KINA PETROLEUM LIMITED
ANNUAL REPORT

COMPANY NO. 1-63551 ARBN 151 201 704

FOR THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS' REPORT

The Directors present their report on the Company and its controlled entities for the year ended 31 December 2016.

DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

Richard Robinson, Independent Non-Executive Chairman

Appointed 13 December 2013, Richard has 39 years industry experience, including 29 years in Papua New Guinea. His experience encompasses the management of both project developments and upstream operations and includes periods with a variety of contractors and Operators including ExxonMobil, BP and Oil Search.

He retired from Oil Search in early 2013 after more than 10 years employment with the company, the last three as Executive General Manager – Operations, where he was responsible for all of Oil Search's PNG production and associated drilling operations.

Mr Richard Schroder - Managing Director

Appointed 1 June 2011, Richard Schroder has a Bachelor of Science degree, majoring in Geophysics, from the University of Sydney. He is experienced in Australian and international oil and gas exploration commencing with Conoco in the North Sea in 1975.

Richard's 30+ years of experience extends to both UK and Norwegian sectors of the North Sea, Africa, Indonesia, PNG, NZ and onshore and offshore Australia. Richard has 20+ years of experience as an operator in the lowland and highland jungles of PNG and has managed junior companies such as Sydney Oil Company as well as majors such as Santos in the capacity of Exploration Manager, South East Asia.

Richard has drilled 11 wells in PNG and Papua Province Indonesia, resulting in 1 commercial oil field, and 3 other oil and or gas intersections, and helped pioneer the boutique seismic technology which was responsible for considerable savings and drilling success.

Dr Ila Temu, Independent Non-Executive Director

Appointed 1 June 2011, Ila achieved a distinguished career with the University of Papua New Guinea, the National Research Institution, the Australian National University and the University of California, Davis USA, where he was awarded his PhD. Ila entered the private sector in 1996 when he was appointed Managing Director, Mineral Resources Company and during 2000 he accepted the appointment as General Manager, Government Relations, Placer Niugini Ltd. Ila is President, PNG Chamber of Mines and Petroleum, Director Corporate Affairs, Australia Pacific, for Barrick PNG, Non-Executive Director Bank South Pacific Limited, Chairman of PNG Ports Corporation, Director Bank of South Pacific Capital Port Moresby and Council Member, Divine Word University.

Barry Tan, Non-Executive Director

Appointed 1st March, 2009 on the formation of Kina Petroleum Limited as the Executive Director, Barry Tan is a naturalised citizen of Papua New Guinea and has spent over 35 years in Papua New Guinea developing and operating various businesses in Papua New Guinea. Barry is currently Chairman of TST Trading, Chairman of the TST Group of Companies that span property development and running supermarket franchises in PNG and also diversified industry through Starland Freezers, Tanpac and Kokoda Tailoring.

Barry brings to the Company a wealth of knowledge in understanding the culture of PNG and the most efficient way to run the business. Barry also has a strong network of interpersonal relationships in commerce in PNG through his various associations.

DIRECTORS' REPORT

David Vance, Independent Non-Executive Director

Appointed 6 November 2014, David is a corporate and project finance attorney and CFA charterholder with over 25 years of experience in Asia and the US. As a partner in private practice with two major US law firms, Mr. Vance represented some of the world's largest infrastructure and financial institutions in complex, first-of-its-kind transactions, including numerous "Deals of the Year" for Asia, and was recognized as a leading lawyer for project finance in Japan by an industry publication. He also advised many small and medium size enterprises in a wide range of corporate and financial matters.

Mr. Vance moved in-house to InterOil Corporation and, more recently, Asian Oil & Gas Pte Ltd., an affiliate of PIE Holdings, LP, to focus on upstream oil and gas matters in PNG and other countries. Mr. Vance received an A.B. from Stanford University and his J.D., with honours, from the University of Texas School of Law. He lives in Singapore.

COMPANY SECRETARY

The Company Secretary as at the end of the financial year and at the date of this report is Mr Peter Impey.

Mr Peter Impey is a Certified Practising Accountant and a full member of The Chartered Institute of Secretaries & Administrators. He holds a Bachelor of Business degree, majoring in Accounting from the University of Southern Queensland and a Graduate Diploma in Fraud Investigation from the Charles Sturt University in NSW.

Peter has worked in an accounting environment for over thirty years, and has worked in a Public Accounting Practice in Papua New Guinea for twelve of the last fifteen years involving preparation of accounts, taxation matters and secretarial responsibilities for companies utilising the registered office.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated group are to pursue, acquire and develop energy related assets in Papua New Guinea and overseas.

OPERATING RESULTS

The net loss of the consolidated group after income tax for the year was US$ 2,783,811 (2015: US$ 3,088,936).

DIVIDENDS

No dividends have been paid or declared by the consolidated group since the beginning of the year.

FINANCIAL POSITION

The net assets of the consolidated group at 31 December 2016 were US$32,983,540 (2015: US$35,706,404). At 31 December 2016 the Group had a cash balance of US$7,145,597 (2015: US$10,342,756).

STATE OF AFFAIRS

Other than matters detailed in the Review of Operations and Likely Developments, there were no significant changes in the state of affairs of the consolidated group.

DIRECTORS' REPORT

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

Background

Kina Petroleum Ltd ("Kina", "KPL" or "the Company") was formed in 2009 to participate in the exploration and acquisition of oil and gas assets in PNG, and since its float in late 2011, has raised a total of US$ 44 million with more than US$ 7 million cash on hand at the end of 2016. As it has always done, Kina continues to leverage its large exploration position to support growth related activity in its licenses. This is despite the two year period to the end of 2016 presenting significant challenges because of a well documented decline in Oil price, coupled with uncertainty over the timing of extension of licenses which are foundations of our acreage portfolio.

These circumstances drove Kina's Board to cut expenditure in 2016 - both licence focused and administrative - to preserve its valuable capital. Obviously, in difficult times, the opportunity to farmout licence interests is very limited when all major companies are cutting back on expenditure, particularly exploration. However our industry has faced many such crises over the last 40 years and those companies that quickly adapt to the prevailing environment know that for every downturn there is a recovery.

Although the wait for licence extensions imposed operational limitations on Kina, the company was in fact fortunate that this occurred during a period of relatively low industry activity. In consultation with the Department of Petroleum and Energy in Papua New Guinea, the company was able to manage and re-negotiate what would otherwise have been large capital expenditure programs.

Ultimately, we are involved in an industry that supplies a market that consumes close to 100 million barrels of oil a day. The lack of investment in both new developments and exploration means there is a gap developing between supply and demand and we are now seeing this reflected in an oil price which at the beginning of 2017 was almost twice the level that it was at the beginning of 2016.

Early in Calendar year 2017, extension of PPL 338 and grant of PPL 581 occurred, and the remaining licenses which the company applied for completed their passage through the PNG Government review process. Award of those other licences is imminent. The Extension of PPL 338 and award of PPL 581 were effective 31 January 2017 and accordingly, although the PPL 338 licence expired in September 2015, no time has been lost from the license period. A farm out effort can therefore commence with the industry far more buoyant and without the time pressures that might have arisen had the licence term begun immediately after the original expiry date.

The hiatus in activity was used to good effect. It allowed management to complete the analysis of many thousands of kilometers of seismic data that was either acquired or reprocessed in the final two years of the primary term of our licenses. Because our licenses span very broad regions of PNG, Kina was able to complete a full analysis of the new data set extending from Irian Jaya in the west to Port Moresby in the east. Kina has established a structural synthesis tying in the geology from Indonesia, Australia and PNG using sequence stratigraphic principles, and has achieved some spectacular results.

The work has also allowed Kina to rank its licenses, which resulted in PPL 337 being culled from its exploration portfolio in 2016 to reduce costs and focus on core areas. Given the geographical breadth of the analysis, we have also been able to establish how the prospectivity and structural trends of the areas immediately beyond our licence boundaries impacts the prospects and leads in our liences.

DIRECTORS' REPORT

Existing Projects

The Company's exploration and development projects as at the date of this Annual Report are set out below. These assets are considered to be prospective oil and gas and work programmes have been developed.

License	Prospect	Ownership	Operator
PPL 338	Triceratops Extension / Nipa / Mangrove	Kina 100%.	Kina
PPL 339	Kalangar	Kina 30%.	Oil Search
PPL 340	In progress	Kina 100%	Kina
PPL 435	In progress	Kina 100%	Kina
PPL 436	In progress	Kina 100%	Kina
PPL 437	Malisa South	Kina 57.5%	Kina
PPL 581	In progress	Kina 100%	Kina
APPLs 596 / 597 / 598	In progress	Kina 100%	Kina
PRL 21	Elevala/Tingu and Ketu Fields	Kina 15%	Horizon Oil Ltd
PRL 38	Pandora Fields	Kina 25%	Repsol

Overview of PNG Exploration Activities

The majority of the Company's tenements are all located within the prospective Papuan Basin of PNG – see Figure 1. The projects are prospective for oil and gas close to existing or proposed export infrastructure.

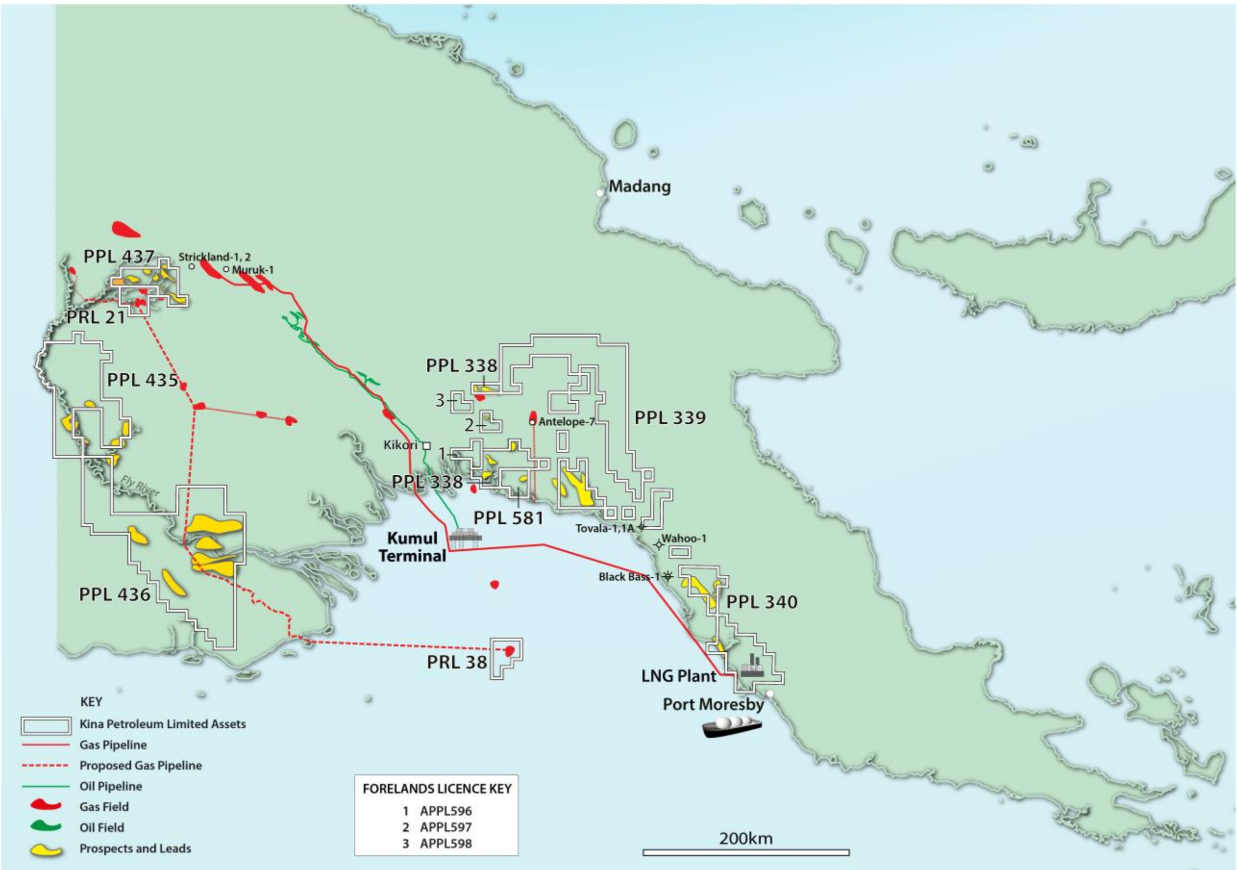

Figure 1: Location of Kina Petroleum Prospecting and Retention Licences.

Exploration and Development activities conducted on these projects during the period together with planned activities are reported in the following sections.

DIRECTORS' REPORT

PRL 21 (Kina 15%)

During the year Mitsubishi announced their intended withdrawal from PRL 21. It is intended that their participating interest will be distributed amongst the remaining joint ventures with Kina's participating interest in the licence expected to increase to around 16.5%.

Over the past 12 months, the joint venture has focussed on confirmation of the licence's resource base in light of seismic mapping work undertaken in respect of the Elevala and Ketu fields. Using a range of maps, the operator has completed initial phases of modelling of the fields to assess the most appropriate development plan and to maximise the rate of return and profitability of the development. The operator will integrate the results of this early phase work with maps produced by other Joint Venture partners so as to gain as clear as possible an insight into the subsurface properties of the fields.

Lower energy prices have obviously impacted the economics of a proposed PRL 21 development and accordingly, the PRL 21 and PDL 10 Joint Ventures have established a joint Working Team to plan for a combined and cooperative development to be achieved through aggregation of Western Province hydrocarbon resources. Western Province gas development was very much the focus of the recent PNG Mining and Energy Investment Conference held in Sydney in December 2016. Kumul Petroleum Holdings Limited announced its intent to evaluate the feasibility of building a pipeline to act as common carrier of Western Province gas fields. This is of commercial importance to Kina and also reinforces the importance of development of Western Province gas fields to the government of PNG.

Of the other key messages from the Conference, two key ones were the importance of hydrocarbon development to the PNG Government and the outstanding performance of PNG LNG. The fiscal terms and cost structure of PNG puts PNG in the lowest cost quartile of the cost curve for LNG according to Wood McKenzie. This factor has not been lost on the Government which is considering dropping the tax on liquids development to 30% to bring it into alignment with its treatment of gas. Such a move would be significant to PRL 21 which has condensate richness of 60bbl per million cubic feet of gas. Each well in PRL 21 has the potential to produce between 3,000 and 4,000 barrels of liquids per day and with improving oil price and cost deflation, the liquids project remains a priority for Kina's management.

PRL 38 (Kina 25%)

PRL 38 is located offshore Gulf of Papua and incorporates the Pandora A and B reef gas discoveries. Towards year end, Kina gained access to the Pandora 3D seismic data and interpretation is now underway. It is premature to discuss the findings of this work but our knowledge of the field will be enhanced as will follow up prospectivity in PRL38.

Analysis of the 3D data has helped Kina to understand how the reefs grew through the Miocene and the impact they had on distribution of sediment coming into the basin from the west through the Miocene and Pliocene areas. Understanding of reef growth and linkage to reefs in the east and the Fly Platform in the west has helped explain the complex structuring that has occurred from west to the east and also helped unlock the potential for a number of reefs in PPLs 338, 339 and 340.

For PRL 38, development remains (at this stage) dependent on a form of aggregation with other discoveries in the Papuan Gulf. To this end, Kina continues to watch the development of Pasca with interest. But the move towards an aggregated approach for PRL 21 is also beneficial as it potentially opens the door for a Build, Own, Operate (BOO) production facility somewhere on the Gulf of Papua coastline which PRL 38 could feed into. Kina and Repsol's involvement in both the Western Province and Gulf aggregation strategies should offer some synergies to the development of both assets.

PPL 337

Kina relinquished the PPL 337 licence in March 2016 after the review of results from the drilling of Kwila-1 and Raintree-1 demonstrated minimal remaining prospectivity.

DIRECTORS' REPORT

PPL 338 (Kina 100%)

PPL 338 is located in the eastern Papuan Basin, to the west and south of the Elk-Antelope gas field in PRL 15.

Extension of PPL 338 has been confirmed effective 31 January 2017 and the work program for PPL 338 is:

- Years 1 & 2 – gravity gradiometry
- Years 3 & 4 – seismic acquisition and a well
- Year 5 – licence review

From June 2015 to year end 2016 KPL completed its analysis of the reprocessed seismic data and confirmed prospects at Triceratops north, Triceratops West, Crocodile, Nipa, and Mangrove.

The benefits of gravity-gradiometry data in helping define structural framework and potential for reef build-ups has been demonstrated at Antelope and Triceratops. Phase 1 of the extension work program will be acquisition of gravity-gradiometry data over PPL 338. The scope of the survey is to link Triceratops, Antelope and PPL 338. Discussions have commenced with contractors to acquire the data and this activity will form part of Kina's farm out process.

PPL 581 (Kina 100%)

PPL581 was awarded for 6 years effective 31 January 2017 and covers the Snake Lead, east of Mangrove, and Nipa. It is possible that Snake may be structurally linked into Kalangar to the east and it is proposed that gravity gradiometry data will be acquired over PPL 581. This also will form part of KPL's farm out effort.

APPLs 596, 597 and 598 (Kina 100%)

Applications for APPLs 596, 597 and 598 were made at the same time as PPL 581. All 4 licences cover graticular blocks that were contained within the previous PPL 338 licence area. The APPLs have been offered and accepted by Kina and once awarded will form separate licenses each with 6 year terms.

These APPLs contain leads that extend up-dip of Crocodile and along trend from Triceratops West. Gravity-gradiometry data will be acquired over the licenses and as with PPL 338 and PPL 581 will be farmed out.

PPL 339 (Kina 30%)

PPL 339 is located in the eastern Papuan Basin, south and east of Elk-Antelope.

Like PPL 338, the extension application for PPL 339 was submitted in June 2015. The Operator continues negotiation of the application which, like PPL 338, is expected to have a (new) anniversary commencing from the date of Ministerial approval.

KPL has completed its analysis of reprocessed seismic and gravity data within PPL 339 and established the possibility of a linkage between prospects in PPL 338, Antelope, Kalangar and Lizard Prospect in PPL 340. KPL continues to believe a platform and/or barrier reef system developed across the southwest of the licence at Kalangar and just as the Pandora reef dammed and controlled deposition of Miocene sediments in PRL 38, Kalangar and Lizard reefs appear to influence deposition of early to mid Miocene sediments in the Aure Trough and the Lakakamu Embayment.

Timing of drilling in PPL 339 will be impacted by delays in the extension process. KPL is partially carried through the well and in keeping with its policy of limiting exposure to high risk exploration activity, will farm out its participating interest in the well.

Success at Kalangar will significantly high grade the Cassowary and Bowerbird prospects which may be separate features, or may form one large reef complex separating the Aure Trough to the northeast and the late Miocene Trough to the south west.

Analysis of the seismic data suggests that inundation of Kalangar commenced first in the north east with sedimentation coming from the Aure Trough. Restricting the Aure Trough sediment to the north east allowed continued growth of carbonates at Bowerbird in the Upper Miocene.

DIRECTORS' REPORT

This model of reef growth and progressive inundation from the north east, and anomalously high interval velocities seen on reprocessed seismic data to the south of Bowerbird has lead KPL to believe that a third reef trend exists updip of Hohoro 1 in PPL 339 where carbonate reef continued to grow into the early Pliocene. This model is consistent with the platform and reef system that KPL has developed for PPL 338 immediately to the west.

PPL 340 (Kina 100%)

PPL 340 is located in the eastern Papuan Basin, north west of Port Moresby across several blocks.

In June 2015 Kina submitted its extension application for PPL 340 and at the time of writing has been offered and accepted the offer of a 5 year extension. We now await Ministerial approval of the licence to confirm the commencement date of the extension.

KPL has extended the proposed barrier reef system from Kalangar in PPL 339 to the south east through Kapuri 1 through Lizard Prospect and then the outcropping mid Miocene and upper Miocene reefs in PPL 340 and south of PPL 340 at Boera, the latter being located only a matter of kilometres from the ExxonMobil LNG plant.

The Lizard and Port Moresby prospects are linked structurally with Port Moresby reef inundated first by mid Miocene sediments intersected at Kaufana 1 and Rorona 1.

Lizard is located less than 100km by road to Port Moresby and the LNG export infrastructure. The terrain is benign and drilling and seismic acquisition costs are low. Kina has designed a seismic program of 110km over Lizard and only awaits extension of the license to start farm out discussions.

PPLs 435 and 436 (Kina 100% in both licences)

PPLs 435 and 436 are two large areas located in the Western Province, structurally within the Papuan Foreland and both astride the Fly River between the Fly River delta and Lake Murray.

Kina's proprietary interpretation of reprocessed seismic data has confirmed the company's view that potentially giant structural prospects reside in the south of this very large license area. KPL's regional analysis has extended multiple reservoir targets into Sturt and Alligator Prospects located on the Oriomo High. Oil seeping of 5 barrels of oil per day at Panakawa confirms an active hydrocarbon kitchen exists east of Panakawa with the location of the Oriomo High being optimally placed up dip from that kitchen, providing justification for an active petroleum system draining into the Oriomo High. The oil at Panakawa reaches the surface because of erosion of the Ieru sealing shales at that location. Regional seismic interpretation and presence of Ieru shale in wells at Magabu Is 1and Iamura 1 justify presence of Ieru sealing shale at prospects at Sturt and Alligator. The prospects are dependent on a series of down to the south faults recognised on reprocessed seismic lines. Kina is planning a seismic program that will confirm the presence and orientation of strike of these critical faults. The terrain is flat with open grass land cover or forest cover. Seismic acquisition costs are expected to be low and the costs of acquisition will form part of Kina's farm out program.

Throughout each license, Kina's tectonic synthesis integrated with proprietary gravity data has established a structural fabric which is very encouraging not only for PPL 436 but has also opened up a prospective trend to the north of Lake Murray-1 gas discovery in PPL 435. Lake Murray and Aiambak Prospects within PPL 435 remain highly prospective with multiple reservoir targets identified at Aiambak Prospect, a number of which appear to have gas effects visible on the seismic data. KPL is preparing a seismic program over Aiambak which will form part of its farm out effort. The program will include a line to the north of Lake Murray 1 to confirm the orientation of a fault interpreted to establish a fault controlled tend between Stanley and Lake Murray 1 discoveries.

Seismic and drilling costs in these licenses are much lower than the fold belt and, for that matter, PRL 21 south of the foldbelt. The identified prospects can be tested by a road supported rig with a likely drilling depth no deeper than two kilometres.

DIRECTORS' REPORT

PPL 437 (Kina 57.5%)

PPL 437 is located in the Western Province of PNG, structurally within the Papuan Foreland and immediately north of PRL 21 (Ketu-Elevala).

KPL has identified the Malisa Prospect which is along trend from Tingu-1 but also east of Namar 1. Malisa is independently closed off from Namar 1 but believed to be stratigraphically down dip from Namar 1 thus offering potential for better reservoir. The eastern flank of the Malisa Prospect is on the down thrown side of the Ketu North Fault and seismic ties into Stanley field show some structural and stratigrahhic similarities with Malisa offering potential for good reservoir development for Toro and Kimu sands.

As mentioned above the establishment of a JWT for PRL 21 and PDL 10 is a positive development for PPL 437. An aggregation process for development of these fields will set a precedent that may open the door for inclusion of other discoveries close to what will become a PDL 10/PRL 21 hub. Furthermore, Malisa has the advantage that it is shared by the PPL 259 and PPL 437 joint ventures, and a joint well carried out as part of a future multi-well program could prove attractive as the two joint ventures include a number of participants in the JWT.

To the east of Malisa KPL has identified the Mango and Ebony Prospects which like Malisa has Elevala, Toro and Kimu reservoir objectives. KPL and Heritage Oil have designed a 150km seismic program over these prospects, which forms part of a joint farm out effort with Heritage.

Malisa, Ebony and Mango are significant prospects that will underlie proposed infrastructure to export gas to the east. The PNG Government has the aim of aggregation and development of the Western province gas, and gas discovered in PPL 437 will have significant incremental value to an aggregated development.

But gas is only part of the story. Malissa Ebony and Mango Prospects lie between P'nyang, Juha, Muruk and Hides in the north and Stanley, Tingu, Elevala, Ubuntu and Ketu in the south. Success rate for valid closures drilled in this area is very high and Ebony and Mango lie between Ketu/Elevala and Juha with the highest liquids richness in gas fields so far discovered in the Basin.

ENVIRONMENTAL ISSUES

The Company is in material compliance with all applicable environmental regulations, and there have been no reports of breaches of environmental regulations in the financial year and at the date of this report

DIRECTORS' REPORT

REMUNERATION REPORT

Details of the nature and amount of remuneration for each Director of the Company and key management personnel are set out below.

Remuneration Policy and Practices

The Company's policy for determining the nature and amount of remuneration of Board members and senior executives is as follows:

i. Non-Executive Directors

The Board's policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to its Non-Executive Directors and will review their remuneration annually.

The maximum aggregate annual remuneration of Non-Executive Directors is subject to approval by the shareholders in general meeting. The shareholders have determined at a general meeting held on 9 March 2010 the maximum aggregate remuneration amount to be $350,000 per year. The Directors have resolved that the cash fees payable to non-executive directors for all Board activities are $185,000 per year plus, where required, superannuation guarantee contributions of 9% per annum where required by legislation. Additionally, and subject to shareholder approval, non-executive directors may receive an annual allocation of ordinary shares in the company. That allocation shall be $A 30,000 ($US 21,949, 2015: $US 22,569) worth for the Chairman and $A 20,000 ($US 14,633, 2015: $US 15,046) for each non-executive director.

ii. Key management personnel

To pursue the Company's objectives, the Company has assembled a group of Directors which we believe have extensive experience in the Oil and Gas and finance industries. The Company will recruit appropriate key executive management personnel commensurate with the Company's growth in activity. The remuneration structure for key executive management, including Executive Directors will be based on a number of factors, including qualifications, particular experience, general past performance of the individual concerned, overall performance of the Company and general human resources market pricing. There is no predetermined equity compensation element within the executive remuneration structure or predetermined performance conditions to be satisfied. However, ad-hoc grants of equity compensation (through issuance of stock options) have previously been made to key management personnel.

Company performance and director and executive remuneration

The aim of the Company's remuneration policy is to achieve goal congruence between the Company's shareholders, directors and executives.

Director and Executive Shares and Options

There were no Director or Executive Options outstanding at 31 December 2016. All previously issued Director options were exercised in 2013 and all previously issued Executive options had expired by 31 December 2015.

DIRECTORS' REPORT

Remuneration of Directors and Key Management for the year to 31 December 2016

	Short-term benefits		Post employment		Share-based payments			
	Cash salary and fees	Short term incentives	Super-annuation	Termination benefits	Options	Shares[1]	Total	Total remuneration represented by options and shares
	US$	US$	US$	US$	US$	US$	US$	%
Directors								
Richard Schroder	180,623	-	23,856	-	-	-	204,479	-
Richard Robinson	34,761	-	-	-	-	21,949	56,710	39
Barry Tan	28,441	-	-	-	-	14,633	43,074	34
Dr Ila Temu	28,441	-	-	-	-	14,633	43,074	34
David Vance	28,441	-	-	-	-	14,633	43,074	34
Total Directors	**300,707**	**-**	**23,856**	**-**	**-**	**65,848**	**390,411**	**17**
Key Management								
A Mitchell	153,173	-	14,168	-	-	-	167,341	-
Total Key Management	153,173	-	14,168	-	-	-	167,341	-
Total	**453,880**	**-**	**38,024**	**-**	**-**	**65,848**	**557,752**	**12**

1 The annual remuneration of Non executive directors has, since 16 May 2013, included an equity component. Issuing of the shares is subject to shareholder approval at the company's AGM. Issue of all of the shares to which directors have become entitled since 16 May 2013 remain subject to shareholder approval however as it is reasonably expected that such approval will occur, the value of the shares has been expensed annually and reflected in a corresponding increase in reserves. Shares due to directors will be issued in calendar year 2017.

Remuneration of Directors and Key Management for the year to 31 December 2015

	Short-term benefits		Post employment		Share-based payments			
	Cash salary and fees	Short term incentives	Super-annuation	Termination benefits	Options	Shares[1]	Total	Total remuneration represented by options and shares
	US$	US$	US$	US$	US$	US$	US$	%
Directors								
Richard Schroder	199,426	-	26,339	-	-	-	225,765	-
Richard Robinson	41,390	-	-	-	-	22,569	63,959	35
Barry Tan	33,865	-	-	-	-	15,046	48,911	31
Dr Ila Temu	33,865	-	-	-	-	15,046	48,911	31
David Vance	33,865	-	-	-	-	15,046	48,911	31
Total Directors	**342,411**	**-**	**26,339**	**-**	**-**	**67,707**	**436,457**	**16**

DIRECTORS' REPORT

Key Management								
A Mitchell	155,025	-	13,952	-	-	-	168,977	-
Total Key Management	155,025	-	13,952	-	-	-	168,977	-
Total	**497,436**	**-**	**40,291**	**-**	**-**	**67,707**	**605,434**	**11**

Directors' securities holdings

As at the date of this report, the relevant interests of the Directors in the securities of the Company were as follows:

	Number				Number
	Fully Paid Ordinary Shares				Options
Year to 31 December 2016	**Held at end of year**	Entitlement[1] at beginning of year	Entitlement[1] Accruing during year	Entitlement[1] at end of year	
Richard Robinson	**300,000**	128,233	73,170	201,403	-
Richard Schroder	**15,752,381**	-	-	-	-
Barry Tan	**17,520,001**	140,128	53,333	193,461	-
Dr Ila Temu	**510,000**	140,128	53,333	193,461	-
David Vance	**-**	65,910	57,143	123,053	-
	34,082,382	474,399	236,979	711,378	-

	Number				Number
	Fully Paid Ordinary Shares				Options
Year to 31 December 2015	**Held at end of year**	Entitlement[1] at beginning of year	Entitlement[1] Accruing during year	Entitlement[1] at end of year	
Richard Robinson	**300,000**	55,063	73,170	128,233	-
Richard Schroder	**15,752,381**	-	-	-	-
Barry Tan	**17,520,001**	86,795	53,333	140,128	-
Dr Ila Temu	**510,000**	86,795	53,333	140,128	-
David Vance	**-**	8,767	57,143	65,910	-
	34,082,382	237,420	236,979	474,399	-

1 Non Executive Directors are entitled to shares as part of their approved remuneration arrangements. The issue of these shares is subject to shareholder approval and the amount of these shares is not included in the amounts noted as being held at year end.

SHARE OPTIONS

At the end of 2016 and 2015 the number of options over unissued ordinary shares at the date of this report was nil.

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

Attendances by each director to meetings of directors (including committee of directors) during the year to 31December 2016 were as follows:

	Board Meetings		Audit Committee Meetings	
	Number eligible to attend	**Number attended**	**Number eligible to attend**	**Number attended**
2016				
Richard Schroder	13	12	-	-
Barry Tan	13	11	3	2
Dr Ila Temu	13	8	3	3
Richard Robinson	13	13	-	-
David Vance	13	12	3	`3
2015				
Richard Schroder	7	7	-	-
Barry Tan	7	6	2	2
Dr Ila Temu	7	7	2	2
Richard Robinson	7	7	-	-
David Vance	7	7	2	2

During the year, some Board business was affected by execution of circulated resolutions.

INDEMNIFYING OFFICERS

During the year the Company paid a premium of USD equivalent $24,851 (2015: $25,132) in respect of a contract insuring the Directors and officers of the Company against a liability incurred by such Directors and officers. The Company has not otherwise, during or since the end of the year, indemnified or agreed to indemnify the auditor of the Company, or of any related body corporate, against a liability incurred by such auditor.

PROCEEDINGS

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no other material events occurring post balance date.

DIRECTORS' REPORT

NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services by the auditor during the year is compatible with the general standard of independence for auditors and do not compromise the general principles relating to auditor independence.

Details of the amounts paid or payable to the auditors (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in Note 5.

Signed in accordance with a resolution of the Board of Directors.

Mr Richard Schroder
Managing Director

Dated this 20th day of March 2017

CORPORATE GOVERNANCE STATEMENT

The Company has adopted a comprehensive system of control and accountability as the basis for the administration of corporate governance. The Board is responsible to Shareholders for the overall management of the Company's business and affairs. The Directors' overriding objective is to increase Shareholder value within an appropriate framework, which protects the rights and interests of Shareholders and ensures the Company is properly managed.

The Company's corporate governance principles and policies are structured with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition) with 2010 Amendments ("Principles and Recommendations"), which are as follows:

Recommendation 1	Lay solid foundations for management and oversight;
Recommendation 2	Structure the Board to add value;
Recommendation 3	Act ethically and responsibly;
Recommendation 4	Safeguard integrity in corporate reporting;
Recommendation 5	Make timely and balanced disclosures;
Recommendation 6	Respect the rights of security holders;
Recommendation 7	Recognise and manage risk;
Recommendation 8	Remunerate fairly and responsibly;

There is no prescriptive, legislative approach but instead, ASX listed companies are required to explain why they choose to depart from the Principles and Recommendations. The following policies and procedures have been implemented and are available in full on the Company website at www.kinapetroleum.com:

- Code of Conduct;
- Board Charter;
- Nomination and Remuneration Committee Charter;
- Continuous Disclosure Policy and Communication Strategy:
- Audit and Risk Management Committee Charter;
- Share Trading Policy and
- Diversity Policy

In accordance with recommendations of the ASX, information published on the Company's web site includes charters of the Board and its subcommittees, codes of conduct and other policies and procedures relating to the Board and its responsibilities. To the extent that they are relevant to the organisation, the Company has adopted the eight Corporate Governance Principles and Recommendations. The table below summarises the eight principles and recommendations (P&R) and those recommendations not adopted by the Company.

	ASX P&R[1]	If not, why not[2]		ASX P&R[1]	If not, why not[2]
Recommendation 1.1	✔		Recommendation 4.2	✔	
Recommendation 1.2	✔		Recommendation 4.3	✔	
Recommendation 1.3	✔		Recommendation 5.1	✔	
Recommendation 1.4	✔		Recommendation 6.1	✔	
Recommendation 1.5		✔	Recommendation 6.2	✔	
Recommendation 1.6	✔		Recommendation 6.3	✔	
Recommendation 1.7	✔		Recommendation 6.4	✔	
Recommendation 2.1		✔	Recommendation 7.1	✔	
Recommendation 2.2	✔		Recommendation 7.2		✔
Recommendation 2.3	✔		Recommendation 7.3	✔	
Recommendation 2.4	✔		Recommendation 7.4	✔	
Recommendation 2.5	✔		Recommendation 8.1		✔
Recommendation 2.6	✔		Recommendation 8.2	✔	
Recommendation 3.1	✔		Recommendation 8.3	✔	
Recommendation 4.1	✔				

Notes

1 Indicates where the Company has followed the Principles and Recommendations.

2 Indicates where the Company has provided "if not, why not" disclosure.

CORPORATE GOVERNANCE STATEMENT

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: *A listed entity should disclose (a) the respective roles and responsibilities of its board and management, and (b) those matters expressly reserved to the board and those delegated to management*

The Company has adopted a Board Charter, which discloses the specific responsibilities of the Board and a summary of the Company's Board Charter is available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance.

Recommendation 1.2: *A listed entity should (a) undertake appropriate checks before appointing a person or putting forward to security holders a candidate for election as a director, and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

The Company has adopted a Board Charter which deals specifically with Board nominations and appointment of directors.

Recommendation 1.3: *A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.*

The company has such agreements in place.

Recommendation 1.4: *The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.*

The company secretary is accountable to the board through the chair.

Recommendation 1.5: *The company should have and disclose a diversity policy, including measureable objectives for achieving gender diversity, its progress towards achieving those objectives and the respective proportions of men and women on the board, in senior executive positions and across the whole organisation.*

Notification of Departure from Principles:

Whilst the company has established a diversity policy which is available for review at the company's website www.kinapetroleum.com, incorporating the concept of measurable objectives in respect of the policy, such measurable objectives have not been disclosed.

Explanation for Departure:

Given the phase of the company's development and the current economic environment within the oil and gas industry, the company has no requirement for human resourcing levels beyond the existing key management roles. Accordingly, implementing a diversity policy at this time over such a small workforce is unlikely to be able to be achieved without sacrificing core management skills and accordingly, is viewed as counterproductive and contrary to the best interests of the company.

Recommendation 1.6: *The company should (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors, and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The Company has adopted a Board Charter, which discloses the process by which board evaluation takes place. This is available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance.

During 2016, a Board evaluation process was undertaken. Conducted by the Chairman with the assistance of the Group Secretary, the evaluation process commenced with the Directors providing responses to a range of questions (formulated by the Australian Institute of Company Directors) relating to Board performance and function. These responses were then reviewed by the Chairman and subsequently discussed as a full Board group. Unanimity of positive views existed on most issues and where there was a divergences of views, it was accepted by the Board that this was (i) a function of factors beyond the Company's control and impacting all industry participants in PNG, notably the recent low oil price environment and the timing of regulatory approvals, and therefore (ii) something expected to have a limited short-term impact for which it is reasonable to assume there will be a consensus of positive opinion amongst Board members when addressed in future Board evaluations.

The Board has set clear corporate and operational objectives for calendar year 2017 and is confident that the Company's asset portfolio and management team can fulfil these objectives.

Recommendation 1.7: *A listed entity should (a) have and disclose a process for periodically evaluating the performance of its senior executives, and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

CORPORATE GOVERNANCE STATEMENT

The Company's Corporate Governance Plan includes a Board Charter which discloses that the Chairman will review the performance of all senior executives on an ongoing basis by way of informal meetings and reporting his findings to the board. This occurred throughout the reporting period, including via discussion with external auditors at meetings of the Audit Committee

Principle 2 – Structure to the Board to add value

Recommendation 2.1: *The board of a listed entity should have a nomination committee which has at least 3 members, the majority of whom are independent, is chaired by an independent director and disclose the charter of the committee, the members of the committee and the number of times throughout the reporting period that the committee has met.*

If a listed entity does not have a committee, it should disclose that fact and how it deals with matters that would otherwise be considered by a nomination committee.

Notification of Departure from Principles:

The Company has not established a separate Nomination Committee.

Explanation for Departure:

The full Board considers those matters that would usually be the responsibility of a nomination committee.

Given the size of the Board and the Company's current operations, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. Items that are usually required to be discussed by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it will operate under the Nomination Committee Charter. The Nomination Committee Charter provides for the Board to meet at least annually and otherwise as required.

Recommendation 2.2: *A listed entity should have and disclose a skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.*

The company's skills matrix is shown in the Board Charter, available on the Company's website www.kinapetroleum.com under the section marked Corporate Governance.

Recommendation 2.3: *A listed entity should disclose (a) he names of the directors considered by the board to be independent, (b) if a director has an interest, position, association or relationship which might otherwise suggest non-independence but the board is of the opinion that it does not compromise the independence of the director, then an explanation of why the board is of that opinion, and (c) the length of service of each director.*

The Directors' report notes the length of each director's service and whether they are independent. Mr David Vance, despite being a nominee of the company's largest shareholder is considered independent, is considered by the board to be independent because in discharging his responsibilities as a director he applies an independent frame of mind.

Recommendation 2.4: *A majority of the Board should be Independent Directors*

3 of 5 Directors are classified as independent.

The Company's Constitution requires that the minimum number of Directors is 3. The Company presently has five Directors consisting of four Non-Executive Directors and one Managing Director. Of the Directors, Mr Richard Robinson, a Non-Executive Director and Chairman of the Company, Dr Ila Temu, a Non-Executive Director, and Mr David Vance, a non-executive Director, are considered as independent. Richard Schroder is the Managing Director of the Company, Barry Tan is a Non-Executive Director and a substantial shareholder of the Company. In making the assessment of whether Mr David Vance is considered to be an Independent Director, the Board had to consider his association with a substantial shareholder of the Company. The Board considers that notwithstanding this association, Mr David Vance applies an independent frame of mind in his role of Non-Executive Director and has therefore classified him as independent.

Recommendation 2.5: *The Chair should be an independent director and in particular should not be the same person as the CEO.*

The Company's Chairman, Mr Richard Robinson, is an independent Non-Executive Director and not the CEO of the company.

Recommendation 2.6: *A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

CORPORATE GOVERNANCE STATEMENT

The Board Charter contained with the company's Corporate Governance Plan provides that board members have access to company information as required. New Board members will also be inducted by the Chairman or CEO as appropriate.

Principle 3 – Act Ethically and Responsibly

Recommendation 3.1: Companies should establish a code of conduct for its directors, senior executives and employees and disclose the code or a summary of the code or a summary the code

The company has adopted a code of conduct which appears in the Corporate Governance Plan available on the company's website www.kinapetroleum.com under the heading Corporate Governance.

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1: *The Board should establish an Audit Committee*

Recommendation 4.2: *The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained, the financial statements give a true and fair view and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

Recommendation 4.3: *A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.*

The Company complies with all three recommendations having established an Audit Committee which consists of the three Non-Executive directors and is chaired by an independent Director who is not the Company Chairman.

The Company has an Audit and Risk Management Committee Charter, a copy of which is available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance. The company's auditors attend the AGM and are available to answer questions from security holders.

The Company will provide an explanation of any departure from Principles and Recommendation 4.1, 4.2 or 4.3 (if any) in its future annual reports.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1: *A listed entity should (a) have a written policy for complying with its continuous disclosure obligations under the listing rules, and (b) disclose that policy or a summary of it.*

The Board has adopted a Continues Disclosure Policy and Communication Strategy and has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. A copy of the Company's Continuous Disclosure Policy and Communication Strategy is available on the Company's website.

The Company will provide an explanation of departures from Principles and Recommendation 5.1 (if any) in its future annual reports.

Principle 6 – Respect the rights of security holders

Recommendation 6.1: *A listed entity should provide information about itself and its governance to investors via its website*

The company's corporate governance plan is available on the company's website www.kinapetroleum.com under the section headed Corporate Governance. This annual report is also available on the company's and ASX's website.

Recommendation 6.2: *A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.*

Recommendation 6.3: *A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.*

CORPORATE GOVERNANCE STATEMENT

Recommendation 6.4: *A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company has established its Continuous Disclosure Policy and Communications Strategy to ensure its communicates effectively with shareholders. The Continuous Disclosure Policy and Communication Strategy ensures that shareholders are provided with ready access to balanced and understandable information about the Company and corporate proposals and that participation in general meetings of the Company is as accessible as possible. A summary of the Company's Continuous Disclosure Policy and Communication Strategy is available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance.

The Company will provide an explanation of departures from Principles and Recommendations (if any) in its future annual reports.

Principle 7 – Recognise and manage risk

Recommendation 7.1: *The board of a listed entity should (a) have a committee or committees to oversee risk. The committee(s) should have at least 3 members a majority of whom are independent directors and be chaired by an independent director. If it does not have a committee or the committee does not satisfy the criteria in recommendation 7.1 then the company should disclose this and the processes used for overseeing the company's risk management framework.*

Recommendation 7.2: *The board or a committee of the board should (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound, and (b) disclose in relation to each reporting period, whether such a review has been undertaken.*

Actively considered at each meeting of the Board of Directors are the risks faced by the company and the systems and framework in place to manage them. During 2016, the company's operations were focussed on licence renewal and there were no field activities undertaken. Whilst licence renewal processes may involve potential exposure to material risks, these are inherently fewer in number and complexity than the risks associated with field based activity. Accordingly, as the Board was satisfied that existing risk management practices and frameworks could adequately mitigate any risks that arose, a formal review did not otherwise occur. As the company moves into 2017, and towards an expected increase in field based activity in recently renewed licences, it will formally review the company's risk management framework to ensure its continuing effectiveness.

Recommendation 7.3: *A listed entity should disclose (a) if it has an internal audit function, and (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.*

Recommendation 7.4: *A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks, and if it does, how it manages or intends to manage those risks.*

The Company has established an Audit and Risk Management Committee to monitor and review on behalf of the Board the system of risk management which the Group has established. This system aims to identify, assess, monitor and manage operational and compliance risks.

A copy of the Audit and Risk Management Charter and the Risk Management policy is available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance.

The Board seeks written assurance from the Managing Director and CFO that systems of risk management and internal control are operating effectively in all material respects in relation to financial reporting.

The Company does not have an Internal Audit function as the scale of operations does not presently justify the existence of such a function. The matters that would customarily be dealt with by an internal audit function are managed by the Audit and Risk Management Committee via its charter. Additionally, as part of annual external audit, the company's auditors make enquiries of senior executives with regard to internal controls and similar processes and report the results of their enquiries to the Committee.

The company's exposure to risks of an economic, environmental and social nature are those which are common to participants in the Oil and Gas industry worldwide. The company manages economic risk through its business model of farming out higher risk exploration activity and only investing directly in development activity which is commercially viable. Environmental and social risks are managed through adherence to the requirements of the Oil and Gas Act (1998) and addressing landowner issues whenever the company is conducting field operations.

CORPORATE GOVERNANCE STATEMENT

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The Board should establish a Remuneration Committee which has at least 3 members, a majority of whom are independent and which is chaired by an independent director. The charter and members of the committee, along with the number of meetings and attendees should be disclosed.

Notification of Departure:

The Company has not established a separate Remuneration Committee.

Explanation for Departure:

The full Board considers those matters that would usually be the responsibility of a remuneration committee.

Given the size of the Board and the Company's current operations, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. Items that are usually required to be discussed by a Remuneration Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Remuneration Committee it will operate under the Remuneration Committee Charter. The Remuneration Committee Charter provides for the Board to meet at least annually and otherwise as required.

Under the Remuneration and Nomination Committee Charter, the role of the Board (when convening as the Remuneration Committee) is to review the Company's remuneration practices and policies and establish appropriate remuneration levels including incentive policies for Directors and senior executives.

Recommendation 8.2: *A listed entity should separately disclose its policies and practices regarding the remuneration of its non-executive directors and the remuneration of executive directors and other senior executives.*

Recommendation 8.3: *A listed entity which has an equity-based remuneration scheme should (a) have a policy on whether participants are permitted to enter into transactions which limit the economic risk of participating in the scheme, and (b) disclose that policy of a summary of it.*

As noted above, the full Board performs the function of the Remuneration Committee. To assist the Board to fulfil this function, it has adopted the Remuneration and Nomination Committee Charter, a copy of which is available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance.

The explanation for departure set out under Recommendation 8.1 above explains how the functions of the Remuneration Committee are performed. There are no termination or retirement benefits for non executive Directors (other than for superannuation)

It is the Company's policy to prohibit transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

The Company will provide an explanation of any departure from Principle and Recommendation 8.1, 8.2 or 8.3 (if any) in its annual report.

STATEMENTS OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	Group 2016	Group 2015	Company 2016	Company 2015
		US$	US$	**US$**	US$
Revenue	2	**58,820**	135,649	**58,600**	135,270
Net administration expense	3	**(1,008,125)**	(1,514,153)	**(969,120)**	(1,609,299)
Exploration expense	19b	**(1,740,168)**	(1,456,833)	**(1,740,168)**	(1,456,833)
Share based payments	15	**(65,848)**	(67,707)	**(65,848)**	(67,707)
Foreign exchange losses, net		**(28,490)**	(185,892)	**(28,173)**	(185,892)
Loss before income tax		**(2,783,811)**	(3,088,936)	**(2,744,709)**	(3,184,461)
Income tax expense	4	**-**	-	**-**	-
Loss after income tax attributable to members of the parent entity		**(2,783,811)**	(3,088,936)	**(2,744,709)**	(3,184,461)
Other comprehensive income					
Items that may be subsequently reclassified to profit and loss					
Foreign currency translation difference for the year, net of tax		**(4,901)**	(106,585)	-	-
Other comprehensive income (loss) for the year		**(4,901)**	(106,585)	-	-
Total comprehensive loss for the year attributable to members of the Parent Entity		**(2,788,712)**	(3,195,521)	**(2,744,709)**	(3,184,461)

Earnings per share		In US cents			
From continuing operations:					
Basic loss per share	21	**(0.91)**	(0.96)	**-**	-
Diluted loss per share	21	**(0.91)**	(0.96)	**-**	-

The above statements of total comprehensive income should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Note	Group		Company	
		2016	2015	**2016**	2015
		US$	US$	**US$**	US$
CURRENT ASSETS					
Cash and cash equivalents	6	**7,145,597**	10,342,756	**7,138,049**	10,336,583
Trade and other receivables	7	**150,123**	226,525	**147,671**	224,101
Other current assets	8	**25,014**	26,239	**25,011**	26,239
TOTAL CURRENT ASSETS		**7,320,734**	10,595,520	**7,310,731**	10,586,923
NON-CURRENT ASSETS					
Exploration and evaluation expenditure	9	**25,891,337**	25,440,635	**25,891,337**	25,440,635
Plant and equipment	10	**14,307**	28,276	**14,307**	28,276
Investment in subsidiaries	22	**-**	-	**765,811**	765,811
Other non-current assets	11	**214,480**	227,220	**214,480**	227,220
TOTAL NON-CURRENT ASSETS		**26,120,124**	25,696,131	**26,885,935**	26,461,942
TOTAL ASSETS		**33,440,858**	36,291,651	**34,196,666**	37,048,865
CURRENT LIABILITIES					
Trade and other payables	12	**457,318**	585,247	**426,410**	550,432
Loans payable	13	**-**	-	**464,221**	513,537
TOTAL CURRENT LIABILITIES		**457,318**	585,247	**890,631**	1,063,969
NET ASSETS		**32,983,540**	35,706,404	**33,306,035**	35,984,896
EQUITY					
Issued capital	14	**49,389,418**	49,389,418	**49,389,418**	49,389,418
Reserves	25	**66,773**	5,826	**216,215**	150,367
Accumulated losses		**(16,472,651)**	(13,688,840)	**(16,299,598)**	(13,554,889)
TOTAL EQUITY		**32,983,540**	35,706,404	**33,306,035**	35,984,896

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

For and on behalf of the Board:
20 March 2017

Mr Richard Schroder
Managing Director

Mr Richard Robinson
Non-Executive Chairman

STATEMENTS OF CHANGES IN EQUITY

Group	**Ordinary Issued Capital US$**	**Accumulated Losses US$**	**Reserves US$**	**Total US$**
For the year ended 31 December 2016				
Balance at 31 December 2015	49,389,418	(13,688,840)	5,826	35,706,404
Loss for the year	-	(2,783,811)	-	(2,783,811)
Other comprehensive income				
Foreign currency translation difference	-	-	(4,901)	(4,901)
Total comprehensive loss for the year	-	(2,783,811)	(4,901)	(2,788,712)
Transactions with owners in their capacity as owners:				
Shares to be issued to Non-Executive Directors	-	-	65,848	65,848
Total transactions with owners for the year	-	-	65,848	65,848
Balance at 31 December 2016	**49,389,418**	**(16,472,651)**	**66,773**	**32,983,540**
For the year ended 31 December 2015				
Balance at 31 December 2014	49,389,418	(10,740,340)	185,140	38,834,218
Loss for the year	-	(3,088,936)	-	(3,088,936)
Other comprehensive income				
Foreign currency translation difference	-	-	(106,585)	(106,585)
Total comprehensive loss for the year	-	(3,088,936)	(106,585)	(3,195,521)
Transactions with owners in their capacity as owners:				
Shares to be issued to Non-Executive Directors	-	-	67,707	67,707
Options issued under Employee Incentive Plan	-	140,436	(140,436)	-
Total transactions with owners for the year	-	140,436	(72,729)	67,707
Balance at 31 December 2015	**49,389,418**	**(13,688,840)**	**5,826**	**35,706,404**

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

STATEMENTS OF CHANGES IN EQUITY

Company	**Ordinary Issued Capital**	**Accumulated Losses**	**Reserves**	**Total**
	US$	**US$**	**US$**	**US$**
For the year ended 31 December 2016				
Balance at 31 December 2015	49,389,418	(13,554,889)	150,367	35,984,896
Loss for the year	-	(2,744,709)	-	(2,744,709)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(2,744,709)	-	(2,744,709)
Transactions with owners in their capacity as owners:				
Shares to be issued to Non-Executive Directors	-	-	65,848	65,848
Total transactions with owners for the year	-	-	65,848	65,848
Balance at 31 December 2016	**49,389,418**	**(16,299,598)**	**216,215**	**33,306,035**
For the year ended 31 December 2015				
Balance at 31 December 2014	49,389,418	(10,510,865)	223,097	39,101,650
Loss for the year	-	(3,184,461)	-	(3,184,461)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(3,184,461)	-	(3,184,461)
Transactions with owners in their capacity as owners:				
Shares to be issued to Non-Executive Directors	-	-	67,707	67,707
Options issued under Employee Incentive Plan	-	140,437	(140,437)	-
Total transactions with owners for the year	-	140,437	(72,730)	67,707
Balance at 31 December 2015	**49,389,418**	**(13,554,889)**	**150,367**	**35,984,896**

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

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2016

	Note	Group 2016 US$	Group 2015 US$	Company 2016 US$	Company 2015 US$
CASH FLOW FROM OPERATING ACTIVITIES					
Exploration and evaluation expenditure		**(1,022,272)**	(1,263,567)	**(641,039)**	(941,589)
Payments to suppliers and employees		**(990,718)**	(1,282,863)	**(1,371,951)**	(1,593,020)
Interest received		**3,820**	43,497	**3,600**	43,118
Net operator fee Income		**-**	55,000	**-**	55,000
Net cash used in operating activities	18	**(2,009,170)**	(2,447,933)	**(2,009,390)**	(2,436,491)
CASH FLOW FROM INVESTING ACTIVITIES					
Exploration and evaluation expenditure		**(1,172,657)**	(2,448,174)	**(1,172,657)**	(2,448,174)
Acquisition of plant and equipment		**(1,148)**	(2,798)	**(1,148)**	(2,798)
Net cash (used in) investing activities		**(1,173,805)**	(2,450,972)	**(1,173,805)**	(2,450,972)
Effect of exchange rate changes on cash and cash equivalents		**(14,184)**	(176,727)	**(15,339)**	(192,857)
Net increase/(decrease) in cash and cash equivalents held		**(3,197,159)**	(5,075,632)	**(3,198,534)**	(5,080,320)
Cash at beginning of year		**10,342,756**	15,418,388	**10,336,583**	15,416,903
Cash at end of year	18	**7,145,597**	10,342,756	**7,138,049**	10,336,583

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

Notes to the financial statements

Note 1 - Summary of Significant Accounting Policies

These consolidated financial statements and notes represent those of Kina Petroleum Limited and Controlled Entities (the "consolidated group" or "Group").

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the PNG Companies Act 1997, International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Standards Interpretations Committee.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1t.

The financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going concern basis of accounting

Notwithstanding the net loss after income tax for the consolidated group for the financial year ended 31 December 2016 of US$2,783,811 (2015: US$3,088,936), the financial statements have been prepared on a going concern basis.

The Group has US$7,145,597 in cash and cash equivalents at the end of the year. The Directors are managing the Group's cashflows carefully to meet its operational commitments and expect to have sufficient working capital to carry out its stated objectives for at least 12 months from the date of this report. If the Group undertakes an acquisition of additional project(s) then it may have to raise additional capital to fund the development of these, but no allowance for such circumstances has been made in the financial statements as no such acquisition is contemplated by the Directors at the date of this report. The Directors consider that the going concern basis is appropriate in consideration of these circumstances.

Changes in accounting policies and disclosures

(a) New and amended standards applicable to, or adopted by, the Group

The following standards became effective in the year ended 31 December 2016, however none materially impact the Group.

- Amendment to IFRS 11 'Joint arrangements' on acquisition of an interest in a joint operation. These amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

- Amendment to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets', on depreciation and amortisation. These amendments clarify that the use of revenue-based methods to calculated depreciation and amortisation is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

- IFRS 14 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS.

- Amendments to IAS 27 'Separate financial statements' on the equity method. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Annual improvements 2014 makes minor changes to IFRS 5, IFRS 7, IAS 19 and IAS 34.

- Amendments to IAS 1 'Presentation of Financial Statements' form a part of the IASB's Disclosure Initiative and clarify guidance in IAS 1 on a number of issues including:

  - Materiality – disclosures specified in IFRS only need to be included in financial statements if they are material to the entity

  - Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. However, entities should not aggregate or disaggregate information in a manner that obscures useful information. There is also new guidance on the use of subtotals.

  - Notes – confirmation that the notes do not need to be presented in a particular order.

  - Other comprehensive income (OCI) arising from investments accounted for under the equity method: the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of OCI.

(b) Standards, amendment and interpretations issued but not yet effective for the year ended 31 December 2016 or adopted early. Unless otherwise stated, the following standards are not expected to have a significant impact to the Group.

- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018). This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- IFRS 9, 'Financial Instruments' (effective 1 January 2018) replaces the guidance in IAS 39 with a standard that is less complex and principles based. The new standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within OCI; this change can be adopted early without adopting IFRS 9. IFRS 9's new impairment model is a move away from IAS 39's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment losses is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed. The entity does not expect IFRS 9 to have a significant impact on current financial instrument classification and measurement practise.

- IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018) is a converged standard from the IASB and FASB on revenue recognition and replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

  The entity will have to adopt a new 5-step process for the recognition of revenue:

  - identify contracts with customers
  - identify the separate performance obligations
  - determine the transaction price of the contract
  - allocate the transaction price to each of the separate performance obligations, and
  - recognise the revenue as each performance obligation is satisfied.

  The entity does not expect IFRS 15 to have a significant impact on current revenue recognition practise.

- IFRS 16, 'Leases' (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The timing of expense recognition will also be brought forward although the impact on reported profit is not expected to be significant.

Accounting Policies

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Kina Petroleum Limited at the end of the reporting period. A controlled entity is any entity over which Kina Petroleum Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 22 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below.

Interest revenue is recognised using the effective interest method. Operator fee revenue is recognised in respect of Group's role as operator of certain joint operations and is calculated in accordance with the joint operating agreements governing those operations.

(e) Income tax

The income tax expense (benefit) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are ascertained using the liability method based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(g) Exploration and Evaluation expenditure

Exploration and Evaluation Expenditure

Exploration expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration expenditure to be expensed in the period it is incurred except for:

- The cost of successful wells;
- The cost of acquiring interest in new exploration assets; and
- pre-development costs where there is a high degree of probability that the development will go ahead.

These costs are capitalised.

Costs directly associated with the drilling of exploration wells and any associated geophysical and geological costs are initially capitalised pending determination of whether potentially economic reserves of hydrocarbons have been discovered. Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas field.

As capitalised exploration expenditure is not available for use, it is not amortised.

Exploration expenditures charged to profit and loss are classified as operating activities while capitalised exploration expenditures are classified as investing activities in the statement of cash flows.

When an oil or gas field has been approved for development, the capitalised exploration expenditure would be reclassified as Development Expenditure in the Statement of Financial Position. Prior to reclassification, capitalised exploration expenditure would be assessed for impairment.

Impairment of Exploration and Evaluation Expenditure

Exploration expenditure is reviewed at least annually for impairment in accordance with the requirements of IFRS 6, Exploration for and Evaluation of Mineral Resources. The carrying value of exploration expenditure is assessed for impairment at the asset or cash generating unit level (usually represented by a Prospecting or Retention licence area) whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Impairment losses are recognised as an expense in the statement of total comprehensive income.

Capitalised exploration expenditure that has previously been impaired is tested for possible reversal of the impairment loss whenever facts or changes in circumstances indicate that the impairment may have reversed.

Classification of Expenditure

Expenditure of $US 4,288,785, previously classified as Development expenditure, has been retrospectively reclassified as Exploration and Evaluation expenditure. Accordingly, comparative balances have also been restated.

This expenditure relates to pre-development costs associated with a proposed development in Western Province. The expenditure comprises costs associated with preparation of a Petroleum Development Licence Application ("PDLA") which was submitted to the government of Papua New Guinea in 2014, as well as costs subsequent to that time which relate to refinement of the PDLA to include gas offtake with the intent of development of a small to mid scale LNG project

Whilst this expenditure, and the pre-development activity underlying it, is directed towards commercialisation of the discovered Hydrocarbon resources in PRL 21, a development has not yet been formally approved and therefore the expenditure has been reclassified as Exploration and Evaluation. The directors believe that this reclassification will result in more meaningful presentation of the company's activities, particularly in respect of PRL 21 licence activity during this near term period where the licence proceeds toward a development project that is sanctioned by Joint Venture partners and the government of Papua New Guinea.

(h) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(i) Foreign currency transactions and balances

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollar which is Kina Petroleum Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within the "Foreign exchange gains (losses), net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

Group companies

The results and financial position of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expense on the statement of total comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and;
- all resulting exchange differences are recognised in other comprehensive income

(j) Financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date. The Group does not have any financial assets classified as financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. The Group's loans and receivables comprise cash and cash equivalents, trade and other receivables and other non-current assets.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in note 1h.

Impairment of financial assets

For loans and receivables category, the Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

(k) Financial liabilities

Non-derivative financial liabilities are initially recognised at fair value, net of transaction costs incurred. They are subsequently recognised at amortised cost using the effective interest method.

(l) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expenses. Receivables and payables are stated with the amount of GST included.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(m) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within 12 months after the end of the period in which the employee rendered the related service have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(o) Earnings per share

Basic loss per share is determined by dividing the operating loss after income tax attributable to members of the Parent Entity by the weighted average number of ordinary shares outstanding during the financial year.

When the Group has an operating loss after income tax and the conversion of ordinary share capital in respect of potential ordinary shares does not lead to a diluted earnings per share that shows an inferior view of the earnings performance of the consolidated group, than is shown by basic loss per share, the diluted loss per share is reported the same as basic loss per share.

(p) Share based payments

The Group may operate equity-settled share-based payment employee share and option schemes, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(q) Segment reporting

The consolidated group identifies its reportable operating segments based on the internal reports that are reviewed by the Board of directors. Corporate office activities are not allocated to operating segments and form part of the balance of unallocated revenue, expenses, assets and liabilities.

(r) Plant and equipment

Each class of plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses. Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

All repairs and maintenance are charged to the statement of total comprehensive income during the financial period in which they are incurred.

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20 - 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of total comprehensive income.

(s) Joint arrangements

A Joint arrangement is an arrangement in which two or more parties have joint control. A joint arrangement has two characteristics: (1) the parties are bound by a contractual arrangement; and (2) the contractual arrangement gives two or more of those parties joint control of the arrangement.

The Group's interests in joint arrangements are treated as a joint operation. The Group recognises its interest in a joint operation by recognising its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly.

(t) Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability and impairment of exploration and evaluation costs

The application of the Group's accounting policy for exploration and evaluation expenditure necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of total comprehensive income.

Share-based payments

The fair value of shares to which non-executive directors are entitled is based on market price at measurement date. The fair value of these shares appear at note 15(a).

	Group		Company	
	2016	2015	**2016**	2015
	US$	US$	**US$**	US$
Note 2 – Revenue				
Interest income	**3,820**	43,497	**3,600**	43,118
Operator fee income	**55,000**	92,152	**55,000**	92,152
	58,820	135,649	**58,600**	135,270
Note 3 – Net Administration expense				
Salaries and employee benefits	**554,411**	599,732	**121,150**	127,855
Professional fees	**464,202**	665,609	**443,130**	642,710
Transportation and travel	**111,102**	248,800	**110,963**	248,800
Legal and regulatory	**98,363**	106,565	**98,363**	106,565
Occupancy and insurance	**121,959**	117,737	**71,327**	67,213
Management fees	**-**	-	**122,383**	359,107
Administration and other costs	**246,231**	370,143	**208,714**	329,504
Charged to exploration expense	**(588,143)**	(594,433)	**(206,910)**	(272,455)
	1,008,125	1,514,153	**969,120**	1,609,299
Note 4 - Income tax expense				
(a) The components of income tax expense comprise:				
Benefit from deferred tax	**836,289**	919,418	**824,493**	947,962
Deferred tax assets not recognised	**(836,289)**	(919,418)	**(824,493)**	(947,962)
	-	-	**-**	-
(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax benefit on the loss from ordinary activities at 30%	**(835,143)**	(884,550)	**(823,413)**	(913,207)
Add Tax effect of:				
Expenses not deductible for tax	**-**	-	**-**	-
Deferred tax assets not recognised	**836,289**	919,418	**824,493**	947,962
Less tax effect of:				
Income not assessable for tax	**(1,146)**	(34,868)	**(1,080)**	(34,755)
(Income tax expense/(benefit)	**-**	-	**-**	-
Tax losses benefit				
Unused tax losses for which no tax loss has been recognised as a deferred tax asset adjusted for non-temporary differences at 30%	**4,367,737**	3,531,448	**4,355,900**	3,531,407

The taxation benefits will only be obtained if:

(i) the consolidated group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;
(ii) the consolidated group continues to comply with the conditions for deductibility imposed by law; and
(iii) no changes in tax legislation adversely affect the consolidated group in realising the benefits from the deductions for the loss.

	Group		Company	
	2016	2015	**2016**	2015
	US$	US$	**US$**	US$
Note 5 - Auditors' remuneration				
Remuneration of the auditor of the parent entity for:				
- auditing/reviewing financial reports	**36,770**	48,681	**36,770**	48,681
- other services	**-**	14,381	**-**	14,381
	36,770	63,062	**36,770**	63,062

Note 6 – Cash and cash equivalents

Cash at bank	**7,145,597**	10,342,756	**7,138,049**	10,336,583

Note 7 - Trade and other receivables

Current

Cash calls in advance	**87,384**	49,084	**87,384**	49,084
Other receivables	**62,739**	177,441	**60,287**	175,017
	150,123	226,525	**147,671**	224,101

Trade and other receivables do not carry any interest and are due within one year. All trade and other receivables are within credit terms and not considered impaired.

Note 8 – Other current assets

Other current assets as at 31 December 2016 pertain to security deposits.

Note 9 – Exploration and evaluation expenditure

Non-current

Costs carried forward in respect of areas of interest in the exploration phase:				
Balance at beginning of the year	**25,440,635**	24,352,466	**25,440,635**	24,352,466
Net Expenditures incurred	**450,702**	1,088,169	**450,702**	1,088,169
Carrying amount at end of the year	**25,891,337**	25,440,635	**25,891,337**	25,440,635

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and commercial exploitation of the tenements. Recoverability is assessed at least annually and in the event of an impairment in carrying value, an adjustment is made accordingly.

Expenditure of $US 4,288,785, previously classified as Development expenditure, has been retrospectively reclassified as Exploration and Evaluation expenditure. Accordingly, comparative balances have also been restated.

This expenditure relates to pre-development costs associated with a proposed development in Western Province. The expenditure comprises costs associated with preparation of a Petroleum Development Licence Application ("PDLA") which was submitted to the government of Papua New Guinea in 2014, as well as costs subsequent to that time which relate to refinement of the PDLA to include gas offtake with the intent of development of a small to mid scale LNG project

Whilst this expenditure, and the pre-development activity underlying it, is directed towards commercialisation of the discovered Hydrocarbon resources in PRL 21, a development has not yet been formally approved and therefore the expenditure has been reclassified as Exploration and Evaluation. The directors believe that this reclassification will result in more meaningful presentation of the company's activities, particularly in respect of PRL 21 licence activity during this near term period where the licence proceeds toward a development project that is sanctioned by Joint Venture partners and the government of Papua New Guinea.

	Group		**Company**	
	2016	**2015**	**2016**	**2015**
	US$	**US$**	**US$**	**US$**
Note 10 – Plant and equipment				
Leasehold improvements, at cost	**43,566**	43,566	**14,657**	14,657
Accumulated depreciation	**(43,566)**	(39,807)	**(14,657)**	(10,898)
	-	3,759	**-**	3,759
Office Equipment, at cost	**11,272**	11,272	**11,272**	11,272
Accumulated depreciation	**(11,272)**	(6,452)	**(11,272)**	(6,452)
	-	4,820	**-**	4,820
Motor Vehicles, at cost	**16,635**	16,635	**16,635**	16,635
Accumulated depreciation	**(9,917)**	(7,690)	**(9,917)**	(7,690)
	6,718	8,945	**6,718**	8,945
IT equipment, at cost	**38,578**	37,430	**38,578**	37,430
Accumulated depreciation	**(30,989)**	(26,678)	**(30,989)**	(26,678)
	7,589	10,752	**7,589**	10,752
	14,307	28,276	**14,307**	28,276

Note 11 – Other Non Current assets

Other non-current assets comprise cash held by financial institutions as bank guarantees in respect of work program obligations of the Petroleum Prospecting licences which the company operates. These are denominated in Papua New Guinea Kina (PGK) and are interest bearing.

	Group		Company	
	2016	**2015**	**2016**	2015
	US$	**US$**	**US$**	US$
Note 12 – Trade and other payables				
Trade payables	**132,434**	284,766	**131,276**	283,664
Sundry payables and accrued expenses	**324,884**	300,481	**295,134**	266,768
	457,318	585,247	**426,410**	550,432

Note 13 – Loans payable

Loans payable represent non-interest bearing cash provided by Kina Oil and Gas Pty Limited for the Company's operations. The loans are payable on demand. Movement in loan balances are as follows:

Balance at beginning of the year	**-**	-	**513,537**	511,153
Borrowing/(Repayments) during the year	**-**	-	**(49,316)**	2,384
Balance at end of the year	**-**	-	**464,221**	513,537

Note 14 – Issued capital

306,898,921 (2015: 306,898,921) fully paid ordinary shares	**49,389,418**	49,389,418	**49,389,418**	49,389,418

(a) Fully paid ordinary shares	**No of shares**	**US$**	**No of shares**	**US$**
For the year ending 31 December 2016				
Balance at beginning of year	**306,898,921**	**49,389,418**	**306,898,921**	**49,389,418**
Shares transactions during the year:				
- nil	**-**	**-**	**-**	**-**
Balance at end of year	**306,898,921**	**49,389,418**	**306,898,921**	**49,389,418**
For the year ending 31 December 2015				
Balance at beginning of year	**306,898,921**	**49,389,418**	**306,898,921**	**49,389,418**
Shares transactions during the year:				
- nil	**-**	**-**	**-**	**-**
Balance at end of year	**306,898,921**	**49,389,418**	**306,898,921**	**49,389,418**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Company in proportion to the number of shares held. Every ordinary shareholder present at a meeting of the Company, in person or by proxy, is entitled to one vote, and upon a poll each ordinary share is entitled to one vote.

Ordinary shares have no par value.

	Group		Company	
	2016	2015	2016	2015
	Number of options			
(b) Options over unissued shares				
Balance at beginning of the year	-	1,500,000	-	1,500,000
Issued during the year	-	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	(1,500,000)	-	(1,500,000)
Balance at end of the year	-	-	-	-

The options that expired during 2015 were those granted to Directors and Key Management Personnel (note 16).

(c) Share-based payments

The shares due to non executive directors will be put forward for approval at the company's next Annual General Meeting. It is expected that all shares due will be issued during 2017.

Refer to the remuneration report and note 15 for details of the number of shares due to non-executive directors.

(d) Capital management

When managing capital, management's objective is to ensure the consolidated group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the consolidated group.

Management adjusts the capital structure to the extent possible to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The consolidated group is not subject to any externally imposed capital requirements, nor does it focus on obtaining debt as a key capital management tool.

Note 15 - Interests of key management personnel (KMP)

Names and positions held of Company key management personnel in office at any time during the year were:

Richard Robinson (appointed to Board 13 December 2013, and as Chairman on 6 November 2014)	Non-executive Chairman
Richard Schroder (appointed 31 May 2011)	Executive Director
Barry Tan (appointed 1 March 2009)	Non-executive Director
Dr Ila Temu (appointed 31 May 2011)	Non-executive Director
David Vance (appointed 6 November 2014)	Non-executive Director
Alex Mitchell (appointed 1 October 2012)	Chief Financial Officer

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Company's key management personnel for the year ended 31 December 2016.

The totals of remuneration paid to KMP of the Group during the year are as follows:

	Group		Company	
	2016	2015	**2016**	2015
	US$	US$	**US$**	US$
Short-term employee benefits	**453,880**	497,436	**120,085**	142,985
Post-employment benefits	**38,024**	40,291	**-**	-
Share and Option-based payments	**65,848**	67,707	**65,848**	67,707
	557,752	605,434	**185,933**	210,692

(a) KMP share holdings

The number of ordinary shares in Kina Petroleum Ltd held directly and indirectly by each key management personnel of the Company during the year is as follows:

	Balance at beginning of year or date of appointment	**Purchased**	**Balance at end of year**	**Entitlement to shares as part of approved remuneration arrangements**[1]		
2016				Total Number	Number to which entitlement arose during year	Fair Value of annual entitlem't
Richard Schroder	15,752,381	-	15,752,381	-	-	-
Barry Tan	17,520,001	-	17,520,001	193,461	53,333	14,633
Dr Ila Temu	510,000	-	510,000	193,461	53,333	14,633
Richard Robinson	300,000	-	300,000	201,403	73,170	21,949
David Vance	-	-	-	123,053	57,143	14,633
Total	34,082,382	-	34,082,382	711,378	236,979	65,848

	Balance at beginning of year or date of appointment	**Purchased**	**Balance at end of year**	**Entitlement to shares as part of approved remuneration arrangements**[1]		
2015				Total Number	Number to which entitlement arose during year	Fair Value of annual entitlem't
Richard Schroder	15,752,381	-	15,752,381	-	-	-
Barry Tan	17,520,001	-	17,520,001	140,128	53,333	15,046
Dr Ila Temu	510,000	-	510,000	140,128	53,333	15,046
Richard Robinson	300,000	-	300,000	128,233	73,170	22,569
David Vance	-	-	-	65,910	57,143	15,046
Total	34,082,382	-	34,082,382	711,378	236,979	67,707

1 The annual remuneration of Non executive directors has, since 16 May 2013, included an equity component. Issuing of the shares is subject to shareholder approval at the company's AGM. Issue of all of the shares to which directors have become entitled since 16 May 2013 remain subject to shareholder approval, and hence the holding quantities above do not include such amounts. However, as it is reasonably expected that such approval will occur, the value of the shares has been expensed annually and reflected in a corresponding increase in reserves. Shares due to directors will be issued in calendar year 2017.

(b) KMP Option holdings

	Balance at beginning of year or date of appointment	Granted as compensation	Exercise or Expiry of Options	Balance at end of year or date of resignation or cessation
2016				
Alex Mitchell	-	-	-	-
Total	**-**	**-**	**-**	**-**
2015				
Alex Mitchell	1,500,000	-	(1,500,000)	-
Total	**1,500,000**	**-**	**(1,500,000)**	**-**

Note 16 - Employee benefits

Superannuation

The Group makes contributions based on each employee's salary to superannuation plans that provide employees with benefits on retirement in accordance with the requirements of superannuation legislations.

Note 17 - Related party transactions

Key management personnel

Details of the compensation of key management personnel are included in note 15 and the Remuneration Report section of the Directors' Report.

Contracts

The company has entered into a consulting agreement with Mr Phil Mulacek, a major shareholder of the company through Pie Holdings L.P., whereby Mr Mulacek will provide commercial and technical services in respect of the oil and gas industry in Papua New Guinea. The contract provides for such services at a rate of K 50,000 per calendar quarter and ends on 31 December 2017.

	Group 2016 US$	Group 2015 US$	Company 2016 US$	Company 2015 US$
Note 18 - Notes to statement of cash flows				
(a) Reconciliation of cash				
Cash at bank and on hand	**7,145,597**	10,342,756	**7,138,049**	10,336,583
(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities				
Loss from ordinary activities after income tax	**(2,783,811)**	(3,088,936)	**(2,744,709)**	(3,184,461)
Add Back/(Deduct)				
Non-cash expense – shared based payments	**65,848**	67,707	**65,848**	67,707
Non-cash expense – depreciation	**7,592**	25,116	**7,594**	17,245
Non-cash income – foreign exchange loss/(gain)	**28,490**	185,892	**28,173**	185,892
Non operating item – exploration expense relating to investment activity	**715,147**	332,971	**715,147**	332,971
Changes in assets and liabilities relating to operations:				
- decrease in receivables	**104,531**	74,806	**104,558**	73,565
- Increase/(decrease) in trade and other payables	**(140,045)**	(45,489)	**(183,041)**	(96,488)
- Increase/(decrease) in other creditors	**(6,922)**	-	**(2,960)**	-
Net cash (used in)/provided by operating activities	**(2,009,170)**	(2,447,933)	**(2,009,390)**	(2,603,569)

Note 19 - Segment information

(a) Identification of reportable segments

The consolidated group has identified its reportable segments based on the location of its exploration assets within Papua New Guinea.

- Petroleum Prospecting License (PPL) 337 – located in the North New Guinea Basin, but which was relinquished in March 2016.
- PPLs 338, 339 and 340 – located in the Southern Papuan Basin which is a proven hydrocarbon basin
- PPLs 435, 436 and 437 – located in the Western Papuan Basin, adjacent to PRL 21.
- Petroleum Retention License (PRL) 21 – located in the Western Province of PNG and contains two wet gas discoveries. The Group has a 15% interest in PRL 21 and is covered by a Joint Operating Agreement.
- Petroleum Retention License (PRL) 38 – located in the Gulf of Papua and containing the Pandora Gas fields. The Group has a 25% interest in PRL 38 and at the date of this report is negotiating a Joint Operating Agreement.

(b) Segment information

31 Dec 2016	Balance at beginning of the year	Exploration costs incurred	Exploration costs expensed	Pre Development costs incurred	Cost of Acquisition	Balance at year end	% of total expenditure
	US$	US$	US$	US$	US$	US$	%
PPL 337	19,205	18,207	(37,412)	-	-	-	-
PPL 338	13,767	118,759	(118,759)	-	-	13,767	0.05
PPL 339	25,017	295,293	(295,293)	-	-	25,017	0.10
PPL 340	16,205	68,677	(68,677)	-	-	16,205	0.06
PPL 435	26,611	157,356	(157,356)	-	-	26,611	0.10
PPL 436	24,604	82,048	(82,048)	-	-	24,604	0.10
PPL 437	5,694	134,958	(134,958)	-	-	5,694	0.02
PRL 21	21,224,211	508,376	(347,615)	309,146	-	21,694,118	83.79
PRL 38	4,085,321	498,049	(498,049)	-	-	4,085,321	15.78
	25,440,635	**1,881,723**	**(1,740,167)**	**309,146**	**-**	**25,891,337**	**100.00**

31 Dec 2015	Balance at beginning of the year	Exploration costs incurred	Exploration costs expensed	Pre Development costs incurred	Cost of Acquisition	Balance at year end	% of total expenditure
	US$	US$	US$	US$	US$	US$	%
PPL 337	19,205	149,150	(149,150)	-	-	19,205	0.08
PPL 338	13,767	202,605	(202,605)	-	-	13,767	0.05
PPL 339	25,017	78,694	(78,694)	-	-	25,017	0.10
PPL 340	16,205	125,660	(125,660)	-	-	16,205	0.06
PPL 435	26,611	111,575	(111,575)	-	-	26,611	0.10
PPL 436	24,604	281,010	(281,010)	-	-	24,604	0.10
PPL 437	5,694	69,377	(69,377)	-	-	5,694	0.02
PRL 21	20,136,042	609,876	(390,394)	868,687	-	21,224,211	83.43
PRL 38	4,085,321	42,368	(42,368)	-	-	4,085,321	16.06
	24,352,466	**1,670,315**	**(1,450,833)**	**868,687**	**-**	**25,440,635**	**100.00**

Note 20 - Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the consolidated group, to set appropriate risk limited and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated group's activities.

The Group's activities expose it to a limited number of financial risks as described below. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the consolidated group. To date, the consolidated group has not had the need to utilise derivative financial instruments such as foreign exchange contracts or interest rate swaps to manage any risk exposure identified. The consolidated group holds the following financial instruments.

	Group		Company	
	2016	2015	**2016**	2015
	US$	US$	**US$**	US$
Financial assets				
Cash and cash equivalents	**7,145,597**	10,342,756	**7,138,049**	10,336,583
Trade and other receivables	**150,123**	226,525	**147,671**	224,101
Other current assets	**25,014**	26,239	**25,011**	26,239
Other non-current assets	**214,480**	227,220	**214,480**	227,220
Total	**7,535,214**	10,822,740	**7,525,211**	10,814,143
Financial liabilities				
Trade and other payables	**457,318**	585,247	**426,410**	550,432
Loans payable	**-**	-	**464,221**	513,537
Total	**457,318**	585,247	**890,631**	1,063,969

Specific financial risk exposures and management

The main risks the Group is exposed to, through its financial instruments, are interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Interest rate risk

The Group's main interest exposure arises from cash at bank and bank term deposits. At the reporting date, the consolidated group had the following cash profile.

	Group		Company	
	2016	**2015**	**2016**	2015
	US$	**US$**	**US$**	US$
Cash in bank	**7,145,597**	10,342,756	**7,138,049**	10,336,583
Other non-current assets	**214,480**	227,220	**214,480**	227,220
Cash and cash equivalents	**7,360,077**	10,569,976	**7,352,529**	10,563,803

The Group's main interest rate risk arises from cash and cash equivalents. Cash maintained in short term deposits earn a floating interest rate of approximately 2.0% (2015: 2.5%). The impact of changes in interest rates on cash flow is not expected to be material due to the short term nature of cash equivalents.

Guarantees

As part of the agreement to transfer Kina Petroleum Limited's interests in PRL 21, PRL 38 and PPL 339 to wholly owned subsidiaries incorporated for the purpose of holding these interests, Kina Petroleum Limited has agreed to remain liable to other Joint Venture participants to peform the obligations of these subsidiaries, in the event that the subsidiaries are unable to.

Contractual commitments

Kina Petroleum Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment as at 31 December 2016.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting.

The Group is exposed to foreign exchange risk arising mainly from cash and cash equivalents denominated in foreign currencies. As at end of year, the Group's exposure to foreign currency risk is as follows:

	Group		Company	
	2016	2015	**2016**	2015
	US$	US$	**US$**	US$
Cash in bank				
In Papua New Guinea (PNG) Kina	**43,096**	37,606	**42,205**	37,606
In Australian dollar	**130,254**	578,049	**130,254**	571,877
Short-term deposit				
In Australian dollar	**-**	-	**-**	-
Other non-current assets				
In PNG Kina	**214,480**	227,220	**214,480**	227,220
	387,830	842,875	**386,939**	836,703

The impact of a possible reasonable change in US dollar exchange rates on the Group's post-tax profit as a result of foreign currency exchange gains/losses, with all other variables held constant is shown on the table below. The sensitivity rate is based on the average volatility of the applicable foreign currency against the US dollar for the previous quarter.

		Group		Company	
	Sensitivity rate	**2016 US$**	**2015 US$**	**2016 US$**	**2015 US$**
PNG Kina-denominated Cash and cash equivalents	1% (2015 – 1%)	**2,576**	2,648	**2,567**	2,648
Australian dollar-denominated Cash and cash equivalents	2% (2015 – 2%)	**2,738**	11,561	**2,605**	11,437
Total increase/decrease in post-tax profit		**5,314**	14,209	**5,172**	14,085

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits at banks as well credit exposure including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. In respect of the parent entity, credit risk relates to loans with subsidiary and associated companies. In order to achieve stated corporate objectives, the parent entity provides financial support to subsidiary and associated companies, but only to the level, which the Board considers necessary, to achieve these objectives and meets agreed conditions. Any loans to subsidiary and associated companies considered to be unrecoverable have been provided for.

Liquidity risk

The Group maintains sufficient liquidity by holding cash in readily accessible accounts. The consolidated group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The consolidated group has no access to borrowing facilities at the reporting date. The consolidated group's financial assets $7,510,200 (2015: $10,796,501) and financial liabilities $457,318 (2015: $585,247) have a maturity within 12 months of 31 December 2016.

Fair value

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in the Statement of Accounting Policies.

Note 21 - Earnings per share

	2016	2015
	US$	US$
Operating loss after income tax used in the calculation of basic and diluted loss per share	2,783,811	3,088,936

	Number	Number
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	306,898,921	306,898,921
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted loss per share	306,898,921	306,898,921

Note 22 - Controlled Entities

Controlled Entities Consolidated

		Percentage Owned (%)	
Subsidiaries of Kina Petroleum Limited	**Country of incorporation**	**2016**	**2015**
Kina Oil and Gas Pty Limited	Australia	100	100
Kina Petroleum (PRL 21) Limited	Papua New Guinea	100	100
Kina Petroleum (PRL 38) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 337) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 338) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 339) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 340) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 435) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 436) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 437) Limited	Papua New Guinea	100	100

Kina Oil and Gas Pty Limited was acquired on 24 May 2011 through the issue of 10,035,801 shares at a cost of US$765,808.
Kina Petroleum (PRL 21) Limited was acquired on 19 October 2015 for consideration of K 1.00
Kina Petroleum (PPL 339) Limited was acquired on 28 October 2015 for consideration of K 1.00
Kina Petroleum (PRL 38) Limited and Kina Petroleum (PPL 337) Limited were incorporated on 10 November 2015, each with share capital of US$ 0.34.
The other subsidiaries noted above were incorporated on 10 November 2015, each with share capital of US$ 0.34.

The PNG incorporated subsidiaries of Kina Petroleum Limited were dormant at 31 December 2016

The assets and liabilities recognised as a result of the acquisition of Kina Oil and Gas Pty Limited ("KOGPL") and other subsidiaries are as follows:

	Fair value
	US$
KOGPL - Cash and cash equivalents	624,219
KOGPL - Receivables	178,220
KOGPL - Trade and other payables	(36,631)
KOGPL - Net identifiable assets acquired	765,808
Other Subsisdiaries – net assets acquired	3
Total Net Assets of Subsidiaries	**765,811**

The net assets Kina Oil and Gas Pty Limited as at 31 December 2016 was US$452,088, and contributed revenues of US$220 and net loss of US$30,327 to the Group for the year ended 31 December 2016.

Note 23 - Joint operations

The Company has entered into a joint operations agreement for PRL 21, and PPLs 337 & 437 in relation to the exploration, appraisal development, product and disposition of petroleum covered by those licences. The Company has a 15% participating interest in PRL 21, a 30% interest in PPL 339 and a 57.5% interest in PPL 437 and accounts for its assets owned, liabilities incurred and share in exploration expenditures. The Group's assets in the joint operations are shown on the table below:

	2016 US$	2015 US$
Current assets		
Trade and other receivables	**92,695**	64,567
Non current assets		
Exploration, evaluation and development expenditure	**24,270,982**	23,448,141
Total assets employed in the join operations	**24,363,677**	23,512,708
Non current liabilities		
Trade and other payables	**(55,012)**	(201,848)
Total net assets (liability) employed in the operations	**24,308,665**	23,310,860

Note 24 - Events occurring after the reporting period

The directors are not aware of any other matters or circumstances since 31 December 2016 not otherwise dealt with in the report or the financial statements that have significantly affected, or may significantly affect, the operations of the company, the results of those operations of the company, or the state of affairs of the company in subsequent financial years.

The financial report was authorised for issue on 15 March 2017 by the Board of Directors.

Note 25 – Reserves

The foreign currency valuation reserve pertains to translation adjustment arising from the consolidation of the subsidiary's balances. The translation adjustment debited to reserves during the year amounted to US$4,901 (2015: $US 106,585).

Reserves also include a movement in the value of shares which may be granted to non-executive directors and as well as the recognised fair value of share options for key management personnel. Total movement recognised in respect of such shares and share options during the year amounted to a credit of US$65,848 (2015: US$67,707).

Where the value of options are disclosed and brought to account in accordance with IFRS 2, that value is expensed in the Statement of Financial Position and reflected in a reserve in the Statement of Financial Position. If the options are exercised, the balance of the reserve relating to the options exercised is transferred to share capital. If the options lapse, the prior movement in the reserve balance relating to the lapsed options is reversed and a credit is processed against retained earnings.

Note 26 – Capital and leasing commitments

(a) Operating lease commitments

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$	**US$**	**US$**	**US$**
Non-cancellable operating leases contracted for but not recognised in the financial statements				
Within one year	**85,018**	97,617	**32,058**	46,174
Later than one year but not later than 2years	**-**	87,666	**-**	33,962
Later than 2 years	**-**	-	**-**	-

The property lease is a non-cancellable lease with a 2-year term, with rent payable monthly in advance.

(b) Expenditure commitments

Minimum work commitments due in less than one year comprise:

- Completion of 2 Seismic surveys.

The minimum work commitments due later than one year but not later than 5 years require:

- The drilling of 6 wells
- Completion of 1 seismic surveys
- Completion of 2 Aerogravity surveys

There are no firm work commitments due later than 5 years.

These commitments may be subject to renegotiation or may be farmed out or the licences may be relinquished.

Declaration of Directors

In accordance with a resolution of the Directors of the Company, the Directors declare that:

1. the attached financial statements and notes thereto of the Company and the consolidated entity, as set out on pages 20 to 46, are in accordance with the Papua New Guinea Companies Act 1997 and:

    (a) comply with International Financial Reporting Standards (IFRS);

    (b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2016 and of the performance for the year ended on that date; and

    (c) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Securities Exchange Listing rules and the Port Moresby Stock Exchange Listing rules

2. the Managing Director and Chief Financial Officer have each declared that:

    (a) the financial records of the Company for the financial year have been properly maintained in accordance with the Papua New Guinea Companies Act 1997;

    (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

    (c) the financial statements and notes for the financial year comply with International Financial Reporting Standards and give a true and fair view of the financial position of the company at 31 December 2016, and of the financial performance of the company for the year ended on that date.

3. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Dated this 20th day of March 2017

Mr Richard Schroder
Managing Director

Supplementary Information

Additional disclosures for PNG Investors

In accordance with Accounting Standards Board Directive 2 (ASBD 2) and the Investment Promotion Authority, the Company has prepared US dollar financial statements, being their measurement and presentation currency. The following supplementary information is however required and is expressed in PNG Kina terms:

	Group		Company	
	2016	2015	**2016**	2015
	Kina	Kina	**Kina**	Kina
Revenue	**187,334**	383,968	**186,634**	382,894
Net loss	**(8,866,112)**	(8,345,991)	**(8,741,576)**	(8,616,382)
Total assets	**109,141,182**	111,804,224	**111,607,910**	114,136,975
Total liabilities	**1,492,552**	1,802,980	**2,906,762**	3,277,786
Net assets	**107,648,630**	110,001,244	**108,701,148**	110,859,189

Independent auditor's report

To the shareholders of Kina Petroleum Limited

Report on the audit of the financial statements of the Company and the Group

Our opinion

We have audited the financial statements of Kina Petroleum Limited (the Company), which comprise the statements of financial position as at 31 December 2016, and the statements of total comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2016 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and

- give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and their financial performance and cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company or any of its subsidiaries.

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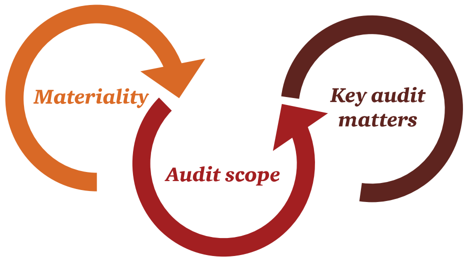
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Company and the Group, their accounting processes and controls and the industries in which they operate.



Materiality	*Audit scope*	*Key audit matters*

• For the purpose of our audit of the Group we used overall group materiality of US$334,000 which represents approximately 1% of the Group's total assets.
• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.
• We chose total assets as, in our view, it is the metric against which the financial position of the Group is most commonly measured and is a generally accepted benchmark.
• We selected 1% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds.
	• We (PwC Papua New Guinea) conducted audit work over all the subsidiaries which comprise the Group consolidation.
	• All subsidiaries of the Group are incorporated and operating in Papua New Guinea with the exception of one subsidiary incorporated in Australia.
	• Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
		• Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee:
		  ◦ Exploration and evaluation expenditure impairment assessment
		  ◦ Assessment of cash flows
		• These matters are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report. Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	How our audit addressed the key matter
Exploration and evaluation expenditure of US$25.9m impairment assessment *(Refer to note 9 of the financial statements)* Our audit focused on the assessment of whether there was any impairment in the carrying value of the exploration & evaluation expenditure asset because this is the most significant asset of the Group. The asset includes capitalised expenditure in relation to a number of exploration interests which are at varying degrees of advancement. With the current oil and gas pricing the Group determined that there was an indicator of potential impairment and so performed an impairment assessment of its exploration interests where economic interests of hydrocarbons have been discovered. The Group has one exploration interest at an advanced evaluation stage and has prepared a calculation of the value of that interest based on a model of the interest in future production. The other interests are not at a sufficiently advanced stage to require such an assessment. The production model uses a number of forward looking assumptions including oil and gas future pricing and the value calculation is sensitive to these. We considered this a key audit matter because of the significant judgements around future oil and gas pricing and the discount rate to be applied in assessing the carrying value of the asset.	As there was an indicator of potential impairment we have considered and tested the production model. We compared the model with the previous year's model and found it was consistently structured and consistent with the preparation required by the basis of accounting. We benchmarked the assumptions used around long term oil and gas prices with external forecasts, and the discount rates with our expectation based on the overall estimated Weighted Average Cost of Capital (WACC) for the Group. We performed sensitivity analysis on assumptions. We determined that the calculations were more sensitive to assumptions for oil and gas pricing and discount rates and focused our testing on these assumptions. Together with our valuation expert we reviewed the methodology adopted in the model. The combination of evaluation and testing gave us sufficient evidence to rely on the production model's design and outcome for our audit. We have also read the exploration licence terms and conditions and examined exploration budgets for 2017 to understand ongoing activities as part of our testing.
Assessment of cash flows *(Refer to note 1 of the financial statements)* The nature of the Group's current activities to pursue, acquire and develop oil and gas assets means it has not generated significant revenues, and for 2016 it incurred another loss of US$2.8m.	We assessed the appropriateness of the going concern basis of accounting by evaluating the future plan of activities and testing the cash flow projections prepared by the Group, which included: - Assessing the design of the Group's cash flow

The financial statements continue to be prepared on a going concern basis as the Group expects to have sufficient working capital to carry out its stated objectives for at least 12 months from the date of signing the financial statements. The Group has prepared cash flow projections which include a number of assumptions and judgements, including estimates of expenditure on projects and administrative expenses, and these projections are used to support the sufficiency of working capital. We focused on this matter as if it were inappropriate for the financial statements to be prepared on the going concern basis the values of certain assets and liabilities as set out in the financial statements might be significantly different.	projection model for the year ending 31 December 2017 and the first quarter of 2018 and its consistency with our understanding of the Group's planned activities. - Comparing the approved 2017 expenditure budget by area of interest for exploration and evaluation activity with the cash flow projection inputs. - Comparing forecast administration expenses with actual levels of expenditure for the 2016 year and obtaining explanations for any significant differences. - Obtaining representations from management and the directors as to the adequacy of cash resources and the completeness of financial statement disclosures in respect of going concern. Our responsibilities in respect of the going concern basis of accounting are included below under *Auditor's responsibilities for the audit of the financial statements*. We did not conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Information other than the financial statements and auditor's report

The directors are responsible for the annual report which includes other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Company for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or any of its subsidiaries or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and the Group to express an opinion on the consolidated financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2016:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Who we report to

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Christopher Hansor
Partner

Registered under the Accountants Act 1996

Port Moresby
20 March 2017

ADDITIONAL INFORMATION

Additional Australian Securities Exchange information as at 14 March 2017.

Number of holders of equity securities

Fully Paid Ordinary Shares

306,898,921 fully paid ordinary shares are held by 882 individual shareholders.

All issued ordinary shares carry one vote per share.

Options

Nil.

Distribution of holders of equity securities.

Category (size of holdings)	Number of Holders	Number of Securities
1 - 1,000	48	5,027
1,001 - 5,000	115	346,945
5,001 - 10,000	117	970,275
10,001 - 100,000	440	15,753,407
100,001 and over	162	289,823,267
TOTAL	**882**	**306,898,921**
Holding less than a marketable parcel	-	-

Substantial shareholders

The names of the substantial shareholders listed in the Kina Petroleum Limited register as at 14 March 2017 were:

	Fully paid ordinary shares	
Holders	**Number**	**Percentage**
Citicorp Nominees Pty Limited	107,395,981	34.99%
Barry James Tan	17,520,001	5.71%
	124,915,982	**40.70%**

ADDITIONAL INFORMATION

Top 20 Holders – Quoted Fully Paid Ordinary Shares as at 14 March 2017

Rank	Name	Units	% of Units
1	CITICORP NOMINEES PTY LIMITED	107,395,981	34.99%
2	BARRY JAMES TAN	17,520,001	5.71%
3	DB MANAGEMENT PTY LTD	12,767,004	4.16%
4	MACQUARIE BANK LIMITED	12,644,660	4.12%
5	MR RICHARD JOHN SCHRODER & MRS JENNIFER MARY SCHRODER	10,042,857	3.27%
6	JSC INVESTMENTS LTD	10,000,000	3.26%
6	PEWOVE PTY LIMITED	10,000,000	3.26%
7	PROFESSIONAL NOMINEES PTY LTD	9,537,000	3.11%
8	LIN XIAO LANG	8,243,689	2.69%
9	LUAGA PTY LTD	7,492,142	2.44%
10	EQUITAS NOMINEES PTY LIMITED	5,666,951	1.85%
11	MR RICHARD JOHN SCHRODER & MRS JENNIFER MARY SCHRODER	5,000,000	1.63%
12	KUMUL ENERGY RESOURCES LTD	4,000,000	1.30%
13	JADE RABBIT HOLDINGS LIMITED	3,330,406	1.09%
14	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,017,033	0.98%
15	KMPC INVESTMENTS	2,796,691	0.91%
16	EQUITAS NOMINEES PTY LIMITED	2,500,000	0.81%
17	MR LUPCO BOGDANOVSKI	2,000,000	0.65%
18	MR ZAHER HAMDAN	1,955,613	0.64%
19	EQUITAS NOMINEES PTY LIMITED	1,600,000	0.52%
20	M&D RODGERS INVESTMENTS PTY LTD	1,588,333	0.52%
	TOTAL	239,098,361	77.91%
	Balance of Register	67,800,560	22.09%
	Grand TOTAL	**306,898,921**	**100.00%**

ADDITIONAL INFORMATION

DIRECTORS

Mr Richard Robinson	Non Executive Chairman
Mr Richard Schroder	Managing Director
Mr Barry Tan	Non Executive Director
Dr Ila Temu	Non Executive Director
Mr David Vance	Non Executive Director

COMPANY SECRETARY
Mr Peter Impey

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