Kina
PETROLEUM LIMITED

KINA PETROLEUM LIMITED ANNUAL REPORT

COMPANY NO. 1-63551 ARBN 151 201 704

FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTORS' REPORT

The Directors present their report on the Company and its controlled entities for the year ended 31 December 2012.

DIRECTORS

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

John Prendiville –Non Executive Chairman

John is a graduate of the Royal Military College, Duntroon. He has a BSc (Hons) and MBA. John was a chairman of Macquarie Capital Advisors, based in Sydney, and was head of the global resource group for Macquarie. John was with Macquarie for 20 years and was instrumental in some of the largest and most complex takeovers, financings and transactions in Australia and offshore. Over the last 8 years, he built their resource team from one primarily focused in Australia to one of the largest and most profitable teams globally in mining and metals and, more importantly, the oil and gas space globally, from Houston to Calgary, London, Africa, Asia and Australia.

Mr Richard Schroder, Managing Director

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 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, Non-Executive Director

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

COMPANY SECRETARY

The Company Secretary as at the end of the financial year and at the date of this report is:

Peter Impey, Company Secretary

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$2,598,222 (2011: $1,249,742).

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 2012 were US$23,193,761 (2011: US$11,675,971). At 31 December 2012 the Company had cash balances of US$16,186,791 (2011:US$11,723,460).

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 was originally formed in 2009 to participate in the exploration and acquisition of oil and gas assets in PNG. During 2010 and 2011 a high level of commercial and exploration activity was undertaken by the Company including entry into farmin agreements in PPLs 338 & 339, acquisition of seismic surveys, the successful appraisal of the Elevala Gas Condensate Field in PRL 21, and most notably an Initial Public Offering of its securities on both the Australian Stock Exchange ("ASX") and the Port Moresby Stock Exchange ("PomSox").

This work was built upon during 2012 through further key commercial achievements and exploration activities including:

1) Successful drilling of the Ketu 2 well in PRL 21 with a commitment to drill the Tingu well in 2013;
2) Reserves upgrade in PRL 21, with KPL now having 26 mmboe in 2C resources;
3) Definition of 32 prospects and leads across all exploration acreage;
4) Completed PPL 338 Iviri South Seismic Survey;
5) Completed PPL 339 Wulai Seismic Survey;
6) Awarded operatorship and a 100% holding in Petroleum Prospecting License 435, subsequently farmed down to 50%;
7) Awarded operatorship and a 50% holding in Petroleum Prospecting License 436
8) Secured additional funding of US$13.6m (after costs) through:
   - a US$8m private placement of equity;
   - a US$1.5m share purchase plan for existing shareholders
   - the exercise of US$4.1m of options issued at the time of the Initial Public Offering
9) Undertook ongoing review, assessment and due diligence on a number of project acquisition opportunities;

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. These are being funded from residual proceeds of the Company's initial public offering and 2012 capital raising activities.

License	Prospect	Ownership
PPL 337	Banam	Kina 100%
PPL 338	Triceratops Extension / Iviri South	Kina 100% (With Oil Search (PNG) Ltd having the ability to earn a 70% participating interest through funding seismic and drilling exploration expenditure.
PPL 339	Wulai	Kina 100% (With Oil Search (PNG) Ltd having the ability to earn a 70% participating interest through funding seismic and drilling exploration expenditure.
PPL 340	In progress	Kina 100%
PPL 435	In progress	Kina 50%
PPL 436	In progress	Kina 50%
PRL 21	Elevala & Ketu Fields	Kina 15%

DIRECTORS' REPORT

Overview of PNG Exploration Activities

The Company's majority of 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.

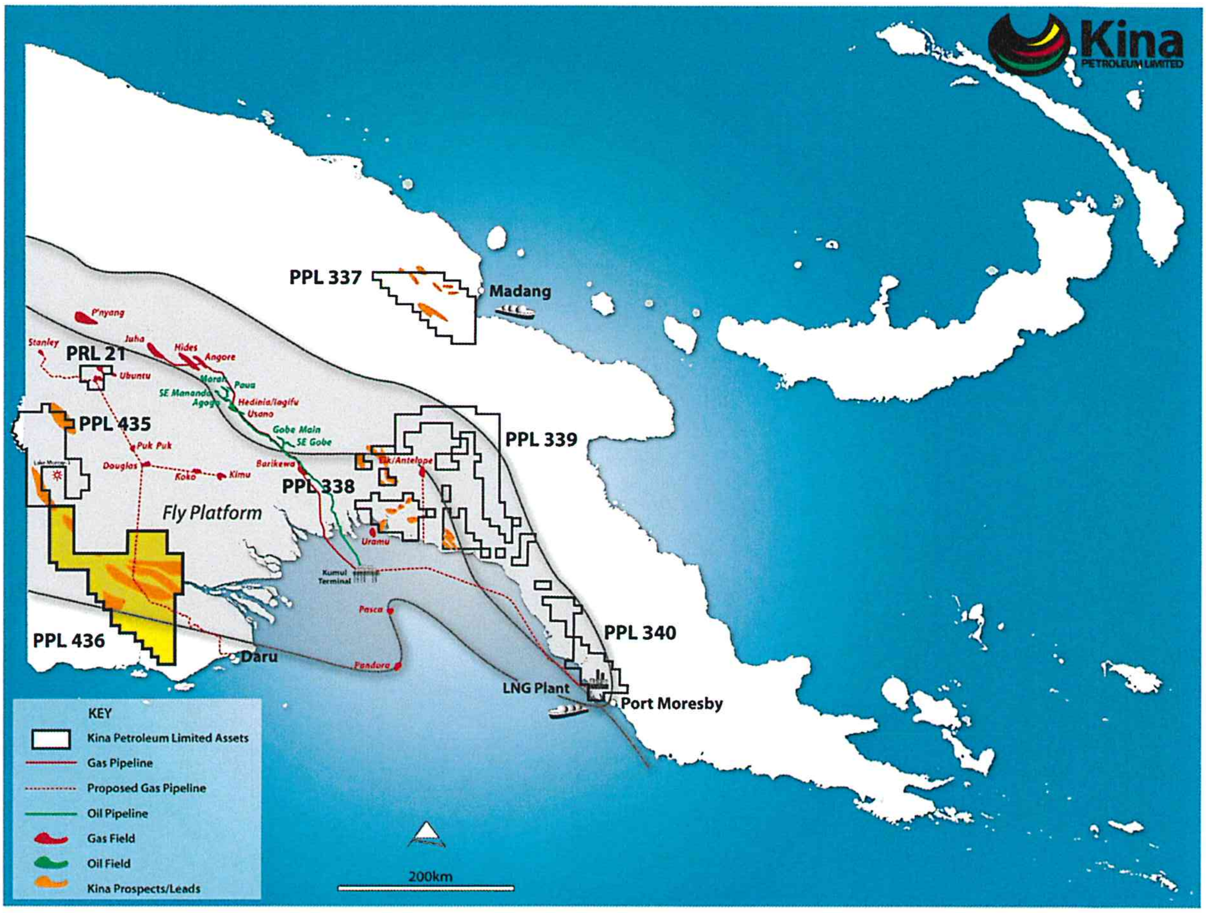

Figure 1: Location of Kina Petroleum Prospecting and Retention Licences.

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

<u>PRL 21 (Kina 15%)</u>

During the year, the company drilled and successfully tested the Ketu 2 well. This increased the resources base of the PRL 21 licence by 91 mmboe, adding to the 97 mmboe that was discovered in drilling the Elevala 2 well in late 2011.

In addition to these successful drilling activities, seismic was acquired which has helped better delineate the Tingu prospect in preparation for drilling in 2013. At the date of this report, the site for the Tingu well was under construction in preparation for the well to spud in mid 2013. The resource upgrade issued in October 2012 indicated an estimated mean prospective resource for the Tingu field of 101 mmboe, and the company is excited by the likelihood of these resources adding to an existing reserves base which is already sufficient to warrant a development project.

2012 also saw the commencement of development activity with pre-FEED activity for both Condensate and Gas production. 2013 will see a significant ramp up in development activity with FEED work for a Condensate project dominating licence activity along with drilling of the Tingu well.

DIRECTORS' REPORT

PPL 337 (Kina100%)

Exploration target – Banam Anticline

During 2012, the Company completed its analysis of the Banam Anticline Prospect, along with several other leads which have been identified as a result of newly located seismic data.

Interpretation of seismic data has indicated the presence of a number of thrusted and back thrusted compartments over the anticline. These represent separate targets and warrant further work as they coincide with gas seeps recorded by previous geological surveys. The seismic data have been integrated with nearby well and outcrop control. Two types of trap are identified: 2 very large, thrust bounded hanging wall traps and a smaller back thrusted footwall target which may have a direct hydrocarbon indicator associated with one of the reservoir units. The prospective, in- place resource ranges from 3TCF for the footwall target to in excess of 36TCF for the combined hanging wall targets.

Madang Port is a deep water port suitable for potential export of LNG into Asia. There is a good road network running from Madang to Banam Anticline. However the deterioration of the seismic data over the crest of the Anticline introduces uncertainty in respect of the seismic interpretation. Kina is presently seeking to attract a farmee to assist in acquisition of new seismic over Banam and the drilling of 1 or 2 wells subject to confirmation of both the hanging and footwall targets.

PPL 338 (Kina 100% subject to Oil Search (PNG) Ltd Farm In arrangements)

During the year, the Company continued its evaluation of the Nipa prospect in the south of the licence, but has subsequently seen greater prospectivity in the potential extension of the Triceratops field in the north of the licence.

This extension has been high-graded for seismic acquisition in early 2013 with a view to drilling thereafter. At the date of this report, seismic acquisition activity was shortly to commence with completion intended for June 2013. Oil Search, which holds an option to acquire an initial 30% in the licence, is in agreement with re-focussing of seismic acquisition activity.

PPL 339 (Kina 100% subject to Oil Search (PNG) Ltd Farm In arrangements)

Over 37 km of seismic data have been acquired over the Wulai Prospect. Like PPL 338 the exploration target is a carbonate reef build up similar to the neighbouring giant Elk Antelope discovery. Wells drilled within the licence have not intersected reefal facies but reefs have been documented in outcrop to the south east. The Wulai Seismic Survey failed to confirm the presence of a reefal buildup, Oil Search (PNG) Ltd. and Kina are reassessing the PPL 339 licence for other targets. PPL 339 is a very large licence and suffers from a general lack of modern data. In all likelihood Kina will look at the merits of acquiring aerogravity and aeromagnetic data to help define locations for follow up seismic acquisition.

PPL 340 (Kina 100%)

During the period, the Company commenced a full review of available well and seismic data in PPL 340. Two field visits confirm the licence is well supported by road access and is an easier area within which to operate than most parts of PNG.

Interpretation of seismic data from neighbouring areas has shown PPL 340 overlies an uplifted corridor extending from Port Moresby to the Aure Trough in the north west. Recently available seismic data has indicated reefal prospects on trend with the Elk and Antelope discoveries. These will be the subject of high-grading work in early 2013 with a view to farming out for drilling in 2014.

DIRECTORS' REPORT

PPL 435 (Kina 50%)

During 2012, the Company was awarded operatorship and a 100% interest, subsequently farmed down to 50%, in Petroleum Prospecting Licence 435.

Work since acquisition of the licence has focussed on identification of prospects and leads to assist in farmout activities.

PPL 436 (Kina 50%)

During 2012, the Company was awarded operatorship and a 50% interest in Petroleum Prospecting Licence 436.

Work since acquisition of the licence has focussed on identification of prospects and leads to assist in farmout activities.

Corporate Activity

Capital Raising

On 30 August 2012, the Company announced a private placement of 22.86 million shares which was over-subscribed and raised US$8 million before costs. Concurrent with this exercise, a Share Purchase Plan was offered to existing shareholders. This was fully subscribed and raised US$1.5 million. Additionally, it was pleasing to note that in respect of the options that were issued at the time of the IPO (with an expiry date of 30 November 2012), more than 96% of these were exercised raising a further US$4.1 million.

These activities see the Company well placed to fund its exploration and developments activities in 2013.

Other Project Activity

The Company remains actively focussed on opportunities for growth. Accordingly, the Company undertook and continues to undertake various discussions and project evaluation activities in pursuit of this objective.

ENVIRONMENTAL ISSUES

The consolidated group's operations are subject to significant environmental and other regulations. The consolidated group has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration activities. 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 Kina Petroleum Limited 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 fees payable to non-executive directors for all Board activities are $155,000 per year plus superannuation guarantee contributions of 9% per annum where required by legislation.

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 remuneration structure or predetermined performance conditions to be satisfied, however, ad-hoc grants of equity compensation (through issuance of stock options) were 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 Options

The Company has issued options on different terms and conditions to Point Capital Pty Limited (formerly Ramjet Holdings Pty Ltd) (for Mr John Prendiville), Dr Ila Temu and Mr Richard Schroder (Director Options). The specific terms and conditions of the Director Options are as follows:

a) The key terms of the Director Options issued to Ramjet Holdings Pty Ltd are as follows:

i. Number of options issued – 9,750,000;
ii. Exercise price – $0.20;
iii. Vesting conditions – the options are divided into 2 equal tranches, each with different vesting conditions as follows:
   (A) Tranche 1 – the options vest upon the issue of the options;
   (B) Tranche 2 – the options vest 24 months from the date of issue, conditional upon the holder remaining employed by the Company for a period of 2 years commencing from the agreed date of appointment;
iv. Expiry date – each tranche of options expires on 31 October 2013.

DIRECTORS' REPORT

b) The key terms of the Director Options issued to Dr Ila Temu are as follows:

i. Number of options issued – 500,000;
ii. Exercise price – $0.20;
iii. Vesting conditions – the options are divided into 3 equal tranches, each with different vesting conditions as follows:
- (A) Tranche 1 – the option holder remains employed by the Company for a period of 1 year commencing from the agreed date of appointment (Tranche 1 vesting date);
- (B) Tranche 2 - the option holder remains employed by the Company for a period of 2 years commencing from the agreed date of appointment (Tranche 2 vesting date);
- (C) Tranche 3 - the option holder remains employed by the Company for a period of 3 years commencing from the agreed date of appointment (Tranche 3 vesting date);

iv. Expiry date – each tranche of options expires on 31st December 2013.

c) The key terms of the Director Options issued to Mr Richard Schroder are as follows:

i. Number of options issued – 5,000,000;
ii. Exercise price – $0.20;
iii. Vesting conditions – the option holder remains employed by the Company for a period of 2 years commencing from the date the Company's shares are quoted on either the ASX or POMSoX;
iv. Expiry date – 31 December 2013.

Executive Options
The Company has issued options to its Chief Financial Officer, Mr Alex Mitchell, the specific terms and conditions of which are as follows:

i. Number of options issued – 1,500,000;
ii. Exercise price – $0.50;
iii. Vesting conditions – the options are divided into 3 equal tranches, each with different vesting conditions as follows:
- (A) Tranche 1 – vesting upon one year anniversary date of employment with the Company (Tranche 1 vesting date);
- (B) Tranche 2 - vesting upon two year anniversary date of employment with the Company (Tranche 2 vesting date);
- (C) Tranche 3 – vesting upon the 30 month anniversary of employment with the Company (Tranche 3 vesting date);

iv. Expiry date – each tranche of options expires 3 years from the date of issue.

Remuneration of Directors and Key Management for the year to 31 December 2012

	Short-term benefits		Post employment		Share-based payments			
	Cash salary and fees	Non-cash benefits	Super-annuation	Termination benefits	Options	Rights	Total	Total remuneration represented by options and rights
	$	$	$	$	$	$	$	%
2012								
Directors								
John Prendiville	55,440	-	-	-	343,946	-	399,386	86
Richard Schroder	284,790	-	25,890	-	84,722	-	395,402	21
Barry Tan	51,055	-	-	-	-	-	51,055	-
Dr Ila Temu	52,623	-	-	-	13,212	-	65,835	20
Total Directors	**443,908**	**-**	**25,890**	**-**	**441,880**	**-**	**911,678**	**48**

DIRECTORS' REPORT

Key Management								
A Mitchell [1]	51,905	-	4,671	-	22,227	-	78,803	28
Total Key Management	**51,905**	**-**	**4,671**	**-**	**22,227**	**-**	**78,803**	**28**
Total	**495,813**	**-**	**30,561**	**-**	**464,107**	**-**	**990,481**	**47**

[1] Chief Financial Officer, appointed 1 October 2012

Remuneration of Directors and Key Management for the year to 31 December 2011

	Short-term benefits		Post employment		Share-based payments			
	Cash salary and fees	Non-cash benefits	Super-annuation	Termination benefits	Options	Rights	Total	Total remuneration represented by options and rights
	$	$	$	$	$	$	$	%
2011								
Directors								
John Prendiville	-	-	-	-	55,309	-	55,309	100
Richard Schroder	103,330	-	51,665	-	26,182	-	181,177	14
Barry Tan	-	-	-	-	-	-	-	-
Dr Ila Temu	-	-	-	-	2,618	-	2,618	100
Total Directors	**103,330**	**-**	**51,665**	**-**	**84,109**	**-**	**239,104**	**35**

Key management personnel for the period ended 31 December 2011 refers only to Richard Schroder in his capacity as Managing Director.

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	
For the year to 31 December 2012	**Fully paid ordinary shares**	**Options**
John Prendiville	8,338,667	9,750,000
Richard Schroder	10,752,381	5,000,000
Barry Tan	18,010,001	Nil
Dr Ila Temu	10,000	500,000
	37,111,049	15,250,000

DIRECTORS' REPORT

For the year to 31 December 2011	Number: Fully paid ordinary shares	Number: Options
John Prendiville	8,296,667	9,750,000
Richard Schroder	10,500,000	5,000,000
Barry Tan	18,010,001	Nil
Dr Ila Temu	10,000	500,000
	36,816,668	15,250,000

End of audited Remuneration Report

SHARE OPTIONS

Number of options over unissued ordinary shares at the date of this report was as follows:

2012	
Options exercisable at $0.20 per share on or before 31 October 2013	9,750,000
Options exercisable at $0.20 per share on or before 31 December 2013	5,500,000
Options exercisable at $0.50 per share on or before 17 December 2015	1,500,000
2011	
Options exercisable at $0.20 per share on or before 30 November 2012	20,510,155
Options exercisable at $0.20 per share on or before 31 October 2013	9,750,000
Options exercisable at $0.20 per share on or before 31 December 2013	5,500,000

MEETINGS OF DIRECTORS

Attendances by each director to meetings of directors (including committee of directors) during the year to 31December 2012 were as follows:

	Board Meetings		Audit Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
2012				
John Prendiville	8	8	2	2
Richard Schroder	8	8	-	-
Barry Tan	8	7	2	2
Dr Ila Temu	8	8	2	2
2011				
John Prendiville	6	6	-	-
Richard Schroder	6	6	-	-
Barry Tan	10	10	-	-
Dr Ila Temu	6	5	-	-

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

DIRECTORS' REPORT

INDEMNIFYING OFFICERS OR AUDITORS

During the year the Company paid a premium of USD equivalent $18,784 (2011: 10,866) 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 have been no material events subsequent to year end.

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 26th day of March 2013

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	Promote ethical and responsible decision making;
Recommendation 4	Safeguard integrity in financial reporting;
Recommendation 5	Make timely and balanced disclosures;
Recommendation 6	Respect the rights of shareholders;
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 4.3	✔	
Recommendation 1.2	✔		Recommendation 4.4[3]	n/a	n/a
Recommendation 1.3[3]	n/a	n/a	Recommendation 5.1	✔	
Recommendation 2.1		✔	Recommendation 5.2[3]	n/a	n/a
Recommendation 2.2	✔		Recommendation 6.1	✔	
Recommendation 2.3	✔		Recommendation 6.2[3]	n/a	n/a
Recommendation 2.4		✔	Recommendation 7.1	✔	
Recommendation 2.5	✔		Recommendation 7.2	✔	
Recommendation 2.6[3]	n/a	n/a	Recommendation 7.3	✔	
Recommendation 3.1	✔		Recommendation 7.4[3]	n/a	n/a
Recommendation 3.2	✔		Recommendation 8.1		✔
Recommendation 3.3	✔		Recommendation 8.2	✔	
Recommendation 3.4	✔		Recommendation 8.3[3]	n/a	n/a
Recommendation 3.5[3]	n/a	n/a			
Recommendation 4.1	✔				
Recommendation 4.2	✔				

CORPORATE GOVERNANCE STATEMENT

Notes

1 Indicates where the Company has followed the Principles and Recommendations.
2 Indicates where the Company has provided "if not, why not" disclosure.
3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: *Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.*

Recommendation 1.2: *Companies should disclose the process for evaluating the performance of senior executives.*

Disclosure:

The Company's Corporate Governance Statement 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 report his findings to the Board.

Recommendation 1.3: *Companies should provide the information indicated in the Guide to reporting on Principle 1.*

Disclosure:

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.

Principle 2 – Structure to the Board to add value

Recommendation 2.1: *A majority of the Board should be Independent Directors*

Notification of Departure:

2 of 4 Directors are classified as independent.

Explanation for Departure.

The Company's Constitution requires that the minimum number of Directors is 3. The Company presently has four Directors consisting of three Non-Executive Directors and one Managing Director. Of the Directors, only Mr John Prendiville, a Non-Executive Director and Chairman of the Company, and Dr Ila Temu, a Non-Executive Director, are considered as independent. Richard schroder is the Managing Director of the Company and Barry Tan is a Non-Executive Director and a substantial shareholder of the Company. Half the Board is considered as independent.

The Board seeks to ensure that, where practical, a majority of the Board will be independent. The Board has adopted specific principles in relation to directors' independence. These specific principles state when determining independence, a director must be a non-executive and the Board should consider whether the director:

- Is not a substantial shareholder of the company or an Officer of, or otherwise associated directly with a substantial shareholder of the company;
- has not, within the last 3 years, been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- has not, within the last 3 years, been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee material associated with the service provided:
- is not a material supplier or customer of the Company or other group member, or an Officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with Kina other than as a director of the Company;
- has not served on the Board for a period which could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company; and

CORPORATE GOVERNANCE STATEMENT

- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The Board considers that the current composition is adequate for the Company's size, operations and complexity, and includes an appropriate mix of skills and expertise, relevant to the Company's business such as to add value to the Company.

Recommendation 2.2: *The Chair should be an independent director.*

The Company's Chairman, Mr John Prendiville, is an independent Non-Executive Director.

Recommendation 2.3 The roles of chair and chief executive officer should not be exercised by the same individual.

These positions are held by separate persons.

Recommendation 2.4: *The board should establish a nomination committee.*

Notification of Departure:

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 2.5: *Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.*

Disclosure:

The full Board, in its capacity as the Nomination Committee, is responsible for evaluating the performance of the Board, its committees and individual Directors. The Board, committees and individual Directors are evaluated annually by way of informal meetings. If required the Board may also engage the services of independent performance evaluation consultants to assist in the evaluation of all or some of its directors.

Recommendation 2.6: *Companies should provide the information indicated in the Guide to Reporting on Principle 2.*

Disclosure:

The independent Directors are Mr John Prendiville and Dr Ila Temu. The Directors are independent as they are non-executive Directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgment. At the time of the Company being admitted to the Official List of the ASX, and also at the date of this report, neither Mr Prendiville nor Dr Temu were substantial shareholders of the Company.

To assist Directors with independent judgement, it is the Board's policy that the Directors may seek independent professional advice at the Company's expense, subject to prior consultation with the Chair of the Board.

The full Board carries out the role of the Nomination Committee. To assist the Board to fulfil its function as the Nomination Committee, it has adopted Nomination and Remuneration Committee Charter, which is publicly available on the Company's website under the section, marked Corporate Governance.

In determining candidates for the Board, the full Board in its capacity as the Nomination Committee follows a prescribed procedure which is publicly available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance.

CORPORATE GOVERNANCE STATEMENT

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Under the Company's Constitution, if there are 3 or more Directors then one third of the Directors (excluding the Managing Director) must retire at every annual general meeting. Retiring directors are eligible for re-election. Re-appointment of Directors is not automatic.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code or a summary the code as to:

- the practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2: Companies should establish a policy concerning diversity and has disclosed the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board.

Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.

Disclosure:

The Board has adopted a Code of Conduct and a Diversity Policy. The Company's Code of Conduct and Share Trading policy is available on the Company's website at www.kinapetroleum.com under the section marked Corporate Governance. The Company's annual report will include the proportion of woman employees within the organisation as well as senior position within the Company, the measureable objectives and the progress towards the measureable objectives. The Company will provide an explanation of any departure from Principals and Recommendation 3.1, 3.2, 3.3 or 3.4 (if any) in its future annual reports.

Principle 4 – Safeguard integrity in financial reporting

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

Recommendation 4.2: *The Audit Committee should be structured so that it consists of only Non-Executive Directors, consist of a majority of Independent Directors, is chaired by an independent chair, who is not chair of the Board, and has at least three members.*

Recommendation 4.3: *The Audit Committee should have a formal charter.*

Recommendation 4.4: *Companies should provide the information indicated in the* Guide to reporting on Principle 4.

Disclosure:

The Company has 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 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.

CORPORATE GOVERNANCE STATEMENT

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1: *Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those.*

Recommendation 5.2: *Companies should provide the information indicated in the Guide to reporting on Principle 5.*

Disclosure:

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 any departures from Principles and Recommendation 5.1 (if any) in its future annual reports.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1: *Companies should design a communication policy for promoting effective communication with shareholders and encourage their participation at general meetings and disclose their policy or a summary of that policy.*

Recommendation 6.2: *Companies should provide the information indicated in the Guide to reporting on Principle 6.*

Disclosure:

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 any departures from Principles and Recommendations 6.1 (if any) in its annual report.

Principle 7 – Recognise and manage risk

Recommendation 7.1: *Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

Recommendation 7.2: *The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to effectiveness of the Company's management of its material business risk.*

Recommendation 7.3: *the Board should disclose whether it has received assurance from the chief executive officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting.*

Recommendation 7.4: *Companies should provide the information indicated in the Guide to* Reporting on Principle 7.

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 the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting.

CORPORATE GOVERNANCE STATEMENT

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The Board should establish a Remuneration Committee.

Recommendation 8.2: The remuneration committee is structured so that it:

- *consists of a majority of independent directors*
- *is chaired by an independent chair*
- *has at least three members.*

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 8.3: *Companies should clearly distinguish the structure of Non-Executive Director's remuneration from that of executive Director and senior management.*

Recommendation 8.4: *Companies should provide the information indicated in the Guide to reporting on Principle 8.*

Disclosure:

As noted above, the full Board performs the function of the Remuneration Committee. To assist the Board to fulfil this function, it has adopted 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 is 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.

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	Group 2012	Group 2011 (As restated)	Company 2012	Company 2011 (As restated)
		US$	US$	US$	US$
Revenue	2	**192,981**	34,360	**192,527**	22,050
IPO expenses		-	(422,676)	-	(279,006)
Administration expense	3	**(793,714)**	(66,831)	**(734,770)**	(62,856)
Permit write off		-	(4,663)	-	(4,663)
Exploration expense		**(1,571,319)**	(705,823)	**(1,653,296)**	(705,823)
Option based payments	13c	**(464,107)**	(84,109)	**(464,107)**	(84,109)
Foreign exchange gains, net		**37,937**	-	**37,937**	-
Loss before income tax		**(2,598,222)**	(1,249,742)	**(2,621,709)**	(1,114,407)
Income tax expense	4	-	-	-	-
Loss after income tax attributable to members of the parent entity		**(2,598,222)**	(1,249,742)	**(2,621,709)**	(1,114,407)
Other comprehensive income					
Foreign currency translation difference for the year, net of tax		**(10,610)**	28,639	-	-
Other comprehensive income (loss) for the year		**(10,610)**	28,639	-	-
Total comprehensive loss for the year attributable to members of the Parent Entity		**(2,608,832)**	(1,221,103)	**(2,621,709)**	(1,114,407)

		In US cents			
Earnings per share					
From continuing operations:					
Basic loss per share	20	**(1.42)**	(1.14)	-	-
Diluted loss per share	20	**(1.42)**	(1.14)	-	-

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	Group			Company		
		2012	2011 (As restated)	2010	2012	2011 (As restated)	2010
		US$	US$	US$	US$	US$	US$
CURRENT ASSETS							
Cash and cash equivalents	6	**16,199,112**	11,734,701	20,526	**16,186,791**	11,723,460	20,526
Trade and other receivables	7	**86,147**	2,730,299	-	**79,878**	2,730,180	-
Other current assets	8	**392,051**	-	-	**392,051**	-	-
TOTAL CURRENT ASSETS		**16,677,310**	14,465,000	20,526	**16,658,720**	14,453,640	20,526
NON-CURRENT ASSETS							
Exploration and evaluation expenditure	9	**8,693,349**	1,909,663	77,944	**8,693,349**	1,909,663	77,944
Plant and equipment	10	**44,548**	-	-	**14,204**	-	-
Investment in subsidiary	21	**-**	-	-	**765,808**	765,808	-
TOTAL NON-CURRENT ASSETS		**8,737,897**	1,909,663	77,944	**9,473,361**	2,675,471	77,944
TOTAL ASSETS		**25,415,207**	16,374,663	98,470	**26,132,081**	17,129,111	98,470
CURRENT LIABILITIES							
Trade and other payables	11	**2,221,446**	4,698,692	122,281	**2,187,307**	4,680,733	122,281
Loans payable - subsidiaries	12	**-**	-	-	**657,194**	665,711	-
TOTAL CURRENT LIABILITIES		**2,221,446**	4,698,692	122,281	**2,844,501**	5,346,444	122,281
NET ASSETS/(LIABILITIES)		**23,193,761**	11,675,971	(23,811)	**23,287,580**	11,782,667	(23,811)
EQUITY							
Issued capital	13	**26,874,291**	13,211,776	375,000	**26,874,291**	13,211,776	375,000
Reserves	24	**566,245**	112,748	-	**548,216**	84,109	-
Accumulated losses		**(4,246,775)**	(1,648,553)	(398,811)	**(4,134,927)**	(1,513,218)	(398,811)
TOTAL EQUITY		**23,193,761**	11,675,971	(23,811)	**23,287,580**	11,782,667	(23,811)

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

For and on behalf of the Board:
26 March 2013

Mr. Richard Schroder
Managing Director

Dr Ila Temu
Non-Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Ordinary Issued Capital US$	Accumulated Losses US$	Reserves US$	Total US$
For the year ended 31 December 2012				
Balance at 31 December 2011	13,211,776	(1,648,553)	112,748	11,675,971
Loss for the year	-	(2,598,222)	-	(2,598,222)
Other comprehensive income				
Foreign currency translation difference	-	-	(10,610)	(10,610)
Total comprehensive loss for the year	-	(2,598,222)	(10,610)	(2,608,832)
Transactions with owners in their capacity as owners:				
Shares issued during the year	13,662,515	-	-	13,662,515
Options issued under Employee Incentive Plan	-	-	464,107	464,107
Total transactions with owners for the year	13,662,515	-	464,107	14,126,622
Balance at 31 December 2012	**26,874,291**	**(4,246,775)**	**566,245**	**23,193,761**
For the year ended 31 December 2011				
Balance at 31 December 2010, as previously reported	375,000	-	-	375,000
Change in accounting policy for exploration and evaluation expenditure (Note 1e)	-	(398,811)	-	(398,811)
Balance at 31 December 2010, as restated	375,000	(398,811)	-	(23,811)
Loss for the year	-	(1,249,742)	-	(1,249,742)
Other comprehensive income				
Foreign currency translation difference	-	-	28,639	28,639
Total comprehensive income (loss) for the year	-	(1,249,742)	28,639	(1,221,103)
Transactions with owners in their capacity as owners:				
Shares issued during the year	12,836,776	-	-	12,836,776
Options issued under Employee Incentive Plan	-	-	84,109	84,109
Total transactions with owners for the year	12,836,776	-	84,109	12,920,885
Balance at 31 December 2011	**13,211,776**	**(1,648,553)**	**112,748**	**11,675,971**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Company	Ordinary Issued Capital US$	Accumulated Losses US$	Reserves US$	Total US$
For the year ended 31 December 2012				
Balance at 31 December 2011	13,211,776	(1,513,218)	84,109	11,782,667
Loss for the year	-	(2,621,709)	-	(2,621,709)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(2,621,709)	-	(2,621,709)
Transactions with owners in their capacity as owners:				
Shares issued during the year	13,662,515	-	-	13,662,515
Options issued under Employee Incentive Plan	-	-	464,107	464,107
Total transactions with owners for the year	13,662,515	-	464,107	14,126,622
Balance at 31 December 2012	**26,874,291**	**(4,134,927)**	**548,216**	**23,287,580**
For the year ended 31 December 2011				
Balance at 31 December 2010, as previously reported	375,000	-	-	375,000
Change in accounting policy for exploration and evaluation expenditure (Note 1e)	-	(398,811)	-	(398,811)
Balance at 31 December 2010, as restated	375,000	(398,811)	-	(23,811)
Loss for the year	-	(1,114,407)	-	(1,114,407)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(1,114,407)	-	(1,114,407)
Transactions with owners in their capacity as owners:				
Shares issued during the year	12,836,776	-	-	12,836,776
Options issued under Employee Incentive Plan	-	-	84,109	84,109
Total transactions with owners for the year	12,836,776	-	84,109	12,920,885
Balance at 31 December 2011	**13,211,776**	**(1,513,218)**	**84,109**	**11,782,667**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	Group 2012 US$	Group 2011 US$	Company 2012 US$	Company 2011 US$
CASH FLOW FROM OPERATING ACTIVITIES					
Exploration and evaluation expenditure		**(1,571,319)**	(705,823)	**(1,653,296)**	(705,823)
Payments to suppliers and employees		**(628,401)**	(15,707)	**(570,660)**	(11,732)
Interest received		**192,981**	34,360	**192,527**	22,050
Net cash used in operating activities	17	**(2,006,739)**	(687,170)	**(2,031,429)**	(695,505)
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of 5% interest		**1,500,000**	4,000,000	**1,500,000**	4,000,000
Exploration and evaluation expenditure		**(8,761,190)**	(3,861,806)	**(8,761,190)**	(3,861,806)
Acquisition of plant and equipment		**(46,717)**	-	**(14,590)**	-
Cash received from joint venture party		**78,605**	248,666	**78,605**	248,666
Net cash provided by (used in) investing activities		**(7,229,302)**	386,860	**(7,197,175)**	386,860
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from the issue of shares		**14,147,335**	12,420,394	**14,147,335**	12,542,675
Capital raising costs		**(484,820)**	(1,200,356)	**(484,820)**	(1,074,526)
Proceeds from borrowings		**-**	-	**-**	543,430
Repayments of borrowings		**-**	-	**(8,517)**	-
Cash acquired from Kina Oil and Gas Ltd		**-**	794,447	**-**	-
Net cash provided by financing activities		**13,662,515**	12,014,485	**13,653,998**	12,011,579
Effect of exchange rate changes on cash and cash equivalents		**37,937**	-	**37,937**	-
Net increase in cash and cash equivalents held		**4,464,411**	11,714,175	**4,463,331**	11,702,934
Cash at beginning of year		**11,734,701**	20,526	**11,723,460**	20,526
Cash at end of year	17	**16,199,112**	11,734,701	**16,186,791**	11,723,460

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

Notes to the consolidated 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 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 consolidated financial statements are disclosed in note 1q.

The financial statements have been prepared on an accruals 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 2012 was US$2,598,222 (2011: US$1,249,742), the financial statements have been prepared on a going concern basis. The Directors are managing the Group's cash flows carefully to meet its operational commitments. The Group has been successful in raising capital of US$13,662,515 during the year and has US$16,199,122 in cash and cash equivalents at the end of the year.

The Group has 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, however no allowance for such circumstances has been made in the financial statements. 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 adopted by the Group

There are no new standards or amendments to existing standards that are effective for the first time beginning on or after 1 January 2012 that have a material impact to the Group.

(b) New standards and amendments to existing standards that are not yet effective and not early adopted by the Group. Unless otherwise stated, the following standards are not expected to have a significant impact to the Group.

- IAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income (effective 1 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income. The Group will apply the amendment beginning 1 January 2013. The adoption is not expected to have a significant impact on the financial statements but will result in changes in presentation in the statement of total comprehensive income.

- IAS 19 (Amendment), Employee Benefits (effective 1 January 2013).

- IFRS 9, Financial Instruments (effective 1 January 2015).

- IFRS 10, Consolidated Financial Statements (effective 1 January 2013).

- IFRS 11, Joint Arrangements (effective 1 January 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangements rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenues and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The new standard will not result to changes in the way the Group accounts for its investment in joint operations.

- IFRS 12, Disclosures of Interests in Other Entities (effective 1 January 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has yet to assess the full impact of IFRS 12 and intends to adopt IFRS 12 beginning 1 January 2013.

- IFRS 13, Fair Value Measurement (effective January 1, 2013).

Accounting Policies

(a) 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 21 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.

(b) 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.

(c) 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.

(d) Cash and cash equivalents

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

(e) Exploration and development 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 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.

Farm-out arrangements relating to unproved reserves is determined based on the consideration received for the value of the work to be performed in the future. The value of the work to be performed is measured by the cash calls required for future exploration or development work. The remaining interest is determined at the previous cost of the full interest reduced by the consideration received for entering the farm-out agreement. There is no gain recognised on disposal unless the consideration received exceeds the carrying value of the entire asset.

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 Oil and Gas Assets in the Statement of Financial Position. Prior to reclassification, capitalised exploration expenditure is assessed for impairment.

Exploration expenditure is reviewed 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 an exploration licence) 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.

Change in Accounting Policy

During the year, the Company has changed its accounting policy by adopting the Successful Efforts method of accounting for exploration expenditure. Previously, the Full-Cost method of accounting for exploration expenditure was used, whereby all exploration costs were capitalised pending an assessment of impairment. Under the Successful Efforts method, geological and geophysical costs are expensed immediately to the income statement, and the costs of unsuccessful prospects are expensed to the income statement in the period in which they are determined to be unsuccessful.

The change to the Successful Efforts methodology aligns the Company's accounting policy with those of its peers, thereby aiding comparability. The change, which requires the expensing of costs such as those relating to seismic acquisition, also ensures that costs accumulated as assets are those which are directly attributable to the discovery and exploitation of reserves of hydrocarbons. The Group believes that the Successful Efforts method provides for reliable and relevant information.

The change in accounting policy has been applied retrospectively which resulted to restatement of previously reported balances. The table below shows the reconciliation of previously reported balances to the restated balances following the change in accounting policy.

	Group			Company		
	As previously reported	Restatements	As Restated	As previously reported	Restatements	As Restated
	US$	US$	US$	US$	US$	US$
1 January 2011						
Statement of financial position						
Exploration and evaluation expenditure	476,755	(398,811)	77,944	476,755	(398,811)	77,944
Accumulated losses	-	398,811	398,811	-	398,811	398,811
31 December 2011						
Statement of financial position						
Exploration and evaluation expenditure	3,014,297	(1,104,634)	1,909,663	3,014,297	(1,104,634)	1,909,663
Accumulated losses	543,919	1,104,634	1,648,553	408,584	1,104,634	1,513,218
Statement of total comprehensive income						
Exploration expense	-	705,823	705,823	-	705,823	705,823

(f) 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.

(f) 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

(g) 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 and trade and other receivables.

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 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.

(h) 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.

(i) 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.

(j) Employee benefits

Provision is made for the consolidated 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 settled within one year 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.

(k) Provisions

Provisions are recognised when the consolidated 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.

(l) 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.

Diluted loss per share adjusts the figures used in the determination of basic loss per share by taking into account any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

When the consolidated 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.

(m) Share based payments

The consolidated 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.

(n) 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 segment and form part of the balance of unallocated revenue, expenses, assets and liabilities.

(o) 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.

(p) Joint venture

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The Group's interests in jointly controlled entities are treated as a jointly controlled asset. The Group recognises its share of the jointly controlled asset, classified according to the nature of the asset; any liabilities it has incurred in its own right; its proportionate share of any liabilities that arise from the jointly controlled asset; its share of expenses from the operation of the assets; and its share of any income arising from the operation of the assets.

(q) 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 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 determination of the fair value of options granted to certain directors and key management personnel of the Company is determined using an option-pricing model which takes into account relevant inputs and assumptions as described in Note 13c.

	Group		Company	
	2012	**2011**	**2012**	**2011**
	US$	**US$**	**US$**	**US$**
Note 2 – Revenue				
Interest income	**192,981**	34,360	**192,527**	22,050
	192,981	34,360	**192,527**	22,050

	Group 2012 US$	Group 2011 US$	Company 2012 US$	Company 2011 US$
Note 3 – Administration expense				
Salaries and employee benefits	**526,374**	-	**159,118**	-
Professional fees	**108,361**	55,799	**455,272**	55,799
Transportation and travel	**62,634**	6,739	**62,634**	6,739
Occupancy cost	**36,500**	-	**20,608**	-
Insurance	**27,855**	-	**6,885**	-
Other	**31,990**	4,293	**30,253**	318
	793,714	66,831	**734,770**	62,856

Note 4 - Income tax expense

	Group 2012 US$	Group 2011 US$	Company 2012 US$	Company 2011 US$
(a) The components of income tax expense comprise:				
Benefit from deferred tax	**709,510**	233,195	**705,039**	232,003
Deferred tax assets not recognised	**(709,510)**	(233,195)	**(705,039)**	(232,003)
	-	-	**-**	-
(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%	**(779,467)**	(374,923)	**(786,513)**	(334,322)
Add:				
Tax effect of:				
Expenses not deductible for tax	**139,232**	152,036	**139,232**	108,935
Deferred tax assets not recognised	**698,129**	233,195	**705,039**	232,003
Less:				
Tax effect of:				
Income not assessable for tax	**(57,894)**	(10,308)	**(57,758)**	(6,616)
(Income tax expense/(benefit)	**-**	-	**-**	-
Tax losses				
Unused tax losses for which no tax loss has been recognised as a deferred tax asset adjusted for non-temporary differences at 30%	**234,114**	21,448	**220,431**	20,526

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	
	2012	2011	2012	2011
	US$	US$	US$	US$
Note 5 - Auditors' remuneration				
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial reports	**76,716**	37,300	**63,423**	37,300
- taxation services	**7,422**	13,824	**7,422**	13,824
	84,138	51,124	**70,845**	51,124
Note 6 – Cash and cash equivalents				
Cash at bank	**16,199,112**	11,734,701	**16,186,791**	11,723,460
Note 7 - Trade and other receivables				
Current				
Cash calls in advance	**18,232**	1,727,975	**18,232**	1,727,975
Other receivables	**67,915**	1,002,324	**61,646**	1,002,205
	86,147	2,730,299	**79,878**	2,730,180

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 comprise mainly of pre-payments made in respect of a study of the Western Papuan basin which was ongoing, and for which results had not yet been received as at balance date.

Note 9 – Exploration and evaluation expenditure

	Group 2012 US$	Group 2011 US$	Company 2012 US$	Company 2011 US$
Non-current				
Costs carried forward in respect of areas of interest in the exploration phase:				
Balance at beginning of the year (as restated)	**1,909,663**	77,944	**1,909,663**	77,944
Expenditures incurred	**7,283,686**	6,831,719	**7,283,686**	6,831,719
Sale of 5% interest	**(500,000)**	(5,000,000)	**(500,000)**	(5,000,000)
Carrying amount at end of the year	**8,693,349**	1,909,663	**8,693,349**	1,909,663

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and commercial exploitation of the tenements.

	Group		Company	
	2012	2011	2012	2011
	US$	US$	US$	US$
Note 10 – Plant and equipment				
Leasehold improvements, at cost	**32,129**	-	**-**	-
Accumulated depreciation	**(1,785)**	-	**-**	-
	30,344	-	**-**	-
Information technology equipment, at cost	**14,590**	-	**14,590**	-
Accumulated depreciation	**(386)**	-	**(386)**	-
	14,204	-	**14,204**	-
	44,548	-	**14,204**	-

Note 11 – Trade and other payables

	Group 2012	Group 2011	Company 2012	Company 2011
Trade payables	**140,922**	493,752	**106,783**	475,793
Sundry payables and accrued expenses	**2,080,524**	4,204,940	**2,080,524**	4,204,940
	2,221,446	4,698,692	**2,187,307**	4,680,733

Note 12 – Loans payable

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

	Group 2012	Group 2011	Company 2012	Company 2011
Balance at beginning of reporting year	**-**	-	**665,711**	122,281
Loans granted during the year	**-**	-	**-**	543,430
Repayments during the year	**-**	-	**(8,517)**	-
Balance at end of reporting year	**-**	-	**657,194**	665,711

Note 13 – Issued capital

	Group 2012	Group 2011	Company 2012	Company 2011
220,269,138 (2011: 173,196,376) fully paid ordinary shares	**26,874,291**	13,211,776	**26,874,291**	13,211,776

	Group		Company	
(a) Fully paid ordinary shares	**No of shares**	**US$**	**No of shares**	**US$**
For the period ending 31 December 2012				
Balance at beginning of reporting year	**173,196,376**	**13,211,776**	**173,196,376**	**13,211,776**
Issue of shares during the year:				
- shares issued under Share Purchase Plan	**5,759,131**	**1,582,784**	**5,759,131**	**1,582,784**
- shares issued in Private Placement	**21,490,000**	**7,876,332**	**21,490,000**	**7,876,332**
- shares issued pursuant to exercise of options issued at time of IPO	**19,823,631**	**4,203,399**	**19,823,631**	**4,203,399**
Balance at end of reporting year	**220,269,138**	**26,874,291**	**220,269,138**	**26,874,291**

(a) Fully paid ordinary shares	Group No of shares	Group US$	Company No of shares	Company US$
For the period ending 31 December 2011				
Balance at beginning of reporting year	100,000,000	375,000	100,000,000	375,000
Issue of shares during the year:				
- shares issued for acquisition of Subsidiary	10,035,801	765,808	10,035,801	765,808
- shares issued to the public during the year, net of stock issue costs	61,530,575	12,070,968	61,530,575	12,070,968
- shares issued to Luaga Pty Ltd during the year	8,296,667	1,015,795	8,296,667	1,015,795
- shares redeemed during the year	(6,666,667)	(1,015,795)	(6,666,667)	(1,015,795)
Balance at end of reporting year	173,196,376	13,211,776	173,196,376	13,211,776

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.

(b) Options over unissued shares	Group 2012	Group 2011	Company 2012	Company 2011
	Number of options			
Balance at beginning of reporting year	**35,760,155**	-	**35,760,155**	-
Issued during the year	**1,500,000**	35,760,155	**1,500,000**	35,760,155
Exercised during the year	**(19,823,631)**	-	**(19,823,631)**	-
Lapsed during the year	**(686,524)**	-	**(686,524)**	-
Balance at end of reporting year	**16,750,000**	35,760,155	**16,750,000**	35,760,155

9,750,000 expiring 31 October 2013	*Exercisable at $0.20 each*
5,500,000 expiring 31 December 2013	*Exercsiable at $0.20 each*
1,500,000 expiring 16 December 2015	*Exercisable at $0.50 each*

20,510,155 options were issued on 12 December 2011 to shareholders at the initial public offer through issuance of 1 option for every 3 common shares subscribed. The remaining 16,750,000 options pertain to options granted to Directors and Key Management Personnel (note 13c).

Each option entitles the holder to one share of the Company. All shares issued upon exercise of options will rank pari passu in any respects with the Company's issued shares.

(c) Share-based payments

On 31 May 2011, the Company issued options under different terms and conditions to its Directors.

A total of 9,750,000 options were granted to Point Capital Pty Limited (formerly Ramjet Holdings Pty. Ltd.) (John Prendiville) with 4,875,000 fully vested and exercisable upon issuance. The remaining options vest 2 years from the date of issue and conditional upon the holder remaining employed by the Company for a period of 2 years commencing from the date of appointment.

5,000,000 options were granted to Richard Schroder and vest 2 years commencing from 19 December 2011 and conditional upon the holder being employed by the Company.

500,000 options were granted to Dr. Ila Temu. The options are divided into 3 equal tranches. Tranche 1 vests after a period of 1 year from being employed with the Company. Tranche 2 and 3 vests at the end of the second and third year of employment, respectively.

On 16 December 2012, the Company issued 1,500,000 options to the Chief Financial Officer. The options are divided into 3 equal tranches. Tranche 1 vests after a period of 1 year from being employed with the Company. Tranche 2 vests after a period of 2 years of being employed with the Company and tranche 3 vests after 30 months employment with the Company.

		Exercise price	Balance at beginning of the year	Granted during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Grant date	**Expiry date**	**US$**	**Number of options**			
31 May 2011	31 October 2013	0.20	9,750,000	-	9,750,000	4,875,000
31 May 2011	31 December 2013	0.20	5,500,000	-	5,500,000	-
16 Dec 2012	16 December 2015	0.50	-	1,500,000	1,500,000	-

Fair value of options granted
The assessed fair value at grant date of options granted during the year ended 31 December 2012 was US$0.16 per option (2011 – US$0.07). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 31 December 2011 included:

(a) options are granted for no consideration and vest based terms and conditions defined above.
(b) exercise price: $0.20
(c) grant date: 31 May 2011
(d) expiry date: 31 October 2013 and 31 December 2013
(e) share price at grant date: $0.15
(f) expected price volatility of the company's shares: 55%
(g) expected dividend yield: 3.2%
(h) risk-free interest rate: 4.9%

The model inputs for options granted during the year ended 31 December 2012 included:

(a) options are granted for no consideration and vest based terms and conditions defined above.
(b) exercise price: $0.50
(c) grant date: 16 December 2012
(d) expiry date: 16 December 2015
(e) share price at grant date: $0.37
(f) expected price volatility of the company's shares: 55%
(g) expected dividend yield: 0%
(h) risk-free interest rate: 2.7%

The expected price volatility is based on management's best estimate of the fluctuation in market prices following the successful IPO, growth in operations and, adjusted for any expected changes to future volatility due to publicly available information.

(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 14 - Interests of key management personnel (KMP)

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

John Prendiville (appointed 31 May 2011)	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
John Chan (appointed 1 March 2009 resigned effective 5 July 2011)	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 2012.

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	US$	**US$**	US$
Short-term employee benefits	**495,813**	103,330	**159,118**	103,330
Post-employment benefits	**30,561**	51,665	**-**	51,665
Options-based payments	**464,107**	84,109	**464,107**	84,109
	990,481	239,104	**623,225**	239,104

(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	Issued on share purchase plan	Issued on exercise of options	Balance at end of year or date of resignation or cessation
2012				
John Prendiville	8,296,667	42,000	-	8,338,667
Richard Schroder	10,500,000	-	252,381	10,752,381
Barry Tan	18,010,001	-	-	18,010,001
Dr Ila Temu	10,000	-	-	10,000
Total	36,816,668	42,000	252,381	37,111,049

	Balance at beginning of year or date of appointment	Granted as compensation	Other changes	Balance at end of year or date of resignation or cessation
2011				
John Prendiville	-	-	8,296,667	8,296,667
Richard Schroder	10,000,000	-	500,000	10,500,000
Barry Tan	17,520,001	-	490,000	18,010,001
Dr Ila Temu	-	-	10,000	10,000
John Chan	15,000,000	-	-	15,000,000
Peter Impey	-	-	-	-
Total	42,520,001	-	9,296,667	51,816,668

(b) KMP Option holdings

	Balance at beginning of year or date of appointment	Granted as compensation	Other changes	Balance at end of year or date of resignation or cessation
2012				
John Prendiville	9,750,000	-	-	9,750,000
Richard Schroder	5,000,000	-	-	5,000,000
Dr Ila Temu	500,000	-	-	500,000
Alex Mitchell	-	1,500,000	-	1,500,000
Total	**15,250,000**	**1,500,000**	**-**	**16,750,000**
2011				
John Prendiville	-	9,750,000	-	9,750,000
Richard Schroder	-	5,000,000	-	5,000,000
Dr Ila Temu	-	500,000	-	500,000
Total	**-**	**15,250,000**	**-**	**15,250,000**

Note 15 - Employee benefits

Superannuation

The consolidated 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 16 - Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Key management personnel

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

	Group		Company	
	2012	2011	2012	2011
	US$	US$	US$	US$
Note 17 - Notes to statement of cash flows				
(a) Reconciliation of cash				
Cash at bank and on hand	**16,199,112**	11,734,701	**16,186,791**	11,723,460
(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities				
Loss from ordinary activities after income tax	**(2,598,222)**	(1,249,742)	**(2,621,709)**	(1,114,407)
Non-cash expense – shared based payments	**464,107**	84,109	**464,107**	84,109
Non-cash expense – permit write off	**-**	4,663	**-**	4,663
Non-cash expense – depreciation	**2,169**	-	**386**	-
Non-cash income – foreign exchange gain	**(37,937)**	-	**(37,937)**	-
Capital raising costs	**-**	422,676	**-**	279,006
Changes in assets and liabilities relating to operations:				
- Decrease in receivables	**861,760**	-	**867,910**	-
- Increase in other current assets	**(392,051)**	-	**(392,051)**	-
- Increase (Decrease) in trade and other payables	**(306,565)**	51,124	**(312,135)**	51,124
Net cash (used in)/provided by operating activities	**(2,006,739)**	(687,170)	**(2,031,429)**	(695,505)

Note 18 - 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 which is a frontier basin that has minimal experienced minimal exploration and has a surface anticline with numerous gas seeps.
- PPL 338, 339 and 340 – located in the Southern Papuan Basin which is a proven hydrocarbon basin
- PPL 435 and 436 – 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 Operations Agreement.

(b) Segment information

31 December 2012	Balance at the beginning of the year	Exploration costs incurred	Exploration costs expensed	Balance at end of year	% to total exploration and evaluation expenditure
	US$	US$	US$	US$	%
PPL 337	19,205	185,838	(185,838)	19,205	0.22
PPL 338	13,767	170,803	(170,803)	13,767	0.16
PPL 339	25,017	171,538	(171,538)	25,017	0.29
PPL 340	16,205	180,156	(180,156)	16,205	0.19
PPL 435	-	26,611	-	26,611	0.31
PPL 436	-	24,604	-	24,604	0.28
APPL 437	-	5,694	-	5,694	0.07
PRL 21	1,835,469	7,589,761	(862,984)	8,562,246	98.48
	1,909,663	**8,355,005**	**(1,571,319)**	**8,693,349**	**100.00**

31 December 2011	Balance at the beginning of the year	Exploration costs incurred	Exploration costs expensed	Balance at end of year	% to total exploration and evaluation expenditure
	US$	US$	US$	US$	%
PPL 337	19,205	172,473	(172,473)	19,205	1.01
PPL 338	13,767	36,787	(36,787)	13,767	0.72
PPL 339	25,017	54,447	(54,447)	25,017	1.31
PPL 340	16,205	154,192	(154,192)	16,205	0.85
PRL 21	3,750	863,885	(287,924)	1,835,469	96.11
	77,944	**1,281,784**	**(705,823)**	**1,909,663**	**100.00**

Note 19 - Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated group's risk management framework. The consolidated 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 consolidated group's activities expose it to a limited number of financial risks as described below. The consolidated 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	
	2012	**2011**	**2012**	**2011**
	US$	**US$**	**US$**	**US$**
Financial assets				
Cash and cash equivalents	**16,199,112**	11,734,701	**16,186,791**	11,723,460
Trade and other receivables	**86,147**	2,730,299	**79,878**	2,730,180
Total	**16,285,259**	14,465,000	**16,266,669**	14,453,640
Financial liabilities				
Trade and other payables	**2,221,446**	4,698,692	**2,187,307**	4,680,733
Loans payable	**-**	-	**657,194**	665,711
Total	**2,221,446**	4,698,692	**2,844,501**	5,346,444

Specific financial risk exposures and management

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

Interest rate risk

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

	Group		Company	
	2012	**2011**	**2012**	**2011**
	US$	**US$**	**US$**	**US$**
Cash in bank	**11,724,092**	11,734,701	**11,711,771**	11,723,460
Short term deposits	**4,475,020**	-	**4,475,020**	-
Cash and cash equivalents	**16,199,112**	11,734,701	**16,186,791**	11,723,460

The consolidated 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 3.25%. 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

Kina Petroleum Limited has not entered into any guarantees in the current or previous financial year in relation to the debts of its subsidiary.

Contractual commitments

Kina Petroleum Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment as at 31 December 2012 and 2011.

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	
	2012	**2011**	**2012**	**2011**
	US$	**US$**	**US$**	**US$**
Cash in bank				
In Papua New Guinea (PNG) Kina	**2,439,037**	2,652,984	**2,439,037**	2,652,984
In Australian dollar	**8,605,874**	-	**8,593,553**	9,070,476
Short-term deposit				
In Australian dollar	**4,148,400**	9,081,717	**4,148,400**	-
	15,193,311	11,734,701	**15,180,990**	11,723,460

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.

	Sensitivity rate	Group		Company	
		2012	**2011**	**2012**	**2011**
		US$	**US$**	**US$**	**US$**
PNG Kina-denominated					
Cash and cash equivalents	less than 1%	**22,295**	24,251	**22,295**	24,251
Australian dollar-denominated					
Cash and cash equivalents	less than 1%	**82,686**	58,877	**82,606**	58,804
Total increase/decrease in post-tax profit		**104,981**	83,128	**104,901**	83,055

Credit risk

Credit risk is managed on a consolidated group basis. Credit risk arises from cash and cash equivalents, deposits and 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 consolidated 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 $16,285,259 (2011: $14,465,000) and financial liabilities $2,221,446 (2011: $4,698,692) have a maturity within 12 months of 31 December 2012.

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 20 - Earnings per share

	2012 US$	2011 US$
Operating loss after income tax used in the calculation of basic and diluted loss per share	2,598,222	1,249,742
	Number	**Number**
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	182,774,804	110,070,732
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted loss per share	198,397,776	120,802,712

Note 21 - Controlled Entities

Controlled Entities Consolidated

		Percentage Owned (%)	
Subsidiaries of Kina Petroleum Limited	**Country of incorporation**	**2012**	**2011**
Kina Oil and Gas Limited	Australia	100	100

Kina Oil and Gas Limited was acquired on 24 May 2011 through the issue of 10,035,801 shares at a cost of US$765,808.

The net assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value US$
Cash and cash equivalents	624,219
Receivables	178,220
Trade and other payables	(36,631)
Net identifiable assets acquired	765,808

The net assets of the subsidiary as at 31 December 2012 was US$670,138, and contributed revenues of $454 and net loss of $58,490 to the Group for the year ended 31 December 2012

Note 22 - Joint operations

The Company has entered into a joint operations agreement for PRL 21 in relation to the exploration, appraisal development, product and disposition of petroleum covered by PRL 21. The Company has a 15% participating interest in this joint venture 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:

	2012 US$	2011 US$
Current assets		
Trade and other receivables	**26,443**	1,730,230
Non current assets		
Exploration and evaluation expenditure	**8,886,070**	2,119,643
Total assets employed in the join operations	**8,912,513**	3,849,873
Non current liabilities		
Trade and other payables	**2,023,649**	4,204,940
Total net assets (liability) employed in the operations	**6,888,864**	(355,067)

Note 23 - Events occurring after the reporting period

There were no material events occurring post balance date.

The financial report was authorised for issue on 25 March 2013 by the Board of Directors.

Note 24 - 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$10,601 (2011: credit of 28,639).

Reserves also include movement in recognised fair value of options granted to directors and key management personnel. Total recognised directors and key management personnel share options during the year amounted to US$464,107 (2011: 84,109).

	Group		Company	
	2012 US$	2011 US$	2012 US$	2011 US$
Note 25 – Capital and leasing commitments				
(a) Operating lease commitments				
Non-cancellable operating leases contracted for but not recognised in the financial statements				
Within one year	**61,614**	9,120	-	-
Later than one year but not later than 2years	**64,386**	-	-	-
Later than 2 years	**55,652**	-	-	-

The property lease is a non-cancellable lease with a 3-year term, with rent payable monthly in advance.

(b) Expenditure commitments

All minimum work commitments for Petroleum Prospecting Licences due within one year have been met.

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

- The drilling of 5 wells
- Completion of 3 seismic surveys
- Re-processing of seismic data in 3 licences
- Aerogravity/aeromagnetic surveys in 3 licences

The minimum work commitments due later than 5 years require the drilling of 2 wells.

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

Note 26 - Company Details

AUSTRALIAN REGISTERED OFFICE
C\- HWL Ebsworth
Level 14, Australia Square
264-278 George Street
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PRINCIPAL PLACE OF BUSINESS
Australia
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Sydney NSW 2000

PAPUA NEW GUINEA REGISTERED OFFICE
Portion 359
Scratchley Road
Badili, National Capital District
Papua New Guinea

PAPUA NEW GUINEA
Portion 359
Scratchley Road
Badili, National Capital District
Papua New Guinea

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 18 to 44, 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 2012 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 and give a true and fair view.

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 26th day of March 2013

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	
	2012	**2011**	**2012**	**2011**
	Kina	**Kina**	**Kina**	**Kina**
Revenue	**405,251**	73,694	**404,299**	47,292
Net loss	**(5,456,157)**	(1,105,158)	**(5,505,478)**	(876,320)
Total assets	**54,468,939**	37,489,108	**56,005,317**	39,107,227
Total liabilities	**4,664,943**	10,077,623	**5,973,333**	11,466,904
Net assets	**49,803,996**	27,411,485	**50,031,984**	27,640,323

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Independent Auditor's Report

to the shareholders of Kina Petroleum Limited

Report on the financial statements

We have audited the accompanying financial statements of Kina Petroleum Limited(the Company), which comprise the statements of financial position as at 31 December 2012, 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 2012 or from time to time during the financial year.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements:

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

2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2012, and their financial performance and cash flows for the year then ended.

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Report on other legal and regulatory requirements

The Companies Act 1997 requires 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 2012:

1. we have obtained all the information and explanations that we have required;
2. in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records; and
3. we have no relationship with, or interests in, the Company or any of its subsidiaries other than in our capacities as auditor and tax consultant. These services have not impaired our independence as auditor of the Company and the Group.

Restriction on distribution or use

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

PricewaterhouseCoopers

Jonathan Seeto
Partner
Registered under the Accountants Registration Act 1996

Port Moresby
26 March 2013

ADDITIONAL INFORMATION

Additional Australian Securities Exchange information as at 21 March 2013.

Number of holders of equity securities

Fully Paid Ordinary Shares

220,269,138 fully paid ordinary shares are held by 1,020 individual shareholders (97,417,901 subject to ASX escrow).

All issued ordinary shares carry one vote per share.

Options

9,750,000 Unlisted options ($0.20 exercise price, 31st October 2013 expiry) held by one Director.
5,500,000 Unlisted options ($0.20 exercise price, 31st December 2013 expiry) held by two Directors.
1,500,000 Unlisted options ($0.50 exercise price, 1st October 2015 expiry) held by one executive.

Distribution of holders of equity securities.

Category (size of holdings)			Number of Holders	Number of Securities
1	-	1,000	22	558
1,001	-	5,000	107	377,135
5,001	-	10,000	133	1,085,477
10,001	-	100,000	538	19,640,219
100,001 and over			220	199,165,749
TOTAL			**1,020**	**220,269,138**
Holding less than a marketable parcel			-	-

Substantial shareholders

The names of the substantial shareholders listed in the Kina Petroleum Limited register as at 22 March 2013 were:

Holders	Fully paid ordinary shares Number	Percentage
Professional Nominees Pty Ltd	23,333,333	10.59%
Barry James Tan	17,520,001	7.95%
JSC Investments Ltd	15,000,000	6.81%
	55,843,334	**25.35%**

ADDITIONAL INFORMATION

DIRECTORS

Mr John Prendiville	Non Executive Chairman
Mr Richard Schroder	Managing Director
Mr Barry Tan	Non Executive Director
Dr Ila Temu	Non Executive Director

AUDITORS
Pricewaterhouse Coopers
6th Floor Credit House
PO Box 484 Port Moresby
Papua New Guinea

COMPANY SECRETARY
Mr Peter Impey

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LAWYERS - Australia
HWL Ebsworth
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