KINA PETROLEUM LIMITED
ANNUAL REPORT

COMPANY NO. 1-63551 ARBN 151 201 704

FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS' REPORT

The Directors present their report on the Company and its controlled entities for the year ended 31 December 2013.

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 of experience as an operator in the lowland and highland jungles of PNG and has managed junior companies such as Sydney Oil Company as well as majors such as Santos in the capacity of Exploration Manager, South East Asia.

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

Dr Ila Temu, 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

Richard Robinson, Non-Executive Director

Appointed 13 December 2013 Richard has 35 years industry experience, including 25 years in Papua New Guinea. His experience encompasses the management of both project developments and upstream operations and includes periods with a variety of contractors and Operators including ExxonMobil, BP and Oil Search.

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

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$3,233,747 (2012: $2,598,222).

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 2013 were US$27,010,211 (2012: US$23,193,761). At 31 December 2013 the Company had cash balances of US$6,411,591 (2012: US$15,860,171).

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. From 2010 through to the end of 2012, a high level of commercial and exploration activity was undertaken by the Company including entry into farm-in agreements in PPLs 338 & 339, acquisition of seismic surveys, the successful appraisal of the Elevala and Ketu Gas Condensate Fields in PRL 21. These activities were funded through an Initial Public Offering of its securities in late 2011 on both the Australian Stock Exchange ("ASX") and the Port Moresby Stock Exchange ("PomSox"), coupled with a further placement of shares and exercise of options in the second half of 2012.

This work was built upon during 2013 through further key achievements including:

- Tingu 1 successfully appraised and production tested, identifying an extension of the Elevala field in PRL 21
- Ketu 2 production test confirming good flow properties of the Elevala Sandstone at Ketu Field in PRL21
- Continuation of FEED work in PRL 21 in preparation for PDL application in the first quarter of 2014.
- Awarded operatorship and 80% interest in PPL 437 in February 2013
- PPL 337 farm-out to Heritage Oil plc, which will see 2 wells - Banam and Raintree –drilled during 2014.
- PPL 437 farm-out to Heritage Oil plc, which will see seismic over the Malisa South lead, adjacent to the Elevala / Tingu fields
- Award of 25% of PRL 38 in December 2013. This licence contains the Pandora gas discovery.
- Seismic and gradiometry data supportan updip Triceratops extension into PPL 338.
- Aerogravity and aeromagnetic surveys completed in PPL 340 and commenced in PPLs 435 and 436.
- 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, 2012 capital raising activities and recent farm-outs.

Licence	Prospect	Ownership
PPL 337	Banam/Kwila	Kina 100% (with Heritage having the ability to earn a 70% participating interest through funding the drilling of two wells).
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%
PPL 437	Malisa South	Kina 80% (with Heritage having the ability to earn up to 50% and operatorship through funding Kina's share of a seismic program and drilling of a well
PRL 21	Elevala/Ketu/ Tingu Fields	Kina 15%
PRL 38	Pandora Fields	Kina 25%

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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.

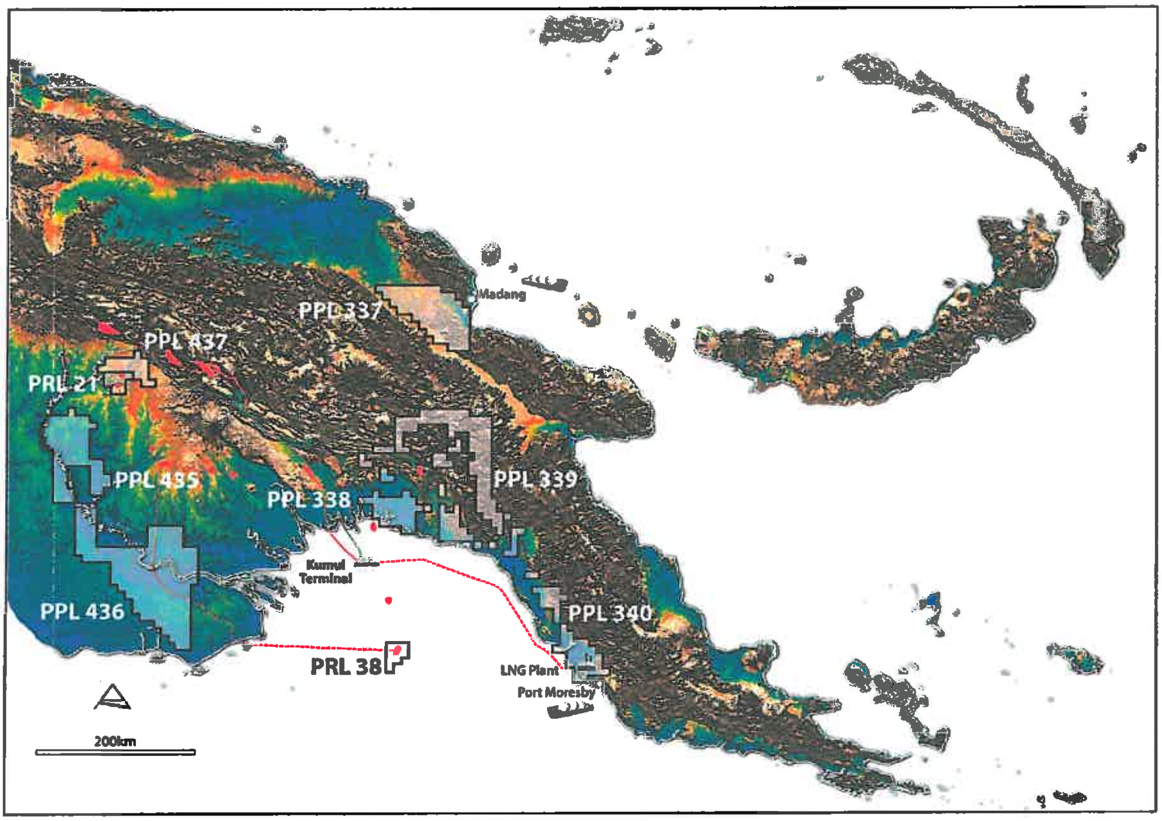

Figure 1: Location of Kina Petroleum Prospecting and Retention Licences.

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

PRL 21 (Kina 15%)

A highlight for the year ended 31 December 2013 was the successful drilling and testing of the Tingu 1 well and the production testing of Ketu 2, all achieved under budget.

Tingu 1 was located 9.2km west of Elevala 2 and achieved its objectives which were to determine the depth, thickness and quality of the Elevala Sandstone reservoir within the Tingu structure and to prove hydrocarbon fluid type and column height in the structure. Tingu 1 intersected 7.9 meters of net pay with the hydrocarbon column extending down to at least 3043m. The pressure data supports the concept that the Tingu and Elevala gas accumulations are in pressure communication and are continuous. Tingu 1 was perforated over a 6.6 metre interval from 3105.4 m measured depth to 3112.0m measured depth and flow tested through a separator at multiple rates up to 46 mmscfd with no water production. The gas samples from the RDT tool and the PVT samples collected during testing have been analysed and contain 50-60 bbl/mmscf of condensate, very similar to the condensate/gas ratio measured at the nearby Elevala-1 well. The well has been suspended as a future gas producer or injector well.

Ketu 2 is located 8.9 km east-southeast of Ketu-1ST and testing of the well commenced 2 November 2013. The well flowed gas at rates of 35 – 40 mmscfd through a 56/64" choke. The condensate gas ratio stabilised at a rate of 50-60 barrels of condensate per million cubic feet of gas which was in line with the Elevala and Tingu results. The test confirmed the good flow properties of the Elevala Sandstone at Ketu Field.

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Concurrent with this drilling activity was the progression of FEED and pre-development work for a liquids project, aimed at submission of a development licence application in the first quarter of 2014. At the date of this report, the Joint Venture remains on track for submission of the licence application which it is anticipated will see first production in 2017.

PRL 38 (Kina 25%)

The licence was awarded in December 2013 and Kina has 25% working interest.

PRL 38 is located offshore in the Gulf of Papua off shore Western Province, proximal to Daru Island. PRL 38 contains 2 gas discoveries reservoired in reefal limestones at shallow depths of around 1500m subsea. The wells flowed at a combined rate of 100mmcf/d and the Pandora Field has a resource size of approximately 800 bcf of dry gas. The net 200bcf of gas to Kina effectively doubles the company's resource size to nearly 400bcf, making Kina a significant contributor to any mid-stream LNG project centred on Daru Island or a future floating LNG project further offshore. Furthermore, based on Cott Oil and Gas Limited's initial studies, the PRL 38 resource is suitable for underpinning a 10 year floating LNG project in association with possible engineering/shipping joint venturers such as Hoegh FLNG, Golar/Keppel, SBM and Exmar.

The PRL 38 Joint Venture obligations require it to undertake development studies in the first 3 years of the licence including treatment of H2S, with a view to aggregation with other discoveries. Kina believes there is a natural synergy for aggregation of PRL 38 with gas discovered in PRL 21 and is actively investigating development options for Pandora discoveries.

PPL 337 (Kina100%, subject to farm-in arrangements with Heritage Oil plc)

KPL announced a farm-out to Heritage Oil plc 24th October 2013. Heritage has the right to earn 70% in PPL 337 for a cash consideration of US$500,000 and a carry of Kina through the drilling of 2 wells, being one of Kwila, the Banam prospect and the Rain Tree prospect. In the event of a discovery Kina will be carried through the first 100km of subsequent appraisal seismic acquisition. All 3 prospects have multi-TCF potential with Banam having the most significant upside. Gas seeps have been sampled aver the northern flank and crest of Banam with gas being 98% methane.

Kina and Heritage have undertaken a number of field surveys and have confirmed that road infrastructure exists into the Kwila and Raintree locations with some road building required for the Banam location. Detailed Social Mapping has commenced and tenders Environmental Impact Study have been requested. A tender request has gone to selected drilling contractors and rig selection should be finalised by end Q1 2014.

Recent field mapping and reanalysis of previous sampling has confirmed that outcropping rocks over the axis of the Banam Anticline are Pleistocene or younger in age and not Miocene, thus improving the chance of presence of interbedded Pliocene and late Miocene reservoirs as seen in the Tsumba 1 well to the north of PPL 337. Should these stacked reservoirs form an anticlinal trap at Banam and should the shales have good seal integrity, the size of the Banam Anticline makes it one of the largest undrilled anticlines in PNG. Furthermore, Niengo 1 drilled in 1958 to the northwest of PPL 337 on the north coast of Irian Jaya, Indonesia flow tested 6-8mmscfd from a 14.25m thick Mio-Pliocene sandstone at a depth of 1500m. Gas recovered was 99% methane very similar to the geochemical analysis of gas sampled from seeps at Banam Anticline. Kina believes the results of Niengo 1 are corroborative proof of the play type proposed at Banam Prospect. The upside resource case at Banam Prospect would underpin an LNG Export Project into Asia from a port south of Madang. Subject to the results of seismic reprocessing currently underway, Banam Prospect will be drilled mid-2014.

The Raintree Prospect is a large reef carbonate anomaly with good access from Madang. Reefal limestone gravels have been collected from the Sogeram River and have returned dates ranging from 10 to 1 million years old providing good evidence for development of reefs in PPL 337. The age dates determined by CSIRO fit in well with late Miocene to Pliocene age predicted from seismic data acquired over the Rain Tree Prospect. Raintree will be drilled mid 2014 and if successful, is ideally also located for LNG development from a port south of Madang.

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Energy markets other than LNG exist close to PPL 337. Banam, Kwila and Raintree Prospects are well located with respect to local power consumers at Yandera and Ramu Nico Mines. A small discovery of several hundred BCF will satisfy this local demand which is foreseen to be in the range of 20 to 30 mmcf/d.

PPL 338 (Kina 100%)

The Tagula Seismic Program was completed in December 2013. The Tagula seismic data has confirmed that a potential up dip extension of Triceratops extends into PPL 338. The interpretation has been tied into the helicopter-borne gradiometery survey completed during the first half of the year and Kina believes that based on its interpretation of the seismic, gravity and outcrop data, a second higher risk prospect exists north of Triceratops. Structuring is complex and seismic data quality is at best fair. On Line 4 of the Tabular Survey Kina maps a Pliocene carbonate build up and believes fault independent closure exists antithetic to the main frontal fault of the fold belt. It is however possible that the reef is on the footwall of the main fault and is dependent on up dip fault seal.

Wana 1 drilled in the 1950s, and without the benefit of seismic, took a gas kick from an upper Miocene sand above middle Miocene carbonates. Deeper within the well Eocene shoaling faces carbonates flowed salt water at rates as high as 4000 barrels of water per day. Vintage seismic data located southeast of Wana 1 show the mid Miocene platform facies up faulted during the early Tertiary demonstrating possible fault controlled traps for the Eocene reservoir. Above the Eocene and mid Miocene platform facies late Miocene to Pliocene shoaling sequences have been identified from seismic data and are interpreted as potential reefal build ups southeast and up dip of Wana-1. They can be tied into the Pliocene carbonates intersected in Mira 1 and correlated to with late Tertiary reefal facies at Antelope. Nipa, Mangrove and Crocodile Prospects are interpreted to lie within this late Miocene to Pliocene zone which exhibits the of shoal like signature on seismic.

Vintage seismic data is of fair to poor quality and Kina is attempting to locate the seismic field tapes prior to reprocess the data along the Nipa, Mangrove Crocodile trend.

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

The Okari helicopter-borne gravity gradiometery survey acquired over an area of reef potential in the east of the licence delivered good structural information but inspection of outcrop has revealed that prospective limestone reservoir sequences are potentially breached which has downgraded the area for follow up seismic acquisition.

The results for the Talis Survey in the south of PPL 339 are more promising. The data indicate uplift of basement immediately northeast of the Upoia 1 well bores. Geochemical screening analyses of two seep oils from Upoia-1 and Upoia-2 show biodegradation but the hopane biomarkers tentatively indicate that the Upoia-1 and Upoia-2 seep oils are similar and may have been generated from clay rich marine Jurassic or younger source rocks containing terrestrial organic matter. To the southeast of the Upoia bores Pliocene reef rock has been described in outcrop within the licence boundary. Seismic data acquired over the Upoia bores has been reprocessed and although complexly structured there is support for uplift from the northeast. Interpretation of the seismic data show week indications of reef development growing in the Pliocene to the north east of Upoia bores which may have grown on older mid to Late Miocene carbonates the form of which has been mapped out by Kina as the Bowerbird and Cassowary Leads.

In view of the success of the airborne gravity gradiometry in helping to define structure within the Talis area the joint venture is considering to fly a similar survey over the Bowerbird and Cassowary Leads.

PPL 340 (Kina 100%)

Kina completed the aerogravity and aeromagnetic survey upon termination of the farm-out agreement with Hunt Energy, and the results are presently being interpreted.

Kina's studies from existing well, outcrop and seismic data confirms the presence of Miocene to Pliocene reefs with the ability to host commercial volumes of hydrocarbon at relatively shallow target depths close to an

DIRECTORS' REPORT

energy starved Port Moresby market. Wells adjacent to PPL 340, such as Black Bass 1 intersected gas shows in Pliocene carbonates and outcrop to the north supports the presence of biohermal mid and late Miocene reef carbonates. The best example of a productive reef to date is the giant Antelope wet gas discovery - one of the largest fields discovered to date in PNG and of the order of 100km north west of PPL 340.

Well control adjacent to PPL 340 confirms source rocks have generated hydrocarbons. The Oroi-1 well intersected dry gas in the Chiria Conglomerate close to PPL 340 and this play remains the target for Kina's exploration effort with a view to meeting energy requirements of the Port Moresby market.

Access into PPL 340 is good and the terrain is suitable for vibroseis acquisition. Kina is in discussions with seismic contractors with a view to undertaking a vibroseis or dynamite survey as next phase of a farm out effort that will resume after the aerogravity and aeromagnetic data have been analysed and integrated into the seismic interpretation.

PPL 435 (Kina 50%)

A revised assessment by Kina now recognizes wet gas potential in Late Jurassic to late Cretaceous reservoirs within the licence away from the Lake Murray High. Aiambak remains a high graded lead area forming a natural drainage focus for wet gas from the north and west.

East of Aiambak the Lake Murray East lead looks promising for a large simple roll over style trap that sits between wells that have intersected hydrocarbons at Langia 1 and Lake Murray 1. North of Aiambak a potentially large feature is recognised down dip of Lake Murray 1 which looks to host late Jurassic and early Cretaceous Toro and Elevala sandstones on the edge of a trough that appears to extend north south west of Stanley field.

Presently these features are poorly controlled by seismic data but the aerogravity and aeromagnetic survey that commenced at the beginning of 2014 will help to constrain the basin bounding faults and assist in depth to basement estimates. The prospect and lead inventory will be reassessed post the acquisition of the aerogravity and aeromagnetic data.

The firm year 1 & 2 work program requirements are met by the aerogravity and aeromagnetic surveys however KPL is keen to advance its exploration effort in the licence. KPL and its 50% co-venturer Cott Oil and Gas Limited are undertaking farm out discussions with interested parties to bring forward seismic acquisition into 2014.

PPL 436 (Kina 50%)

Kina recognises oil and wet gas potential in early and late Cretaceous, late Jurassic and mid Jurassic reservoirs within the licence. A series of fault blocks have been mapped that could host a large oil resource close to the Fly River and the southern coast line. These traps form at the basin margin of the Papuan Basin and remain the preferred lead areas. Field data for seismic data over the Dalbert, Sturt, Alligator, and Oriomo leads have been ordered and seismic reprocessing will commence when data is retrieved.

Modern aerogravity and aeromagnetic data coverage has been located for the licence and will be merged with data being acquired by Kina now. UTS Geophysics commenced acquisition in our neighbouring PPL 435 in January 2014.

The year 1 & 2 work program requirements are met by the aerogravity and aeromagnetic surveys however, as with PPL 435, Kina is keen to advance its exploration effort in the licence. Kina and its 50% co-venturer Cott Oil and Gas Limited are undertaking farm out discussions with interested parties to bring forward seismic acquisition into 2014.

PPL 437 (Kina 80%, subject to farm-in arrangements with Heritage Oil plc)

The company was awarded PPL 437 in February 2013.

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The licence covers 18 graticular blocks (1,104 km²) and is twice the size of PRL 21 which it abuts to the north and east. Since award of the licence, 50% of PPL 269 abutting the northern boundary of PPL 437 was sold by New Guinea Energy Limited to Santos for US$ 40m (A$44.4m).

Kina entered into a farm-out arrangement with Heritage Oil plc on 24 October 2013 where by Heritage has the right to earn 30% in PPL 437 for a cash consideration of US$300,000 and Heritage carrying Kina through its share of 100km of seismic acquisition, and has a further right to earn an additional 20% and operatorship by carrying Kina through the drilling of an uncapped well. Kina will retain 30% in PPL 437 post drilling of a well.

Joint Venture discussions are well advanced in respect of a location of the forthcoming seismic survey to be acquired mid-year. The Joint Venture recognises a promising lead, Malisa South which is approximately 10km north west along trend from the recently successful Tingu 1 discovery in PRL 21 (Kina 15%). In view of the successful test of the Elevala Sandstone and the very good shows in the Toro Sandsone in Tingu 1 Kina views this lead as very prospective and is an ideal location to be captured in a future PRL 21 liquids development and if successful to add critical mass to any future gas aggregation project centred around PRL 21.

Seismic data will also be directed towards Candlenut Lead in the north of the licence. This lead is south east of the P'nyang Field and south west of the Juha Field. Its location is the foreland and is close to any future pipeline infrastructure required for development of the P'nyang Gas Field.

<u>Corporate Activity</u>

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.

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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 had 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 – AU$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.

These options were exercised on 30 October 2013.

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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 – AU$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.

These options were exercised on 17 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 – AU$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.

These options were exercised on 23 December 2013.

Executive Options

The Company has issued options to its Chief Financial Officer, Mr Alex Mitchell, and Chief Geologist, Ms Okaro Yogi.

The specific terms and conditions of Mr Mitchell's options are as follows:

i. Number of options issued – 1,500,000;
ii. Exercise price – AU$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.

The specific terms and conditions of Ms Yogi's options are as follows:

i. Number of options issued – 600,000;
ii. Exercise price – K1.10;
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);

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(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 2013

	Short-term benefits		Post employment		Share-based payments			
	Cash salary and fees	Short term incentives	Super-annuation	Termination benefits	Options	Shares	Total	Total remuneration represented by options and shares
	$	$	$	$	$	$	$	%
2013								
Directors								
John Prendiville	50,360	-	-	-	-	17,539	67,899	26
Richard Schroder	265,078	-	29,373	-	90,745	-	385,196	24
Richard Robinson	687	-	-	-	-	1,028	1,715	60
Barry Tan	36,255	-	-	-	-	11,693	47,948	24
Dr Ila Temu	37,586	-	-	-	4,491	11,693	53,770	30
Total Directors	**389,966**	**-**	**29,373**	**-**	**95,236**	**41,953**	**556,528**	**25**
Key Management								
A Mitchell	193,400	35,932	17,673	-	74,660	-	321,665	23
Total Key Management	193,400	35,932	17,673	-	74,660	-	321,665	23
Total	**583,366**	**35,932**	**47,046**	**-**	**169,896**	**41,953**	**878,193**	**24**

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	-

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Dr Ila Temu	52,623	-	-	-	13,212	-	65,835	20
Total Directors	**443,908**	**-**	**25,890**	**-**	**441,880**	**-**	**911,678**	**48**
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

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:

For the year to 31 December 2013	Number	
	Fully paid ordinary shares	**Options**
John Prendiville	18,088,667	-
Richard Schroder	15,752,381	-
Barry Tan	18,010,001	-
Dr Ila Temu	510,000	-
Richard Robinson	-	-
	52,361,049	-

For the year to 31 December 2012	Number	
	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

End of audited Remuneration Report

SHARE OPTIONS

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

2013	
Options exercisable at $0.50 per share on or before 16 December 2015	1,500,000
Options exercisable at K1.10 per share on or before 3 May 2016	600,000

DIRECTORS' REPORT

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

MEETINGS OF DIRECTORS

Attendances by each director to meetings of directors (including committee of directors) during the year to 31December 2013 were as follows:

	Board Meetings		Audit Committee Meetings	
	Number eligible to attend	**Number attended**	**Number eligible to attend**	**Number attended**
2013				
John Prendiville	8	8	2	2
Richard Schroder	8	8	-	-
Barry Tan	8	7	2	2
Dr Ila Temu	8	8	2	2
Richard Robinson	1	1	-	-
2012				
John Prendiville	8	8	2	2
Richard Schroder	8	8	-	-
Barry Tan	8	7	2	2
Dr Ila Temu	8	8	2	2

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

INDEMNIFYING OFFICERS OR AUDITORS

During the year the Company paid a premium of USD equivalent $17,875 (2012: $18,784) 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.

DIRECTORS' REPORT

NON-AUDIT SERVICES

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

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

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

Mr Richard Schroder
Managing Director

Dated this 26th day of March 2014

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 2013

	Note	Group 2013	Group 2012	Company 2013	Company 2012
		US$	US$	US$	US$
Revenue	2	**326,574**	192,981	**326,263**	192,527
Gain from farm-in agreements	9	**800,000**	-	**800,000**	-
Net administration expense	3	**(1,218,204)**	(793,714)	**(1,149,041)**	(734,770)
Exploration expense	20b	**(2,315,733)**	(1,571,319)	**(2,315,733)**	(1,653,296)
Option based payments	15c	**(217,485)**	(464,107)	**(217,485)**	(464,107)
Foreign exchange gains/(losses), net		**(608,899)**	37,937	**(608,899)**	37,937
Loss before income tax		**(3,233,747)**	(2,598,222)	**(3,164,895)**	(2,621,709)
Income tax expense	4	-	-	-	-
Loss after income tax attributable to members of the parent entity		**(3,233,747)**	(2,598,222)	**(3,164,895)**	(2,621,709)
Other comprehensive income					
Foreign currency translation difference for the year, net of tax		**(59,453)**	(10,610)	-	-
Other comprehensive income (loss) for the year		**(59,453)**	(10,610)	-	-
Total comprehensive loss for the year attributable to members of the Parent Entity		**(3,293,200)**	(2,608,832)	**(3,164,895)**	(2,621,709)

		In US cents			
Earnings per share					
From continuing operations:					
Basic loss per share	22	(1.45)	(1.42)	-	-
Diluted loss per share	22	(1.45)	(1.42)	-	-

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 2013

	Note	Group		Company	
		2013	2012	2013	2012
		US$	US$	US$	US$
CURRENT ASSETS					
Cash and cash equivalents	6	**6,458,768**	15,872,492	**6,411,591**	15,860,171
Trade and other receivables	7	**2,081,276**	86,147	**2,078,361**	79,878
Other current assets	8	**31,885**	392,051	**31,885**	392,051
TOTAL CURRENT ASSETS		**8,571,929**	16,350,690	**8,521,837**	16,332,100
NON-CURRENT ASSETS					
Exploration and evaluation expenditure	9	**21,087,750**	8,693,349	**21,087,750**	8,693,349
Development expenditure	10	**1,688,076**	-	**1,688,076**	-
Plant and equipment	11	**77,744**	44,548	**58,032**	14,204
Investment in subsidiary	23	-	-	**765,808**	765,808
Other non-current assets	12	**272,160**	326,620	**272,160**	326,620
TOTAL NON-CURRENT ASSETS		**23,125,730**	9,064,517	**23,871,826**	9,799,981
TOTAL ASSETS		**31,697,659**	25,415,207	**32,393,663**	26,132,081
CURRENT LIABILITIES					
Trade and other payables	13	**4,687,448**	2,221,446	**4,640,258**	2,187,307
Loans payable	14	-	-	**521,070**	657,194
TOTAL CURRENT LIABILITIES		**4,687,448**	2,221,446	**5,161,328**	2,844,501
NET ASSETS		**27,010,211**	23,193,761	**27,232,335**	23,287,580
EQUITY					
Issued capital	15	**30,359,250**	26,874,291	**30,359,250**	26,874,291
Reserves	26	**4,131,483**	566,245	**4,172,907**	548,216
Accumulated losses		**(7,480,522)**	(4,246,775)	**(7,299,822)**	(4,134,927)
TOTAL EQUITY		**27,010,211**	23,193,761	**27,232,335**	23,287,580

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 2014

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 2013				
Balance at 31 December 2012	26,874,291	(4,246,775)	566,245	23,193,761
Loss for the year	-	(3,233,747)	-	(3,233,747)
Other comprehensive income				
Foreign currency translation difference	-	-	(59,453)	(59,453)
Total comprehensive loss for the year	-	(3,233,747)	(59,453)	(3,293,200)
Transactions with owners in their capacity as owners:				
Shares issued during the year	2,843,555	-	-	2,843,555
Shares to be issued for 5% of PRL 38	-	-	4,048,610	4,048,610
Shares to be issued to Non-Executive Directors	-	-	41,953	41,953
Options issued under Employee Incentive Plan	-	-	175,532	175,532
Transfer from Options reserve	641,404	-	(641,404)	-
Total transactions with owners for the year	3,484,959	-	3,624,691	7,109,650
Balance at 31 December 2013	**30,359,250**	**(7,480,522)**	**4,131,483**	**27,010,211**
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**

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 2013				
Balance at 31 December 2012	26,874,291	(4,134,927)	548,216	23,287,580
Loss for the year	-	(3,164,895)	-	(3,164,895)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(3,164,895)	-	(3,164,895)
Transactions with owners in their capacity as owners:				
Shares issued during the year	2,843,555	-	-	2,843,555
Shares to be issued for 5% of PRL 38	-	-	4,048,610	4,048,610
Shares to be issued to Non-Executive Directors	-	-	41,953	41,953
Options issued under Employee Incentive Plan	-	-	175,532	175,532
Transfer from Options reserve	641,404	-	(641,404)	-
Total transactions with owners for the year	3,484,959	-	3,624,691	7,109,650
Balance at 31 December 2013	**30,359,250**	**(7,299,822)**	**4,172,907**	**27,232,335**
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**

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 2013

	Note	Group 2013 US$	Group 2012 US$	Company 2013 US$	Company 2012 US$
CASH FLOW FROM OPERATING ACTIVITIES					
Exploration and evaluation expenditure		**(1,543,272)**	(1,571,319)	**(1,543,272)**	(1,653,296)
Payments to suppliers and employees		**(1,111,516)**	(628,401)	**(1,001,688)**	(570,660)
Interest received		**169,074**	192,981	**168,763**	192,527
Net operator fee income		**36,000**	-	**36,000**	-
Net cash used in operating activities	19	**(2,449,714)**	(2,006,739)	**(2,340,197)**	(2,031,429)
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of 5% interest		-	1,500,000	-	1,500,000
Proceeds from farm-in agreement	9	**500,000**	-	**500,000**	-
Exploration and evaluation expenditure		**(7,995,071)**	(8,761,190)	**(7,995,071)**	(8,761,190)
Development Expenditure		**(1,664,873)**	-	**(1,664,873)**	-
Acquisition of plant and equipment		**(64,218)**	(46,717)	**(59,678)**	(14,590)
Bank guarantees provided		-	(326,620)	-	(326,620)
Cash received from joint venture party		-	78,605	-	78,605
Net cash provided by (used in) investing activities		**(9,224,162)**	(7,555,922)	**(9,219,622)**	(7,523,795)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from the issue of shares		**2,843,555**	14,147,335	**2,843,555**	14,147,335
Capital raising costs		-	(484,820)	-	(484,820)
Repayments of borrowings		-	-	-	(8,517)
Net cash provided by financing activities		**2,843,555**	13,662,515	**2,843,555**	13,653,998
Effect of exchange rate changes on cash and cash equivalents		**(583,403)**	37,937	**(732,316)**	37,937
Net increase/(decrease) in cash and cash equivalents held		**(9,413,724)**	4,137,791	**(9,448,580)**	4,136,711
Cash at beginning of year		**15,872,492**	11,734,701	**15,860,171**	11,723,460
Cash at end of year	19	**6,458,768**	15,872,492	**6,411,591**	15,860,171

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 1r.

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 2013 was US$3,233,747 (2012: US$2,598,222), 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 US$6,458,768 in cash and cash equivalents at the end of the year and at the date of this report expects to have sufficient working capital to carry out its stated objectives for at least 12 months from the date of this report. If the Group undertakes an acquisition of additional project(s) then it may have to raise additional capital to fund the development of these, 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 applicable to, or adopted by, the Group

The following standards became effective in the year ended 31 December 2013, however none materially impact the Group.

- Amendment to IAS 1, 'Financial statement presentation' (effective 1 July 2012) regarding other comprehensive income requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not effect the measurement of any items recognised in the balance sheet or profit and loss in the current period.

- IFRS 10, 'Consolidated Financial Statements' (effective 1 January 2013) replaces all of the guidance on control and consolidation in IFRS 27 *Consolidated and Separate Financial Statements,* and SIC 12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. Management does not expect the new standard to have any impact on the existing group.

- IFRS 11, 'Joint arrangements' (effective 1 January 2013) introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. Reporting obligations in respect of the Group's interests in joint operations, notably PRL 21, are appropriately fulfilled in note 24.

- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013) includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. Application of this standard will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the entity's investments.

- IFRS 13, 'Fair value measurement' (effective 1 January 2013) aims to improve the consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The entity does not use fair value measurement extensively and it is unlikely the new rules will have a significant impact on any amounts recognised in the financial statements. However, application of the new standard may impact the type of information disclosed in the notes to the financial statements.

Not expected to impact the group in any way are the following standards:

- Amendments to IAS 19, 'Employee benefits' (effective 1 January 2013).
- IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2013).
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013).
- Amendment to IFRS 7, 'Financial instruments: Disclosures' on offsetting financial assets and financial liabilities (effective 1 January 2013).
- Amendment to IFRS 1, 'First time adoption', on government loans (effective 1 January 2013).
- Annual improvements 2011 (effective 1 January 2013) include minor changes to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34.
- IFRIC 20, 'Stripping costs in the production phase of a surface mine' (effective 1 January 2013).

(b) Standards, amendment and interpretations issued but not yet effective for the year ended 31 December 2013 or adopted early . Unless otherwise stated, the following standards are not expected to have a significant impact to the Group.

- IFRS 9, 'Financial Instruments' (effective date is open).

- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities (effective 1 January 2014).

- Narrow scope amendments to IAS 36 "Impairment of assets" (effective 1 January 2014) address the disclosure of information about the recoverable amount impaired assets if that amount is based on fair value less costs of disposal. The entity has no such impaired assets.

- Amendments to IAS 32, "Financial Instrument: Presentation" (effective 1 January 2014).

- Amendment to IAS 39, Financial instruments: Recognition and measurement, amendment in relation to "novation of derivatives" (effective 1 January 2014).

- IFRIC 21 "Levies".

- IFRS 9 "Hedge Accounting" (no effective date – the standard is available for immediate application").

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 23 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.

(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.

(g) 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

(h) Financial assets

Classification

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

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

Recognition and derecognition

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

Measurement

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

Loans and receivables are subsequently carried at amortised 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Joint arrangements

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

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

(r) 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 15c.

	Group		Company	
	2013	2012	2013	2012
	US$	US$	US$	US$
Note 2 – Revenue				
Interest income	169,074	192,981	168,763	192,527
Operator fee income	157,500	-	157,500	-
	326,574	192,981	326,263	192,527
Note 3 – Net Administration expense				
Salaries and employee benefits	832,988	526,374	204,783	159,118
Professional fees	561,432	427,435	543,917	393,313
Transportation and travel	161,454	62,634	160,071	62,634
Legal and regulatory	156,436	128,470	155,853	126,636
Occupancy and insurance	125,865	64,355	35,384	27,493
Management fees	-	-	323,895	81,997
Administration and other costs	191,046	31,990	149,295	30,253
Charged to exploration expense	(811,017)	(447,544)	(424,157)	(146,674)
	1,218,204	793,714	1,149,041	734,770
Note 4 - Income tax expense				
(a) The components of income tax expense comprise:				
Benefit from deferred tax	955,601	709,510	934,852	705,039
Deferred tax assets not recognised	(955,601)	(709,510)	(934,852)	(705,039)
	-	-	-	-
(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%	(970,124)	(779,467)	(949,468)	(786,513)
Add:				
Tax effect of:				
Expenses not deductible for tax	65,246	139,232	65,246	139,232
Deferred tax assets not recognised	955,601	698,129	934,852	705,039
Less:				
Tax effect of:				
Income not assessable for tax	(50,723)	(57,894)	(50,630)	(57,758)
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%	1,886,925	931,324	1,871,894	937,042

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	
	2013	2012	2013	2012
	US$	US$	US$	US$
Note 5 - Auditors' remuneration				
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial reports	**54,774**	76,716	**54,774**	63,423
- taxation services	**15,678**	7,422	**15,678**	7,422
	70,452	84,138	**70,452**	70,845
Note 6 – Cash and cash equivalents				
Cash at bank	**6,458,768**	15,872,492	**6,411,591**	15,860,171
Note 7 - Trade and other receivables				
Current				
Cash calls in advance	**1,705,403**	18,232	**1,705,403**	18,232
Other receivables	**375,873**	67,915	**372,958**	61,646
	2,081,276	86,147	**2,078,361**	79,878

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 relate to pre-payments made in respect of a study of the Western Papuan basin amounting to $392,051 which was ongoing as at 31 December 2012 and for which results had not yet been received as at that date. The study was completed in 2013 with the full cost subsequently charged to exploration expense. Other current assets as at 31 December 2013 pertain to security deposits.

	Group		Company	
	2013	2012	2013	2012
	US$	US$	US$	US$
Note 9 – Exploration and evaluation expenditure				
Non-current				
Costs carried forward in respect of areas of interest in the exploration phase:				
Balance at beginning of the year	**8,693,349**	1,909,663	**8,693,349**	1,909,663
Expenditures incurred	**8,345,791**	7,283,686	**8,345,791**	7,283,686
Acquisition of interest (in PRL 38)	**4,048,610**	-	**4,048,610**	-
Sale of 5% interest (in PRL 21)	-	(500,000)	-	(500,000)
Carrying amount at end of the year	**21,087,750**	8,693,349	**21,087,750**	8,693,349

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

During the year, the company farmed out its interests in PPLs 337 and 437 to Heritage Oil plc.

Under the terms of the farm-in for PPL 337, Heritage will earn a 70% participating interest in, and operatorship of the licence in return for a cash payment of $500,000, as a contribution towards prior period costs, and carrying Kina through the drilling and testing of two wells which are presently expected to be drilled in calendar year 2014.

The payment of $500,000 was received during the financial year, and as it was in respect of prior period costs which have been expensed, a gain was recognised in the Statement of Total Comprehensive Income as recovery of prior period costs.

Under the terms of the farm-in for PPL 437, Heritage can earn an initial 30% participating interest in the licence in return for a cash payment of $300,000, as a contribution towards prior period costs, and carrying Kina through a seismic program. Heritage can earn a further 20% participating interest in, and operatorship of, the licence by carrying Kina through the drilling and testing of a well.

The payment of $300,000 was received in 2014, however the conditions precedent for its payment were satisfied during the financial year covered by this report. As such, and consistent with the treatment of the contribution to back costs in PPL 337, the amount was recognised as a gain in the Statement of Total Comprehensive Income as recovery of prior period costs.

	Group 2013	Group 2012	Company 2013	Company 2012
Note 10 – Development expenditure				
Non-current				
Costs carried forward in respect of areas of interest in the development phase:				
Balance at beginning of the year	-	-	-	-
Expenditures incurred	**1,688,076**	-	**1,688,076**	-
Carrying amount at end of the year	**1,688,076**	-	**1,688,076**	-

Recoverability of development expenditure is assessed at least annually and in the event of an impairment in carrying value, an adjustment is made accordingly.

	Group		Company	
	2013	2012	2013	2012
	US$	US$	US$	US$
Note 11 – Plant and equipment				
Leasehold improvements, at cost	**46,786**	32,129	**14,657**	-
Accumulated depreciation	**(15,678)**	(1,785)	**(3,261)**	-
	31,108	30,344	**11,396**	-
Office equipment, at cost	**11,272**	-	**11,272**	-
Accumulated depreciation	**(2,196)**	-	**(2,196)**	-
	9,076	-	**9,076**	-
Motor vehicles, at cost	**16,635**	-	**16,635**	-
Accumulated depreciation	**(2,490)**	-	**(2,490)**	-
	14,145	-	**14,145**	-
IT equipment, at cost	**31,704**	14,590	**31,704**	14,590
Accumulated depreciation	**(8,289)**	(386)	**(8,289)**	(386)
	23,415	14,204	**23,415**	14,204
	77,744	44,548	**58,032**	14,204

Note 12 – Other non-current assets

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

Note 13 – Trade and other payables

	Group 2013	Group 2012	Company 2013	Company 2012
Trade payables	**287,714**	140,922	**283,806**	106,783
Sundry payables and accrued expenses	**4,399,734**	2,080,524	**4,356,452**	2,080,524
	4,687,448	2,221,446	**4,640,258**	2,187,307

Note 14 – 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 2013	Group 2012	Company 2013	Company 2012
Balance at beginning of reporting year	-	-	**657,194**	665,711
Loans granted during the year	-	-	-	-
Repayments during the year	-	-	**(136,124)**	(8,517)
Balance at end of reporting year	-	-	**521,070**	657,194

Note 15 – Issued capital

	Group 2013	Group 2012	Company 2013	Company 2012
235,519,138 (2012: 220,269,138) fully paid ordinary shares	**30,359,250**	26,874,291	**30,359,250**	26,874,291

	Group		Company	
(a) Fully paid ordinary shares	**No of shares**	**US$**	**No of shares**	**US$**
For the period ending 31 December 2013				
Balance at beginning of reporting year	**220,269,138**	**26,874,291**	**220,269,138**	**26,874,291**
Shares transactions during the year:				
- shares issued pursuant to exercise of options issued at time of IPO	**15,250,000**	**2,843,555**	**15,250,000**	**2,843,555**
- transfer from options reserve	**-**	**641,404**	**-**	**641,404**
Balance at end of reporting year	**235,519,138**	**30,359,250**	**235,519,138**	**30,359,250**
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

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

Ordinary shares have no par value.

	Group		Company	
	2013	**2012**	**2013**	**2012**
(b) Options over unissued shares	**Number of options**			
Balance at beginning of reporting year	**16,750,000**	35,760,155	**16,750,000**	35,760,155
Issued during the year	**600,000**	1,500,000	**600,000**	1,500,000
Exercised during the year	**(15,250,000)**	(19,823,631)	**(15,250,000)**	(19,823,631)
Lapsed during the year	**-**	(686,524)	**-**	(686,524)
Balance at end of reporting year	**2,100,000**	16,750,000	**2,100,000**	16,750,000

1,500,000 expiring 16 December 2015	*Exercisable at $ 0.50 each*
600,000 expiring 3 May 2016	*Exercisable at K 1.10 each*

The remaining 2,100,000 options pertain to options granted to Directors and Key Management Personnel (note 15c).

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 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.

On 3 May 2013, the Company issued 600,000 options to the Chief Geologist. 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.

Grant date	Expiry date	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
		US$	Number of options			
16 Dec 2012	16 December 2015	0.50	1,500,000	-	1,500,000	500,000
3 May 2013	3 May 2016	0.20	-	600,000	600,000	-

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 31 December 2013 was US$0.10 per option (2012 – US$0.16). 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 2013 included:

(a) options are granted for no consideration and vest based terms and conditions defined above.
(b) exercise price: K 1.10
(c) grant date: 3 May 2013
(d) expiry date: 3 May 2016
(e) share price at grant date: $0.35
(f) expected price volatility of the company's shares: 55%
(g) expected dividend yield: 0%
(h) risk-free interest rate: 2.7%

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.

On 16 May 2013, a revision to the remuneration of non-executive Board Members was approved whereby a component of such remuneration would be shares in the company to the value of $30,000 and $20,000 for the Chairman and Non-Executive directors respectively. The number of shares would be based on the price at the time of appointment as a director, and the shares would vest on 16 May 2014 or 1 year from the date of approval (for directors not appointed at that time).

Shares to be issued as consideration for acquisition of part of licence

During the year, the company was awarded an interest in Petroleum Retention Licence ("PRL") 38. In additional to the participating interest already awarded by the government, the company agreed to acquire an additional 5% from co-bidder Wondecla Limited (a subsidiary of Cott Oil and Gas Limited). Consideration for this acquisition was the issue of 10,000,000 shares. The shares were issued subsequent to the period covered by this report, however the conditions precedent for issue of the shares were satisfied prior to the end of the period covered by this report. Accordingly, a reserve for the issue of the shares has been brought to account at 31 December 2013.

(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 16 - 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
Richard Robinson (appointed 13 December 2013)	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 2013.

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

	Group		Company	
	2013	2012	**2013**	2012
	US$	US$	**US$**	US$
Short-term employee benefits	**619,298**	495,813	**124,889**	159,118
Post-employment benefits	**47,046**	30,561	**-**	-
Share and Option-based payments	**211,849**	464,107	**211,849**	464,107
	878,193	990,481	**336,738**	623,225

(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
2013				
John Prendiville	8,338,667	-	9,750,000	18,088,667
Richard Schroder	10,752,381	-	5,000,000	15,752,381
Barry Tan	18,010,001	-	-	18,010,001
Dr Ila Temu	10,000	-	500,000	510,000
Total	37,111,049	-	15,250,000	52,361,049

The options were exercised allowing the holder to obtain 1 share for each option held. The weighted average share price during the period of exercise was AU$0.44 (US$0.41)

	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	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

(b) KMP Option holdings

	Balance at beginning of year or date of appointment	Granted as compensation	Exercise of Options / Other changes	Balance at end of year or date of resignation or cessation
2013				
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	**16,750,000**	**-**	**(15,250,000)**	**1,500,000**
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**

Note 17 - 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 18 - 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	
	2013	2012	2013	2012
	US$	US$	US$	US$
Note 19 - Notes to statement of cash flows				
(a) Reconciliation of cash				
Cash at bank and on hand	**6,458,768**	15,872,492	**6,411,591**	15,860,171
(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities				
Loss from ordinary activities after income tax	**(3,233,747)**	(2,598,222)	**(3,164,895)**	(2,621,709)
Add Back				
Non-cash expense – shared based payments	**217,485**	464,107	**217,485**	464,107
Non-cash expense – depreciation	**26,968**	2,169	**15,851**	386
Non-cash income – foreign exchange loss/(gain)	**608,899**	(37,937)	**608,899**	(37,937)
Non operating item – exploration expense relating to investment activity	**455,623**	-	**455,623**	-
Deduct				
Non-operating item – gain from farm-in agreements	**(800,000)**	-	**(800,000)**	-
Changes in assets and liabilities relating to operations:				
- (Increase)/Decrease in receivables	**(312,234)**	861,760	**(247,400)**	867,910
- Increase in other current assets	**392,051**	(392,051)	**392,051**	(392,051)
- Increase (Decrease) in trade and other payables	**195,241**	(306,565)	**182,189**	(312,135)
Net cash (used in)/provided by operating activities	**(2,449,714)**	(2,006,739)	**(2,340,197)**	(2,031,429)

Note 20 - 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 Licence (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.
- PPLs 338, 339 and 340 – located in the Southern Papuan Basin which is a proven hydrocarbon basin
- PPLs 435, 436 and 437 – located in the Western Papuan Basin, adjacent to PRL 21.
- Petroleum Retention Licence (PRL) 21 – located in the Western Province of PNG and contains two wet gas discoveries. The Group has a 15% interest in PRL 21 and is covered by a Joint Operating Agreement.
- Petroleum Retention Licence (PRL) 38 – located in the Gulf of Papua and containing the Pandora Gas fields. The Group has a 25% interest in PRL 38 and at the date of this report is negotiating a Joint Operating Agreement.

(b) Segment Information

31 Dec 2013	Balance at beginning of the year	Exploration costs incurred	Exploration costs expensed	Development costs incurred	Cost of Acquisition	Balance at year end	% of total expenditure
	US$	US$	US$	US$	US$	US$	%
PPL 337	19,205	227,204	(227,204)	-	-	19,205	0.08
PPL 338	13,767	132,287	(132,287)	-	-	13,767	0.06
PPL 339	25,017	163,005	(163,005)	-	-	25,017	0.11
PPL 340	16,205	424,106	(424,106)	-	-	16,205	0.07
PPL 435	26,611	395,537	(395,537)	-	-	26,611	0.12
PPL 436	24,604	388,849	(388,849)	-	-	24,604	0.10
PPL 437	5,694	320,382	(320,382)	-	-	5,694	0.03
PRL 21	8,562,246	8,610,154	(264,363)	1,688,076	-	18,596,113	81.65
PRL 38	-	-	-	-	4,048,610	4,048,610	17.78
	8,693,349	**10,661,524**	**(2,315,733)**	**1,688,076**	**4,048,610**	**22,775,826**	**100.00**

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**

Note 21 - 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	
	2013	**2012**	**2013**	**2012**
	US$	**US$**	**US$**	**US$**
Financial assets				
Cash and cash equivalents	**6,458,768**	15,872,492	**6,411,591**	15,860,171
Trade and other receivables	**2,081,276**	86,147	**2,078,361**	79,878
Other non-current assets	**272,160**	326,620	**272,160**	326,620
Total	**8,812,204**	16,285,259	**8,762,112**	16,266,669
Financial liabilities				
Trade and other payables	**4,687,448**	2,221,446	**4,640,258**	2,187,307
Loans payable	-	-	**521,070**	657,194
Total	**4,687,448**	2,221,446	**5,161,328**	2,844,501

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, short-term deposits and bank guaranrees (classified as other non-current assets) as at the reporting date, the consolidated group had the following financial asset profile.

	Group		Company	
	2013	**2012**	**2013**	**2012**
	US$	**US$**	**US$**	**US$**
Cash in bank	**6,458,768**	11,724,092	**6,411,591**	11,711,771
Short term deposits	-	4,148,400	-	4,148,400
Cash and cash equivalents	**6,458,768**	15,872,492	**6,411,591**	15,860,171
Other non-current assets	**272,160**	326,620	**272,160**	326,620

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 1.5% (2012: 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 2013.

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	
	2013	**2012**	**2013**	**2012**
	US$	**US$**	**US$**	**US$**
Cash in bank				
In Papua New Guinea (PNG) Kina	**76,982**	2,112,417	**76,982**	2,112,417
In Australian dollar	**1,838,661**	8,605,874	**1,791,485**	8,593,553
Short-term deposit				
In Australian dollar	**-**	4,148,400	**-**	4,148,400
Other non-current assets				
In PNG Kina	**272,160**	326,620	**272,160**	326,620
	2,187,803	15,193,311	**2,140,627**	15,180,990

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

		Group		Company	
	Sensitivity rate	**2013**	**2012**	**2013**	**2012**
		US$	**US$**	**US$**	**US$**
PNG Kina-denominated Cash and cash equivalents	1% (2012 – less than 1%)	**3,550**	22,295	**3,550**	22,295
Australian dollar-denominated Cash and cash equivalents	3% (2012 – less than 1%)	**52,527**	82,686	**51,180**	82,606
Total increase/decrease in post-tax profit		**56,077**	104,981	**54,730**	104,901

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 $8,812,204 (2012: $16,285,259) and financial liabilities $4,687,448 (2012: $2,221,446) have a maturity within 12 months of 31 December 2013.

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 22 - Earnings per share

	2013 US$	2012 US$
Operating loss after income tax used in the calculation of basic and diluted loss per share	3,233,747	2,598,222
	Number	**Number**
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	221,999,275	182,774,804
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted loss per share	224,773,796	198,397,776

Note 23 - Controlled Entities

Controlled Entities Consolidated

		Percentage Owned (%)	
Subsidiaries of Kina Petroleum Limited	**Country of Incorporation**	**2013**	**2012**
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 2013 was US$511,146, and contributed revenues of $311 and net loss of $68,852 to the Group for the year ended 31 December 2013.

Note 24 - Joint operations

The Company has entered into a joint operations agreement for PRL 21, and PPLs 435 - 437 in relation to the exploration, appraisal development, product and disposition of petroleum covered by those licences. The Company has a 15% participating interest in PRL 21, a 50% interest in PPLs 435 & 436, and an 80% interest in PPL 437 (subject to farm-in by Heritage Oil plc) 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:

	2013 US$	2012 US$
Current assets		
Trade and other receivables	**1,709,338**	26,443
Non current assets		
Exploration and evaluation expenditure	**19,293,136**	8,886,070
Total assets employed in the join operations	**21,002,474**	8,912,513
Non current liabilities		
Trade and other payables	**4,294,410**	2,023,649
Total net assets (liability) employed in the operations	**16,708,064**	6,888,864

Note 25 - Events occurring after the reporting period

There were no material events occurring post balance date.

The financial report was authorised for issue on 26 March 2014 by the Board of Directors.

Note 26 - 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$59,453 (2012: debit of $US 10,601).

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$217,485 (2012: US$464,107); and

- an amount of $US 4,048,610 (2012: nil) attributable to the acquisition of an interest in the PRL 38 licence. This amount reflects the fair value of shares (measured at the licence grant date) to be issued in consideration for the acquisition.

Note 27 – Capital and leasing commitments

(a) Operating lease commitments

	Group 2013 US$	Group 2012 US$	Company 2013 US$	Company 2012 US$
Non-cancellable operating leases contracted for but not recognised in the financial statements				
Within one year	**76,085**	61,614	-	-
Later than one year but not later than 2years	**74,178**	64,386	-	-
Later than 2 years	**56,698**	55,652	-	-

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

(b) Expenditure commitments

Minimum work commitments due in less than one year comprise:

- Aeromagnetic programs in 2 licences;
- Completion of a seismic survey in 2 licence
- Drilling of two wells in 1 licence.

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

- The drilling of 4 wells
- Completion of 4 seismic surveys

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

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

Note 28 - Company Details

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264-278 George Street
Sydney NSW 2000

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

PRINCIPAL PLACE OF BUSINESS
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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 48, 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 2013 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 2014

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	
	2013	2012	2013	2012
	Kina	Kina	Kina	Kina
Revenue	**760,713**	405,251	**759,988**	404,299
Net loss	**(7,516,758)**	(5,456,157)	**(7,356,375)**	(5,505,478)
Total assets	**81,526,901**	54,468,939	**83,317,034**	56,005,317
Total liabilities	**12,038,696**	4,664,943	**13,257,523**	5,973,333
Net assets	**69,488,205**	49,803,996	**70,059,511**	50,031,984

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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 2013, 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 2013 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 2013, 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 2013:

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 advisor. 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
27 March 2014

ADDITIONAL INFORMATION

Additional Australian Securities Exchange information as at 24 March 2014.

Number of holders of equity securities

Fully Paid Ordinary Shares

245,519,138 fully paid ordinary shares are held by 1,057 individual shareholders (10,000,000 subject to ASX escrow).

All issued ordinary shares carry one vote per share.

Options

1,500,000 Unlisted options ($0.50 exercise price, 1st October 2015 expiry) held by one executive .
600,000 Unlisted options (K 1.10 exercise price, 3 May 2016 expiry) held by one executive.

Distribution of holders of equity securities.

Category (size of holdings)	Number of Holders	Number of Securities
1 - 1,000	34	1,971
1,001 - 5,000	148	475,055
5,001 - 10,000	142	1,154,931
10,001 - 100,000	507	18,166,545
100,001 and over	226	225,720,636
TOTAL	**1,057**	**245,519,138**
Holding less than a marketable parcel	-	-

Substantial shareholders

The names of the substantial shareholders listed in the Kina Petroleum Limited register as at 24 March 2014 were:

Holders	Fully paid ordinary shares Number	Percentage
Barry James Tan	17,520,001	7.14%
JSC Investments Ltd	14,330,000	5.84%
	31,850,001	**12.98%**

ADDITIONAL INFORMATION

Top 20 Holders – Quoted Fully Paid Ordinary Shares as at 24 March 2014

Rank	Name	Units	% of Units
1	BARRY JAMES TAN	17,520,001	7.14%
2	JSC INVESTMENTS LTD	14,330,000	5.84%
3	PROFESSIONAL NOMINEES PTY LTD	12,008,762	4.89%
4	MR RICHARD JOHN SCHRODER & MRS JENNIFER MARY SCHRODER	10,042,857	4.09%
5	WONDECLA LTD	10,000,000	4.07%
6	PEWOVE PTY LTD	10,000,000	4.07%
7	POINT CAPITAL PTY LTD	9,750,000	3.97%
8	DB MANAGEMENT PTY LTD	9,423,331	3.84%
9	MACQUARIE BANK LIMITED	9,216,089	3.75%
10	LUAGA PTY LTD	8,338,667	3.40%
11	BOWERBIRD CONSOLIDATED PTY LTD	6,500,000	2.65%
12	MR RICHARD SCHRODER	5,000,000	2.04%
13	KUMUL ENERGY RESOURCES LTD	5,000,000	2.04%
14	CITICORP NOMINEES PTY LIMITED	4,971,914	2.03%
15	AGENTS & NOMINEES PTY LTD	4,500,000	1.83%
16	MACQUARIE BANK LIMITED	3,428,571	1.40%
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,118,175	1.27%
18	EQUITAS NOMINEES PTY LIMITED	3,065,353	1.25%
19	EQUITAS NOMINEES PTY LIMITED	3,000,000	1.22%
20	GENTILLY HOLDINGS PTY LTD	2,042,857	0.83%
	TOTAL	154,591,386	62.97%
	Balance of Register	90,927,752	37.03%
	Grand TOTAL	**245,519,138**	**100.00%**

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
Mr Richard Robinson	Non Executive Director

COMPANY SECRETARY
Mr Peter Impey

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C\- HWL Ebsworth
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