



# **KINA PETROLEUM LIMITED**

## **ANNUAL REPORT**

COMPANY NO. 1-63551 ARBN 151 201 704

FOR THE YEAR ENDED 31 DECEMBER 2018

## DIRECTORS' REPORT

The Directors present their report on the Company and its controlled entities for the year ended 31 December 2018.

### DIRECTORS

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

#### **David Vance, Independent Non-Executive Chairman**

Appointed to the Board on 6 November 2014, and appointed Chairman on 11 September 2017, David is a corporate and project finance attorney and CFA charterholder with over 25 years of experience in Asia and the US. As a partner in private practice with two major US law firms, Mr. Vance represented some of the world's largest infrastructure and financial institutions in complex, first-of-its-kind transactions, including numerous "Deals of the Year" for Asia, and was recognized as a leading lawyer for project finance in Japan by an industry publication. He also advised many small and medium size enterprises in a wide range of corporate and financial matters.

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

#### **Mr Richard Schroder - Managing Director**

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

Richard's 40+ years of experience extends to both UK and Norwegian sectors of the North Sea, Africa, Indonesia, PNG, NZ and onshore and offshore Australia. Richard has 20+ years of experience as an operator in the lowland and highland jungles of PNG and has managed junior companies such as Sydney Oil Company as well as majors such as Santos in the capacity of Exploration Manager, South East Asia.

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

#### **Dr Ila Temu, Independent Non-Executive Director**

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

Appointed 1<sup>st</sup> 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.

## DIRECTORS' REPORT

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.

Barry was awarded a Commander of the British Empire (CBE) in June 2018.

### Alain Vinson, Non-Executive Director

Mr Vinson is presently the CEO and President of PIE Operating LLC, in Houston Texas. He attended Sam Houston State University in Texas where he attained a Bachelor of Science in Business Administration, with an emphasis on management. Alain worked for InterOil Corporation in a variety of roles from 2005 – 2013 where his primary responsibilities included procurement, logistics and project management. His project management skills saw him assume primary responsibility for the co-ordination of InterOil's field activities notably the construction of well sites and the execution and delivery of the civil works programs to support drilling and seismic operations.

### COMPANY SECRETARY

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

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

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

### PRINCIPAL ACTIVITIES

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

### OPERATING RESULTS

The net loss of the consolidated group after income tax for the year was US\$ 6,998,746 (2017: US\$ 2,668,791).

### 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 2018 were US\$ 27,585,208 (2017: US\$ 34,556,022). At 31 December 2018 the Group had a cash balance of US\$ 5,226,537 (2017: US\$ 8,933,365).

### STATE OF AFFAIRS

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

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

#### **Background**

Kina Petroleum Ltd ("Kina", "KPL" or "the Company") was formed in 2009 to participate in the exploration and acquisition of oil and gas assets in PNG, and since its float in late 2011, has raised over US\$ 48 million with nearly US\$ 5 million cash on hand at the end of 2018.

Kina has used the year to restructure its assets and obligations to accord with the oil price levels that now face the industry. The process has seen Kina apply for renewal and/or extension of our Western Province holdings and concurrently test a new field geophysical technique – soil gas sampling – to rank our prospects in the eastern Papuan Basin. The US\$60+/bbl oil price prevailing at the date of this report is a marked improvement over the situation of preceding years. But current prices are markedly lower than they were a decade ago and in response to this new reality, Kina has cut its costs and investigated new cost effective technologies to rank and evaluate its prospects.

#### *Kina's acreage across PNG*

In eastern PNG where Kina is the operator and 100% equity holder of PPLs 338, 340, 581, 596, 597 and 598, Kina has trialled soil gas geochemistry over the Lizard prospect in PPL 340 with promising results, and purchased gravity-gradiometry data over its top ranked licence – PPL 338 – which will be integrated with legacy data from PPL 339 and the Triceratops area of northern PPL 338. Kina's focus in the east is identifying Elk/Antelope analogues in our acreage adjacent to the giant Antelope discovery with our work in PPL 338 continuing to high-grade the Nipa, Mangrove and Triceratops West Prospects. The Lizard Prospect in PPL 340 was selected for soil gas geochemical trials because of the easy logistics in the area and proximity to Port Moresby. Confirmation of the technique will see extension of this approach to PPL 338 and other licences.

In western PNG, PRL 21 remains central to Kina's strategy for cash flow generation. PRL 21 was awarded in 2011 with 5 successful intersections of the wet gas reservoir within the licence and confirmation of the gas water contacts. A confirmed 2C resource of 48 million barrels of liquids exists in PRL 21 which, based on Kina's studies, is economic for development at US\$60+/bbl. Kina's goal is for early and rapid commercialisation of the field.

#### *Evaluation of Exploration Acreage*

Kina has completed a review of its licences in western PNG and has compiled an inventory of 10+ prospects from PPL 437 in the north to PPL 436 in the south east. As with Eastern PNG Kina has invested capital and time developing a clear understanding of the Fly Platform Hydrocarbon Play for which to date there is only one valid test of the play at Lake Murray 1. Kina has identified critical factors for success for the play and has high-graded the Aiambak and Alligator Prospects. Based solely on their size these could be multi TCF prospects.

The problem for Kina is that these prospects are large and therefore expensive to constrain using conventional seismic technology. Kina utilised airborne technology to help confirm the presence of Aiambak and Alligator Prospects but the cost using seismic acquisition to confirm a viable sub-surface closure would cost more than the cost of drilling a well.

To reduce the cost of seismic acquisition, Kina has undertaken several field studies to fine tune cost estimates. So far the results are encouraging with cost estimates coming down from around US\$60,000/km to around US\$30,000/km. We continue to look for further cost savings and to this end we have adopted a two step approaches to improve our chances of success in Western Province.

The first step has been to rationalise our exploration licence holdings in Western Province by seeking to consolidate key prospects within one licence and a work program designed to meet the technical needs of the areas in which prospects lie. The second step in the process will be to rank the prospects according to their likelihood of commercial success. With upwards of 11 prospects we need a tool that will help prioritise the best for follow up seismic.

That tool is soil gas geochemical sampling/surveys. In 1987 soil gas geochemical data was acquired by Kundu Petroleum in Western Province which led to Pecten Energy (US Shell) farming in to the former PPL 68. The surveys, although regional in nature, did show a number of high surface geochemical responses in the Lake Murray/Aiambak area. Kina has undertaken a pilot soil gas geochemical pilot survey in PPL 340 with encouraging results over its Lizard Prospect. As noted above, and in advance of proposing surveys in Western Province, Kina is intending to undertake a phase 2 survey in PPL 340 to confirm the response over Lizard. It is

## DIRECTORS' REPORT

hoped that the soil gas technique will help rank the prospects. Seismic surveys will then be proposed over the top ranked prospects. Kina would minimize its exposure to the cost of these surveys via farm out arrangements.

### *Development Focus*

Our primary focus remains the development of the nearly 48 million barrels of liquids from the Elevala and Ketu fields in PRL 21. Clearly, imminent development of the field will require Kina to tap deeper and more sophisticated capital markets and over the last year Kina has been reviewing and evaluating options available to the company. In February Kina announced a process to re-domicile the Company as a first step in a plan that the board believes will improve the attractiveness of the company to foreign investors and allow the company to access more liquid and stronger capital markets.

In anticipation of this Kina completed an independent certification of the resource, a fully costed basis of design for the development and confirmed robust economics for a potential development. Commercialisation of PRL 21 is of paramount importance to Kina and a liquids focussed project will deliver upwards of 10,000 barrels of oil per day, cash flow and also high grade adjacent acreage like PPL 437 which contains the Malisa Prospect.

### *Advancing our Exploration Potential*

Furthermore if our cost effective approach to exploration using soil gas geochemistry is validated, Kina sees potential for this technology for de-risking its exploration portfolio particularly the prospects in PPLs 435, 436 338, 581, 596, 597 and 598.

Kina's strategy over the last 3 years has been to mature its inventory of prospects and leads integrating all available well, seismic, potential field and non-conventional technologies. Kina has matured its exploration portfolio to the point where it has identified an abundance opportunities which require ranking. Our analysis has subdivided the Papuan Basin into 3 broad fairways - the Fold Belt, the Fly Platform of the western Foreland and the Eastern Shelf.

The Fold Belt is a mature exploration fairway that has delivered very large reserves of gas and liquids the commercialisation of which has established the Papuan Basin as a proven and significant petroleum province. It is however an expensive area in which to operate with major global companies competing for assets and control of the proven play fairway. For this reason it is not an area for a small company like Kina to risk its limited reserves of capital.

Globally, foreland basins in front of major thrust and foldbelts have delivered large reserves of oil and gas. The PNG Foreland Basin has to date discovered fields which are significant but not comparable in size to the Fold Belt. Elevala-Ketu, in PRL 21, is the largest to date. Kina has determined that a critical factor for discoveries in the foreland is demonstrating counter-regional closure out of the foreland trough, where oil and gas is being generated. Mid-Miocene faulting established such a closure at Elevala and Ketu and Kina's work has focussed on identifying similar fault trends with the capacity to trap hydrocarbons migrating out of the deeper kitchen areas.

Kina's analysis demonstrates that the southern Fly Platform is such an area. The southern bounding fault throws counter regionally to the south, with Basement on the Fly Platform forming a broad arched structure which has been loaded successively for the last 70+ million years by late Cretaceous, Miocene, early Pliocene and most recently by Plio-Pleistocene sediments. There has only been 1 valid test on the prospective fairway along the Fly River Fault. This was the Lake Murray-1 well which flowed gas in the early 1970s. Kina's integrated gravity data shows the Fly Platform is a broad but gently structured arch with reactivation of the counter-regional faults in the Miocene (similar geological timing to Elevala). Kina's studies demonstrate these very large broad structures were established in the mid Miocene era and have maintained relative stability for the last 10 million years. The mapping of our regional seismic data set confirm 2 very large structural traps at Aiambak and Alligator which potentially close off areas very much larger than Elevala-Ketu, with source rocks, reservoir rocks and sealing shales preserved at each prospect.

For the last two years Kina has focussed on maturing these two targets as they have the potential to deliver reserves comparable with those discovered in the Fold Belt. They are relatively easily accessible via the Fly River - which also offers a means of low cost export to nearby markets in the event of success. Kina's challenge remains to cost effectively define reliable drilling locations at Aiambak and Alligator without having to resort to expensive pre-investment of tens of millions of dollars for seismic acquisition.

## DIRECTORS' REPORT

Our prospects are very large and easy to develop and have farm out appeal but we are also evaluating the benefit of using a drilling fund to maximise value for the Company.

### Existing Projects

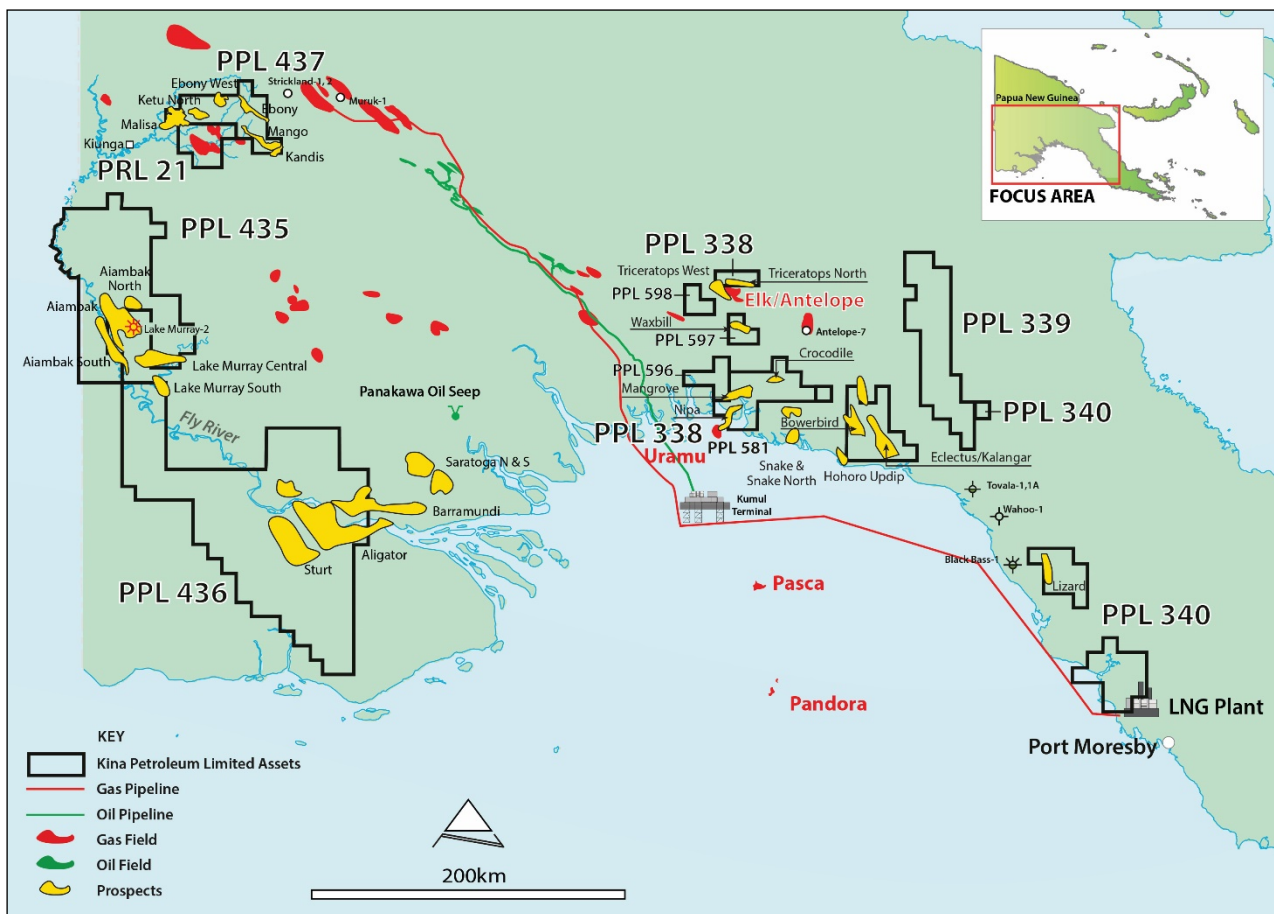
The Company's exploration and development projects as at the date of this Annual Report are set out below. These assets are considered to be prospective for oil and gas and work programmes have been developed.

License	Prospect	Ownership	Operator
PPL 338/581/ 596/597/598	Nipa/ Mangrove	Kina 100%.	Kina
PPL 339	Kalanger	Kina 30%*	Oil Search
PPL 340	In progress	Kina 100%	Kina
PPL 435	In progress	Kina 100%	Kina
PPL 436	In progress	Kina 100%	Kina
PPL 437	Malisa South	Kina 57.5%	Kina
PRL 21	Eleva and Ketu Fields	Kina 16.75%	Horizon Oil Ltd

\* Subject to farmout agreement with Santos Limited

### Overview of PNG Exploration Activities

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



## DIRECTORS' REPORT

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

### **PRL 21 (Kina 16.75%)**

PRL 21 is central to our growth plans and during 2018 Kina announced a 2C (liquids) contingent resource of 48 million barrels of condensate in PRL 21. We have completed a Basis for Design which clearly demonstrates that development of the liquids is commercially robust at prevailing oil prices.

Kina maintains that development of the Elevala & Ketu fields should focus on first liquids production in the early 2020's and has commenced a process which will help us achieve this at our 16.75% equity level or higher if needs be. Kina is positioning itself to facilitate funding of an early development which will be of significant benefit to all stakeholders.

Early liquids development will quickly change Kina's cash flow situation and significantly increase our market capitalisation but will require a number of structural, financial and logistical changes to the company the first of which was announced to the market in February.

The lead up to production will move Kina into a new space in PNG with an office in Port Moresby and a build up in staffing levels becoming central to the Company's operations.

### **PRL 38**

The licence expired on 28 November 2018. Kina has applied for a new licence over the blocks contained within the (now former) PRL 38 licence area.

### **PPL 338, 581, 596, 597 and 598 (Kina 100%)**

Kina has high-graded Triceratops West, Mangrove, Nipa, Snake and Waxbill prospects and has purchased gravity-gradiometry data over these prospects. The next step is to integrate the gravity data with existing control across these Prospects.

Ground conditions over Nipa, Mangrove and Snake are very different to the uplifted terrain at Triceratops West and Antelope. The latter were uplifted quite recently in geological terms and lie on the leading edge of the presently deforming fold and thrust belt. These recent movements have restructured Triceratops West and Antelope and moved foreland subsidence to the south west to where Nipa, Mangrove and Snake are located. The rapid subsidence of the area close to Snake is generated oil and gas and pushing it westward towards Nipa and Mangrove with migration confirmed the discovery of west gas at Uramu south of Nipa. Kina ranks Nipa and Mangrove very high because they have potential for reef development in the early Pliocene due to uplift along the leading edge of faults that caused ramping of the carbonate shelf. The gentle terrain in this presently subsiding basin allows for good access for drilling and seismic equipment thus reducing the cost of future exploration.

Triceratops West and Antelope are located in a reactivated part of the foreland area with late stage structuring in the very recent past along the Kereru Fault. The late stage uplift has made access difficult and exploration activity is expensive. Expense notwithstanding Triceratops West remains a very exciting lead area and Kina is investigating technologies to help high-grade the most prospective part of Triceratops West for future cost effective seismic acquisition.

Waxbill lies in the footwall of the Kereru Fault. It appears several phases of movement occurred along the fault to form the Waxbill structure and the seismic data is difficult to interpret. However Waxbill lies on a very prospective trend possibly up dip of oil tested from a footwall carbonate in the Puri-1 well drilled over 70 years ago. Kundu Petroleum drilled Puru South 1 chasing the footwall carbonate play in 1987 but the well had to be abandoned before reaching its objective, so the footwall play has not yet to be validly tested. Kina believes Waxbill could be a reliable test of the play but as with Triceratops West Prospect we want to mitigate risk for the prospect in advance of what will be expensive seismic data.

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As stated in the last quarterly report Kina is investigating soil gas geochemical technology as a risk reduction tool. As will be discussed below in the section on PPL 340 Phase 1 of the pilot soil gas survey has provided encouraging results and a Phase 2 follow up survey is planned. Kina hopes the soil gas technique will provide a viable means of ranking the prospects in PPL 338, 581, 596, 597 and 598 and reduce the size of the seismic surveys required to delineate drilling locations.

### **PPL 339 (Kina 30%\*)**

PPL 339 is located in the eastern Papuan Basin, approximately 50km south of Antelope. The PPL 339 extension process being managed by licence Operator Oil Search (PNG) Limited and we await Ministerial signature. The Kalangar, Eclectus (K/E) and Bowerbird Prospects remain the focus in PPL 339 but work has been deferred pending negotiations between Oil Search and Department of Petroleum (DoP) in respect of extension of the licence.

Kina believes the prospects lie on a structured carbonate ramp possibly established in the Oligo-Miocene, as an extension of the Eastern Shelf. Like Nipa and Mangrove, late Miocene to early Pliocene uplift may have improved reservoir properties of the carbonates at these locations. Later uplifted along the Kuku and Bevan faults in Plio-Pleistocene have elevated the targeted carbonates to relatively shallow depth but have also reduced seismic data quality at the prospects increasing risk.

The uncertainty associated with the K/E Bowerbird has caused the Operator to look at a number of risk mitigating techniques to improve the chance of success for the prospect. Stratigraphic drilling, magneto-tellurics, and soil gas geochemistry may be considered.

The forward work program is focused on Eclectus/Kalangar Prospect because of the abundance of oil and gas seeps located in the trough to the west of the prospects.

\*subject to farmout agreement with Santos.

### **PPL 340 (Kina 100%)**

Kina has been encouraged by the results of the pilot soil gas survey carried out over the Lizard Prospect in PPL 340. Lizard is a large oil and gas prospect located on the Eastern Shelf close to Port Moresby. The pilot soil gas geochemical survey was completed over Lizard Prospect in late 2018, and a Phase 2 survey is planned for early 2019 to corroborate the results.

The Lizard Prospect forms on an antithetic fault to the uplifted Owen Stanley block and is separated from it by Lakekamu Embayment. Previous wells Wahoo-1, Oro-i-1 and Black Bass-1 all had indications of dry gas but are located on the western coastal strip of the Eastern Shelf. Very early wells Kaufana 1 and Rorona 1 look to have been drilled within the south eastern limits of the Lakekamu Embayment and off structure.

Lizard remains an attractive prospect located only 158 km from Port Moresby by road and if confirmed by the phase 2 soil gas survey, a detailed seismic survey is proposed to confirm structural closure for the prospect in advance of a future well.

Seismic reprocessing tests were carried out in Canada to evaluate past acquisition parameters. Source and receiver spacing are being investigated to improve data quality in areas affected by surface volcanics.

Kina has commenced a farm out effort to cover the cost of future appraisal work and drilling.

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

Kina continues discussions with the Department of Petroleum regarding the forward program for these licences. Forward work will focus on the Alligator and Aiambak Prospects which form 2 very large traps located at either end of the Fly River Fault on the southern margin of the Fly Platform. Both prospects exhibit residual gravity anomalies and are in areas of flat lying terrain with easy access via the Fly River.



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Kina recognises multiple reservoir targets in the south east of the Fly Platform where seismic data show the reservoir sequences overlap the ancestral Lake Murray High to the north west of the platform. Late Cretaceous and Miocene movement along the Fly River fault has set up counter regional trapping geometries similar to those that form at confirmed traps at Elevala and Ketu fields in PRL 21. However Aiambak and Alligator differ from the Elevala and Ketu fields in that they cover a very much larger area and their depth to reservoir objectives is approximately half the reservoir depth of the fields in the north. Also unlike prospects and structures drilled along the Komewu Fault on the north east of the Fly Platform the Aiambak and Alligator Prospects have the regional Ieru shale intact and in the case of Alligator, Kina maps 4 independent reservoirs between base of the Ieru shale seal and basement.

The Alligator Prospect is one of the largest undrilled traps in PNG and is up-dip of an actively and presently generating oil and gas kitchen. Kina ranks Alligator as one of its top prospects and intends investigating the soil gas signature of the area once the technology has been fully evaluated at Lizard. The loss of Ieru Shale seal is responsible for the prolific oil seep at Panakawa which was measured flowing at a rate 5 barrels of oil per day at surface in 2006. It is located east of Alligator close to the PPL 436 boundary but Alligator lies well up dip of the fetch area of the seep and has the Ieru seal intact.

Good access via the Fly River to both Alligator and Aiambak Prospects means helicopter supported drilling operations are not required for either location.

Both PPL 435 and PPL 436 have reached the end of their first exploration terms. As a consequence, Kina has entered into discussions with the Department of Petroleum with the objective of restructuring PPLs 435 and 436 into one licence that will cover both prospects, and developing a tailored exploration program focused on maturing both prospects to assess the most appropriate location to test of the play.

Kina remains in discussion with companies in respect of its farm out proposal for the play although an integrated drilling fund approach is also being considered.

### **PPL 437 (Kina 57.5%)**

An Extension for PPL 437 was lodged in late 2018. Malisa, Mango and Ebony Prospects remain attractive targets in close proximity to PRL 21. PPL 437 is located in Western Province, immediately north of PRL 21 (Ketu-Elevala) and south of Hides, Muruk, Juha and P'nyang and is obviously well placed with respect to future developments at P'nyang and PRL 21. Kina's work has focused on identifying cost effective means of derisking the prospects in advance of future seismic surveys or drilling.

As stated previously by Kina early commencement of liquids development out of PRL 21 is our first priority which we propose as an independent export hub utilising the Kiungu port on the Fly River.

Malisa prospect is drill ready on a technical basis but is uneconomic on a stand-alone basis. Its commercial attractiveness improves if it can be tied in to existing infrastructure such as that proposed for PRL 21.

Ebony and Mango Prospects require additional seismic control to confirm closure prior to drilling but as stated previously seismic is expensive and Kina is investigating new technology to reduce acquisition costs.

The soil gas geochemical trials being undertaken by Kina in PPL 340 could help reduce costs considerably in PPL 437 by reducing the amount of seismic required to define closure for any future drilling location. Subject to the outcome of a planned follow up soil gas survey in Q1 in PPL 340 Kina proposes soil gas surveys over the Elevala and Ketu Fields in PRL 21 and prospects in PPL 437.

## ENVIRONMENTAL ISSUES

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

## DIRECTORS' REPORT

### REMUNERATION REPORT

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

#### Remuneration Policy and Practices

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

i. Non-Executive Directors

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

The maximum aggregate annual remuneration of Non-Executive Directors is subject to approval by the shareholders in general meeting. The shareholders have determined at a general meeting held on 9 March 2010 the maximum aggregate remuneration amount to be \$300,000 per year. The Directors have resolved that the cash fees payable to non-executive directors for all Board activities are \$190,000 per year plus, where required, superannuation guarantee contributions of 9% per annum as required by legislation. Additionally, and subject to shareholder approval, non-executive directors may receive an annual allocation of ordinary shares in the company. That allocation shall be \$A 30,000 (\$US 22,431, 2017: \$US 22,998) worth for the Chairman and \$A 20,000 (\$US 14,954, 2017: \$US 15,332) for each non-executive director.

Subject to the scheme of arrangement that the company has entered into with Kina Petroleum Corporation (see commentary under *Matters Subsequent to End of Financial Year* heading) directors will be offered shares in Kina Petroleum Corporation (subject to shareholder approval) with the same allocation value as noted above.

ii. Key management personnel

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

#### Company performance and director and executive remuneration

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

#### *Director and Executive Shares and Options*

There were no Director or Executive Options outstanding at 31 December 2018. All previously issued Director options were exercised in 2013 and all previously issued Executive options had expired by 31 December 2015.

## DIRECTORS' REPORT

### Remuneration of Directors and Key Management for the year to 31 December 2018

	Short-term benefits		Post employment		Share-based payments		Total	Total remuneration represented by options and shares
	Cash salary and fees	Short term incentives	Super-annuation	Termination benefits	Options	Shares <sup>1</sup>		
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	%
<b>Directors</b>								
Richard Schroder	205,608	-	18,692	-	-	-	224,300	-
Barry Tan	33,645	-	-	-	-	14,656	48,301	30
Dr Ila Temu	33,645	-	-	-	-	14,656	48,301	30
David Vance	41,122	-	-	-	-	21,984	63,106	35
Alain Vinson	33,645	-	-	-	-	14,656	48,301	30
<b>Total Directors</b>	<b>347,665</b>	<b>-</b>	<b>18,692</b>	<b>-</b>	<b>-</b>	<b>65,952</b>	<b>432,309</b>	<b>15</b>
<b>Key Management</b>								
A Mitchell	176,449	-	16,762	-	-	-	193,211	-
<b>Total Key Management</b>	<b>176,449</b>	<b>-</b>	<b>16,762</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>193,211</b>	<b>-</b>
<b>Total</b>	<b>524,114</b>	<b>-</b>	<b>35,454</b>	<b>-</b>	<b>-</b>	<b>65,952</b>	<b>625,520</b>	<b>11</b>

<sup>1</sup> The annual remuneration of non executive directors has, since 16 May 2013, included an equity component. Issuing of the shares is subject to shareholder approval at the company's AGM. The value of the shares shown in this table reflects the value of the shares to which directors have become entitled between 1 January 2018 and 31 December 2018. The value of the shares has been expensed annually and reflected in a corresponding increase in reserves.

### Remuneration of Directors and Key Management for the year to 31 December 2017

	Short-term benefits		Post employment		Share-based payments		Total	Total remuneration represented by options and shares
	Cash salary and fees	Short term incentives	Super-annuation	Termination benefits	Options	Shares <sup>1</sup>		
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	%
<b>Directors</b>								
Richard Schroder	206,995	-	23,000	-	-	-	229,995	-
Richard Robinson	15,812	-	-	-	-	9,372	25,184	37
Barry Tan	34,499	-	-	-	-	15,201	49,700	31
Dr Ila Temu	37,055	-	-	-	-	17,465	54,520	32
David Vance	36,735	-	-	-	-	17,590	54,325	32
Alain Vinson	10,062	-	-	-	-	4,653	14,715	32
<b>Total Directors</b>	<b>341,158</b>	<b>-</b>	<b>23,000</b>	<b>-</b>	<b>-</b>	<b>64,281</b>	<b>428,439</b>	<b>15</b>

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<b>Key Management</b>								
A Mitchell	180,929	-	16,736	-	-	15,101	212,766	7
<b>Total Key Management</b>	180,929	-	16,736	-	-	15,101	212,766	7
<b>Total</b>	<b>522,087</b>	<b>-</b>	<b>39,736</b>	<b>-</b>	<b>-</b>	<b>79,382</b>	<b>641,205</b>	<b>12</b>

### 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:

Year to 31 December 2018	Number				
	Fully Paid Ordinary Shares				
	Held at end of year	Entitlement <sup>1</sup> at beginning of year	Entitlement <sup>1</sup> Accruing during year	Issued during year	Entitlement <sup>1</sup> at end of year
Richard Schroder	15,752,381	-	-	-	-
Barry Tan	17,735,526	31,269	253,985	-	285,254
Dr Ila Temu	725,525	39,192	253,985	-	293,177
Alain Vinson	28,744,029	60,822	253,985	-	314,807
David Vance	146,693	42,427	380,977	-	423,404
	<b>63,104,154</b>	<b>173,710</b>	<b>1,142,932</b>	<b>-</b>	<b>1,316,642</b>

Year to 31 December 2017	Number				
	Fully Paid Ordinary Shares				
	Held at end of year	Entitlement <sup>1</sup> at beginning of year	Entitlement <sup>1</sup> Accruing during year	Issued during year	Entitlement <sup>1</sup> at end of year
Richard Robinson	-	201,403	30,271	(231,674)	-
Richard Schroder	15,752,381	-	-	-	-
Barry Tan	17,735,526	193,461	53,333	(215,525)	31,269
Dr Ila Temu	725,525	193,461	61,256	(215,525)	39,192
Alain Vinson	28,744,029	-	60,822	-	60,822
David Vance	146,693	123,053	66,067	(146,693)	42,427
	<b>63,104,154</b>	<b>711,378</b>	<b>271,749</b>	<b>(809,417)</b>	<b>173,710</b>

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

The directors' entitlement to shares is presently in respect of shares of Kina Petroleum Limited. Subject to implementation of a scheme of arrangement with Kina Petroleum Corporation (see comments under *Matters Subsequent to Year End* heading), directors will become entitled to shares in Kina Petroleum Corporation. This will be in satisfaction of both the entitlement to Kina Petroleum Limited shares accrued up to the point where it is de-listed from the ASX and POMSoX, and any entitlement to Kina Petroleum Corporation shares arising subsequent to the listing of that company on those exchanges. All entitlements remain subject to shareholder approval.

## DIRECTORS' REPORT

### SHARE OPTIONS

At the end of 2018 and 2017 the number of options over unissued ordinary shares at the date of this report was nil.

### MEETINGS OF DIRECTORS

Attendances by each director to meetings of directors (including committee of directors) during the year to 31 December 2018 were as follows:

	Board Meetings		Audit Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
<b>2018</b>				
Richard Schroder	12	12	-	-
Barry Tan	12	12	2	2
Dr Ila Temu	12	12	2	2
Alain Vinson	11	11	-	-
David Vance	12	12	2	2
<b>2017</b>				
Richard Schroder	15	15	-	-
Barry Tan	15	14	3	2
Dr Ila Temu	15	11	3	3
Richard Robinson	5	5	-	-
Alain Vinson	6	6	-	-
David Vance	15	15	3	3

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

### INDEMNIFYING OFFICERS

During the year the Company paid a premium of USD equivalent \$61,580 (2017: \$16,865) 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

## DIRECTORS' REPORT

On 15 February 2019 the company announced that it had entered into a scheme of arrangement with Kina Petroleum Corporation ("KPC") whereby KPC would acquire all of the shares of the company and become the listed parent entity for the Kina Petroleum group. Under the scheme, existing shareholders of Kina Petroleum Limited will receive 1 share in KPC for every 30 shares held in Kina Petroleum Limited.

For the scheme to be implemented it must be approved by both shareholders of Kina Petroleum Limited and also the courts of Papua New Guinea.

At a meeting on 20 March 2019, the requisite majority of shareholders approved the scheme. On 2 April 2019, the courts of Papua New Guinea will further review the scheme and the meeting results and consider whether to provide approval for the scheme to proceed.

At the date of this report the directors of Kina Petroleum Limited are of the view that it is likely that the scheme will be approved. Assuming this occurs, the scheme will be implemented and the acquisition of the Company's shares by KPC will proceed in early April. This is not expected to have any impact on the group's operations or financial situation and Kina Petroleum Limited will remain a validly constituted company subject to the laws of Papua New Guinea. It will however no longer be subject to the listing rules of the ASX and POMSoX. KPC will, from the point in time where it is listed, be subject to the listing rules of those exchanges.

### 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 22nd day of March 2019

## 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 (3rd edition) with 2014 Amendments ("Principles and Recommendations"), which are as follows:

<b>Recommendation 1</b>	Lay solid foundations for management and oversight;
<b>Recommendation 2</b>	Structure the Board to add value;
<b>Recommendation 3</b>	Act ethically and responsibly;
<b>Recommendation 4</b>	Safeguard integrity in corporate reporting;
<b>Recommendation 5</b>	Make timely and balanced disclosures;
<b>Recommendation 6</b>	Respect the rights of security holders;
<b>Recommendation 7</b>	Recognise and manage risk;
<b>Recommendation 8</b>	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](http://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.

	<b>ASX P&amp;R<sup>1</sup></b>	<b>If not, why not<sup>2</sup></b>		<b>ASX P&amp;R<sup>1</sup></b>	<b>If not, why not<sup>2</sup></b>
Recommendation 1.1	✓		Recommendation 4.2	✓	
Recommendation 1.2	✓		Recommendation 4.3	✓	
Recommendation 1.3	✓		Recommendation 5.1	✓	
Recommendation 1.4	✓		Recommendation 6.1	✓	
Recommendation 1.5		✓	Recommendation 6.2	✓	
Recommendation 1.6	✓		Recommendation 6.3	✓	
Recommendation 1.7	✓		Recommendation 6.4	✓	
Recommendation 2.1		✓	Recommendation 7.1	✓	
Recommendation 2.2	✓		Recommendation 7.2		✓
Recommendation 2.3	✓		Recommendation 7.3	✓	
Recommendation 2.4		✓	Recommendation 7.4	✓	
Recommendation 2.5	✓		Recommendation 8.1		✓
Recommendation 2.6	✓		Recommendation 8.2	✓	
Recommendation 3.1	✓		Recommendation 8.3	✓	
Recommendation 4.1	✓				

### Notes

- 1 Indicates where the Company has followed the Principles and Recommendations.
- 2 Indicates where the Company has provided "if not, why not" disclosure.

## CORPORATE GOVERNANCE STATEMENT

### Principle 1 – Lay solid foundations for management and oversight

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

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

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

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

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

The company has such agreements in place.

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

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

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

#### Notification of Departure from Principles:

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

#### Explanation for Departure:

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

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

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

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

In light of corporate activity levels associated with the proposed scheme of arrangement with Kina Petroleum Corporation, the next board evaluation is expected to be in late 2019 or early 2020 and this would be undertaken by Kina Petroleum Corporation if the scheme is approved by shareholders and the courts of PNG.

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



## CORPORATE GOVERNANCE STATEMENT

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

### Principle 2 – Structure to the Board to add value

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

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

#### Notification of Departure from Principles:

The Company has not established a separate Nomination Committee.

#### Explanation for Departure:

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

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

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

The company's skills matrix is shown in the Board Charter, available on the Company's website [www.kinapetroleum.com](http://www.kinapetroleum.com) under the section marked Corporate Governance.

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

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

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

#### Notification of Departure from Principles:

The company has five directors, two of which are considered independent.

#### Explanation for Departure:

The Company's Constitution requires that the minimum number of Directors is 3. The Company presently has five Directors consisting of four Non-Executive Directors and one Managing Director.

Mr David Vance, the Company's non-executive Chairman, and Dr Ila Temu, a Non-Executive Director, are considered independent.

Of the other directors, Richard Schroder is the Managing Director of the Company. Barry Tan is no longer a substantial shareholder of the Company but has had a long tenure as a director. Alain Vinson was appointed to the Board in September 2017 as a Non-Executive Director but is a substantial shareholder of the Company and former associate of one of the Company's substantial shareholders. These factors aside, the Board believes that Mr Vinson brings an appropriate mix of skills to the Board which (a) complement those already provided by the existing directors, and (b) will assist the next phase of the Company's growth. In making the assessment of whether Mr David Vance is considered to be an Independent Director, the Board had to consider his association with a substantial shareholder of the Company. The Board considers that notwithstanding this association, Mr David Vance applies an independent frame of mind in his role of Non-Executive Director and has therefore classified him as independent.

## CORPORATE GOVERNANCE STATEMENT

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

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

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

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

### Principle 3 – Act Ethically and Responsibly

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

The company has adopted a code of conduct which appears in the Corporate Governance Plan available on the company's website [www.kinapetroleum.com](http://www.kinapetroleum.com) under the heading Corporate Governance.

### Principle 4 – Safeguard integrity in corporate reporting

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

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

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

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

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

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

### Principle 5 – Make timely and balanced disclosure

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

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

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

### Principle 6 – Respect the rights of security holders

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

The company's corporate governance plan is available on the company's website [www.kinapetroleum.com](http://www.kinapetroleum.com) under the section headed Corporate Governance. This annual report is also available on the company's and ASX's website.

## CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

### Principle 7 – Recognise and manage risk

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

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

Actively considered at each meeting of the Board of Directors are the risks faced by the company and the systems and framework in place to manage them. During 2018, the company was focussed on preserving and increasing working capital to allow it to meet its work commitments in the near term. Accordingly, a farmout of PPL 339 to Santos was executed and the company undertook a share placement. These activities, and the continuation of the farmout effort into 2018 may involve potential exposure to material risks, but these are inherently fewer in number and complexity than the risks associated with field based activity. Accordingly, as the Board was satisfied that existing risk management practices and frameworks could adequately mitigate any risks that arose, a formal review did not otherwise occur. The Board will continue to assess the need for formal review of the company's risk management framework.

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

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

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

A copy of the Audit and Risk Management Charter and the Risk Management policy is available on the Company's website at [www.kinapetroleum.com](http://www.kinapetroleum.com) under the section marked Corporate Governance.

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

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

The company's exposure to risks of an economic, environmental and social nature are those which are common to participants in the Oil and Gas industry worldwide. The company manages economic risk through its business model of farming out higher risk exploration activity and only investing directly in development activity which is commercially

## CORPORATE GOVERNANCE STATEMENT

viable. Environmental and social risks are managed through adherence to the requirements of the Oil and Gas Act (1998) and addressing landowner issues whenever the company is conducting field operations.

### Principle 8 – Remunerate fairly and responsibly

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

#### Notification of Departure:

The Company has not established a separate Remuneration Committee.

#### Explanation for Departure:

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

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

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

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

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

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

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

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

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

## STATEMENTS OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Group 2018	2017	Company 2018	2017
		US\$	US\$	US\$	US\$
Revenue	2	<b>5,367</b>	3,550	<b>5,133</b>	3,340
Net administration expense	3	<b>(1,227,987)</b>	(1,341,736)	<b>(6,769,189)</b>	(2,448,393)
Exploration expense	21b	<b>(1,698,634)</b>	(1,198,738)	<b>(379,121)</b>	(379,115)
Write off of expired licence	21b	<b>(4,033,985)</b>	-	-	-
Share based payments	17	<b>(65,952)</b>	(79,382)	<b>(65,952)</b>	(79,382)
Foreign exchange gains/(losses), net		<b>22,445</b>	(52,485)	<b>21,222</b>	(52,012)
<b>Loss before income tax</b>		<b>(6,998,746)</b>	(2,668,791)	<b>(7,187,907)</b>	(2,955,562)
Income tax expense	4	-	-	-	-
<b>Loss after income tax attributable to members of the parent entity</b>		<b>(6,998,746)</b>	(2,668,791)	<b>(7,187,907)</b>	(2,955,562)
<b>Other comprehensive income</b>					
Items that may be subsequently reclassified to profit and loss					
Foreign currency translation difference for the year, net of tax		<b>(38,020)</b>	35,726	-	-
<b>Other comprehensive (loss)/income for the year</b>		<b>(38,020)</b>	35,726	-	-
<b>Total comprehensive loss for the year attributable to members of the Parent Entity</b>		<b>(7,036,766)</b>	(2,633,065)	<b>(7,187,907)</b>	(2,955,562)

### Earnings per share

From continuing operations:

			In US cents	
Basic loss per share	23	<b>(1.83)</b>	(0.87)	-
Diluted loss per share	23	<b>(1.83)</b>	(0.87)	-

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

## STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Note	Group		Company	
		2018	2017	2018	2017
		US\$	US\$	US\$	US\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	6	<b>5,226,537</b>	8,933,365	<b>5,221,542</b>	8,917,785
Trade and other receivables	7	<b>33,659</b>	116,881	<b>20,593</b>	19,461
Other current assets	8	<b>21,303</b>	19,828	<b>17,634</b>	19,825
<b>TOTAL CURRENT ASSETS</b>		<b>5,281,499</b>	9,070,074	<b>5,259,769</b>	8,957,071
<b>NON-CURRENT ASSETS</b>					
Exploration and evaluation expenditure	9	<b>22,338,463</b>	25,710,007	<b>86,880</b>	86,880
Plant and equipment	10	<b>7,124</b>	11,267	<b>7,124</b>	11,267
Investment in subsidiaries	24	-	-	<b>484,417</b>	484,417
Loans receivable	11	-	-	<b>21,981,496</b>	25,488,457
Other non-current assets	12	<b>291,200</b>	303,800	<b>291,200</b>	303,800
<b>TOTAL NON-CURRENT ASSETS</b>		<b>22,636,787</b>	26,025,074	<b>22,851,117</b>	26,374,821
<b>TOTAL ASSETS</b>		<b>27,918,286</b>	35,095,148	<b>28,110,886</b>	35,331,892
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	<b>251,221</b>	428,310	<b>150,288</b>	182,912
Provisions	14	<b>60,223</b>	89,477	-	-
Loans payable	15	-	-	<b>526,532</b>	592,959
<b>TOTAL CURRENT LIABILITIES</b>		<b>311,444</b>	517,787	<b>676,820</b>	775,871
<b>NON-CURRENT LIABILITIES</b>					
Provisions	14	21,634	21,339	-	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>21,634</b>	21,339	-	-
<b>TOTAL LIABILITIES</b>		<b>333,078</b>	539,126	<b>676,820</b>	775,871
<b>NET ASSETS</b>		<b>27,585,208</b>	34,556,022	<b>27,434,066</b>	34,556,021
<b>EQUITY</b>					
Issued capital	16	<b>53,763,235</b>	53,763,235	<b>53,763,235</b>	53,763,235
Reserves	27	<b>(37,839)</b>	(65,771)	<b>113,898</b>	47,946
Accumulated losses		<b>(26,140,188)</b>	(19,141,442)	<b>(26,443,067)</b>	(19,255,160)
<b>TOTAL EQUITY</b>		<b>27,585,208</b>	34,556,022	<b>27,434,066</b>	34,556,021

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

For and on behalf of the Board:  
22nd March 2019



**Mr Richard Schroder**  
Managing Director



**Mr David Vance**  
Non-Executive Chairman

## STATEMENTS OF CHANGES IN EQUITY

Group	Ordinary Issued Capital US\$	Accumulated Losses US\$	Reserves US\$	Total US\$
<b>For the year ended 31 December 2018</b>				
Balance at 31 December 2017	53,763,235	(19,141,442)	(65,771)	34,556,022
Loss for the year	-	(6,998,746)	-	(6,998,746)
Other comprehensive income				
Foreign currency translation difference	-	-	(38,020)	(38,020)
Total comprehensive loss for the year	-	(6,998,746)	(38,020)	(7,036,766)
Transactions with owners in their capacity as owners:				
Shares to be issued to Non-Exec. Directors	-	-	65,952	65,952
Total transactions with owners for the year	-	-	65,952	65,952
<b>Balance at 31 December 2018</b>	<b>53,763,235</b>	<b>(26,140,188)</b>	<b>(37,839)</b>	<b>27,585,208</b>
<b>For the year ended 31 December 2017</b>				
Balance at 31 December 2016	49,389,418	(16,472,651)	66,773	32,983,540
Loss for the year	-	(2,668,791)	-	(2,668,791)
Other comprehensive income				
Foreign currency translation difference	-	-	35,726	35,726
Total comprehensive loss for the year	-	(2,668,791)	35,726	(2,633,065)
Transactions with owners in their capacity as owners:				
Shares issued – placement	4,126,165	-	-	4,126,165
Shares issued Non-Exec. Directors & employee	247,652	-	(232,550)	15,102
Shares to be issued to Non-Exec. Directors	-	-	64,280	64,280
Total transactions with owners for the year	4,373,817	-	(168,270)	4,205,547
<b>Balance at 31 December 2017</b>	<b>53,763,235</b>	<b>(19,141,442)</b>	<b>(65,771)</b>	<b>34,556,022</b>

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

## STATEMENTS OF CHANGES IN EQUITY

Company	Ordinary Issued Capital US\$	Accumulated Losses US\$	Reserves US\$	Total US\$
<b>For the year ended 31 December 2018</b>				
Balance at 31 December 2017	53,763,235	(19,255,160)	47,946	34,556,021
Loss for the year	-	(7,187,907)	-	(7,187,907)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(7,187,907)	-	(7,187,907)
Transactions with owners in their capacity as owners:				
Shares to be issued to Non-Exec. Directors	-	-	65,952	65,952
Total transactions with owners for the year	-	-	65,952	65,952
<b>Balance at 31 December 2018</b>	<b>53,763,235</b>	<b>(26,443,067)</b>	<b>113,898</b>	<b>27,434,066</b>
<b>For the year ended 31 December 2017</b>				
Balance at 31 December 2016	49,389,418	(16,299,598)	216,215	33,306,035
Loss for the year	-	(2,955,562)	-	(2,955,562)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(2,955,562)	-	(2,955,562)
Transactions with owners in their capacity as owners:				
Shares issued – placement	4,126,165	-	-	4,126,165
Shares issued Non-Exec. Directors & employee	247,652	-	(232,549)	15,103
Shares to be issued to Non-Exec. Directors	-	-	64,280	64,280
Total transactions with owners for the year	4,373,817	-	(168,269)	4,205,548
<b>Balance at 31 December 2017</b>	<b>53,763,235</b>	<b>(19,255,160)</b>	<b>47,946</b>	<b>34,556,021</b>

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



## STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
		<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Exploration and evaluation expenditure		<b>(1,589,067)</b>	(545,818)	<b>(379,120)</b>	(393,707)
Payments to suppliers and employees		<b>(1,347,710)</b>	(1,355,370)	<b>(1,247,306)</b>	(1,186,711)
Interest received		<b>5,367</b>	3,550	<b>5,133</b>	3,340
Net operator fee Income		-	44,213	-	44,213
<b>Net cash used in operating activities</b>	<b>20</b>	<b>(2,931,410)</b>	(1,853,425)	<b>(1,621,293)</b>	(1,532,865)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Exploration and evaluation expenditure		<b>(743,100)</b>	(1,192,265)	-	(366,387)
Acquisition of plant and equipment		-	(1,263)	-	(1,263)
Receipt for assumption of restoration obligation		-	623,028	-	623,028
<b>Net cash (used in)/from investing activities</b>		<b>(743,100)</b>	(570,500)	-	255,378
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Receipt of funds from Share Placement		-	4,126,165	-	4,126,165
Loans to wholly owned subsidiaries		-	-	<b>(2,053,451)</b>	(1,084,803)
<b>Net cash (used in)/from financing activities</b>		-	4,126,165	<b>(2,053,451)</b>	3,041,362
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(32,318)</b>	85,528	<b>(21,499)</b>	15,861
<b>Net (decrease)/increase in cash and cash equivalents held</b>		<b>(3,706,828)</b>	1,787,768	<b>(3,696,243)</b>	1,779,736
Cash at beginning of year		<b>8,933,365</b>	7,145,597	<b>8,917,785</b>	7,138,049
<b>Cash at end of year</b>	<b>20</b>	<b>5,226,537</b>	8,933,365	<b>5,221,542</b>	8,917,785

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

## Notes to the financial statements

### Note 1 - Summary of Significant Accounting Policies

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

#### Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1s.

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

#### Going concern basis of accounting

Notwithstanding the net loss after income tax for the consolidated group for the financial year ended 31 December 2018 of US\$6,998,746 (2017: US\$2,668,791), the financial statements have been prepared on a going concern basis.

The Group has US\$5,226,537 in cash and cash equivalents at the end of the year. The Directors are managing the Group's cashflows carefully to meet its operational commitments and expect to have sufficient working capital to carry out its stated objectives for at least 12 months from the date of this report. If the Group undertakes an acquisition of additional project(s) then it may have to raise additional capital to fund the development of these, but no allowance for such circumstances has been made in the financial statements as no such acquisition is contemplated by the Directors at the date of this report. The Directors consider that the going concern basis is appropriate in consideration of these circumstances.

#### Changes in accounting policies and disclosures

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

The following standards became effective in the year ended 31 December 2018, however none materially impact the Group.

- IFRS 9, 'Financial Instruments' replaced the guidance in IAS 39 with a standard that is less complex and principles based. The new standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. IFRS 9's new impairment model is a move away from IAS 39's incurred credit loss approach to an expected credit loss model.
- IFRS 15 'Revenue from contracts with customers' replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The entity now adopts a new 5-step process for the recognition of revenue:
  - identify contracts with customers
  - identify the separate performance obligations
  - determine the transaction price of the contract
  - allocate the transaction price to each of the separate performance obligations, and
  - recognise the revenue as each performance obligation is satisfied
- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated

as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- Amendments to IFRS 4, 'Insurance contracts' regarding implementation of IFRS 9. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
  - give all companies that issue insurance contracts the option to recognise in OCI, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
  - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021, in which case they will continue to apply IAS 39.
- Amendments to IAS 40, 'Investment property' relating to transfers of investment property. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- Annual improvements 2014 – 2016 makes minor changes to IFRS 1 on first-time adoption of IFRS and IAS 28 regarding measuring an associate or joint venture at fair value.
- IFRIC 22, 'Foreign currency transactions and advance consideration' addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made.

**(b) Standards, amendment and interpretations issued but not yet effective for the year ended 31 December 2018 or adopted early. Unless otherwise stated, the following standards are not expected to have a significant impact to the Group.**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2019 or later periods, but the entity has not early adopted them

- IFRS 16, 'Leases' (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- Amendment to IFRS 9 on prepayment features with negative compensation (effective 1 January 2019). This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.
- IFRIC 23, 'Uncertainty over income tax treatments' (effective 1 January 2019) clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes' are applied where there is uncertainty over income tax positions. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
- Annual improvements 2015 – 2017 (effective 1 January 2019). These amendments include minor changes to:
  - IFRS 3 'Business combination' – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11 'Joint arrangements' – a company does not remeasure its previously held interest in a joint operation when it obtains control of the business.
  - IAS 12 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.

- IAS 23 "Borrowing costs" – a company treats as part of general borrowings any borrowings originally made to develop an asset when the asset is ready for its intended use or sale.

- Amendments to IAS 28 'Investments in associates' on long term interests in associates and joint ventures (effective 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for using IFRS 9. This includes the impairment requirements in IFRS 9.
- Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement (effective 1 January 2019). These amendments require an entity to:
  - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
- Amendments to IFRS 3 – definition of a business (effective 1 January 2020). This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- Amendments to IAS 1 and IAS 8 on the definition of 'material' (effective 1 January 2020). These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
  - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting
  - ii) clarify the explanation of the definition of material; and
  - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- IFRS 17 'Insurance contracts' (effective 1 January 2021) replaces IFRS 4. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The group is currently assessing the impact these changes will have on future financial statements

## **Accounting Policies**

### **(c) Principles of Consolidation**

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

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 24 to the financial statements.

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

### **(d) Revenue recognition**

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

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

#### **(e) Income tax**

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

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

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

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

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

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

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

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

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

#### **(f) Cash and cash equivalents**

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

#### **(g) Exploration and Evaluation expenditure**

##### *Exploration and Evaluation Expenditure*

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

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

These costs are capitalised.

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

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

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

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

#### *Impairment of Exploration and Evaluation Expenditure*

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

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

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

### **(h) Trade and other receivables**

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

### **(i) Foreign currency transactions and balances**

#### **Functional and presentation currency**

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

#### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/ (losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at

fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary 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 and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised 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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## **(j) Financial instruments**

### **Classification**

From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

### **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 (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

*Equity instruments*

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

**Impairment of financial assets**

From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

**Accounting policies applied until 31 December 2017**

The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether there is objective evidence of impairment that exists individually for receivables which are individually significant, and collectively for receivables which 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 them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - i) Adverse changes in the payments status of borrowers in the portfolio; and
  - ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate of receivables. The carrying amount of receivables is reduced through the use of an allowance account and the amount of loss is charged to profit or loss.

When receivables are determined to be uncollectible, they are written off against the related provision for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of previously recognised impairment loss is recognised in Provision for impairment in the statement of income under expenses. Reversals of previously recorded impairment provision are based on the result of management's updated assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with a client or other third party as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited to Other income in the statement of comprehensive income.

#### **(k) 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 statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **(l) Employee benefits**

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

#### **(m) Provisions**

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

#### **(n) Earnings per share**

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

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

**(o) Share based payments**

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

**(p) Segment reporting**

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

**(q) 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:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
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.

**(r) Joint arrangements**

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

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

**(s) Critical accounting estimates and judgments**

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

*Recoverability and impairment of exploration and evaluation costs*

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

*Share-based payments*

The fair value of shares to which non-executive directors are entitled is based on market price at measurement date. The fair value of these shares appear at note 17(a).

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
<b>Note 2 – Revenue</b>				
Interest income	<b>5,367</b>	3,550	<b>5,133</b>	3,340
Operator fee income	-	-	-	-
	<b>5,367</b>	3,550	<b>5,133</b>	3,340

**Note 3 – Net Administration expense**

Salaries and employee benefits	<b>615,183</b>	684,556	<b>165,248</b>	106,162
Professional fees	<b>356,293</b>	498,285	<b>343,271</b>	483,439
Transportation and travel	<b>105,361</b>	87,551	<b>105,362</b>	87,551
Legal and regulatory	<b>76,541</b>	113,134	<b>75,188</b>	113,134
Occupancy and insurance	<b>164,359</b>	134,305	<b>119,622</b>	67,904
On-charged Expenses	-	-	<b>198,130</b>	331,460
Administration and other costs	<b>354,706</b>	295,642	<b>323,229</b>	260,606
Charged to exploration expense	<b>(444,456)</b>	(471,737)	<b>(111,331)</b>	(121,616)
Impairment of related party receivables & investments	-	-	<b>5,550,470</b>	1,119,753
	<b>1,227,987</b>	1,341,736	<b>6,769,189</b>	2,448,393

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
<b>Note 4 - Income tax expense</b>				
(a) The components of income tax expense comprise:				
Benefit from deferred tax	<b>2,101,234</b>	801,702	<b>2,157,912</b>	887,670
Deferred tax assets not recognised	<b>(2,101,234)</b>	(801,702)	<b>(2,157,912)</b>	(887,670)
	<b>-</b>	-	<b>-</b>	-
(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%	<b>(2,099,624)</b>	(800,637)	<b>(2,156,372)</b>	(886,668)
Add Tax effect of:				
Expenses not deductible for tax	-	-	-	-
Deferred tax assets not recognised	<b>2,101,234</b>	801,702	<b>2,157,912</b>	887,670
Less tax effect of:				
Income not assessable for tax	<b>(1,610)</b>	(1,065)	<b>(1,540)</b>	(1,002)
(Income tax expense/(benefit))	<b>-</b>	-	<b>-</b>	-
<b>Tax losses benefit</b>				
Unused tax losses for which no tax loss has been recognised as a deferred tax asset adjusted for non-temporary differences at 30%	<b>7,270,673</b>	5,169,439	<b>7,401,482</b>	5,243,570

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.

#### **Note 5 - Auditors' remuneration**

Remuneration of the auditor of the parent entity for:

- auditing/reviewing financial reports	<b>37,931</b>	38,723	<b>37,931</b>	38,723
- other services	<b>3,499</b>	6,152	<b>3,499</b>	6,152
	<b>41,430</b>	44,875	<b>41,430</b>	44,875

#### **Note 6 - Cash and cash equivalents**

Cash at bank	<b>5,226,537</b>	8,933,365	<b>5,221,542</b>	8,917,785
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	Group		Company	
	2018	2017	2018	2017
	US\$	US\$	US\$	US\$
<b>Note 7 - Trade and other receivables</b>				
<b>Current</b>				
Cash calls in advance	8,526	89,819	-	-
Other receivables	25,133	27,062	20,593	19,461
	<b>33,659</b>	116,881	<b>20,593</b>	19,461

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

#### **Note 8 – Other current assets**

Other current assets as at 31 December 2018 relate to security deposits.

#### **Note 9 – Exploration and evaluation expenditure**

*Costs carried forward in respect of areas of interest in the exploration phase:*

Balance at beginning of the year	25,710,007	25,891,337	86,880	25,891,337
Net Expenditures incurred	662,441	441,698	-	346,132
Write off of expired licence	(4,033,985)	-	-	-
Funds received for future abandonment costs	-	(623,028)	-	(623,028)
Expenditure transferred to subsidiaries at cost	-	-	-	(25,527,561)
Carrying amount at end of the year	<b>22,338,463</b>	25,710,007	<b>86,880</b>	86,880

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

#### **Note 10 – Plant and equipment**

Leasehold improvements, at cost	43,566	43,566	14,657	14,657
Accumulated depreciation	(43,566)	(43,566)	(14,657)	(14,657)
	-	-	-	-
Office Equipment, at cost	11,272	11,272	11,272	11,272
Accumulated depreciation	(11,272)	(11,272)	(11,272)	(11,272)
	-	-	-	-
Motor Vehicles, at cost	16,635	16,635	16,635	16,635
Accumulated depreciation	(16,635)	(12,094)	(16,635)	(12,094)
	-	4,541	-	4,541
IT equipment, at cost	42,221	39,841	42,221	39,841
Accumulated depreciation	(35,097)	(33,115)	(35,097)	(33,115)
	7,124	6,726	7,124	6,726
	<b>7,124</b>	11,267	<b>7,124</b>	11,267

**Note 11 – Loans Receivable**

Loans receivable represent non-interest bearing finance provided by Kina Petroleum Limited to wholly owned entities to advance the Company's operations. The loans are receivable on demand. Movement in receivable balances are as follows:

	<b>Group</b>		<b>Company</b>		
	<b>2018</b>	2017	<b>2018</b>	2017	
	<b>US\$</b>	US\$	<b>US\$</b>	US\$	
Balance at beginning of the year	-	-	<b>25,488,457</b>	-	-
Advances during the year	-	-	<b>2,043,509</b>	26,326,816	-
Provision for Impairment	-	-	<b>(5,550,470)</b>	(838,359)	-
Balance at end of the year	-	-	<b>21,981,496</b>	25,488,457	-

**Note 12 – Other Non Current assets**

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

**Note 13 – Trade and other payables**

Trade payables	<b>38,564</b>	76,424	<b>36,624</b>	74,334
Sundry payables and accrued expenses	<b>212,657</b>	351,886	<b>113,664</b>	108,578
	<b>251,221</b>	428,310	<b>150,288</b>	182,912

**Note 14 - Provisions****Current**

Annual Leave	<b>33,926</b>	30,940	-	-
Long Service Leave	<b>26,297</b>	58,537	-	-
	<b>60,223</b>	89,477	-	-

**Non-Current**

Long Service Leave	<b>21,634</b>	21,339	-	-
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**Note 15 – Loans payable**

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

Balance at beginning of the year	-	-	<b>592,959</b>	464,221
(Repayments)/Borrowing during the year	-	-	<b>(66,427)</b>	128,738
Balance at end of the year	-	-	<b>526,532</b>	592,959

**Note 16 – Issued capital**

382,752,788 (2017: 382,752,788) fully paid ordinary shares	<b>53,763,235</b>	53,763,235	<b>53,763,235</b>	53,763,235
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(a)	<b>Fully paid ordinary shares</b>			
	<b>No of shares</b>	<b>US\$</b>	<b>No of shares</b>	<b>US\$</b>

**For the year ended 31 December 2018**

Balance at beginning of year	<b>382,752,788</b>	<b>53,763,235</b>	<b>382,752,788</b>	<b>53,763,235</b>
Share transactions during the year:	-	-	-	-
<b>Balance at end of year</b>	<b>382,752,788</b>	<b>53,763,235</b>	<b>382,752,788</b>	<b>53,763,235</b>

**For the year ended 31 December 2017**

Balance at beginning of year	306,898,921	49,389,418	306,898,921	49,389,418
Shares transactions during the year:				
- issue to Non Exec. Directors and employee	853,867	247,652	853,867	247,652
- placement	75,000,000	4,126,165	75,000,000	4,126,165
<b>Balance at end of year</b>	<b>382,752,788</b>	<b>53,763,235</b>	<b>382,752,788</b>	<b>53,763,235</b>

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

Ordinary shares have no par value.

**(b) Options over unissued shares**

There are no options over unissued shares.

**(c) Share-based payments**

The shares due to non executive directors will be put forward for approval at the company's next Annual General Meeting. It is expected that all shares due will be issued during 2019. As noted in the directors report in the section headed "Matters Subsequent to the end of the Financial Year", Kina Petroleum Limited has entered into a scheme of arrangement with Kina Petroleum Corporation which if approved, will see the company de-listed. Directors will be entitled to shares in Kina Petroleum Corporation.

Refer to the remuneration report and note 17 for details of the number of shares due to non-executive directors.

**(d) Capital management**

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

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

**Note 17 - Interests of key management personnel (KMP)**

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

Richard Schroder (appointed 31 May 2011)	Executive Director
Barry Tan (appointed 1 March 2009)	Non-executive Director
Dr Ila Temu (appointed 31 May 2011)	Non-executive Director
David Vance (appointed 6 November 2014, and appointed Chairman 11 September 2017)	Non-executive Chairman
Alain Vinson (appointed 11 September 2017)	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 2018. The totals of remuneration paid to KMP of the Group during the year are as follows:

	Group		Company	
	2018	2017	2018	2017
	US\$	US\$	US\$	US\$
Short-term employee benefits	524,114	522,088	142,056	134,164
Post-employment benefits	35,454	39,735	-	-
Share based payments	65,952	79,382	65,952	79,382
	<b>625,520</b>	<b>641,205</b>	<b>208,008</b>	<b>213,546</b>

**(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	Received as part of approved remuneration	Bought or (Sold)	Balance at end of year	Entitlement to shares as part of approved remuneration arrangements <sup>1</sup>			
					Entitlement at beg. of year	Arising during year	Entitlement at end of year	Fair Value of annual entitlement
<b>2018</b>								
Richard Schroder	15,752,381	-	-	15,752,381	-	-	-	-
Barry Tan	17,735,526	-	-	17,735,526	31,269	253,985	285,254	14,656
Dr Ila Temu	725,525	-	-	725,525	39,192	253,985	293,177	14,656
Alain Vinson	28,744,029	-	-	28,744,029	60,822	253,985	314,807	14,656
David Vance	146,693	-	-	146,693	42,427	380,977	423,404	21,984
Alex Mitchell	44,450	-	-	44,450	-	-	-	-
<b>Total</b>	<b>63,148,604</b>	<b>-</b>	<b>-</b>	<b>63,148,604</b>	<b>173,710</b>	<b>1,142,932</b>	<b>1,316,642</b>	<b>65,952</b>
<b>2017</b>								
Richard Schroder	15,752,381	-	-	15,752,381	-	-	-	-
Barry Tan	17,520,001	215,525	-	17,735,526	53,333	(22,064)	31,269	15,201
Dr Ila Temu	510,000	215,525	-	725,525	61,256	(22,064)	39,192	17,465
Richard Robinson	300,000	231,674	(531,674)	-	30,271	(30,271)	-	9,372
Alain Vinson	28,744,029	-	-	28,744,029	60,822	-	60,822	4,653
David Vance	-	146,693	-	146,693	66,067	(23,640)	42,427	17,590
Alex Mitchell	-	44,450	-	44,450	-	-	-	-
<b>Total</b>	<b>62,826,411</b>	<b>853,867</b>	<b>(531,674)</b>	<b>63,148,604</b>	<b>271,749</b>	<b>(98,039)</b>	<b>173,710</b>	<b>64,281</b>

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



**Note 18 - Employee benefits****Superannuation**

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

**Note 19 - Related party transactions****Key management personnel**

Details of the compensation of key management personnel are included in note 17 and the Remuneration Report section of the Directors' Report.

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
<b>Note 20 - Notes to statement of cash flows</b>				
<b>(a) Reconciliation of cash</b>				
Cash at bank and on hand	<b>5,226,537</b>	8,933,365	<b>5,221,542</b>	8,917,785
<b>(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities</b>				
Loss from ordinary activities after income tax	<b>(6,998,746)</b>	(2,668,791)	<b>(7,187,907)</b>	(2,955,562)
Add Back/(Deduct)				
Non-cash expense – shared based payments	<b>65,952</b>	79,382	<b>65,952</b>	79,382
Non-cash expense – depreciation	<b>6,523</b>	4,303	<b>6,523</b>	4,303
Non-cash expense – impairment charge relating to intercompany loans and investments		-	<b>5,550,470</b>	1,119,753
Non-cash income – foreign exchange loss/(gain)	<b>(22,445)</b>	52,485	<b>(21,221)</b>	52,012
Non-operating item – exploration expense relating to investment activity	<b>4,079,316</b>	559,120	-	142,058
Changes in assets and liabilities relating to operations:				
- (increase)/decrease in receivables	<b>(174)</b>	35,045	<b>(2,485)</b>	35,515
- decrease in trade and other payables	<b>(37,860)</b>	(56,010)	<b>(37,710)</b>	(56,942)
- increase in other creditors	<b>4,982</b>	48,256	<b>5,085</b>	46,616
- (decrease)/increase in provisions	<b>(28,958)</b>	92,785	-	-
Net cash used in by operating activities	<b>(2,931,410)</b>	(1,853,425)	<b>(1,621,293)</b>	(1,532,865)

**Note 21 - 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.

- PPLs 338, 339 and 340 – located in the Southern Papuan Basin which is a proven hydrocarbon basin
- PPLs 435, 436 and 437 – located in the Western Papuan Basin, adjacent to PRL 21.
- Petroleum Retention License (PRL) 21 – located in the Western Province of PNG and contains two wet gas discoveries. The Group has a 16.75% interest in PRL 21 and is covered by a Joint Operating Agreement.

**(b) Segment information**

	Balance at beginning of the year	Exploration costs incurred	Exploration costs expensed	Pre Development costs incurred	Write down of expired licence	Balance at year end	% of total expenditure
	US\$	US\$	US\$	US\$	US\$	US\$	%
<b>1 Dec 2018</b>							
PPL 338	13,767	56,094	(56,094)	-	-	13,767	0.07
PPL 339	25,017	1,209,948	(805,036)	-	-	429,929	1.92
PPL 340	16,205	101,672	(101,672)	-	-	16,205	0.07
PPL 435	26,611	72,915	(72,915)	-	-	26,611	0.12
PPL 436	24,604	77,504	(77,504)	-	-	24,604	0.11
PPL 437	5,694	49,125	(49,125)	-	-	5,694	0.03
PPLs 581/596/597/598	-	21,811	(21,811)	-	-	-	-
PRL 21	21,512,788	432,221	(432,196)	308,840	-	21,821,653	97.68
PRL 38	4,085,321	30,945	(82,281)	-	(4,033,985)	-	-
	<b>25,710,007</b>	<b>2,052,235</b>	<b>(1,698,634)</b>	<b>308,840</b>	<b>(4,033,985)</b>	<b>22,338,463</b>	<b>100.00</b>
<b>31 Dec 2017</b>							
PPL 338	13,767	83,187	(83,187)	-	-	13,767	0.05
PPL 339	25,017	90,268	(90,268)	-	-	25,017	0.10
PPL 340	16,205	66,389	(66,389)	-	-	16,205	0.06
PPL 435	26,611	77,704	(77,704)	-	-	26,611	0.10
PPL 436	24,604	95,636	(95,636)	-	-	24,604	0.10
PPL 437	5,694	51,303	(51,303)	-	-	5,694	0.02
PPLs 581/596/597/598	-	4,896	(4,896)	-	-	-	0.00
PRL 21	21,694,118	642,768	(642,768)	441,698	(623,028)	21,512,788	83.68
PRL 38	4,085,321	86,587	(86,587)	-	-	4,085,321	15.89
	<b>25,891,337</b>	<b>1,198,738</b>	<b>(1,198,738)</b>	<b>441,698</b>	<b>(623,028)</b>	<b>25,710,007</b>	<b>100.00</b>

**Note 22 - Financial risk management**

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

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

	Group		Company	
	2018	2017	2018	2017
	US\$	US\$	US\$	US\$
<b>Financial assets</b>				
Cash and cash equivalents	<b>5,226,537</b>	8,933,365	<b>5,221,542</b>	8,917,785
Trade and other receivables	<b>33,659</b>	116,881	<b>20,593</b>	19,461
Other current assets	<b>21,303</b>	19,828	<b>17,634</b>	19,825
Other non-current assets	<b>291,200</b>	303,800	<b>291,200</b>	303,800
<b>Total</b>	<b>5,572,699</b>	9,373,874	<b>5,550,969</b>	9,260,871

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
<b>Financial liabilities</b>				
Trade and other payables	<b>251,221</b>	428,310	<b>150,288</b>	182,912
Loans payable	-	-	<b>526,532</b>	592,959
Total	<b>251,221</b>	428,310	<b>676,820</b>	775,871

### Specific financial risk exposures and management

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

#### Interest rate risk

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

Cash in bank	<b>5,226,537</b>	8,933,365	<b>5,221,542</b>	8,917,785
Other non-current assets	<b>291,200</b>	303,800	<b>291,200</b>	303,800
Cash and cash deposits	<b>5,517,737</b>	9,237,165	<b>5,512,742</b>	9,221,585

The Group's main interest rate risk arises from cash and cash deposits. Cash maintained in short term deposits earned a floating interest rate of approximately 1.3% (2017: 1.4%). The impact of changes in interest rates on cash flow is not expected to be material due to the short term nature of cash equivalents.

#### Guarantees

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

#### Contractual commitments

Kina Petroleum Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment as at 31 December 2018.

#### 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:

Cash in bank				
In Papua New Guinea (PNG) Kina	<b>72,051</b>	81,165	<b>71,369</b>	80,381
In Australian dollar	<b>151,657</b>	164,742	<b>151,657</b>	149,946
Short-term deposit				
In Australian dollar	-	-	-	-
Other non-current assets				
In PNG Kina	<b>291,200</b>	303,800	<b>291,200</b>	303,800
	<b>514,908</b>	549,707	<b>514,226</b>	534,127

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.

	<b>Sensitivity rate</b>	<b>Group</b>		<b>Company</b>	
		<b>2018</b>	2017	<b>2018</b>	2017
		<b>US\$</b>	US\$	<b>US\$</b>	US\$
PNG Kina-denominated Cash and cash equivalents	1% (2017 – 1%)	<b>3,633</b>	3,850	<b>3,626</b>	3,842
Australian dollar-denominated Cash and cash equivalents	2% (2017 – 2%)	<b>3,119</b>	3,295	<b>3,033</b>	2,999
Total increase/decrease in post-tax profit		<b>6,752</b>	7,145	<b>6,659</b>	6,841

### Credit risk

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

### Liquidity risk

The Group maintains sufficient liquidity by holding cash in readily accessible accounts. The consolidated group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The consolidated group has no access to borrowing facilities at the reporting date. The consolidated group's financial assets \$5,572,699 (2017: \$9,373,874) and financial liabilities \$308,078 (2017: \$517,787) have a maturity within 12 months of 31 December 2018.

### 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 23 - Earnings per share

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Operating loss after income tax used in the calculation of basic and diluted loss per share	6,998,746	2,668,791
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	382,752,788	308,384,833
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted loss per share	382,752,788	308,384,833

**Note 24 - Controlled Entities****Controlled Entities Consolidated**

Subsidiaries of Kina Petroleum Limited	Country of incorporation	Percentage Owned (%)	
		2018	2017
Kina Oil and Gas Pty Limited	Australia	100	100
Kina Petroleum (PRL 21) Limited	Papua New Guinea	100	100
Kina Petroleum (PRL 38) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 337) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 338) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 339) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 340) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 435) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 436) Limited	Papua New Guinea	100	100
Kina Petroleum (PPL 437) Limited	Papua New Guinea	100	100

Kina Oil and Gas Pty Limited was acquired on 24 May 2011 through the issue of 10,035,801 shares at a cost of US\$765,808. At 31 December 2018 a provision for impairment of this investment was brought to account. The amount of the provision was \$US 281,394 (2017: \$US 281,394) and the carrying value at balance date is therefore \$US 484,417 (2017:\$US 484,417).

Kina Petroleum (PRL 21) Limited was acquired on 19 October 2015 for consideration of K 1.00

Kina Petroleum (PPL 339) Limited was acquired on 28 October 2015 for consideration of K 1.00

Kina Petroleum (PRL 38) Limited and Kina Petroleum (PPL 337) Limited were incorporated on 10 November 2015, each with share capital of US\$ 0.34.

The other subsidiaries noted above were incorporated on 10 November 2015, each with share capital of US\$ 0.34. These other subsidiaries were dormant at 31 December 2018.

**Note 25 - Joint operations**

The Company has entered into a joint operations agreement for PRL 21 and PPLs 339 & 437 in relation to the exploration, appraisal development, production and disposition of petroleum covered by those licences. The Company has a 16.75% participating interest in PRL 21, a 30%\* interest in PPL 339 and a 57.5% interest in PPL 437 and accounts for its assets owned, liabilities incurred and share in exploration expenditures. The Group's assets in the joint operations are shown on the table below:

	2018	2017
	US\$	US\$
<b>Current assets</b>		
Trade and other receivables	11,103	94,498
<b>Non current assets</b>		
Exploration, evaluation and development expenditure	27,695,236	25,603,803
<b>Total assets employed in the joint operations</b>	<b>27,706,339</b>	<b>25,698,301</b>
<b>Non current liabilities</b>		
Trade and other payables	(85,739)	(229,950)
<b>Total net assets (liability) employed in the operations</b>	<b>27,620,600</b>	<b>25,468,351</b>

\* Upon completion of the farmin to Santos Ltd dated 7 December 2017, Kina's participating interest will reduce to 10%.

**Note 26 - Events occurring after the reporting period**

On 15 February 2019 the company announced that it had entered into a scheme of arrangement with Kina Petroleum Corporation ("KPC") whereby KPC would acquire all of the shares of the company and become the listed parent entity for the Kina Petroleum group. Under the scheme, existing shareholders of Kina Petroleum Limited will receive 1 share in KPC for every 30 shares held in Kina Petroleum Limited.

For the scheme to be implemented it must be approved by both shareholders of Kina Petroleum Limited and also the courts of Papua New Guinea.

At a meeting on 20 March 2019, the requisite majority of shareholders approved the scheme. On 2 April 2019, the courts of Papua New Guinea will further review the scheme and the meeting results and consider whether to provide approval for the scheme to proceed.

At the date of this report the directors of Kina Petroleum Limited are of the view that it is likely that the scheme will be approved. Assuming this occurs, the scheme will be implemented and the acquisition of the Company's shares by KPC will proceed in early April. This is not expected to have any impact on the group's operations or financial situation and Kina Petroleum Limited will remain a validly constituted company subject to the laws of Papua New Guinea. It will however no longer be subject to the listing rules of the ASX and POMSoX. KPC will, from the point in time where it is listed, be subject to the listing rules of those exchanges

Other than the scheme of arrangement referred to in the paragraphs immediately above, the directors are not aware of any other matters or circumstances since 31 December 2018 not otherwise dealt with in the report or the financial statements that have significantly affected, or may significantly affect, the operations of the company, the results of those operations of the company, or the state of affairs of the company in subsequent financial years.

The financial report was authorised for issue on 20 March 2019 by the Board of Directors.

**Note 27 – 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\$ 38,020 (2017: credit of US\$ 35,726).

The foreign currency valuation reserve had a closing balance, in debit, of \$US 151,737 (2017: \$US 113,717)

Reserves also include a movement in the value of shares which may be, granted to non-executive directors. Total movement recognised in respect of such shares and share options during the year amounted to a credit of US\$ 65,952 (2017: debit of US\$ 173,054).

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

The share vesting reserve had a closing balance, in credit, of \$US 113,898 (2017: \$US 47,946).

Group		Company	
2018	2017	2018	2017
US\$	US\$	US\$	US\$

**Note 28 – Capital and leasing commitments****(a) Operating lease commitments**

Non-cancellable operating leases contracted for but not recognised in the financial statements

Within one year	54,870	75,791	29,197	30,791
Later than one year but not later than 2 years	-	30,000	-	-
Later than 2 years	-	-	-	-

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

**(b) Expenditure commitments**

The group has entered into joint operations for the purpose of exploring and developing certain petroleum interests. To maintain these interests, the group is required to make contributions to ongoing exploration and development programs. Since such programs are subject to continual review by operating committees (upon which the Group is represented) and the government of Papua New Guinea, the extent of future contributions in accordance with these arrangements is subject to continual re-negotiation.

Subject to the above-mentioned limitations, the directors have prepared the following disclosure of exploration and development expenditure commitments related to aerial surveys, seismic surveys and drilling of wells not recognised in the consolidated financial statements. These are payable as follows based on current status and knowledge of estimated quantum and timing of such commitments.

	<b>2018</b> <b>US\$</b>	<b>2017</b> <b>US\$</b>
Within 1 financial year	1,450,000	600,000
Later than 1 financial year but not later than 5 financial years	19,450,000	34,025,000
After 5 financial years	-	-
<b>TOTAL</b>	<b>20,900,000</b>	<b>34,625,000</b>

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

Not included in the above estimates are potential expenditure commitments for the PPL 339, 435 and 436 licences.

At the date of this report, the PPL 339 joint venture was awaiting licence extension. This is expected during 2019. Upon extension, the Joint Venture will be required to drill one well within the first two years of the licence's existence at a minimum cost of \$US 5 million. During years 3 & 4 of the licence a second well is required to be drilled at a minimum cost of \$US 20 million. It should be noted that these obligations are subject to possible re-negotiation with the government of PNG. Kina's participating interest in the PPL 339 licence is presently 30% though this is expected to decrease to 10% upon completion of the farmout to Santos (subject to the terms of the farmout agreement).

Also at the date of this report, Kina was awaiting extension of PPLs 435 & 436. Upon extension, in years 1 & 2 Kina will be required to conduct a seismic survey and a soil gas survey in each licence at a cost of \$US 1 million in each licence. In Years 3 & 4, studies to the value of \$500,000 in each licence are required. In Year 5, a well in each licence at a minimum cost of \$5m in each licence is required.

**Note 29 – Contingent Asset**

On 7 December 2017, through wholly owned subsidiary Kina Petroleum (PPL 339) Limited, the Company entered into a farmout agreement ("the Agreement") with Barracuda Limited, a wholly owned subsidiary of Santos Ltd.

The Agreement will see Santos acquire a 20% interest in PPL 339 with an option to return the equity to the Company depending on the results of geophysical programs to be undertaken prior to drilling. The Agreement also requires Santos to pay \$US 825,000 to the Company in respect of a partial carry of drilling costs that they will acquire from the Company. This payment is not dependent upon Santos continuing to hold the 20% participating interest but is contingent upon (i) receipt of customary government approvals (ii) consent of joint venture partners to the various transfers contemplated by the agreement, and (iii) extension of the PPL 339 licence.

## Declaration of Directors

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

1. the attached financial statements and notes thereto of the Company and the consolidated entity, as set out on pages 20 to 46, are in accordance with the Papua New Guinea Companies Act 1997 and:
  - (a) comply with International Financial Reporting Standards (IFRS);
  - (b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2018 and of the performance for the year ended on that date; and
  - (c) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Securities Exchange Listing rules and the Port Moresby Stock Exchange Listing rules
2. the Managing Director and Chief Financial Officer have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with the Papua New Guinea Companies Act 1997;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year comply with International Financial Reporting Standards and give a true and fair view of the financial position of the company at 31 December 2018, and of the financial performance of the company for the year ended on that date.
3. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Dated this 22nd day of March 2019



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:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>Kina</b>	Kina	<b>Kina</b>	Kina
Revenue	<b>18,013</b>	11,560	<b>17,228</b>	10,876
Net loss	<b>(23,490,673)</b>	(8,676,106)	<b>(24,130,116)</b>	(5,963,260)
Total assets	<b>95,873,236</b>	115,520,565	<b>94,721,844</b>	119,985,665
Total liabilities	<b>1,143,814</b>	1,774,607	<b>516,099</b>	2,553,887
Net assets	<b>94,729,422</b>	113,745,958	<b>94,205,745</b>	117,431,778



## ***Independent auditor's report***

To the shareholders of Kina Petroleum Limited

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

#### ***Our opinion***

We have audited the financial statements of Kina Petroleum Limited (the Company), which comprise the statements of financial position as at 31 December 2018, and the statements of total comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which 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 2018 or from time to time during the financial year.

In our opinion, the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and their financial performance and cash flows for the year then ended.

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#### ***Basis for opinion***

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

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

#### ***Independence***

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

Our firm carries out other services for the Group in the area of taxation advice. The provision of these other services has not impaired our independence as auditor of the Company and the Group.

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#### ***PricewaterhouseCoopers***

PwC Haus, Level 6, Harbour City, Konedobu. PO Box 484, PORT MORESBY, PAPUA NEW GUINEA  
T: (675) 321 1500 / (675) 305 3100, F: (675) 321 1428, [www.pwc.com.pg](http://www.pwc.com.pg)

### Our audit approach

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

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



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>For the purpose of our audit of the Group we used overall group materiality of US\$279,000 which represents 1% of the Group's total assets.</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.</li> <li>We chose total assets as, in our view, it is the metric against which the financial position of the Group is most commonly measured and is a generally accepted benchmark.</li> <li>We selected 1% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>We (PwC Papua New Guinea) conducted audit work over all the subsidiaries which comprise the Group consolidation.</li> <li>All subsidiaries of the Group are incorporated and operating in Papua New Guinea with the exception of one subsidiary incorporated in Australia.</li> <li>Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee:               <ul style="list-style-type: none"> <li>Exploration and evaluation expenditure impairment assessment</li> <li>Going concern assessment</li> </ul> </li> <li>These matters are further described in the <i>Key audit matters</i> section of our report.</li> </ul>



### Key audit matters

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

Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	How our audit addressed the key matter
<p><b>Exploration and evaluation expenditure of US\$22.3m impairment assessment</b> (Refer to note 9 of the financial statements)</p> <p>Our audit focused on the assessment of whether there was any impairment in the carrying value of the exploration and evaluation expenditure asset because this is the most significant asset of the Group. The asset includes capitalised expenditure in relation to a number of exploration interests which are at varying degrees of advancement.</p> <p>With the current oil and gas pricing the Group determined that there was an indicator of potential impairment and so performed an impairment assessment of its exploration interests where economic interests of hydrocarbons have been discovered.</p> <p>The Group has one exploration interest at an advanced evaluation stage and has prepared a calculation of the value of that interest based on a model of the interest in future production. The other interests are not at a sufficiently advanced stage to require such an assessment.</p> <p>The production model uses a number of forward looking assumptions including oil and gas future pricing and the value calculation is sensitive to these.</p> <p>We considered this a key audit matter because of the significant judgements around future oil and gas pricing and the discount rate to be applied in assessing whether there was any impairment of the carrying value of the asset.</p>	<p>As there was an indicator of potential impairment we have considered and tested the production model. We compared the model with the previous year's model and found it was consistently structured and consistent with the preparation required by the basis of accounting.</p> <p>We benchmarked the assumptions used around long term oil and gas prices with external forecasts, and the discount rates with our expectation based on the overall estimated Weighted Average Cost of Capital (WACC) for the Group. Together with our valuation expert we reviewed the methodology used in determining the discount rate applied.</p> <p>We performed sensitivity analysis on assumptions. We determined that the calculations were more sensitive to assumptions for oil and gas pricing and discount rates and focused our testing on these assumptions.</p> <p>The combination of evaluation and testing gave us sufficient evidence to rely on the production model's design and outcome for our audit.</p> <p>We have also read the exploration licence terms and conditions and examined exploration budgets for 2019 to understand ongoing activities as part of our testing.</p>

### ***Going concern assessment***

*(Refer to note 1 of the financial statements)*

The nature of the Group's current activities to pursue, acquire and develop oil and gas assets means it has not generated significant revenues, and for 2018 it incurred a loss of US\$7.0m.

The financial statements continue to be prepared on a going concern basis as the Group expects to have sufficient working capital to carry out its stated objectives for at least 12 months from the balance date of the financial statements.

The Group has prepared cash flow projections which include a number of assumptions and judgements, including estimates of expenditure on projects and administrative expenses, and these projections are used to support the sufficiency of working capital.

We focused on this matter as if it were inappropriate for the financial statements to be prepared on the going concern basis the values of certain assets and liabilities as set out in the financial statements might be significantly different.

We assessed the appropriateness of the going concern basis of accounting by evaluating the future plan of activities and testing the cash flow projections prepared by the Group, which included:

- Assessing the design of the Group's cash flow projection model for the year ending 31 December 2019 and its consistency with our understanding of the Group's planned activities.
- Comparing the approved 2019 expenditure budget by area of interest for exploration and evaluation activity with the cash flow projection inputs.
- Comparing forecast administration expenses with actual levels of expenditure for the 2018 year and obtaining explanations for any significant differences.
- Obtaining representations from management and the directors as to the adequacy of cash resources and the completeness of financial statement disclosures in respect of going concern.

### ***Information other than the financial statements and auditor's report***

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

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

### ***Responsibilities of the directors for the financial statements***

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

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



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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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



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

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### *Report on other legal and regulatory requirements*

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2018:

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

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### *Who we report to*

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

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A stylized, handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A stylized, handwritten signature in blue ink, likely belonging to Christopher Hansor.

Christopher Hansor  
Partner  
Registered under the Accountants Act 1996

Port Moresby  
22 March 2019

## ADDITIONAL INFORMATION

Additional Australian Securities Exchange information as at 22 March 2018.

### Number of holders of equity securities

#### Fully Paid Ordinary Shares

382,752,788 fully paid ordinary shares are held by 835 individual shareholders.

All issued ordinary shares carry one vote per share.

### Options

Nil.

Distribution of holders of equity securities.

Category (size of holdings)	Number of Holders	Number of Securities
1 - 1,000	53	5,896
1,001 - 5,000	97	290,219
5,001 - 10,000	97	803,704
10,001 - 100,000	396	14,139,919
100,001 and over	147	367,513,050
<b>TOTAL</b>	<b>790</b>	<b>382,752,788</b>
Holding less than a marketable parcel	-	-

### Substantial shareholders

The names of the substantial shareholders listed in the Kina Petroleum Limited register as at 20 March 2017 were:

Holders	Fully paid ordinary shares	
	Number	Percentage
PIE Holdings LP & Phillippe E Mulacek	76,512,283	19.99%
Rene Gerard Jacquin	76,512,282	19.99%
Alain Vinson	28,744,029	7.50%
Lasco Holdings LLC	21,038,796	5.50%
	<b>202,807,390</b>	<b>52.98%</b>



## ADDITIONAL INFORMATION

### Top 20 Holders – Quoted Fully Paid Ordinary Shares as at 20 March 2019

Rank	Name	Units	% of Units
1	CITICORP NOMINEES PTY LIMITED	150,698,410	39.37%
2	RENE GERARD JACQUIN	51,512,282	13.46%
3	BARRY JAMES TAN	17,735,526	4.63%
4	PHILLIPE E MULACEK	15,132,500	3.95%
5	MANHOL PTY LTD	12,767,004	3.34%
6	MACQUARIE BANK LIMITED	11,644,660	3.04%
7	MR RICHARD JOHN SCHRODER & MRS JENNIFER MARY SCHRODER	10,042,857	2.62%
8	LASCO HOLDINGS LLC	8,355,218	2.18%
9	LIN XIAO LANG	8,243,689	2.15%
10	PEWOVE PTY LTD	7,881,000	2.06%
11	MR RICHARD JOHN SCHRODER & MRS JENNIFER MARY SCHRODER	5,000,000	1.31%
12	EQUITAS NOMINEES PTY LTD	4,593,204	1.20%
13	JSC INVESTMENT LIMITED	4,313,239	1.13%
14	MR LUPCO BOGDANOVSKI	3,500,000	0.91%
15	KDMA 888 PTY LTD	2,901,691	0.76%
16	PACIFIC NOMINEES LIMITED	2,750,686	0.72%
17	EQUITAS NOMINEES PTY LIMITED	2,500,000	0.65%
18	MISS EUN JOO LEE	1,774,688	0.46%
19	BOND STREET CUSTODIANS LIMITED	1,460,078	0.38%
20	MR HUANONG LIN	1,432,500	0.37%
<b>TOTAL</b>		324,239,232	84.71%
<b>Balance of Register</b>		58,513,556	15.29%
<b>Grand TOTAL</b>		<b>382,752,788</b>	<b>100.00%</b>

## ADDITIONAL INFORMATION

### DIRECTORS

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

### COMPANY SECRETARY

Mr Peter Impey

### AUDITORS

PricewaterhouseCoopers  
6<sup>th</sup> Floor Harbour City  
Konedobu Port Moresby  
Papua New Guinea

### SHARE REGISTRY

Link Market Services Limited  
Level 12  
680 George Street  
Sydney NSW 2000

### REGISTERED OFFICE - Australia

Suite 9, Level 2,  
209 Harrington St  
Sydney NSW 2000

### LAWYERS - Australia

Ashurst  
Level 11  
5 Martin Place  
Sydney NSW 2000

### REGISTERED OFFICE – Papua New Guinea

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

GK Alexander  
PO Box 379  
Rangiora 7440  
North Canterbury, New Zealand

### PRINCIPAL PLACE OF BUSINESS – Australia

Suite 9, Level 2,  
209 Harrington St  
Sydney NSW 2000

### LAWYERS – Papua New Guinea

Ashurst  
Level 11, MRDC Haus  
Cnr of Musgrave Street  
and Champion Parade  
Port Moresby NCD  
Papua New Guinea

### PRINCIPAL PLACE OF BUSINESS – Papua New Guinea

Level 10, MRDC Haus  
Cnr Musgrave St and Champion Pde  
Port Moresby, National Capital District  
Papua New Guinea