & communications	126,946	104,165
Other costs	179,162	181,016
Contingency	0	83,111
Total expenditure before depreciation & forex	2,393,022	2,728,905
Total depreciation & forex	127,300	0
Total expenditure after depreciation & forex	2,520,323	2,728,905
Profit/(Loss)	(1,025,027)	(1,233,905)

The TSDA's audited financial statements are shown at Attachment 1.

C. 2005 Approved Budget

The TSDA's budget for the year ending 31 December 2005 has been approved by the Joint Commission. It reflects increased operational activity and institutional training in relation to Dili based operations associated with the movement of all TSDA activity to Timor-Leste and the winding down of the Darwin office.

Table 17: TSDA Approved 2005 Budget

	USD
Total income	3,211,460
Expenses	
Employment costs	1,580,642
Travel & related costs	632,431
Education and training	307,799
Consultants (incl. legal costs)	931,641
Telephone & communications	98,676
Office & related costs	202,448
Other overhead	248,648
Total operating expenditure	4,002,284
Capital	39,198
Contingency	50,000
Total expenditure	4,091,482
Net loss (before depreciation and forex)	(880,022)

The TSDA is taking steps to increase the annual fees charged to contractors and total revenue is expected to increase to USD3,211,460 resulting in a net loss of USD880,022. This loss largely relates to budgeted legal fees associated with the Petrotimor Litigation. It is anticipated that the TSDA's results will move into a neutral position during 2006.

D. JPDA Financial Activity

Revenue is collected by the TSDA from the sale of JPDA petroleum and distributed in full to the governments of Australia and Timor-Leste. The start of commercial production from the Bayu-Undan field and the subsequent receipt of revenue have resulted in significant income for the contracting States. Ongoing exploration and appraisal within the JPDA aims at discovering and commercialising additional reserves and the TSDA continues to support these programs.

Petroleum revenue earned during 2004 by the TSDA is summarised as follows:

Table 18: JPDA Petroleum Revenue

	2004
First Tranche Petroleum	USD
Elang Kakatua Kakatua North	4,662,038
Bayu-Undan	36,556,080
	<u>41,218,118</u>
Australia (10%)	4,121,812
Timor-Leste (90%)	37,096,307
	<u>41,218,118</u>

E. Marketing of TSDA's Petroleum under Bayu-Undan

Under the terms of the Bayu-Undan PSCs, the contractors are obliged to market the TSDA's share of petroleum if so requested. In this context, the TSDA entered into marketing arrangements during the year with both ConocoPhillips and Inpex to market the TSDA's share of petroleum. These agreements were reached after taking into consideration the benefit of joint marketing and the specialised nature of petroleum sales.

The main challenge facing the Bayu-Undan marketers during 2004 has been the uncertainty associated with the level of production during the commissioning and ramp up of the facilities. Despite these uncertainties, cargo scheduling and offtakes have proceeded successfully. Twenty-three (23) condensate cargoes were lifted during the year with all sales on a spot basis to customers mainly in South East Asia. Eleven (11) LPG offtakes occurred and all sales were to ChevronTexaco on a term contract.

As part of the marketing agreements with ConocoPhillips and Inpex, both companies are required to keep the TSDA regularly apprised of marketing information. Both contractors are required to provide documentation of every sale and to meet with the TSDA periodically during the year to provide updates of the petroleum market and their marketing plans. Consequently, both companies have been re-appointed to market the TSDA's share of petroleum during 2005.

F. JPDA Exploration & Operating Expenditure

The most significant expenditure came from the Bayu-Undan development which is located in the 03-12 and 03-13 PSC areas. Total exploration, operational and development costs by PSC are summarised below.

Table 19: Expenditure by PSC

	JPDA PSC						
	03-01	03-12	03-13	03-16	03-19	03-20	03-21
Exploration Costs	1,911,103	297,569		69,345	(2,000)	1,079	200,919
Non capital costs							
Operating & administration	625,257	55,512,193	27,771,561	21,315	266,573	11,762	23,131
Production drilling		63,238,648	51,320,136				
Other	164,605	1,876,893	710,210		160,000	160,000	160,000
Capital costs		89,364,009	72,521,681				
Other costs							
Miscellaneous receipts		851,103	625,774				
Net expenditure	2,700,965	209,438,209	151,697,814	90,660	424,573	172,841	384,050

5 ORGANISATIONAL CHANGES

5.1 Relocation Project

The Timor Sea Treaty states that after 2 April 2006 (or such other period as agreed to by both Governments) the TSDA shall be the Timor-Leste Government Ministry responsible for petroleum operations, or a Timor Leste statutory authority. In these circumstances, the relocation from Darwin to Dili has been a key part of the organisations strategic plan for 2003-2006.

The relocation project will be carried out in three (3) phases. The first phase of the project is the expansion of the current Dili office to provide for short term growth needs.

The second phase of the relocation project is the construction of new office facilities that will house the TSDA in Dili. Several sites have been identified with the cooperation of the Department of Land and Property and the Department of Public Works. Preliminary discussions have begun with consultants and construction companies to determine the budget requirements and program.

The relocation of operations from Darwin to Dili, Phase 3, will commence once the new office facilities are complete. It is planned to have the entire relocation project completed by April 2006.

Appendices

Appendix 1: Abbreviations

ADI	Alternative Duty Injury
ASV	Accommodation Support Vessel
BOPD	Barrels of Oil per Day
BSCFD	Billion of Standard Cubic Feet per Day
CUQ	Compression, Utilities & Quarters platform
DPP	Drilling, Production & Processing platform
DSV	Dive Support Vessel
ELICOS	English Language Intensive Course Of Study
FAI	First Aid Injury
FAIFR	First Aid Injury Frequency Rate
HSE	Health, Safety and Environment
HUET	Helicopter Underwater Escape Training
JPDA	Joint Petroleum Development Area
LTJ	Lost Time Injury
LTIFR	Lost Time Injury Frequency Rate
MMbbl	Millions of Barrels of Oil
MMBOE	Millions of Barrels of Oil Equivalent
MMSTB	Millions of Stock Tank Barrels of Oil
MMSCFD	Millions of Standard Cubic Feet per Day
MODU	Mobile Offshore Drilling Unit
MoU	Memorandum of Understanding
MTI	Medical Treatment Injury
MV1	Modex Venture 1
OIW	Oil in Water
NDT	Non-destructive testing
NOPSA	National Offshore Petroleum Safety Authority
NORM	Naturally Occurring Radioactive Material
OHS	Occupational Health and Safety
PFW	Produced Formation Water
PMC	Petroleum Mining Code
PSC	Production Sharing Contract
PSD	Process Shutdown
RTM	Riser Turret Mooring
SSSV	Subsurface Safety Valve
TAFE	Tertiary and Further Education
TBOSIET	Tropical Basic Offshore Safety Induction and Emergency Training
TRIFR	Total Recordable Injury Frequency Rate
TSDA	Timor Sea Designated Authority
USD	United States Dollars
WP1	Wellhead Platform 1

Appendix 2: TSDA Directors



Einar Risa | TSDA Executive Director

Einar Risa was appointed as Executive Director on 2 April 2003 by the Timor-Leste Government. He has a MA in Political Science from the University of Wisconsin. Prior to the appointment he was Petroleum Advisor at the T-L Prime Minister's Office. Other experience includes the Norwegian national oil company Statoil, where he among other functions was Natural Gas Sales manager, the Norwegian Trade Council and the Norwegian Diplomatic Service. He has also been State Secretary for Development Cooperation in the Norwegian Ministry of Foreign Affairs.



Andrew Caddy | Managing Director- Finance

Andrew Caddy was appointed as Managing Director - Finance on 2 April 2003, by the Joint Commission. Andrew has a Bachelor of Business from the Northern Territory University and is a member of the Institute of Chartered Accountants in Australia. Prior to his appointment with the TSDA, Andrew worked as Director and Financial Controller both within government and private enterprise in Australia and Asia.



Niny Borges | Managing Director – Legal

Niny Borges was appointed Managing Director-Legal on 2 April 2003, by the Joint Commission. Niny holds a Bachelor of Arts (Honours) in Political Science from the University of Wollongong and a Bachelor of Laws from the University of Sydney. Niny was admitted to practice in the Supreme Court of New South Wales in 2002 and the Northern Territory of Australia in 2005. Prior to her appointment Niny has worked in international organisations in Timor-Leste and Australia.



Tomas Fernandes | Managing Director – Information and Logistics

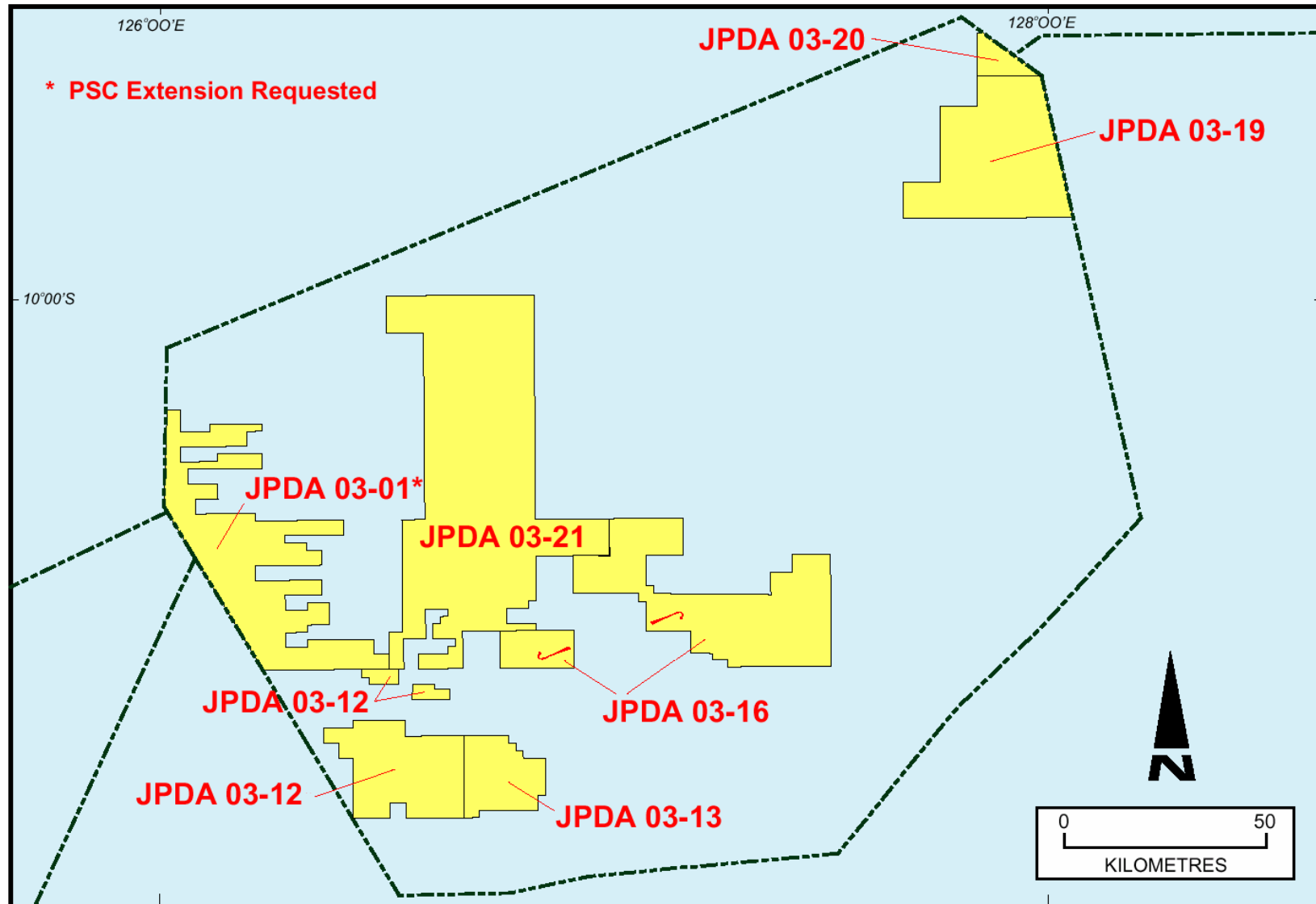
Tomas Fernandes was appointed Managing Director- Information and Logistics on 2 April 2003 by the Joint Commission. Tomas has a Diploma in Electronics from Instituto Industrial de Maputo. Prior to his appointment he worked with Government in areas of Telecommunications and in Information Technology & Communications.



Nick Kyranis | Managing Director – Technical

Nick Kyranis is a Science graduate of the University of Queensland, and was appointed as a TSDA Director on the 2nd April 2003 by the Joint Commission. Prior to his appointment he served as Technical Manager and Director in government and private enterprise, gaining wide-ranging experience from assignments in Southeast Asia, the Middle-East, Europe and North America.

Appendix 3: Map of JPDA as at 31 December 2004



Appendix 4: Register of Contract Operators as at 31 December 2004

PSC	Effective Date	Expiry Date	Contract Operator	Interest %	Joint Venture Partners	Interest %
JPDA 03-01	20-May-02	8-Jan-22	Woodside Petroleum (Timor Sea 1) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: + 61 8 9325 4273 Contact: Paul Kitson	40	INPEX Timor Sea Ltd Santos (JPDA 91-01) Pty Ltd	35 25
JPDA 03-12	20-May-02	6-Feb-22	ConocoPhillips (03-12) Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Stephen Brand	46.7144238	Emet Pty Ltd Petroz (Timor Sea) Pty Ltd INPEX Sahul, Ltd Santos (JPDA 91-12) Pty Ltd	1.577 13.371 19.0712244 19.2663518
JPDA 03-13	20-May-02	16-Dec-21	ConocoPhillips JPDA Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Stephen Brand	37.5	ConocoPhillips (03-13) Pty Ltd Eni JPDA 03-13 Limited Tokyo Timor Sea Resources Pty Ltd	13.1262893 26.8737107 22.5
JPDA 03-16	20-May-02	13-Nov-26	ConocoPhillips (03-16) Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Australia Facsimile: +61 8 9423 6675 Contact: Stephen Brand	100		
JPDA 03-19	20-May-02	4-Oct-26	Woodside Petroleum (Timor Sea 19) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: +61 8 9325 8178 Contact: Paul Kitson	27.6666667	Shell Development (PSC 19) Pty Ltd ConocoPhillips (03-19) Pty Ltd OG ZOCA (95-19) Pty Ltd	32.3333333 30 10
JPDA 03-20	20-May-02	13-Nov-26	Woodside Petroleum (Timor Sea 20) Pty Ltd 1 Adelaide Terrace Perth WA 6000 Facsimile: +61 8 9325 8178 Contact: Paul Kitson	26.6666667	Shell Development (PSC 20) Pty Ltd ConocoPhillips (03-20) Pty Ltd. OG ZOCA (96-20) Pty Ltd	33.3333333 30 10
JPDA 03-21	20-May-02	25-Mar-31	ConocoPhillips (03-21) Pty Ltd Level 3, 53 Ord Street West Perth WA 6872 Facsimile: +61 8 9423 6675 Contact: Stephen Brand	75	Eni JPDA 03-21 BV	25

Appendix 5: Unit Participating Interests for Bayu-Undan Contractors

03-12 PSC	Interest %	03-13 PSC	Interest %
ConocoPhillips (03-12) Pty Ltd (Contract Operator)	23.4149984	ConocoPhillips (03-13) Pty Ltd	5.5997600
Emet Pty Ltd	0.8705343	ConocoPhillips JPDA Pty Ltd (Contract Operator)	16.7992800
INPEX Sahul Ltd	11.7077752	Eni JPDA 03-13 Limited	12.3194720
Petroz (Timor Sea) Pty Ltd	7.3810487	Tokyo Timor Sea Resources Pty Ltd	10.0795680
Santos (JPDA 91-12) Pty Ltd	11.8275634		
	<u>55.2019200</u>		<u>44.7980800</u>

Attachment

Attachment 1: Audited Financial Report as at 31 December 2004

**TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA**

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

**TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
YEAR ENDED 31 DECEMBER 2004**

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of the Timor Sea Designated Authority for the Joint Petroleum Development Area (the Designated Authority), in the opinion of the directors:

- (a) the financial statements of the Designated Authority are drawn up so as to present a true and fair view of the operating results and cash flows of the Designated Authority for the year ended 31 December 2004 and the financial position of the Designated Authority as at 31 December 2004; and
- (b) the financial statements have been prepared in accordance with International Financial Reporting Standards.

For and on behalf of the Board



Einar Risa
Executive Director



Andrew Caddy
Managing Director - Finance

DARWIN

Date: 25 February 2005



INDEPENDENT AUDIT REPORT

To the Joint Commission of the Timor Sea Designated Authority for the Joint Petroleum Development Area.

We have audited the financial statements of the Timor Sea Designated Authority for the Joint Petroleum Development Area for the year ended 31 December 2004 as set out on pages 4 to 18. These financial statements are the responsibility of the Designated Authority's directors. 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. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present a true and fair view, in all material respects, of the financial position of the Timor Sea Designated Authority for the Joint Petroleum Development Area as at 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Merit Partners

Matthew Kennon
Partner
Darwin

Date: 25/2/2005

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in United States Dollars)

	Note	2004 \$	2003 \$ (9 months)
REVENUE			
Contract Service Fees		1,465,704	1,105,744
Interest		29,592	120
Other		0	1,392
		<u>1,495,296</u>	<u>1,107,256</u>
EXPENSES			
Personnel costs	8	1,070,326	548,309
General and administration	9	1,322,696	550,996
Foreign exchange losses		53,214	1,480
Depreciation		74,087	35,262
		<u>2,520,323</u>	<u>1,136,047</u>
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES		<u>(1,025,027)</u>	<u>(28,791)</u>
NET (LOSS)/PROFIT		<u>(1,025,027)</u>	<u>(28,791)</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

BALANCE SHEET
AS AT 31 DECEMBER 2004
(Expressed in United States Dollars)

	Note	2004 \$	2003 \$
ASSETS			
CURRENT ASSETS			
Cash and Cash equivalents	3	2,909,638	4,305,272
Trade and Other receivables	4	471,248	291,101
Other	5	<u>44,550</u>	<u>93,084</u>
Total Current Assets		<u>3,425,436</u>	<u>4,689,457</u>
NON- CURRENT ASSETS			
Property Plant and Equipment	6	<u>285,400</u>	<u>119,065</u>
TOTAL ASSETS		<u><u>3,710,836</u></u>	<u><u>4,808,522</u></u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals		191,509	123,725
Provision for annual leave		35,550	15,289
Prepaid contract service fees	7	<u>755,215</u>	<u>915,919</u>
Total Current Liabilities		<u>982,274</u>	<u>1,054,933</u>
TOTAL LIABILITIES		<u>982,274</u>	<u>1,054,933</u>
EQUITY			
Contribution by Contracting States		3,782,380	3,782,380
Accumulated Losses		<u>(1,053,818)</u>	<u>(28,791)</u>
Total Equity		<u>2,728,562</u>	<u>3,753,589</u>
TOTAL LIABILITIES AND EQUITY		<u><u>3,710,836</u></u>	<u><u>4,808,522</u></u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in United States Dollars)

	2004	2003
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		(9 months)
Fees from Operators	1,124,853	1,730,562
Interest Received	29,592	120
Less: Personnel Costs	(1,050,065)	(510,032)
Less: Other Operating Expenses	(1,259,592)	(544,823)
	<hr/>	<hr/>
Net cash flow from operating activities	<u>(1,155,212)</u>	<u>675,827</u>
CASH FLOW FROM INVESTMENT ACTIVITIES		
Purchase of plant and equipment	(240,422)	(154,327)
Proceeds from sale of plant and equipment	<u>0</u>	<u>1,392</u>
Net cash flow used in investment activities	<u>(240,422)</u>	<u>(152,935)</u>
CASH FLOW FROM FINANCE ACTIVITIES		
Initial Contribution by Contracting States	0	3,782,380
	<hr/>	<hr/>
Net cash flow from finance activities	<u>0</u>	<u>3,782,380</u>
Net increase/(decrease) in cash and cash equivalents	<u>(1,395,634)</u>	<u>4,305,272</u>
Add opening balance carried forward	<u>4,305,272</u>	<u>0</u>
Cash and cash equivalents ending balance	<u><u>2,909,638</u></u>	<u><u>4,305,272</u></u>
Comprising:		
Cash	<u>2,909,638</u>	<u>4,305,272</u>
	<u><u>2,909,638</u></u>	<u><u>4,305,272</u></u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2004**

	2004	2003
	\$	\$ (9 months)
EQUITY AT THE BEGINNING OF THE PERIOD	3,753,589	0
INITIAL CONTRIBUTION BY CONTRACTING STATES	0	3,782,380
ADD: NET (LOSS) FOR THE YEAR	<u>(1,025,027)</u>	<u>(28,791)</u>
EQUITY AT 31 DECEMBER 2004	<u><u>2,728,562</u></u>	<u><u>3,753,589</u></u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2004

1. NATURE OF OPERATIONS

The Timor Sea Designated Authority is constituted by virtue of the Timor Sea Treaty between the Governments of Australia and Timor-Leste which entered into force on 2 April 2003¹.

Under Article 6(b) of the Timor Sea Treaty, the Designated Authority has the juridical personality and such legal capacities under the law of both Contracting States as necessary for the exercise of its powers and the performance of its functions. In particular, the Designated Authority has the capacity to contract, acquire and dispose of movable and immovable property and to institute and be party to legal proceedings.

The Designated Authority, subject to directions from a Joint Commission established pursuant to Article 6 of the Timor Sea Treaty, is responsible for the management of activities relating to exploration for and exploitation of the petroleum resources in the Joint Petroleum Development Area in accordance with the Timor Sea Treaty, and in particular the Petroleum Mining Code and with production sharing contracts. This includes the collection and distribution between the Contracting States the proceeds of the Designated Authority's share of petroleum production from production sharing contracts. During the year, the proceeds from the sale of First Tranche Petroleum (FTP) were received by the Designated Authority on behalf of the Contracting States. Payments of FTP are made to Timor-Leste and Australia consistent with the ratio stipulated in Article 4(a) of the Timor Sea Treaty.

For the year ended 31 December 2004 the Designated Authority operated from offices at NT House, 22 Mitchell Street, Darwin, Australia and Avendia de Portugal No. 5 Dili, Timor Leste. At the end of the year the Designated Authority employed twenty eight full time employees (2003 – 21 Full time employees).

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements are stated in United States Dollars and are prepared in accordance with the historical cost convention.

Taking into account the diverse geographical nature of the Contracting states, the Joint Petroleum Development Area and the various contract operators holding Production Sharing Contracts, it was agreed in the inaugural meeting of the Joint Commission that the accounts of the Designated Authority would be denominated in United States dollars.

b. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Note ¹ Changed 2004 to 2003

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Income Statement

The Income Statement is prepared on the accrual basis, which requires income and expenditure to be brought to account in the years to which these relate.

d. Statement of Cash Flow

The Statement of Cash Flow is prepared on the basis of cash and cash equivalent concepts, using the direct method. Cash equivalents include cash on deposit, which are available for use within three months.

e. Income recognition

Income is brought to account on the following basis:

- i) Application fees - accrual basis.
- ii) Contract service fees - accruals basis on the anniversary of the commencement of the Production Sharing Contract. Contract service fees received in advance are deferred and brought to account as income in the years to which they relate. Contract service fees received on termination of a Production Sharing Contract are brought to account as income in the year in which they are received.
- iii) Interest - accrual basis.

f. Translation of foreign currencies

The Designated Authority maintains its books and records in United States Dollars.

Transactions during the year in currencies other than United States Dollars are recorded at the rates of exchange at the date of the transactions. At balance date, monetary assets and liabilities denominated in currencies, other than United States Dollars, are translated into United States Dollars at the rates of exchange on that date.

All exchange gains and losses and currency translation adjustments are reflected in the statement of income and expenditure in the year incurred.

g. Taxation

The Designated Authority is not subject to income tax in either Timor-Leste or Australia by virtue of Article 6 of the Timor Sea Treaty.

h. Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and annual leave. The liabilities are measured at their nominal amount and are expected to be settled within twelve months.

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Property, Plant, and Equipment

Property, Plant and Equipment is valued at cost and depreciation is calculated using the straight line method. Depreciation rates are based on the estimated useful lives of the assets as follows:

	2004	2003
Office furniture	25%	25%
Office and Computer Equipment	25-100%	25-33.3%
Other	25-50%	25-50%
Leasehold Improvements	20%	20%

Any gain or loss arising from the sale or disposal of fixed assets is credited to, or charged against, income in the year of sale.

3. CASH AND CASH EQUIVALENTS

	2004	2003
	\$	\$
ANZ AUD Account	57,613	1,476,991
ANZ USD Account	2,710,864	2,820,123
ANZ Dili USD Account	101,371	6,923
AMP - Funds on deposit	38,320	0
Petty Cash	1,470	1,235
Total	<u>2,909,638</u>	<u>4,305,272</u>

4. TRADE AND OTHER RECEIVABLES

	2004	2003
	\$	\$
Contract Service Fees	450,000	290,000
Other	21,248	1,101
	<u>471,248</u>	<u>291,101</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2004

5. OTHER CURRENT ASSETS

	2004	2003
	\$	\$
Prepayments	44,550	93,084
	<u>44,550</u>	<u>93,084</u>

6. FIXED ASSETS

(a)

	Cost	Accumulated Depreciation	Written down Value
Office and Computer Equipment-Cost	334,273	(77,873)	256,400
Office Furniture-Cost	15,854	(5,568)	10,286
Other-Cost	20,543	(5,799)	14,744
Leasehold Improvements	24,080	(20,110)	3,970
Total	<u>394,750</u>	<u>(109,350)</u>	<u>285,400</u>

(b) Reconciliations

<u>Office and Computer Equipment</u>	2004	2003
	\$	\$
Carrying amount at beginning	93,399	0
Additions	227,060	107,213
Disposals	0	0
Depreciation Expense	(64,059)	(13,814)
Carrying amount at ending	<u>256,400</u>	<u>93,399</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2004

6. FIXED ASSETS (continued)

<u>Office Furniture</u>	2004	2003
	\$	\$
Carrying amount at beginning	12,969	0
Additions	1,068	14,786
Disposals	0	0
Depreciation Expense	(3,751)	(1,817)
Carrying amount at ending	<u>10,286</u>	<u>12,969</u>
<u>Other</u>		
Carrying amount at beginning	8,801	0
Additions	11,324	9,743
Disposals	0	0
Depreciation Expense	(5,381)	(942)
Carrying amount at ending	<u>14,744</u>	<u>8,801</u>
<u>Leasehold Improvements</u>		
Carrying amount at beginning	3,896	0
Additions	970	22,585
Disposals	0	0
Depreciation Expense	(896)	(18,689)
Carrying amount at ending	<u>3,970</u>	<u>3,896</u>

7. PREPAID CONTRACT SERVICE FEES

A number of contract service fees (US\$ 755,215) partially relating to the following year, were received in the year ended 31 December 2004 (2003 US\$ 915,919). These prepaid contract service fees are shown as current liabilities at 31 December 2004, and are to be taken up as income in the following year.

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2004

8. PERSONNEL COSTS

	2004	2003
	\$	\$
		(9 months)
Salaries	742,670	371,143
District Benefit	127,435	73,366
Employee Compensation	993	3,215
Home leave travel	31,313	1,196
Motor Vehicle	24,738	16,967
Personnel Allowance	2,296	2,181
Relocation	25,881	880
Staff Amenities	14,196	10,194
Superannuation	100,804	49,876
	<u>1,070,326</u>	<u>529,018</u>

9. GENERAL AND ADMINISTRATION COSTS

	2004	2003
	\$	\$
		(9 months)
Audit and Professional fees	4,751	8,191
Bank charges	2,709	2,357
Training, Education and Conference expenses	232,973	85,056
Consultants	68,971	67,995
Electricity	15,653	7,205
JPDA Marketing	11,900	0
Insurance	8,399	2,717
Legal costs	243,591	0
Minor Equipment	12,762	0
Motor Vehicle expenses	9,277	0
Office rental	104,820	67,936
Office supplies	17,127	8,636
Other	17,702	15,387
Printing & advertising	1,777	14,579
Repairs and maintenance	62,780	16,071
Security	26,923	15,727
Telephones & Communication	126,946	37,410
Travel	353,635	216,434
Web and Intranet	0	4,586
	<u>1,322,696</u>	<u>570,287</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2004

10. FIRST TRANCHE PETROLEUM

Under Article 4 of the Timor Sea Treaty, Australia and Timor Leste have title to all petroleum produced in the Joint Petroleum Development Area.

During the year, the Designated Authority, with the approval of the Joint Commission, collected the net proceeds of the Contracting States share of petroleum from production in the Joint Petroleum Development Area. The petroleum revenue was sourced from the Elang Kakatua Kakatua North field located in Production Sharing Contract area JPDA 03-12 and the Bayu-Undan field, unitised across PSC areas JPDA 03-12 and JPDA 03-13.

As title to the petroleum from the JPDA is held by the Contracting States, the Designated Authority is not permitted to expend the funds from the sale of petroleum in any way with the exception of distributing it to Timor Leste and Australia. Accordingly, the Designated Authority does not show the proceeds or distributions as revenue or expenses as it does not have title to, or control of, the production, and subsequent revenue.

INCOME & EXPENDITURE	2004	2003
	\$	\$
FTP Income	40,833,783	3,662,233
Plus: Other Income	3,554	2,789
Less: Related expenses	(31,283)	(6,859)
Net Income	<u>40,806,054</u>	<u>3,658,163</u>
Distributions to Contracting States for the year		
Timor-Leste	3,294,479	0
Australia	1,902,647	0
	<u>5,197,126</u>	<u>0</u>
Net Movement in FTP Funds held on behalf of Contracting States	<u>35,608,928</u>	<u>3,658,163</u>
Opening balance of FTP funds held on behalf of Contracting States	3,658,163	0
Closing balance of FTP funds held on behalf of Contracting States	<u>39,267,091</u>	<u>3,658,163</u>
Allocation of closing balance:		
Timor-Leste	36,723,306	0
Australia	2,543,785	0
	<u>39,267,091</u>	<u>3,658,163</u>
Represented by:		
Cash	34,347,223	1,876,497
Receivables	4,919,868	1,781,666
	<u>39,267,091</u>	<u>3,658,163</u>

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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11. COMMITMENTS AND CONTINGENCIES

a) At 31 December 2004 the Designated Authority had no capital commitments.

b) Contingent Liability

The Designated Authority has been named as a co-defendant in an action brought in the United States District Court of Columbia alleging the theft, misappropriation and conversion of oil and gas resources within a concession claimed by the plaintiffs, Oceanic Exploration Company and Petrotimor Companhia de Petroleos S.A.R.L. in the Joint Petroleum Development Area.

The plaintiffs have requested the damages to be determined at trial but allege that the amount lost is not less than USD10.5 billion.

The Directors of the Designated Authority vigorously deny all allegations made by the plaintiffs and have appointed the law firm Baker and Mackenzie to represent them in this matter.

12. SUBSEQUENT EVENTS

At an oral hearing held in the United States District Court of Columbia on 8 February 2005, the presiding judge dismissed the complaint against the Designated Authority (refer Note 11 (b) above) without prejudice to the filing of a Second Amended Complaint to be filed no later than 1 March 2005. At the time of signing the financial statements, the amended complaint had not been filed.

TIMOR SEA DESIGNATED AUTHORITY
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13. BUDGET IN COMPARISON TO ACTUAL EXPENDITURES

The annual budget is prepared on a cash basis and is subject to approval by the Joint Commission.

The budget was prepared for a twelve month year to 31 December 2004.

	Expenditure	Budget	Expenditure (in excess) /under Budget
Salary & Wages	742,670	743,521	851
Superannuation	100,804	148,717	47,913
District Benefit	127,435	131,147	3,712
Employee Insurance	993	(1)	(994)
Motor Vehicle Allowance	24,738	27,395	2,657
Home leave travel	31,313	39,095	7,782
Relocation	25,881	9,234	(16,647)
Workers compensation premium	5,662	0	5,662
Travel & Expenses	353,635	590,621	236,986
Training, Education & Conference Expenses	232,973	232,269	704
Consultants	68,971	149,250	80,279
Legal Costs	243,591	153,900	(9,691)
Office Lease & Related	104,820	111,945	7,125
Security	26,823	23,520	(3,403)
Office expenses	302,572	285,181	(20,887)
	<hr/>		
Total Expenditure before Depreciation & FX	2,392,982	2,728,905	335,923

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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14. FINANCIAL INSTRUMENTS

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and conditions
(i) Financial assets			
Cash	3	Details are set out in note 2(c).	Interest is earned at the bank's benchmark interest rate.
Receivables	4	Amounts receivable are carried at full nominal value.	Contract service fees normally settled on 30 day terms.
(ii) Financial liabilities			
Trade creditors and accruals		Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Designated Authority.	Trade liabilities are normally settled on 30 day terms or other negotiated terms.

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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iii) Interest Rate Risk

Financial Instruments	Floating Interest Rate		Non-interest Bearing		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$
<i>(i) Financial assets</i>								
Cash	2,909,638	4,305,272			2,909,638	4,305,272	0.85%	1.42%
Receivables			471,247	291,101	471,247	291,101	-	-
Total financial assets	2,909,638	4,305,272	471,247	291,101	3,380,885	4,596,373	0.85%	1.42%

Financial Instruments	Non-interest Bearing		Total Carrying Amount as per the Balance sheet		Weighted average effective interest rate	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
<i>(ii) Financial liabilities</i>						
Trade creditors & accruals	191,469	123,725	191,469	123,725	-	-
Total financial liabilities	191,469	123,725	191,469	123,725		

TIMOR SEA DESIGNATED AUTHORITY
FOR THE JOINT PETROLEUM DEVELOPMENT AREA
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31 DECEMBER 2004

14. FINANCIAL INSTRUMENTS (continued)

(iv) Net Fair Values

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

Receivables and Payables: The carrying amount approximates fair value.

(v) Credit Risk Exposures

The Designated Authority's maximum exposure to credit risk at balance sheet date in relation to each class of recognized financial asset is the carrying amount of those assets as indicated in the balance sheet.

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Timor Sea Designated Authority

for the Joint Petroleum
Development Area

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