2020

ANNUAL REPORT

KUMUL PETROLEUM HOLDINGS LIMITED

PNG LNG plant and export terminal on the shore of Caution Bay

Contents

Executive Summary

Despite the impacts of Covid-19 during 2020, Kumul Petroleum continued its role as State nominee in petroleum projects in the country.

The LNG plant at the PNG LNG Project facilities at Caution Bay outside Port Moresby once again operated above its rated capacity of 6.9 mtpa, producing 8.8 million tonnes of LNG for export. With 114 shipments taking place during the year, the main income source for the organisation was assured.

However, international petroleum and LNG prices dropped due to the worldwide Covid-19 pandemic and they only partly recovered by the end of the year. Kumul Petroleum revenue consequently dropped compared to the previous year, reducing from US$697 million to US$484 million, which affected dividend and other payments to the State.

In the energy sector, Kumul Petroleum maintained its shareholding in NiuPower Limited along with its 50/50 partner, Oil Search Limited. The NiuPower gas-fired power station continued to dispatch power into the Port Moresby power grid throughout the year, generating electricity worth a total of K47.6 million.
In line with its stated strategic goals, Kumul Petroleum continued its philanthropic support of health initiatives, supporting the national Department of Health and finalising long-term funding agreements with the two main hospitals in Lae and Port Moresby to assist treatment of cancer and heart disease.

Also in support of Government initiatives, Kumul Petroleum continued its construction of electricity transmission lines in the Hela and Southern Highlands provinces. This infrastructure will provide necessary and important linkages between the high voltage line extensions of the Ramu grid constructed by PNG Power and the rural communities who need access to electricity. Combined with initiatives of other agencies, such connections will go a long way towards achieving the NEROP target of enabling electricity to reach 70% of the population by 2030.

Kumul Petroleum also supports national development in other ways including operation of the Kumul Academy providing specialist industry training, donations to health facilities and funding for a range of sporting codes including rugby league, soccer, golf and cricket.

Drilling Hides G well pad


Iagifu Ridge camp and maintenance facilities

Kumul Petroleum 2020 in numbers

114
Number of LNG cargoes

99.4%
LNG plant up time

8.8mtpa
LNG production volume

K200million
Dividends paid to government

K39.43 million
Taxes paid to government

K28 million
Return of capital to government

42%
Female employees

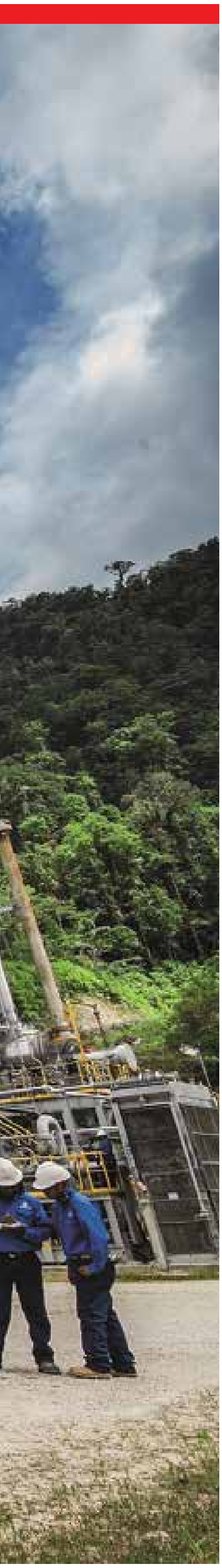
76
Number of KPHL employees

K24 million
Donations & CSR activities

Moran 16 well site

10-year anniversary


Operators at the Iagifu Central Processing Facility



Kumul Petroleum Holdings Limited originated from the State's 2009 decision to take up equity in the PNG LNG Project, alongside Operator ExxonMobil and co-venturers Oil Search, Santos, Nippon Oil & Gas Exploration and MRDC.

The company formed in 2010 to hold this equity, the National Petroleum Company of PNG, financed its acquisition of 16.57% of the PNG LNG Project, the largest commercial development the country had ever seen, a project that cost a total of US$19 billion to construct.

First LNG exports from PNG took place in April 2014 and the next year the National Government consolidated all the State's commercial assets into three sectoral companies - Kumul Minerals Limited, Kumul Consolidated Holdings and Kumul Petroleum Limited. This consolidation meant that State equity in past and future oil and gas projects would be held by one company, Kumul Petroleum Holdings Limited.

The taking up of equity in petroleum projects by the National Government is mandated in the Oil & Gas Act, under which the State has the right to acquire up to 22.5% of any petroleum project, usually at the time that a project is approved and a petroleum development licence issued. This includes 2% equity which is transferred to State recognised project impacted landowners, to be held on their behalf by MRDC.

As a commercial co-venturer, or partner, in petroleum projects Kumul Petroleum Holdings has to pay its share of the costs of operating the various operating licences and projects as well as receiving its share of the profits of these. Much of this income is subsequently paid to the National Government, representing a valuable source of funding for the Treasury. Details of these payments are described in detail elsewhere in this report.

During the last ten years, Kumul Petroleum Holdings has grown and diversified in line with the progressive development of the country's oil and gas industries, particularly after completion of the PNG LNG Project and the start of regular LNG shipments to Asian customers in 2014.

Initially incorporated as a company to passively hold State shareholding, the Kumul Petroleum Holdings Limited Authorisation Act enables the company to also become involved in many upstream and downstream aspects of the petroleum industry including exploration, training, infrastructure investment and marketing.

The PNG LNG Project Umbrella Benefits Sharing Agreement included a commercial option for nominated impacted provincial government and landowner beneficiaries to have indirect equity in the project through acquisition of 25.75% of the shares in the company taking up the Government interest in the project. Although this option was not taken up during the opportunity window, vendor finance arrangements were made by Kumul Petroleum to enable this opportunity, known as the Kroton Equity Option, finalised in December 2016.

Kumul Petroleum has in recent years invested heavily in activities and supported causes that assist national development in sectors considered to require assistance. Details of some of these, such as specialist industrial training and rural electrification infrastructure construction are outlined elsewhere in this report.

LNG trains at the PNG LNG plant

I am proud that, as the national oil and gas company, Kumul Petroleum is continuing to actively expand its role in upstream and downstream aspects of this important economic sector.

Dr Benedict Yaru
Chairman

Chairman's Report

Dr Ben Yaru, previously a company director, was appointed as chairman of Kumul Petroleum Holdings Limited on 20 May 2020.

My elevation from director to chairman of this organisation occurred at a time of increasing disruption in the economies of the world, including Papua New Guinea, due to the Covid-19 pandemic. This has direct relevance to the operations of Kumul Petroleum in many ways, both directly and indirectly, through impacts on resource companies and their many service contractors. The incidence of the disease amongst its workforce even caused the temporary closure of the Ok Tedi mine.

Due to the multifaceted impacts of the Covid-19 pandemic, global economic activity dropped by about 3.5% during the year. The resultant glut of oil and large drops in world prices for oil and LNG affected all petroleum production countries, including PNG. From an average January 2020 price of US$64 a barrel, oil prices dropped mid-year but recovered by end the year with a WTI price of US$49 a barrel.

Within Papua New Guinea, the National Government enacted a State of Emergency and imposed strict restrictions on domestic and international travel, gatherings and other lockdown measures which severely constrained the activities of Kumul Petroleum and other commercial entities. It was a difficult year for the country with the closure of the Porgera mine, the dampening impacts of Covid-19, economic management issues and an overstressed and fragile health system all compounding to depress private and government sector activities.

I am glad to report however that export shipments of LNG and oil continued during the year without disruption and Kumul Petroleum was able to pay the State K200 million in dividends and K28 million in return of capital. The year witnessed the departure of Horizon Oil and sale of its PNG assets to co-venturer Arran Energy, whilst Government continued its negotiations with the principals of the Twinza, P'nyang and Papua LNG projects.

Kumul Petroleum also played its part in supporting the national response to the pandemic, committing K5 million to assist the National Department of Health, the National Covid-19 Control Centre and the Port Moresby General Hospital. In May and June this year, donations of medical supplies and essential PPE worth K2.19 million and K3.29 million respectively were made to the hospital and Health Department.

In addition to Kumul Petroleum's contribution to the Government's Covid-19 response, the organisation continued to support other community and medical initiatives during the year. This included agreements with the Angau Memorial Base Hospital, National Department of Health and the Port Moresby General Hospital to provide funds that enable these institutions to provide cancer treatment and manage patients with cancer and heart related conditions respectively.

It is important also that there is a better understanding that Kumul Petroleum Holdings Limited is much more than a passive holder of the State's equity in operating oil & gas projects. The organisation has, for example, been instrumental in establishing the Kumul Petroleum Academy to provide specialist in-country training. Sponsored by Kumul Petroleum and ExxonMobil, sixty individuals have so far graduated from the Academy with UK City & Guilds qualifications.

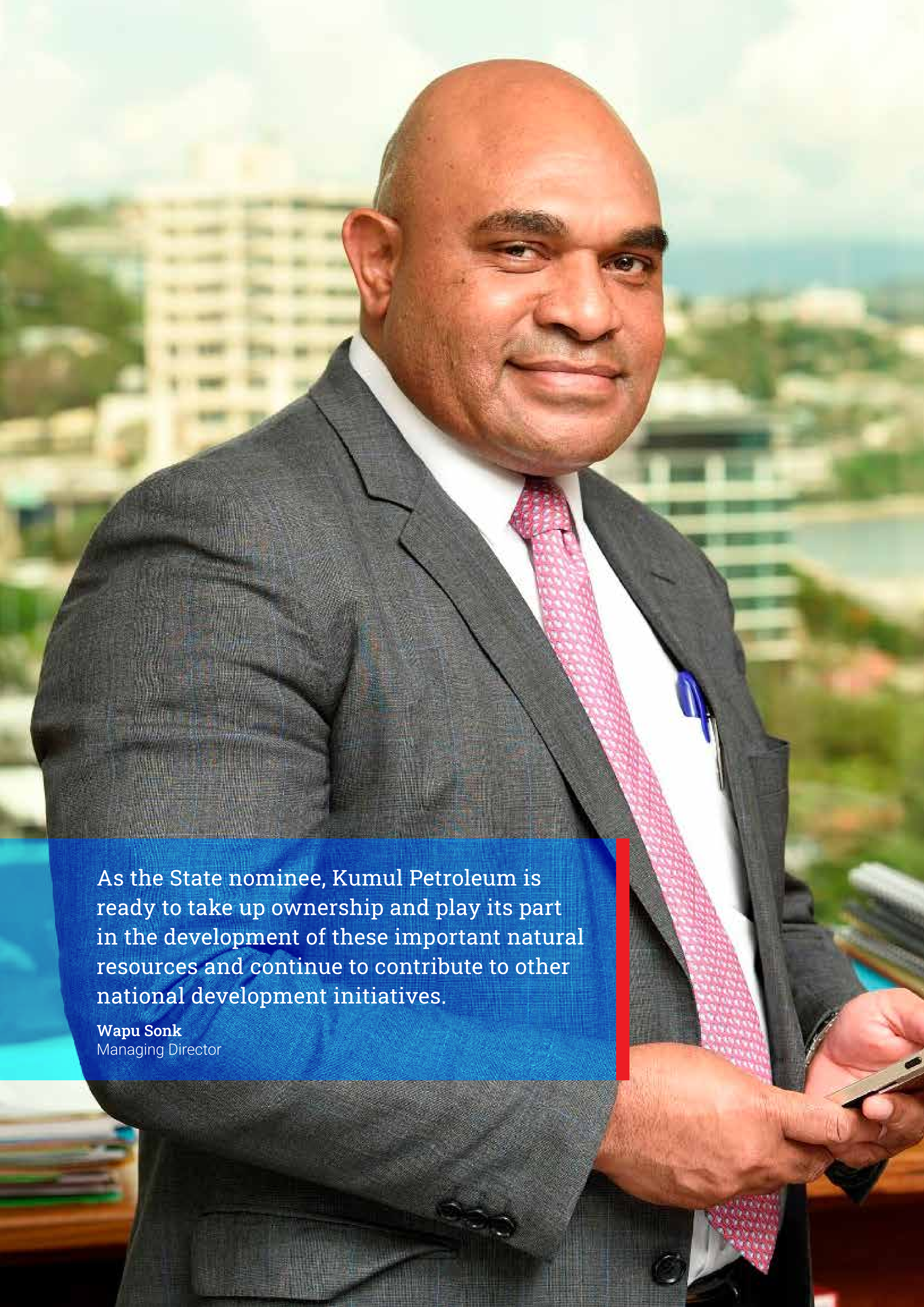
Kumul Petroleum has also continued to support a variety of sporting codes for both men and women, including cricket, soccer, golf, and rugby league.

Additionally, Kumul Petroleum's rural electrification initiative will assist the Government to achieve its ambitious NEROP goals for the connection of 70% of the nation's population to electricity by 2030. During 2020 we have funded the construction of over 160 kilometres of electricity transmission lines in the Hela and Southern Highlands provinces. These provide the next level of power reticulation to enable communities and local infrastructure to connect to the high voltage extensions to the Ramu grid from Hagen and Mendi into these provinces, being carried out by PNG Power Limited.

I am pleased to note that the audited financial statements included in this annual report are once again unqualified, confirming that our activities and financial transactions have continued to be transparent and properly documented.

I am proud that, as the national oil and gas company, Kumul Petroleum is continuing to actively expand its role in upstream and downstream aspects of this important economic sector.

Dr. Ben Yaru
Chairman



As the State nominee, Kumul Petroleum is ready to take up ownership and play its part in the development of these important natural resources and continue to contribute to other national development initiatives.

Wapu Sonk
Managing Director

Managing Director's Report

Business as usual despite Covid-19

Despite the constraints caused by the Covid-19 pandemic worldwide and within the country, Kumul Petroleum Holdings has continued to perform its mandated activities throughout the year. The plant at the PNG LNG Project has once again operated over its nameplated capacity, producing a total of 8.8 million tonnes of LNG for export.

September 2020 saw the highest daily production day for the LNG plant, which reached a level equivalent to 9.3 mta, whilst during August the plant produced at a rate equivalent to greater than 9 MTA for more than 30 days. This is a great achievement, and one which will benefit all PNG LNG Project shareholders.

The export of LNG, condensate and oil from its various licence interests enabled Kumul Petroleum to earn a gross income of US$484 million, less than last year but the company was still able to make dividend and return of capital payments to the State totaling K228 million. NiuPower Limited, the 50/50 joint venture with Oil Search Limited had its first full year of operations, dispatching power to PNG Power's Port Moresby grid through a separately constructed, dedicated transmission line from its gas-fired power plant to link with the Port Moresby grid.

Kumul Petroleum has continued with its other developmental activities during the year – operation of the Kumul Petroleum Academy, construction of transmission lines to assist rural electrification in Hela and Southern Highlands provinces, as well as financial and material contributions to the national Covid-19 response and support of other medical infrastructure and services.

Our community service obligations included signing an MOA with the National Department of Health for a commitment of K50 million over 5 years to assist in the establishment of a National Heart Centre at the Port Moresby General Hospital, destined to become a national referral hospital for the nation. We have also signed an agreement with Angau Memorial Hospital in Lae to provide significant funding of K15 million over 3 years to assist its ability to provide cancer treatment services.

After signing of the Papua LNG Project Gas Agreement with the State last year, discussions between the project's co-venturers, Total, ExxonMobil and Oil Search, continue to be monitored. In line with past practice, Kumul Petroleum will take equity in the project after FID, the issue of appropriate licences and agreement to proceed with commercial development of this major petroleum project.

To maximise national content in the Papua LNG and other planned petroleum projects such as P'nyang LNG, Pasca and Stanley, Kumul Petroleum has initiated discussions with interested parties and potential stakeholders in a Steel Fabrication Facility. The proposed plant will enable local fabrication of steel, mechanical and piping modules for supply to such large-scale industrial infrastructure developments. Apart from the direct employment of thousands of people, such an enterprise will result in multiplier effects that will have other widespread economic benefits.

In terms of the petroleum industry, PNG has a bright and profitable future as the worldwide demand for LNG steadily increases. Existing oil and gas operations have continued without disruption, whilst additional gas reserves discovered, including those that will contribute to Papua LNG, along with the P'nyang, Pasca and smaller stranded gas fields are progressing towards commercial development in the coming years.

As the State nominee, Kumul Petroleum is ready to take up ownership and play its part in the development of these important natural resources and continue to contribute to other national development initiatives.

Wapu Sonk
Managing Director

Helicopter landing at an exploration seismic field location

Vision, strategic themes & goals

Vision

Kumul Petroleum Holdings Limited creates value and opportunity from the nation's petroleum resources for Papua New Guinea and its people

Strategic themes

Strategic goals

Investing in development and commercial production of oil and gas reserves	Participation in mid-stream and downstream petroleum infrastructure projects	Participation in petroleum products and energy businesses	Being a national champion and industry advisor to National Government and State agencies	Adherence to international best practice governance	Good corporate citizenship and maintenance of social licence to operate
Maximise of State back-in rights to petroleum developments	Facilitate development of oil and gas transportation within PNG	Pursue oil and LNG marketing opportunities	Provide professional industry advice to the State	Maintain corporate and legislative compliance	Operate in a socially inclusive manner
Operate petroleum licences	Facilitate value optimisation by petroleum industry operators	Supply gas to power utilities and other industries	Promote petroleum industry skills training	Adhere to the KPHL Code of Conduct	Facilitate national social development through sponsorships and investments
Develop strategic alliances with international oil companies	Facilitate development of economically and socially viable mid and downstream petroleum projects	Develop or invest in gas fired power stations	Advocate for national content in petroleum industry legislative reviews	Maintain the highest levels of HSES compliance	Promote of a positive corporate profile
Facilitate commercialisation of stranded petroleum resources		Facilitate investment in petrochemical developments	Ensure a sustainable commercial return on KPHL investments	Operate a company-wide human resource development programme	Promote of KPHL as the national petroleum company
					Effective engagement with petroleum project impacted landowners and other stakeholders

Executive Management Team

The members of the Kumul Petroleum Executive Management Team and strategic advisors have between them cumulatively amassed well over 100 years of relevant professional and commercial experience.

Luke Liria

Executive GM, Corporate Services

Luke Liria has over 30 years of experience in the petroleum industry, working with Bechtel, Chevron Niugini and Oil Search Limited.

As Executive General Manager, Corporate Services he oversees a variety of company activities including all the organisations support functions and socio-economic community development projects such as the Kumul Petroleum Academy and other support of national development initiatives.

Mr Liria was nominated as 'Executive of the Year' by the PNG Human Resources Institute in 2016. He is also the founder of the Papua New Guinea Leadership Network, an organisation that focusses on teaching, coaching and speaking on leadership in PNG.

Greg Heaney

Chief Financial Officer

Greg Heaney has more than 35 years of financial and general management in publicly listed companies in Australia and elsewhere, having served as managing director, CEO and director.

His experience includes ten years with the Lasmo Group, at the time one of the world's largest independent oil & gas exploration and production companies, working in Australia, Great Britain, USA and Indonesia. Mr Heaney was previously Chief Financial Officer at Queensland Cotton Holdings and Roche Mining.

Assisting Managing Director Mr. Wapu Sonk were Executive GM, Corporate Services, Mr. Luke Liria; Chief Financial Officer, Mr. Greg Heaney; Chief Operating Officer, Mr. John Bennett; Chief Legal Officer, Mr. Rogen Wato.

John Bennett

Chief Operating Officer

John Bennett was appointed in March 2018. He is a chartered professional engineer and a Fellow of member of Engineers Australia.

He has over 30 years of experience in building and developing multi-disciplinary teams for delivery of complex downstream petroleum and power projects. This has included, at various times, representing the client and the contractor on large LNG projects.

Rogen Wato

Chief Legal Officer

Rogen Wato joined Kumul Petroleum in October 2010 and was involved in corporate restructures of the organisation in 2011 and 2013.

He has been involved in the reformation of government policy and legislation that has guided the transformation of Kumul Petroleum from an investment company into the country's national petroleum company. He was appointed Company Secretary in 2013 and General Counsel in 2016.

Mr Wato holds a Bachelor of Laws and a Master of Laws from the University of Papua New Guinea and previously practiced law at Posman Kua Aisi Lawyers.

Board of Directors

Dr. Benedict Yaru

Chairman

Dr. Benedict Yaru is a founding director of Kumul Petroleum and has over 30 years experience with a variety of responsibilities in operational management and consultancy roles. These include senior and executive management roles dealing with business planning, budget and cost control, project management, strategic planning, team building, procurement, financial management, human resources, and HSES.

He has worked in the minerals and petroleum industries and is very familiar with government and regulatory approvals, NGO management, stakeholder engagement, integrated community development, sustainability, and academic supervision.

Dr Yaru was an adjunct associate professor at the Institute of Applied Ecology, University of Canberra. He holds a PhD in Environmental Biology from the Sydney University of Technology.

Mr Peterson Pipi

Director

Mr Peterson Pipi was appointed as a director by the Kumul Petroleum Trustee in February 2017.

Mr Pipi has over 22 years of experience in the mining and petroleum industries including being general manager of the Gigira Development Corporation, a Hides gas field landowner company. He is also a director of another landowner company, PNG Mining and Petroleum Hospitality Services Limited.

Mr Pipi obtained a Bachelor of Commerce from the University of PNG in 1994. He also attained a Diploma in Economic Policy Analysis from the PNG National Research Institute in 1995. He is also a member of the PNG Institute of Directors and the Australian Institute of Company Directors.

Mr Wapu Sonk

Managing Director

Mr Wapu Sonk was appointed managing director of the National Petroleum Company of PNG in January 2013.

He has more than 20 years of experience in the PNG petroleum industry. After starting his career with Chevron Niugini in 1997 Mr Sonk has occupied numerous technical, management and leadership roles in companies operating in Papua New Guinea.

Mr Sonk is a member of the International Association of Drilling Contractors, the international Society of Petroleum Engineers and the Institute of Engineers, PNG. He holds a Bachelor of Mining Engineering from the University of Technology in Lae as well as a Diploma of Business Management from the Melbourne Business School, Mt Eliza Centre for Executive Education, Melbourne.

Dr Ila Temu

Director

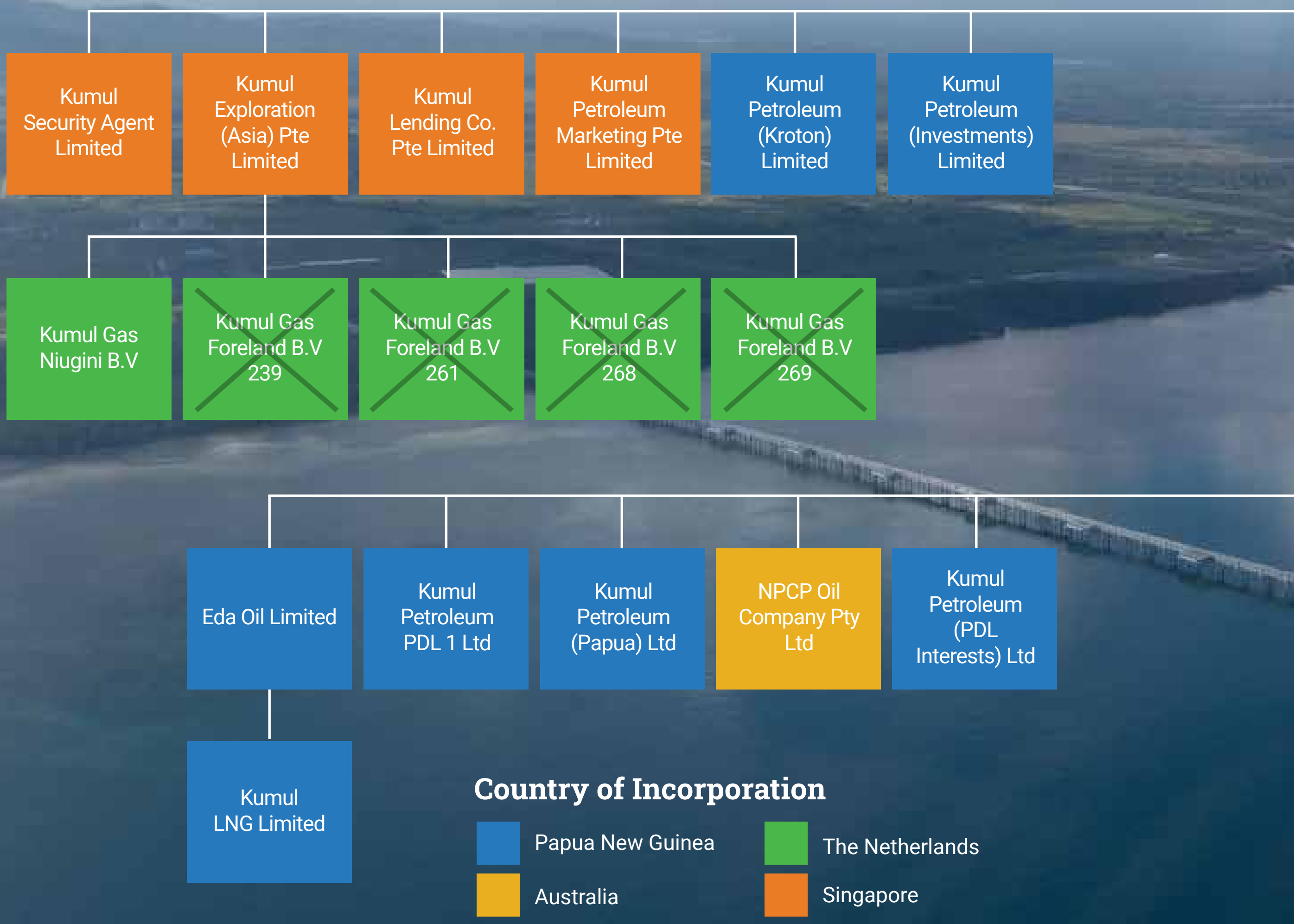
Dr Ila Temu is a founding director of Kumul Petroleum and brings a wealth of experience in executive management and directorship roles in extractive industries in Papua New Guinea. He is currently the country Executive Director of Barrick (Niugini) Limited and previously held senior executive roles in Placer Dome in PNG and overseas.

Dr Temu has also held roles including senior lecturer in economics at the University of Papua New Guinea and directorships at the National Research Institute, the Bank of South Pacific and Kina Petroleum.

Dr Temu holds a PhD in Agricultural Economics from the University of California, a Master of Agricultural Development Economics from the Australian National University and a Bachelor of Economics from the University of PNG.

Note: The appointment of Mr. Andrew Baing, as Chairman of the KPHL Board was revoked by the National Executive Council on 30 April, 2020.

Corporate structure & governance



Corporate Structure

Kumul Petroleum Holdings has a number of wholly owned and specific purpose subsidiaries, as illustrated in the graphic above.

Corporate Trustee

The Kumul Petroleum Holdings Authorisation Act 2015 provides that under the Kumul Petroleum Share Trust Deed all shares in KPHL will vest in a trust. The Kumul Petroleum Trustee is the Prime Minister of PNG, whoever that may be at any time, compliant with Section 142 of the Constitution.

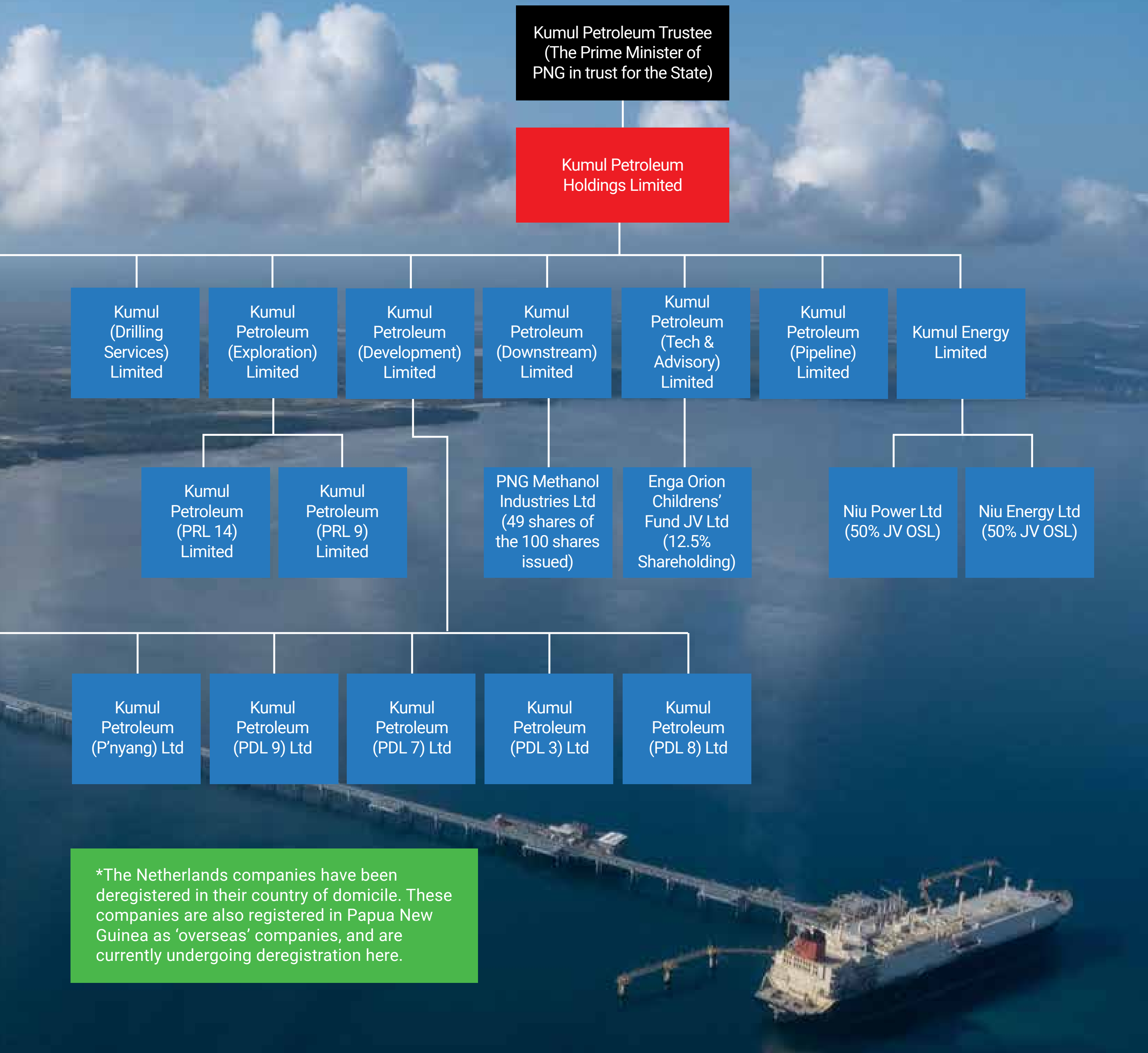
Corporate Governance

Kumul Petroleum is committed to the highest levels of corporate governance for itself and its subsidiaries, and fosters a culture that values adherence to exemplary personal and corporate integrity.

At a directorial level, Kumul Petroleum has established Board sub-committees on Finance, Audit & Risk, Community & Social Responsibility, Remuneration and Major Investments.

The five-person Board meets on a regular basis,

KPHL Corporate Structure



at least six times a year. There is an independent process for the identification and selection of directors, overseen by an internationally recognised accounting company. Existing Board members recommend to the Trustee suitable candidates whose skills and experience match the prevailing commercial goals of the organisation. All candidates must be qualified 'fit and proper persons' as prescribed by the Kumul Petroleum Act.

Kumul Petroleum Holdings implements an Annual Operating Plan, whilst adhering to company policies that include Audit, Delegation of Authority and Tenders & Procurement. There are a number of management level committees.

Financial statements of the Kumul Petroleum are audited by an internationally recognised accounting company, before being signed off by the Auditor General. Since 2014, Kumul Petroleum has enjoyed unqualified audit reports.

LNG tanker at the PNG LNG export jetty at Caution Bay

Licence interests and petroleum resources


PNG LNG plant at Caution Bay

Licence Interests and Petroleum Resources – 2019 to 2020

Petroleum Licences	Project	Kumul Petroleum interest (%)	
		2019	2020
PDL 1	Hides gas field	20.5	20.5
PDL 3	Development licence	45.72	45.72
	Unitised SE Gobe gas field	21.4	21.4
PDL 5	Development licence	20.5	20.5
	Unitised Moran oil field	11.3	11.3
PDL7	South Hides gas field	20.5	20.5
PDL8	Angore gas field	20.5	20.5
PDL9	Juha/Muruk gas field	20.5	20.5
PDL10	Stanley gas field	10	10
PRL 8	Kimu gas field	17	17
PRL 9	Barikewa gas field	14.89	14.89
PRL 14	Cobra, Iehi and Bilip gas field	37.44	37.44
PRL 28	Ubuntu gas field	20	20
PRL 40	Puk Puk, Douglas, Langia, NW Koko gas field	20	20

Infrastructure Licences	Project	Kumul Petroleum interest (%)	
		2019	2020
PNG LNG	PNG LNG Project	16.8	16.8
PL 3	SE Gobe 3	37.44	37.44

Oil, Condensate and Gas Reserves Net to Kumul Petroleum

		Oil & Condensate	Gas	Oil & Condensate	Gas
		mmbbl	bscf	mmbbl	bscf
Reserves Category		**Proven (1P)**		**Proven and Probable (2P)**	
PNGLNG	Project Fields[1]	15.41	1,321.1	18.17	1,490.6
PDL1	Hides GTE[2]		-		-
PDL3	South East Gobe[3]	0.01	9.04	0.11	9.04
PDL5	Moran[4]	0.96	44.34	1.79	48.29
Total		**16.38**	**1374.48**	**20.07**	**1547.93**

Contingent Oil, Condensate and Gas Resources Net to Kumul Petroleum

		Oil & Condensate	Gas	Oil & Condensate	Gas
		mmbbl	bscf	mmbbl	bscf
Reserves Category		**1C**		**2C**	
PDL10	Stanley[5]	1.01	31.50	1.27	39.90
PRL8	Kimu6		42.67		89.25
PRL9	Barikewa[7]		42.44		65.37
PRL14	Cobra, Bilip, Iehi	0.12	11.79	0.37	26.64
PRL40	Pukpuk, Douglas[8]		77.78	109.38	
Total		**1.13**	**206.18**	**111.02**	**221.16**

Notes

1 PNG LNG Project includes Hides, Juha, Angore, and Oil Search operated fields of Kutubu, Agogo, Moran, Gobe Main, and SE Hedinia.
The reserves are as per NSAi Reserves Recertification of June 2016.

2 Hides GTE reserves are as stated on Oil Search's 2020 Reserves and Resources Statement.

3 NSAi Reserves Assessment as of December 2016. PDL3 additional interest acquired from JX Nippon in 2017.

4 NSAi Reserves assessment of 2014 for oil; Moran gas reserves are part of the PNG LNG Project.

5 PDL10 added in 2017 as acquisition from Mitsubishi Corporation.

6 PRL8 added in 2017 as acquisition from Mitsubishi Corporation.
Reserves recertification by RISC-2018 post Kimu 2 appraisal well in April 2018

7 PRL9 and PRL14 reserves are from the Operator, Oil Search Limited; net to KPH.
Barikewa reserves recertification by RISC-2018 post Barikewa 3 appraisal well in June 2018

8 PRL40 added in 2017 as acquisition from Mitsubishi Corporation.

Technicians at the Iagifu Central Processing Facility

Petroleum operations in 2020

Technicians at the Iagifu Central Processing Facility

PNG LNG Project

Kumul Petroleum's substantial participating interest in the PNG LNG Project is the company's most important asset and provided the bulk of its income in 2020.

Feed gas into the PNG LNG plant amounted to 434 bcf, principally from the Hides gas field in Hela Province. A total of 114 cargoes of LNG were sold at the average price of US$ 6.55/ MMbtu and dispatched to four major long-term customers in Asia, in Japan, China and Taiwan, although 20 cargoes were sold to buyers on the spot market.

Condensate produced from PNG LNG Project gas fields is blended with the crude oil processed by Oil Search at its Kutubu central processing facility and transported via pipeline to the offshore Kumul Loading Terminal. In 2020, the PNG LNG Project sold 9.3 million barrels of condensate, excluding the ExxonMobil share, which was marketed separately, in 15 cargoes at an average price of US$37.51/bbl. Kumul Petroleum's net share of production in 2020 was 74 bcf of gas and 1.5 million barrels of oil equivalent.

2020 was the fifth full year of production for the liquefaction plant at Caution Bay, and proved to be a record year for the operator in respect of production and LNG plant performance despite the challenges brought about by the global Covid-19 pandemic. The plant maintained a production level above its nameplate capacity of 6.9mtpa, averaging 8.8mtpa, above the forecasted 8.5mtpa, with 99.4% facility uptime.

The Angore tie-in project was suspended in 2018, after landowner incursions and the impact of earthquake at the start of that year. An Alternate Dispute Resolution process, initiated to address landowner concerns, resulted in site activity recommencing in July 2019. The Angore A1 and A2 wells were abandoned in 2020 by the PNG LNG partners, because of well integrity concerns. The replacement Angore C1 and C2 wells are scheduled for drilling between Q4 2022 and Q3 2023. The surface facilities tie-in are expected to be completed in Q1 2024; with first gas forecasted for Q3 2024.

The deferment of Angore coming online results in ullage that needs to be filled. One option is the Hides F2 well scheduled for 2024 to be drilled as part of the Angore C1 and C2 campaign - which provides an opportunity to test a footwall play in the Hides structure; a fall back option being a Hides acceleration well in the main Hides accumulation.

PDL 3

After the acquisition of JX Nippon's interest in June 2017, Kumul Petroleum holds a substantial non-operated participating interest in this producing licence that includes a part-share in the South East Gobe Field. This field is operated by Oil Search Ltd and is unitised between PDL3 (46.8%) and PDL4 (53.2%). It is a mature field that has produced 45.46 million barrels of oil since 1998. In 2020, the SE Gobe field produced a gross 98,000 barrels of oil and 6.6 bcf of gas, sold to the PNG LNG Project.

This Gobe field continues to be operated in "blow-down" mode with all produced gas and injected gas being sold to the PNG LNG Project. The production of oil will continue to decline more rapidly without gas lift and field gas injection, although the loss is more than offset by the increase in net revenue earned from the sale of gas. The operator continues to employ strategies to extend gas exports to the PNG LNG Project and, in parallel, preparations for potential field abandonment in 2024.

PDL 5

The Moran field is unitised across three licences, PDL's 2, 5 and 6. Kumul Petroleum's 20.5% interest in PDL5 constitutes an 11.275% share of the Moran unit. It is a mature field that began production in 1998 with peak production at around 21,000 bopd in 2007, and which has declined since. Cumulative to year-end 2020, Moran has produced gross oil of 95mmbls.

In 2020, after the 2018 earthquake restoration efforts, field incremental well intervention work and managed facility uptime have resulted in an above budget production year, averaging more than 6,500 bopd with a 2020 year-end production of 2.1mmbls. Production of associated gas is increasing year-on-year as the field matures, this is sent to the PNG LNG Project. The field remains profitable, despite the declining production and reduced prices of oil and gas, and provides a net income to Kumul Petroleum.

The operator continues to focus on reinstating production from the NW Moran wells and, in parallel, working low risk value-adding opportunities for the Moran field to accelerate oil production ahead of Moran commencing gas sales to the PNG LNG Project in 2027.

PRL 8

In May 2017, Kumul Petroleum acquired 17% participating interest in PRL 8 Kimu from Mitsubishi Corporation. The Kimu gas field was first discovered in 1999, and additional seismic data was acquired in 2016, with field studies continuing in 2017 for a possible location selection for an appraisal well.

In 2018, the Kimu 2 appraisal well was drilled, encountering gas in the targeted Alene Sandstone Formation. These results were significant as they underpinned a possible gas volume in-place in the 400-900 bcf range, subject to independent certification.

In October 2019, the term of PRL 8 expired and Kumul Petroleum submitted an application for a new Petroleum Retention Licence in October 2020, for 100% operatorship for a term of five years. Kumul Petroleum's focus is acquisition of seismic data to appraise uncertainties in the northern area of Kimu, potential development pathways and subsequent submission of a Petroleum Development Licence application.

PRL 9

Kumul Petroleum engaged in appraising discovered gas resources in two licences that straddle the PNG LNG trunk gas pipeline, PRL 9 and PRL 14 near the southern coast of PNG. PRL 9 contains the Barikewa discovery where the Barikewa 3 appraisal well encountered gas in the target Toro and Hedinia sandstone reservoirs in 2018.

In October 2019, the term of a PRL 9 expired and Kumul Petroleum submitted an application for a new Petroleum Retention licence in October 2020 for 100% operatorship for a term of five years. Kumul Petroleum's focus for the next five years is reprocessing of seismic data to appraise structural uncertainties and drill an evaluation well to inform potential development pathways in the next 5 years.

PRL 14

PRL 14 is another retention licence that straddles the PNG LNG trunk and contains the Iehi, Cobra and Bilip discoveries. In 2018, the operator, Oil Search Limited, reported that it had completed a 50km seismic program to assess the potential of the Gobe footwall prospect and constrain the Iehi gas discovery.

In 2020, Kumul Petroleum focused on Iehi field evaluation using the 50 km seismic data. The PRL14 licence expires in March 2022.

PRL 40

Kumul Petroleum acquired JX Nippon's interest in PRL 40 in June 2017. Subsequently, 20% of the equity was swapped with Horizon Oil for an interest in PRL 28 in 2019. PRL 40 contains the Puk Puk and Douglas gas discoveries in Western Province. Other small discoveries within PRL 40 are Weimang and Langia. These gas fields are 'stranded' and in 2020, Kumul Petroleum focused on the evaluation of the gas in place volumes and potential development pathways for these fields.

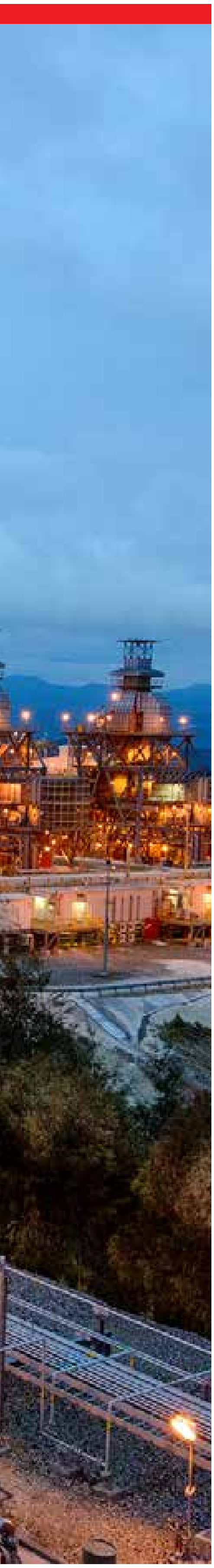
PRL 28

PRL 28 contains the Ubuntu gas discovery in the Western Province and it is close to other stranded gas fields such as Elevala and Ketu, operated by Horizon Oil. In 2020, Kumul focused on field evaluation and potential aggregation for development pathways, in conjunction with nearby fields in the Western Province.


LNG export terminal, Caution Bay

Market & economy

Hides Gas Conditioning Plant at dusk



Global Economy

In 2020, the world economy experienced 'fractured' growth for the first time in decades. It was the worst year for economic growth in the USA since World War II. The world economy shrank by 3.5 per cent as the coronavirus ravaged factories, businesses and households. Whereas this experience mirrors that of many other developed countries, China's projected GDP growth for 2020 was 1.9 per cent, in part because it quickly contained the pandemic and restarted its manufacturing sector.

The IMF provided emergency financial aid or relief to 83 of its member countries, amounting to US$100 billion of assistance. Debt took centre stage as governments struggled to finance their emergency relief, reopen schools and boost the economy. This situation had a major effect on the demand, supply and price of oil and LNG.

Despite the impact of Covid-19 around the world, LNG trade increased to 356 MT in 2020, a small increase of 1.4 MT compared with 2019. Growth came from increased exports from the USA and Australia, together adding 13.4 MT of sales. The Asia-Pacific region constituted more than 70% of global LNG imports, and accounted for the largest growth in imports in 2020, adding 9.5 MT of net LNG imports more than in 2019.

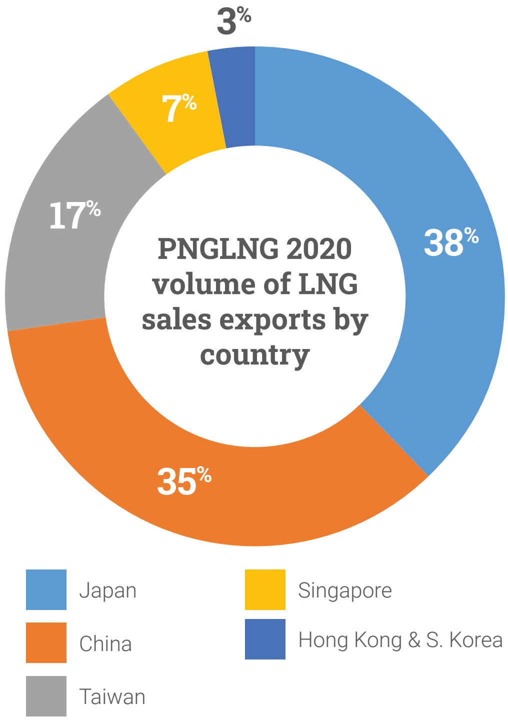
PNG LNG Project

Global demand and supply for oil and LNG affect the price achieved by exports from the PNG LNG Project. Since 2014, sales of LNG from the PNG LNG Project have provided Kumul Petroleum with 83 per cent of its revenue, with a further 16 per cent coming from the export of oil and condensate from various fields.

PNG LNG sells its LNG in East Asia, notably China, Japan and Taiwan, including 80 per cent under long-term contracts and an additional 14 per cent under mid-term contracts. The largest importer in 2020 was Japan, followed by China.

Whereas the volume of sales was not affected, prices achieved varied cargo by cargo according to the price of oil, with an overall decline in revenue compared with 2019.

In 2020, the price of oil averaged US$49/bbl, and the price achieved by sales from PNG averaged around the same level, compared with the average price of US$64/bbl in 2019.



Spot LNG prices recovered from a low of US$2/MMBTU in mid-year, to more than US$6/MMBTU by year-end.

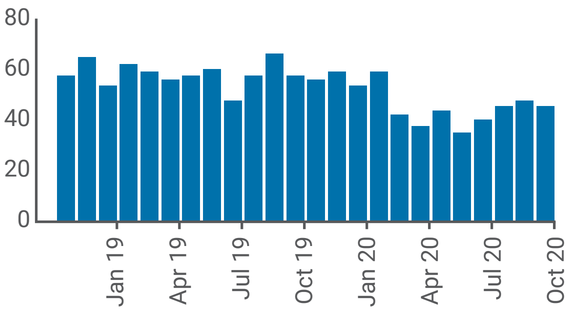
Net revenue to Kumul Petroleum in any year principally depends on the capital and operating expenditure committed to the LNG project. In 2020, the PNG LNG joint venture parties approved a budget of US$1.3 billion, approximately US$200 million more than was spent in 2019.

Taking into account reduced global prices and increased project expenditure, gross revenue to Kumul Petroleum fell from US$697 million in 2019 to US$484 million in 2020.

Hides Gas Conditioning Plant

KPHL Gross Revenue: 2019-20

US$ Mill



Domestic Economy

PNG's economy is open and export oriented, being heavily dependent on primary resources produced by agriculture, forestry and fishing (16 per cent), and mining and petroleum extraction (84 per cent). When industrial demand declines in Australia, China and Japan, which are PNG's major markets, the economy of PNG suffers.
Papua New Guinea's wealth in hydrocarbons and minerals provides it with a solid foundation for economic growth, but also leaves the country vulnerable to the volatility of global commodity markets. As such, the government follows a long-term economic development strategy that aims to expand the State's revenue share from lucrative extractive projects, encourage offshore processing of natural resources, promote inclusive growth and attract new investments offering significant potential. The National Government took decisive actions to prevent community transmission of Covid-19, which constrained business activity during 2020.

Whereas the Asian Development Bank forecast a 2.1 per cent growth in PNG's GDP in 2020, the economy 'shrank' by 3.8 per cent, principally due to pandemic-related restrictions and contraction of trade. The Gross Domestic Product in the country was US$ 23.59 billion in 2020, according to the World Bank, a drop from the 2019 value of US$24.83 billion.
PNG dealt effectively with the coronavirus pandemic, but at a cost to the economy, and together with the contraction in trade, government revenue declined, the national budget deficit increased, and borrowing increased.

The Bank of PNG also noted that domestic economic activity contracted in 2020, due to the Covid-19 pandemic, subsequent State of Emergency containment measures imposed by Government and the closure of the Porgera mine.

The April shutdown of the Porgera gold mine, led to a 70 per cent reduction in output compared with 2019, and was estimated to cause a 1.5 per cent decline in the country's GDP, at a time when gold prices hit record highs.

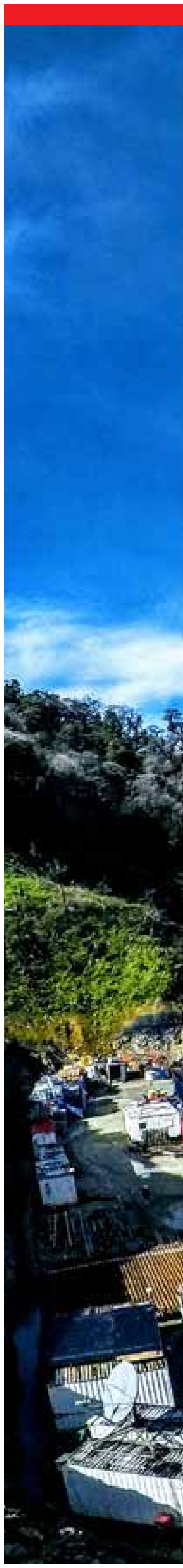
Outlook for 2021

Renewed waves and new variants of the coronavirus threaten the global economy in 2021, though amid the uncertainty, the global economy is forecast to grow 5.5 per cent.

In line with positive expectations for the global economy, the World Bank forecasts that PNG's economy will rebound in 2021 and grow by 3.5 per cent.

Risks to this outlook are the possibility of a worsening coronavirus situation, and the continued closure of the Porgera mine.


Drilling rig at Hides C well pad



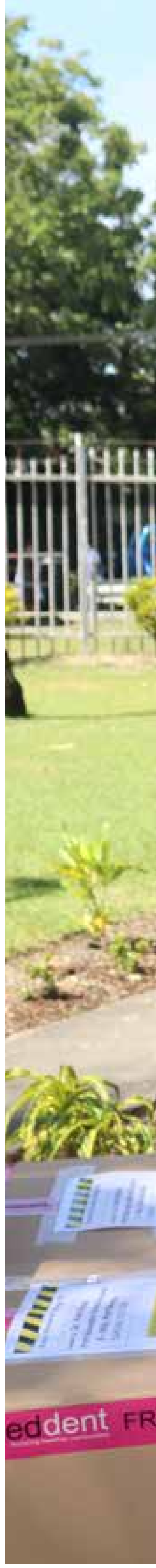
Drilling rig at Muruk 2 well site

Supporting the national Covid-19 response

In the first few months of 2020 Papua New Guinea, like every other country in the world, experienced the impacts of the Covid-19 pandemic, which were manifest in many ways throughout the country and affected numerous industries and people.

It was evident that the health system was under strain in Port Moresby and elsewhere in the country so Kumul Petroleum Holdings committed to provide at least K5 million to support the national response to fight Covid-19. Support included a donation of K2.14 million worth of medical supplies comprising Covid-19 response equipment and PPE to Port Moresby General Hospital in May and an additional K3.29 million worth of medical supplies, including six ventilators and associated breathing circuits in June.

In addition to this support of various health agencies in their efforts to mitigate the impacts of Covid-19 Kumul Petroleum Holdings also instituted a strict testing regime for its staff and their families.




meddent FRAGILE
EQUIPMENT

Supporting health

Kumul Petroleum is committed to providing ongoing assistance to the health sector in the country.

During the year Kumul Petroleum Holdings signed an agreement with the Angau Memorial Hospital in Lae to provide funding of K15 million over 3 years to upgrade cancer services at the hospital. In the same month an MOA was signed with the National Department of Health and the Port Moresby General Hospital to provide K50 million over 5 years to establish a National Heart Centre.

The two MOA's will see Kumul Petroleum investing in both hospitals, in recruitment of specialist human resources, training and development of national staff; along with the upgrade, maintenance, refurbishment and installation of new facilities and specialist equipment.

Medical supplies worth K2 million were donated to the Cardiac Intensive Care Unit at Port Moresby General Hospital later in the year. Useful diagnostic equipment included a CMAC laryngoscope, six bedside monitors, and a Mobilett Ellara Max X-Ray machine. In October, Kumul Petroleum funded and facilitated a two-day workshop on the Radiation Safety & Control Regulation Act.

A range of medical support was provided to other health facilities during the year. This included funding of K1 million to the Southern Highlands Province Provincial Health Authority that enabled them to construct a building to house the Mendi Hospital Kidney Dialysis Unit, an ambulance to the Kowama Health Centre in the Nipa Kutubu LLG and another ambulance donated to the Tukusanda aid post in Enga, to assist their rural operations.

Supporting education & training

Kumul Petroleum recognises that the petroleum industry requires specialist trade skills not necessarily used by other industries in the country, skills that will increasingly be needed as petroleum projects come into operation in the coming years. This rationale drove the establishment of the Kumul Petroleum Academy at Kanudi, alongside the Port Moresby Technical College, in 2015.

Kumul Petroleum Academy

The Academy is a world class training facility that trains competency assessed junior technicians in electrical, instrumentation, mechanical and production disciplines. On graduation the first 2016 intake of 32 students under ExxonMobil and Kumul Petroleum scholarship programmes all found employment. In 2018 a simulated Safe Live Processing Plant, costing K12.5 million, was installed, to enhance the training facility's ability to train process technicians.

A total of 60 trainees have received UK City & Guilds accreditation since the Safe Live Processing Plant became operational in May 2019. A second batch of 40 students, 15 female and 25 male, started in 2019, again sponsored by ExxonMobil and Kumul Petroleum.

Kumul Petroleum organised and attended the first PNG Petroleum Geoscience Conference and Exhibition at the Hilton, Port Moresby in February 2020. KPHL staff also attended the PNG Chamber of Mines & Petroleum webinar and meetings held via Zoom, an arrangement necessary because of Covid-19 meeting number restrictions, as an alternative to their annual resource industry conference.

During the year, Kumul Petroleum also nominated a graduate geologist, Stephanie Manoi, to take advantage of an Australia Awards scholarship to complete a master's degree in petroleum engineering at the University of Adelaide, followed by a three-month internship with Santos Limited.


South Pacific
Employment Institute
ACADEMY
TRAINEE

Supporting electrification

Electricity transmission lines at the NiuPower plant

Rural Electrification

In support of the Government's ambition to achieve the NEROP goals of 70% of the population having access to electricity by 2030, Kumul Petroleum Holdings continued its funding of power transmission line construction in the Hela and Southern Highlands provinces to assist in PNG Power's rural electrification programme.

Sub-contractors erecting power pylons in the Southern Highlands

A total of 165 kilometres of transmission lines has been constructed in four locations in the two provinces, using Niugini Building Construction and Transpower as construction contractors. On completion, the lines were handed over to PNG Power in December 2020. The energisation of these transmission lines will enable PNG Power to connect a large number of rural communities in these two provinces to the main Ramu grid. Apart from individual residences, such connections potentially include 24 churches, 7 schools, 3 health facilities and more than 40 businesses.

Halimbu to Koroba Station

Construction was carried out by Hela Solar Electrics Limited as a sub-contractor; they installed 30 kilometres of 22KV transmission lines along with necessary transformers between Hedemari and Koroba Station in Hela.
Ialibu to Kagua Station
Sub-contractor, Mbale Power Limited, constructed 33 kilometres of lines and associated infrastructure in Southern Highlands.

Nipa to Tari

Eighty kilometres of transmission lines together with associated transformer installation were constructed, from Nipa Station in the Southern Highlands Province to Ambua, just outside Tari, in Hela Province.

Halimbu to Nogoli

A total of 224 poles were erected and transmission lines installed by Transpower Limited alongside the access road between these two locations in Hela Province, a distance of 22.5 kms, between October and December 2020.

NiuPower Limited

Kumul Petroleum joined as an equal partner with Oil Search Limited to establish NiuPower Limited. This company constructed a 58MW gas-fired power station that purchases gas from the neighbouring PNG LNG plant at Caution Bay in December 2019. NiuPower also constructed the OHL-2 transmission line from its power station to the Gerehu sub-station, and from February 2020, use of this line enabled a more effective power connection to PNG Power's Port Moresby grid.
The plant dispatched 230,000 MWh of electricity into the Port Moresby grid during the year, with no disruptions, no lost time injuries, safety or other incidents, and with a total value of K47.6 million.

During the year's operations, 48.8% of the plant's capacity was utilised and it achieved its highest peak load in May 2020, at 54.5 MW. This power supply enabled PNG Power to stop taking electricity from the more expensive diesel powered facilities used in recent years to meet electricity demands of the growing city.

During the year, there were 1912 man-hours of internal and external training for the Wartsila PNG plant operations and maintenance staff. NiuPower also administered a community investment programme in the five villages adjacent to its plant site – Papa, Lealea, Boera, Kido and Porebada. This programme encompasses educational support, sponsorships and skills training for these village residents.

NiuPower power station

Supporting sport

Kumul Petroleum continued its platinum sponsorship of the PNG Football Association's premier competition, the National Soccer League, in the 2020 season, providing K2 million for the year, double the support provided in the previous year.

There was continued support of Cricket PNG during the year, particularly assisting with the preparations necessary for the national side to compete in the T20 World Cup.

Since its association with the Kroton Wigmen rugby league club as franchise owner, Kumul Petroleum has invested over K13 million in direct funding to the club as well as supporting the construction of their stadium in Tari at the cost of K5 million.

In compliance with Kumul Petroleum corporate governance philosophy, the club has initiated corporate governance processes and implemented a corporate strategy, including establishing a Wigmen merchandise shop selling Kroton branded merchandise. The club has a Board, a management team headed by a chief executive officer, and plays out of Port Moresby.

The team has repaid this corporate support through its performance, having made it to finals rounds appearances in 5 years, and two back-to-back grand final appearances culminating in the Kroton Wigmen winning the 2020 Digicel Cup Premiership.

Financial Statements

Consolidated Financial Statements for the year ended 31 December 2020

DISCLAIMER: The Financial Statements presented in this Report are the Consolidated Financial Statements of Kumul Petroleum Holdings Limited and its wholly owned subsidiaries. These have been prepared in accordance with the Papua New Guinea law requirements including the Companies Act 1997, and accounting standards applicable at the time, specifically the International Financial Reporting Standard (IFRS) and Generally Accepted Accounting Practices (GAAP). Although every care has been taken to ensure the correctness, and accuracy of the information published, Kumul Petroleum Holdings Limited will accept no responsibility for consequences suffered by any party or person relying on the information published in this Report for any purpose.

Kumul marine oil export terminal in the Gulf of Papua

Contents

Annual Report of the Directors to the Shareholder

for the year Ended 31 December 2020

The directors take pleasure in presenting their report on the consolidated financial statements of the Kumul Petroleum Holdings Limited (the "Parent entity") and its subsidiaries (together referred to as "the Group") for the year ended 31 December 2020. The Parent entity was incorporated on 04 March 2014.

Principal Activity

The principal activity of the Parent entity is to be the State's nominee to hold interests in all oil and gas projects and grow its oil and gas portfolio in the country. The principal activities of the Group are:

- to hold the State's interest in the existing Papua New Guinea Liquefied Natural Gas (PNG LNG) Project
- to hold interest in marketable securities
- to hold pipeline and midstream related services
- to hold interest in and venture into potential power generation projects
- to hold interest in and or venture into potential exploration activities in the oil and gas sector
- to hold interest in and or venture into potential drilling and related activities in the oil and gas sector
- provide academic, technical and any other up-skilling and training ventures locally to benefit the industry
- to operate a Power Plant project adjacent to PNG LNG project for generation of electricity and
- to hold interest in and or venture into potential downstream and petrochemical related activities

Results

For the year ended 31 December 2020, the Group made a consolidated net profit for the year of US$203.77million (2019: US$247.96 million).

Papua LNG and PNGLNG expansion has now been decoupled, with Papua LNG now progressing on its own 2-Train LNG development. With respect to PNGLNG Expansion, progress has also been made towards Petroleum Development License award over the P'nyang field, a key resource to underpin potential PNG LNG Project expansion. Discussions are continuing. Recertification of gas resource was last completed in 2016. As of 2020, there are no plans yet for another recertification. Meanwhile, Angore B pad wells have been abandoned due to well integrity and safety concerns. There is plan to drill replacement Angore wells in late 2022 with first gas expected in late 2024. Both Papua LNG Project and PNGLNG Expansion still offer attractive returns and remain highly competitive when compared to other possible LNG Projects in the South – East Asia region.

Directors

The directors as at the date of this report are:

Wapu Sonk	Executive / Managing Director	Appointed 4 March 2014
Ila Temu	Non-executive	Appointed 2 September 2014
Benedict Yaru	Non-executive	Appointed 2 September 2014
Peterson Pipi	Non-executive	Appointed 22 February 2017
Paul Nerau	Non-executive	Appointed 12 July 2021
Hari Karyuliarto	Non-Executive	Appointed 12 July 2021

Secretary

The Group secretary is Dianne Aikung (Appointed 08 August 2019).

Directors' Interests

As at 31 December 2020, the directors did not have any interests in the Group warranting disclosure (2019: Nil).

AUDITOR-GENERAL'S OFFICE

Directors' Remuneration

The Non-Executive Directors remuneration for the year ended 31 December 2020 is shown below:

	Remuneration	Sitting allowance	Short term incentive	Long term retention	Total
	US$	US$	US$	US$	US$
Andrew Baing - Chairman	23,125	1,388	–	–	**24,513**
Dr. Ila Temu – Director	79,666	2,220	–	–	**81,886**
Dr. Benedict Yaru – Director	95,853	2,220	–	–	**98,073**
Peterson Pipi – Director	79,666	1,776	–	–	**81,442**
Total	**278,310**	**7,604**	**0**	**0**	**285,914**

Remuneration above US$ 27,800 (K 100,000) per annum

The number of employees not being directors whose total remuneration and other benefits received above US$27,800 (K100,000) per annum from the Group during the year was 57.

Remuneration and other benefits paid to employees during the year, in excess of US$27,800 (K100,000) in brackets of US$27,800 (K100,000) were:

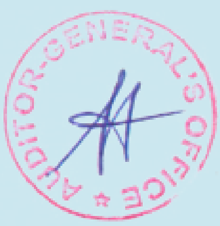
Salary bands		No. of employees
K'000	US$'000	
100 - 199	28 -56	30
200 - 299	56 - 83	14
300 - 399	83 - 108	4
400 - 499	108 - 139	0
Over 500	Over 156	9

Dividends

A total of US$57.95 million (PGK200 million) was declared as dividend to the State for the year ended 31 December 2020 (2019: US$59 million (PGK200 million)).

Employees

As of 31 December 2020, the Group had 78 employees (2019: 78).



Donations and community sponsorships

Donations and community sponsorship made by the Group as part of corporate standing in the community for the year ended 31 December 2020 is US$6.8 million (2019: US$8.9 million).
Auditors
Auditor's fees for the service rendered during the 2020 year are disclosed in Note 9b to the consolidated financial statements.

Accounting Policies

The accounting policies and any changes to the accounting policies are stated in Note 2 to the consolidated financial statements.

Subsequent Events

Subsequent events that can have impact on the consolidated financial statements have been disclosed in Note 26 of the financial statements.

Preparation of accounts in US Dollars

The Group received approval from Investment Promotion Authority (IPA) through the Office of Registrar of Companies on 25 February 2015 to use United States Dollars ("US$") as it's functional and presentation currency. The numbers in the consolidated financial statements are rounded to the nearest thousands (US$ '000), except where otherwise indicated.

Signed for, and on behalf of the Board,

Benedict Thomas Yaru
____

Dr. Benedict Yaru
Chairman
Port Moresby

Date ______________

____

Wapu Sonk
Managing Director/Executive Director
Port Moresby

Date ________________

AUDITOR-GENERAL'S OFFICE

Kumul Petroleum Holdings Limited and its Subsidiaries

Directors' Declaration

for the year Ended 31 December 2020

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Benedict Thomas Yaru

____

Dr. Benedict Yaru
Chairman
Port Moresby

Date ______________

____

Wapu Sonk
Managing Director/Executive Director
Port Moresby

Date ________________

AUDITOR-GENERAL'S OFFICE

AUDITOR-GENERAL'S OFFICE
PAPUA NEW GUINEA

PAPUA NEW GUINEA

Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

Our Reference: 31-73-5

INDEPENDENT AUDIT REPORT
TO THE SHARHOLDERS ON THE FINANCIAL STATEMENTS OF
KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES
FOR THE YEAR ENDED 31 DECEMBER 2020

OPINION

I have audited the accompanying financial statements of **Kumul Petroleum Holdings Limited** **("the Parent Company")** and its **Subsidiaries,** referred to as **("the Group"),** which comprise the Consolidated Statement of Financial Position as at **31 December 2020**, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended; and Notes to the consolidated financial statements including summary of significant accounting policies and other explanatory information.

In my opinion,

(a) the consolidated financial statements of Kumul Petroleum Holdings Limited and its Subsidiaries, ("the Group") for the year ended 31 December 2020:

 (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and

 (ii) the financial statements have been presented in accordance with the *Companies Act 1997*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;

(b) proper accounting records have been kept by the Group, as far as appears from my examination of those records; and

(c) I have obtained all the information and explanation required.

AUDITOR-GENERAL'S OFFICE

BASIS FOR OPINION

I conducted my audit in accordance with the *Audit Act* and *International Standards on Auditing*. My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements section of my report.

I am independent of the Kumul Petroleum Holdings Limited and its subsidiaries, ("the Group") in accordance with the ethical requirements that are relevant to my audit of the financial statements in Papua New Guinea, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Directors for the Financial Statements

The Directors of the Group are responsible for the preparation of the consolidated financial statements that gives a fair presentation in accordance with the *International Financial Reporting Standards* and the *Companies Act, 1997* and for such internal control as the Directors determines is necessary to enable the preparation of the consolidated financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Groups ability to continue as a going concern, disclosing, as applicable, matters relating 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.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the consolidated 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *International Standards on Auditing* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

As part of an audit in accordance with *International Standards on Auditing*, I exercise professional judgement and maintain professional scepticism throughout the audit. I also;

- Identify and assess the risks of material misstatement of the consolidated 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 my opinion. The risk of not detecting a material misstatement resulting from

AUDITOR-GENERAL'S OFFICE

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 entity's internal control.

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

- 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 may cast significant doubt on the Groups ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Kega

GORDON KEGA MBA, CPA
Auditor-General

25 November, 2022

AUDITOR-GENERAL'S OFFICE

Kumul Petroleum Holdings Limited and its Subsidiaries

Consolidated Statement of Comprehensive Income

for the year Ended 31 December 2020

		2020	2019
	Notes	US$'000	US$'000
Revenue	6	553,837	822,043
Cost of sales	7	(261,860)	(298,403)
Gross profit		**291,977**	**523,640**
Other Income	8	14,590	13,695
Consultancy and professional service	9b	(3,731)	(6,024)
Depreciation charges	15	(1,635)	(2,750)
Employee benefits expense	9c	(16,254)	(16,171)
Other operating expenses	9a	(15,892)	(20,620)
Operating profit		**269,055**	**491,770**
Interest income		2,234	7,318
Finance costs	9d	(102,582)	(135,762)
Foreign exchange gain		1,616	1,058
Impairment loss – net of gain on reversal		15,377	(10,488)
Changes in fair value of other financial liabilities	24	85,000	5,000
Expense recognized for Kroton Equity Option	24	–	–
Profit before income tax		**270,700**	**358,896**
Income tax expense	10a	(66,930)	(110,939)
Net Profit for the year		**203,770**	**247,957**
Other comprehensive income			
Item that may be reclassified to profit or loss in subsequent period:		-	-
Total comprehensive income for the year		**203,770**	**247,957**
Attributable to:			
Equity holder of the parent		147,248	170,835
Non-controlling interest		56,522	77,122
		203,770	**247,957**

This consolidated statement of comprehensive income should be read in conjunction with the accompanying notes to the consolidated financial statements.

AUDITOR-GENERAL'S OFFICE

Kumul Petroleum Holdings Limited and its Subsidiaries

Consolidated Statement of Financial Position

for the year Ended 31 December 2020

		2020	2019
	Notes	US$'000	US$'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	114,586	523,640
Receivables and other assets	12	229,973	
Income tax receivables	10c	54,467	13,695
Inventories	13	27,252	(6,024)
Total Current Assets		**426,278**	**454,879**
Non-current Assets			
Receivables and other assets			
Oil and gas assets			
Property, plant and equipment	15	83,233	27,031
Rehabilitation and restoration assets	16	89,268	69,339
Interest in joint ventures	17	55,135	44,039
Total Non-current Assets		**3,766,105**	**3,748,623**
Total Assets		**4,192,383**	**4,203,502**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payable	18	77,014	73,204
Income tax payable	10c	–	6,827
Provisions	19	438	288
Loans and borrowings	20	242,452	306,706
Other financial liabilities	24	–	14,000
Dividends payable	24	–	15,000
Total Current Liabilities		**319,904**	**416,025**
Non-current Liabilities			
Deferred tax liabilities	10b	463,488	335,264
Provisions	19	148,335	123,931
Loans and borrowings	20	1,468,072	1,603,838
Other financial liabilities	24	123,000	194,000
Total Non-current Liabilities		**2,202,895**	**2,257,033**
Total Liabilities		**2,522,799**	**2,673,058**
Equity			
Share/contributed capital	21a	1,034,904	1,041,584
Retained earnings		332,086	242,788
Reserves	21c	9,446	9,446
Equity attributable to equity holders of the parent		**1,376,436**	**1,293,818**
Non-controlling interest		293,148	236,626
Total Equity		**1,669,584**	**1,530,444**
Total Liabilities and Equity		**4,192,383**	**4,203,502**

This consolidated statement of financial position should be read in conjunction with the accompanying notes to the consolidated financial statements.

AUDITOR-GENERAL'S OFFICE

Kumul Petroleum Holdings Limited and its Subsidiaries

Consolidated Statement of Changes in Equity

for the year Ended 31 December 2020

		Attributable to the equity holder of the Parent					
		Share/ Contributed Capital	Retained Earnings	Reserves	Total	Non-controlling interest	Total
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	Notes	Note 21a		Note 21c			
Balance at 1 January 2019		**1,078,733**	**130,953**	**9,446**	**1,219,132**	**174,504**	**1,393,636**
Net profit for the year		–	170,835	–	170,835	77,122	247,957
Other comprehensive income		–		–	–	–	–
Total comprehensive income		**–**	**170,835**	**–**	**170,835**	**77,122**	**247,957**
Dividends paid	21b & 24	–	(59,000)	–	(59,000)	(15,000)	(74,000)
Share-based payment - Kroton Equity		–	–	–	–	–	–
Return of capital	21a	(37,149)	–		(37,149)	–	(37,149)
Balance at 31 December 2019		**1,041,584**	**242,788**	**9,446**	**1,293,818**	**236,626**	**1,530,444**
Net profit for the year		–	147,248	–	147,248	56,522	203,770
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income		**–**	**147,248**	**–**	**147,248**	**56,522**	**203,770**
Dividends paid	21b	–	(57,950)	–	(57,950)	–	(57,950)
Share-based payment - Kroton Equity		–	–	–	–	–	–
Return of capital	21a	(6,680)	–	–	(6,680)	–	(6,680)
Balance at 31 December 2020		**1,034,904**	**332,086**	**9,446**	**1,376,436**	**293,148**	**1,669,584**

This consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the consolidated financial statements.

AUDITOR-GENERAL'S OFFICE

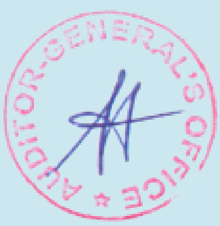
Kumul Petroleum Holdings Limited and its Subsidiaries

Consolidated Statement of Cash Flows

for the year Ended 31 December 2020

	Notes	2020 US$'000	2019 US$'000
Cash flows from operating activities			
Receipts from customers		549,982	887,190
Payments to suppliers and employees		(162,392)	(190,508)
Income tax paid	10c	–	(49,869)
Interest received		2,234	7,318
Net cash flow from operating activities		**389,824**	**654,131**
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(58,060)	(14,989)
Acquisition of oil and gas assets	14	(44,848)	(44,490)
Investment in joint ventures		(11,096)	(6,657)
Investment in evaluation and exploration	14	(1,217)	(24,711)
Net cash flow used in investing activities		**(115,221)**	**(90,847)**
Cash flows from financing activities			
Payment of loans and borrowings		(196,688)	(196,548)
Interest paid		(101,070)	(134,182)
Cash provided to the State		(6,680)	(37,149)
Dividends paid	21a	(72,950)	(89,000)
Net cash flow used in financing activities	21b & 24	**(377,388)**	**(456,879)**
Net increase (decrease) in cash and cash equivalents		**(102,785)**	**106,405**
Opening cash and cash equivalents		**217,371**	**110,966**
Closing cash and cash equivalents	11	**114,586**	**217,371**

This consolidated statement of cash flows should be read in conjunction with the accompanying notes to the consolidated financial statements.



1. General Information

Kumul Petroleum Holdings Limited ("the Parent entity") is an unlisted company, incorporated in Papua New Guinea on 4 March 2014. The Parent entity is the immediate shareholder and holding Parent entity of the Kumul Petroleum Group (together referred to as "the Group"). The Parent entity is the State's nominee in all oil and gas projects in the country. As a result of the enactment of the Kumul Petroleum Holdings Ltd Authorisation Act 2015, the issued shares of the Parent entity previously owned by Independent Public Business Corporation ("IPBC"), were transferred to the Kumul Petroleum Trustee.

The registered office is located at Level 7, Kina Bank Haus, Douglas Street, PORT MORESBY, National Capital District, Papua New Guinea.

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on ____________.

2. Significant Accounting Policies

The principal accounting policies applied in preparation of the Group financial statements are set out below. These policies have been constantly applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee "IFRIC" as issued by the International Accounting Standard Board (IASB) and the requirements of Companies Act 1997. The consolidated financial statements have been prepared under the historical cost convention and on a going concern basis except for the fair value of other financial instruments.

The consolidated financial statements are presented in US$, and all values are rounded to the nearest thousands (US$"000"), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent and entities (including structured entities) controlled by it and its subsidiaries. Control is achieved when the Group:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group entity considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Parent entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.2 Basis of preparation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(i) Business combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Business combinations between entities under common control
Predecessor accounting is applied for business combinations among entities and amalgamations of entities under common control. Under this method, the financial statements of the combined entity are presented as if businesses had been combined from the date when the combining entities were amalgamated. Assets and liabilities of the acquired or amalgamated entity are stated at predecessor carrying values. Fair value measurement is not required, and no new goodwill arises in predecessor accounting. Any difference between the consideration given and the aggregated book value of the assets and liabilities of the acquired or amalgamated entity at the date of the transaction is included in equity in retained earnings.

(iii) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.2 Basis of preparation (continued)

(iv) Joint arrangements
Exploration, development and production activities of the Group are primarily carried on through joint arrangements with other parties. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements as follows:

Joint operations
The Group has accounted for its direct rights and obligations by recognising its share of jointly held assets, liabilities, revenues and expenses of each joint operation. These have been incorporated in the financial statements under the appropriate headings.

Joint ventures
The Group has accounted for its investments in joint ventures under the equity method of accounting with these investments initially recognised at cost. The Group's investment in the joint venture, profit and loss and movements in other comprehensive income are adjusted to recognise the Group's corresponding share of the post-acquisition profits or losses and movements in other comprehensive income of the investee.

Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of that entity.

2.3 Changes in accounting policies and disclosures

(i) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2020

The Group applied for the first-time certain pronouncements, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below. The adoption of these standards did not have any effect on the financial performance or position of the Group.

- 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:
    - use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting
    - clarify the explanation of the definition of material; and
    - incorporate some of the guidance in IAS 1 about immaterial information.
- Amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform (effective 1 January 2020). Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. These amendments relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement under both IAS 39 and IFRS 9. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

2. Significant Accounting Policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

(ii) New standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2020 and not early adopted
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

- 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 has conducted investigations and does not consider that there are any measurement or recognition issues arising from the release of these new pronouncements that will have a significant impact on the reported financial position or financial performance of the Group.

2.4 Summary of significant accounting policies

(a) Foreign currency translation

(i) Functional and presentation currency
The consolidated financial statements are presented in US$ as opposed to the currency of the economic environment in which the Group operates, the Papua New Guinea Kina ("PNG Kina"). Items included in the financial statements of the Group are measured using United States Dollars ("US$") as the functional currency ('the functional currency') of the Parent and its subsidiaries. The decision to use US$ as the Parent and its subsidiaries' functional currency is considered more beneficial for the market and that the balances and transactions are significantly denominated in US$ when operating in the oil and gas industry.

Below is the supplementary disclosure as required for reporting purposes with the PNG Registrar of Companies per approval notice dated 25 February 2015 (ref: asbd2 1-100045/rm)

	As translated	
	2020	2019
	PGK'000	PGK'000
TOTAL ASSETS*	15,080,514	14,697,559
TOTAL LIABILITIES*	(9,074,817)	(9,346,357)
NET ASSETS	**6,005,697**	**5,351,202**
NET PROFIT**	**723,872**	**862,159**

*Translated using reporting date exchange rate of 0.278 in 2020 (2019: 0.286)
**Translated using average exchange rate of 0.2815 in 2020 (2019: 0.2876)

(ii) Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(a) Foreign currency translation (continued)

(ii) Transactions and balances (continued)
Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

(iii) Group companies
The results and financial position of operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each statement of 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 ("OCI").

(b) Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Oil and gas assets are usually single oil or gas fields being developed for future production or which are in the production phase. Where several individual oil or gas fields are to be produced through common facilities, the individual oil or gas field and the associated production facilities are managed and reported as a single oil and gas asset.

(i) Pre-permit costs
Pre-permit costs are expensed in the period in which they are incurred.

(ii) Exploration and evaluation costs
In line with IFRS 6, exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payment made to contractors.

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(b) Oil and natural gas exploration, evaluation and development expenditure (continued)

(ii) Exploration and evaluation costs (continued)

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through profit or loss.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to assets in development.

(iii) Development and producing costs
Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. Development expenditure is subject to amortisation once production commences. Once commercial operation commences, the accumulated costs are transferred to oil and gas assets – producing assets.

(c) Oil and gas assets and other property, plant and equipment

(i) Initial recognition
Oil and gas assets and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within oil and gas properties.

When a development project moves into the production stage, the capitalisation of certain construction/ development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

(ii) Depreciation / amortisation
Oil and gas properties are depreciated using the unit of production (UOP) method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/ amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(c) Oil and gas assets and other property, plant and equipment (continued)

(ii) Depreciation / amortisation (continued)

Changes to prove reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

- Vehicles 3-5 years
- Furniture, fittings, software and equipment 3-8 years

Right of Use assets are depreciated over the shorter of lease term and estimated useful life. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate. 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.

(iii) Major maintenance, inspection and repairs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

(d) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets with definite lives are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any.

Indefinite lived intangibles are not amortised, instead they are tested for impairment annually. Internally generated intangible assets, excluding capitalised development costs, are not capitalised. Instead, the related expenditure is recognised in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(d) Other intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation methodfor an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(e) Impairment of non-financial assets

Intangible assets, for example goodwill and software licenses, that are internally generated are not subject to amortisation and are tested annually for impairment. Off the shelf assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are carried at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(f) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date at which the Group commits to purchase or sell the asset. The Group financial assets include cash and cash equivalents, receivable and other current assets and amounts due from related parties.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified into four categories:

- Financial assets at fair value through profit or loss
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(f) Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments, as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative changes in fair value) or finance revenue (positive net changes in fair value) in profit or loss. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in the statement of profit or loss. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or there is a reclassification of a financial asset out of the fair value through profit or loss category.

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group has not designated any financial assets at amortised cost.

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group has not designated any financial assets at fair value through OCI.

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(f) Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired
  Or
- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets
The adoption of IFRS 9 has changed the Group's impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL (Expected Credit Loss) approach.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(f) Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Impairment of financial assets
ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

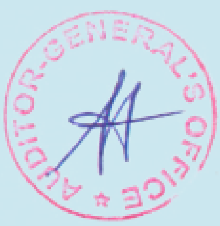
(ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.



2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(f) Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (continued)
Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

This category generally applies to interest-bearing loans and borrowings.

(g) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts, but exclude any restricted cash.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials and supplies is the purchase cost, determined on a weighted average basis. The cost of liquefied natural gas and gas in tanks and pipelines is the purchase cost, the cost of refining, including the appropriate proportion of depreciation, depletion and amortisation and overheads based on normal operating capacity, determined on a weighted average basis. The value of extracted by-products is stated at net realisable value.

The net realisable value of inventories is based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(i) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as noncurrent liabilities.

(j) Borrowing cost

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective assets. Borrowings costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to fund a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Parent entity during the period. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the “probable economic benefits” test and also are rarely debt funded. Any related borrowing costs are therefore generally recognised in profit or loss in the period they are incurred.

(k) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(k) Current and deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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 income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the taxation authority and there is an intention to settle the balances on a net basis.

(l) Royalties and development levies

In addition to corporate income taxes, the Group's consolidated financial statements also include and recognise as income taxes, other types on net income such as royalties and development levies.

Royalties and development levies are accounted for under IAS12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than physical quantities produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements and other types of taxes that do not satisfy these criteria are recognised as current provisions and included in cost of sales. The revenue taxes payable by the Group are considered to meet the criteria to be treated as part of income taxes.

(m) Leases and right of use assets

Right-of-use assets and lease liabilities arising from lease contracts are initially measured on a present value basis. Lease liabilities include the present value of all fixed payments (less any lease incentives receivable), variable lease payments that are based on an index or rate, any amounts expected to be paid under residual value guarantees, the exercise price of any purchase options that are reasonably certain to be exercised and any payments for terminating a lease if the lease term reflects the exercise of that termination option. The lease payments are discounted using the discount rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost.

The finance cost is charged to interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Theassessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Payments associated with short-term leases and leases of low-value assets (less than PGK equivalent of US$5,000) are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(m) Leases and right of use assets (continued)

Right-of-use assets are initially measured at cost, comprising the amount on initial recognition of the lease liability plus any lease payments made before commencement of the lease, any initial direct costs and the estimated costs of any restoration required upon completion of the lease contract. Right-of-use assets are subsequently measured at cost less depreciation and any impairment. Right-of-use assets are depreciated on a straight line basis over the shorter of the term of the lease and the asset's useful life, unless there is a purchase option which is reasonably certain of being exercised, in which case the asset will be depreciated over its useful life.

(n) Provisions

(i) General
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is recognised in the profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in profit or loss.

(ii) Decommissioning liability – rehabilitation and restoration
The Group recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field. Any decommissioning obligations that arise through the production of inventory are expensed when the inventory item is recognised in cost of goods sold.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets.

Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Parent entity considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as a finance cost.

The Group recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(n) Provisions (continued)

(iii) Employee benefits
A liability is recognised for benefits accruing to employees in respect of salaries and wages, annual leave, long service leave and staff incentives when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

(o) Revenue Recognition

The Group is in the business of sale of oil and petroleum products. Revenue from contracts with customers is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for such products.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., volume rebates). In determining the transaction price for the sale of finished petroleum products, the Group considers the effects of variable consideration, the existence of significant financing components, and consideration payable to the customer (if any).

The Group generates revenue with customers from the following performance obligations that are included in the contracts:

- Liquefied natural gas
- Condensates
- Naphtha
- Crude Oil
- Power and other sales

For the disaggregation of the Group's revenue with customers, refer to Note 6.

Sale of oil and petroleum products
Revenue from sale of oil and petroleum products is recognised at the point in time when control of the goods is transferred to the customer, generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. The normal credit term is 45 days upon delivery. There are no separate performance obligations on the sales of these products

(i) Variable consideration
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(o) Revenue Recognition (continued)

(ii) Significant financing component
Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Dividend Income
Dividend income is also recognised when the Group's right to receive the payment is established, which is generally when shareholders or board of directors approve the dividend.

Interest Income
For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest revenue is included in finance income in the profit or loss.

Contract balances
Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer.
If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section b) Financial instruments – initial recognition and subsequent measurement.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. Refer to Note 18 for the balances of the contract liabilities.

(p) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(p) Current versus non-current classification (continued)

A liability is current when either:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(q) Share/contributed capital

Share capital is measured at value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Contributed capital relates to the value of contribution received from shareholders in which future shares will be issued. The contributed capital will be transferred to share capital once shares are issued.

(r) Fair value measurement

The Group measures AFS investment and derivatives at fair value at each reporting date and for the purposes of impairment testing, uses fair value less cost of disposals to determine the recoverable amount of some of its non-financial assets.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumptions that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

AUDITOR-GENERAL'S OFFICE

2. Significant Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

(r) Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the financial statements.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

(a) Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

Joint arrangements
Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement such as approval of the capital expenditure program for each year or terminating the service providers of the arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

3. Significant accounting judgements, estimates and assumptions (continued)

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess its rights and obligations arising from the arrangement. Specifically, the Group considers:

- The structure of the joint arrangement – whether its structured through a separate vehicle
- When the arrangement is structure through a separate vehicle, the Group also considers the rights and obligations arising from:
    - The legal form of the separate vehicle
    - The terms of the contractual arrangement
    - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

(b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are describe below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared and existing circumstances arising beyond the control of the Group. Such changes are reflected in the assumption when they occur.

(i) Hydrocarbon reserve and resource estimates
Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on informationcompiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place,recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economy assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which includes:

- The carrying value of exploration and evaluation assets; oil and gas properties and property, plant and equipment; may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation changes in the statement of profit or loss and other comprehensive income may change where the useful life of the related assets change.
- Provisions for decommissioning may change – where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

AUDITOR-GENERAL'S OFFICE

3. Significant accounting judgements, estimates and assumptions (continued)

(b) Estimates and assumptions (continued)

(ii) Exploration and evaluation expenditures
The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from future either exploration or sales, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself and estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

(iii) Recoverability of oil and gas assets
The Group through the project operator assesses each significant asset that make up the oil and gas asset each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimates of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). The assessments require the use of estimates and assumptions such as long term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risks and uncertainty. Therefore, there is a possibility that changes in circumstances will impact this project, which may impact the recoverable amount of the asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(iii) Recoverability of oil and gas assets
The Group through the project operator assesses each significant asset that make up the oil and gas asset each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimates of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). The assessments require the use of estimates and assumptions such as long term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risks and uncertainty. Therefore, there is a possibility that changes in circumstances will impact this project, which may impact the recoverable amount of the asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(v) Recovery of deferred tax assets
Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognizedin the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assessthe likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows.

AUDITOR-GENERAL'S OFFICE

3. Significant accounting judgements, estimates and assumptions (continued)

(b) Estimates and assumptions (continued)

(v) Recovery of deferred tax assets (continued)

These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgment about the application of existing tax laws in each jurisdiction to the extent that future cash flows and taxable income differ significantly from estimates. Hence, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

(vi) Kroton equity option and conversion

As disclosed in Note 24 of this financial report, management has accounted for the Kroton Equity Option and Conversion in accordance with the group accounting policy, terms of the instruments and the applicable accounting standard. Given the nature of the transaction, it is considered to be a complex transaction which has occurred outside of the normal course of business. The accounting for the transaction includes a number of significant judgments, assumptions and estimates involved. The following assumptions are considered to be the key material assumptions adopted in the recognition and measurement of the transaction:

- Modification date of 20 December 2016 - Management considers the Option to first have "intrinsic value" on this date as this was when MRDC, on behalf of the BG's accepted the revised terms offered by the State (including KPHL's vendor financing package).
- Option Valuation - Management determined the option valuation with consideration to an external independent valuation performed on the PNG LNG project on 30 June 2016. Management considers that no material matters have occurred since date of valuation until modification date.
- Compound financial instrument liability component - With the assistance of external independent specialists, management determined the liability component by discounting the expected future cash flows in accordance with the vendor financing arrangement (derived from a financial model) using a cost of debt discount rate of 5.5% which management considers appropriate in the determination of the value. The liability revalued at the balance date.

(vii) Notice of intent to cancel PDL 10

Repsol, as operator of the PDL 10 licence in PNG, received notices of intent to cancel PDL 10 and a notice to terminate the Stanley Gas Agreement for PDL 10 from the PNG Petroleum Minister. The licensees submitted a written response to the Minister on 24 July 2018. Repsol and the Group are of the view that the notices are without merit and are procedurally invalid. Meetings were held with the Minister to resolve the matter and discussions were constructive. Owing to procedural timelines arising from the Minister's notices and the Stanley gas agreement, Repsol, on behalf of the joint venture, initiated the formal dispute resolution process required under the gas agreement, referring the matter to arbitration in November 2018. Initiation of the formal process serves to ensure parties' positions are safeguarded. Whilst the notices are a potential indicator of impairment, on the basis that tenure remains current, and the notices are without merit and procedurally invalid, no impairment has been recorded as at 31 December 2019 and 2020. In the event that the licences were to be cancelled, whilst the Group would likely mount a strong legal challenge, the maximum impairment charge that would be recorded at 31 December 2019 and 2020 is US$9.3 million.
Refer to note 26 for subsequent event.

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4. Fair value measurement

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The following table presents assets and liabilities that are measured at fair value:

	Level 1	Level 2	Level 3	Total
As at 31 December 2020:	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Assets				
Financial assets through OCI	–	–	–	–
Liabilities				
Other financial liabilities	–	–	(123,000)	(123,000)
	–	–	**(123,000)**	**(123,000)**

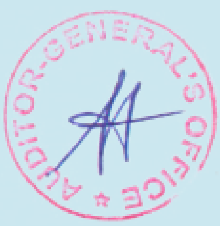
	Level 1	Level 2	Level 3	Total
As at 31 December 2019:	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Assets				
Financial assets through OCI	–	–	–	–
Liabilities				
Other financial liabilities	–	–	(208,000)	(208,000)
	–	–	**(208,000)**	**(208,000)**

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Other than noted above, the carrying value of all other financial assets and liabilities approximates fair value.

The following methods and assumptions were used to estimate the fair values:

- Fair value of the quoted shares is based on price quotations at the reporting date.
- The liability component is determined as the net present value of all potential contractually determined future cash flows under the instrument, discounted at the rate of interest applied by the market at the time of issue to instruments



5. Financial risk management policies and objectives

Financial risk factors
The Group activities expose it to a variety of financial risks: market risk (including currency risk, equity price risk and cash flow interest rate risk), liquidity risk and credit risk. The Group overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out under policies approved by the board of directors.

(a) Market risk

(i) Foreign exchange risk
The Group major transactions are denominated in US$ which is the Group functional and reporting currency. The Group's residual foreign exchange risk arises on administrative expenditure incurred at the corporate level in the PNG Kina and loan transactions in AUD. In addition, the Group may be exposed to one-off transactions which occur on an ad hoc basis for purchases in currencies other than the US$. The Group is not exposed to major translation exposures as the majority of the Group's assets and liabilities are denoted in US Dollars.

The balance of financial instruments denominated in foreign currencies are as follows:

	2020	2019
	US$ '000	US$ '000
Denominated in PNG KINA		
Cash and cash equivalent	13,751	4,932
Borrowings	(111,000)	(128,975)
Total	**(97,249)**	**(124,043)**

The following table demonstrates the sensitivity to a reasonably possible change on the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes on the carrying value of monetary assets and liabilities.

	Effect on profit before tax for the year ended 31 December 2020 Increase/(Decrease)	Effect on profit before tax for the year ended 31 December 2019 Increase/(Decrease)
USD Against PGK	US$ '000	US$ '000
Weakened +5% (2019: +5%)	(4,862)	(6,202)
Strengthened -5% (2019: -5%)	(4,862)	(6,202)

(ii) Interest rate risk
The Group manages its interest rate risk by entering its syndicated loans with available best options for project financing. The Group interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group does not hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant the impact to the Group's profit before tax:

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5. Financial risk management policies and objectives

Financial risk factors (continued)

(ii) Interest rate risk (continued)

	Effect on profit before tax for the year ended 31 December 2020 Increase/(Decrease)	Effect on profit before tax for the year ended 31 December 2019 Increase/(Decrease)
Increase/decrease in basis points	**US$ '000**	**US$ '000**
+50	(7,956)	(8,918)
-50	7,956	8,918

(b) Liquidity risk

Cash flow forecasting is performed by the Group and monitors rolling forecasts of its liquidity requirements to ensure it has sufficient cash to meet its operational needs.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand	<1 year	1-5 years	>5 years	Total
2000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Trade creditors and other liabilities	–	77,014	–	–	77,014
Finance lease obligation	–	18,120	71,172	122,470	211,762
Borrowings including future interest	–	331,510	1,552,397	–	1,883,907
Other financial liabilities	–	–	30,000	185,000	215,000
	–	**426,644**	**1,653,569**	**307,470**	**2,387,683**

	On demand	<1 year	1-5 years	>5 years	Total
2019	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Trade creditors and other liabilities	–	73,204	–	–	73,204
Finance lease obligation	–	18,737	71,426	140,225	230,388
Borrowings including future interest	–	399,177	1,740,653	–	2,139,830
Other financial liabilities	–	15,000	75,000	240,000	330,000
	–	**506,118**	**1,887,079**	**380,225**	**2,773,422**

5. Financial risk management policies and objectives

Financial risk factors (continued)

(b) Liquidity risk

The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions. The Group's maximum exposure to credit risk at reporting date in the event other parties fail to perform their obligations is as follows:

		2020	2019
	Note	US$ '000	US$ '000
Cash at bank	11	114,586	217,371
Trade receivables and undistributed project cash	12	219,377	200,932
Total		**333,963**	**418,303**

The Group reduces its risk on cash at bank by dealing only with reputed major banks. The Group's trade receivables credit risk is managed by entering into sales contracts with investment grade counter parties.
Credit limit has been established with counter parties.

Capital management

The Group manages its capital to ensure that entities in the consolidated group will be able to continue as a going concern while maximizing the return to its stakeholders through optimization of the debt and equity balances.

This involves the use of corporate forecasting models which facilitate analysis of the Group's financial position including cash flow forecasts to determine future capital management requirements. Capital management is undertaken to ensure a secure cost effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements.

6. Revenue from contracts with customers

Type of goods

	2020	2019
	US$ '000	US$ '000
Revenue from sale of:		
Liquefied natural gas	479,063	695,118
Condensates	55,725	108,412
Naphtha	8,061	10,428
Crude Oil	10,988	330,000
Power and other sales	–	–
Total revenue from contracts with customers	**553,837**	**822,043**

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6. Revenue from contracts with customers (continued)

Geographical markets

	2020	2019
	US$ '000	US$ '000
Japan	173,511	259,035
Republic of China	96,792	117,992
People's Republic of China	179,937	286,615
Singapore	58,459	79,251
Others	45,138	79,150
Total revenue from contracts with customers	**553,837**	**822,043**

All revenue recognized at point in time.

7. Cost of sales

		2020	2019
	Note	US$ '000	US$ '000
Production cost		105,037	140,401
Depreciation of oil and gas assets	14 & 16	153,110	144,932
Royalty and development levy charges		3,713	13,070
Total		**261,860**	**298,403**

8. Other income

		2020	2019
	Note	US$ '000	US$ '000
Hides Gas to Electricity (HGTE) income	(i)	1,754	6,728
Miscellaneous income		12,836	6,967
Total		**14,590**	**13,695**

(i). HGTE income represents 20.5% share of net revenue recognised from the facility operated by Oil Search Limited in the PDL 1 area.

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9. Cost and expenses

(a) Other operating expenses

	2020	2019
	US$ '000	US$ '000
Donations and community sponsorship	6,801	8,856
Rental expense	407	456
Travel and accommodation	898	1,568
Communication and information technology	876	986
Security and safety	905	516
Insurance expense	76	111
Directors fees and other expenses	1,592	520
Meeting and conferences	161	389
Recruitment and training expense	209	560
Subscriptions	185	250
Stationery and supplies	60	70
Advertising and media	254	209
Motor vehicle expenses	87	93
Utilities, repairs and maintenance	24	166
Other costs	3,357	5,870
Total	**15,892**	**20,620**

(b) Consultancy and professional services

	2020	2019
	US$ '000	US$ '000
Consultancy fees	3,266	5,040
Audit fees	463	954
Legal fees	2	30
Total	**3,731**	**6,024**

(c) Employee benefits expense

	2020	2019
	US$ '000	US$ '000
Salaries and wages	6,869	7,135
Short term and long-term incentive	7,456	7,421
Housing benefits	522	281
Annual and long service leave	567	382
Other benefits	840	952
Total	**16,254**	**16,171**

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9. Cost and expenses (continued)

(d) Finance costs

	Note	2020 US$ '000	2019 US$ '000
Loans and borrowings	20a & 20b	90,075	122,533
Finance lease obligation	20c	11,112	11,452
Accretion on rehabilitation provision	19	1,395	1,777
Total		**102,582**	**135,762**

10. Current and deferred income tax

(a) Income tax expense

	2020 US$ '000	2019 US$ '000
Current income tax expense	–	46,816
Deferred tax expense	60,343	64,123
Under / Over Provision of Tax in Prior Years	6,587	–
Income tax expense reported in profit or loss	66,930	110,939
Prima facie tax expense is presented as follows:		
Profit before tax expense	270,700	358,896
Prima facie tax @ 30%	81,210	107,669
Non-deductible expenses/ (non-assessable income)	(29,891)	3,108
Under / Over Provision of Tax in Prior Years	6,587	–
Movement in DTA previously not recognized	9,024	162
Income tax expense as reported in profit or loss	**66,930**	**110,939**

(b) Net deferred tax liabilities

Deferred tax asset		
Balance at beginning of year	12,199	24,453
Timing differences to profit or loss	3,102	(13,289)
Over/(under) provision of tax in prior years	1,460	–
Tax losses recognised	(1,663)	1,035
Balance at end of year	**15,098**	**12,199**

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10. Current and deferred income tax (continued)

	2020	2019
	US$ '000	US$ '000
Deferred tax liability		
Balance at beginning of year	(347,463)	(294,392)
Timing differences to profit or loss	(61,782)	(53,071)
Over/(under) provision of tax in prior years	(69,341)	–
Balance at end of year	**(478,586)**	**(347,463)**
Net deferred tax liabilities	**(463,488)**	**(335,264)**

The net deferred tax liabilities comprises the tax effect of:

Rehabilitation and restoration liability	8,192	6,159
Leased assets	4,858	4,076
Oil and gas / plant and equipment	(477,891)	(347,395)
Provisions	1,680	568
Prepayments	(58)	(66)
Tax losses carry-forward	(269)	1,394
Net deferred tax liabilities	**(463,488)**	**(335,264)**

(c) Refund (Provision) for income tax refund

Opening balance for provision for income tax	(6,827)	(11,083)
Current tax expense	–	(53,366)
Common control business combination	–	–
Payments made during the year	–	49,869
Tax credits during the year	–	6,535
Under / Over Provision of Tax in Prior Years	61,294	1,218
Closing balance of refund (provision) for income tax refund	**54,467**	**(6,827)**

11. Cash and cash equivalents

	2020	2019
	US$ '000	US$ '000
Cash in bank	114,569	217,354
Share of joint venture cash at bank	17	17
Total	**114,586**	**217,371**

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12. Receivables and other assets

Current

	2020	2019
	US$ '000	US$ '000
Trade receivables	53,172	62,475
Undistributed cash from PNG LNG Project	166,205	138,457
Prepayments in joint operations	4,331	4,531
General prepayments	384	402
GST receivables	734	568
Others	5,147	4,508
Total	**229,973**	**210,941**

Non-current

Tax credit scheme	52,905	–
Total	**52,905**	**–**

In accordance with the terms of the PNG LNG project financing, cash relating to the Group's interest in undistributed cash flows of the PNG LNG project is required to be held in secured bank accounts. As these are not readily available to the Group within 90 days, these are classified as other current assets.

The project and other receivables are due within 45 days and current.

Lifetime ECL impairment is assessed by individual customer basis and group of customers, based on historical write-offs, customer ratings and payment cycles of the customers. The Group recognized impairment loss amounting to US$0.3 million in 2020 (2019: US$0.4 million).

13. Inventories

	2020	2019
	US$ '000	US$ '000
Spare parts and consumables	19,735	18,540
LNG, Naphtha and condensate products	7,517	8,027
Total	**27,252**	**26,567**

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14. Oil and gas assets

Current

	Assets in production	Assets in evaluation and exploration	Right of Use Asset (tugs and vessels)	Total
31 December 2020	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Cost				
Balance at 1 January 2020	4,241,125	129,573	136,582	4,507,280
Additions for the year	44,848	1,217	–	46,065
Adjustments	(41,001)	–	–	(41,001)
Balance at 31 December 2020	**4,244,972**	**130,790**	**136,582**	**4,512,344**
Accumulated Depreciation				
Balance at 1 January 2020	839,653	35,468	23,945	899,066
Additions for the year	140,601	–	9,780	150,381
Adjustments	(6,980)	–	–	(6,980)
Impairment loss/ (reversal)	(16,564)	877	–	(15,687)
Balance at 31 December 2020	**956,710**	**36,345**	**33,725**	**1,026,780**
Net Book Value at 31 December 2020	**3,288,262**	**94,445**	**102,857**	**3,485,564**

	Assets in production	Assets in evaluation and exploration	Right of Use Asset (tugs and vessels)	Total
31 December 2019	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Cost				
Balance at 1 January 2019	4,196,635	104,862	81,716	4,383,213
Additions for the year	44,490	24,711	54,866	124,067
Reclassification	–	–	–	–
Balance at 31 December 2019	**4,241,125**	**129,573**	**136,582**	**4,507,280**
Accumulated Depreciation				
Balance at 1 January 2019	706,157	33,358	14,208	753,723
Additions for the year	131,631	1,774	9,737	143,142
Impairment loss	1,865	336	–	2,201
Balance at 31 December 2019	**839,653**	**35,468**	**23,945**	**899,066**
Net Book Value at 31 December 2019	**3,401,472**	**94,105**	**112,637**	**3,608,214**

Impairment assessment

The entire PNG LNG operation is considered as one cash generating unit (CGU) for impairment testing. The calculation of value in use for the CGU assets (comprising of oil and gas assets and property, plant and equipment) is most sensitive to the following assumptions:

- Production volumes
- Discount rates
- LNG sale price

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14. Oil and gas assets (continued)

Impairment assessment (continued)

Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process for the PNG LNG project until 2049.

The Group generally estimates value in use for the CGU using a discounted cash flow model (Model). The future cash flows are discounted to their present value using a post-tax discount rate of 10% that reflects current market assessments of the time value of money and the risks specific to the asset.

The model assumes a US$ denominated nominal crude oil price desk as the basis for forecast LNG and condensate sales price.

There were no existing impairment indicators based on Group's assessment except for impairment of PDL 10 as discussed in Note 3(b).

15. Property, plant and equipment

	Software	Motor Vehicles	Leasehold Improvement	Furniture & Fittings	Plant & Equipment	Capital Work in Progress	Total
2020	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
COST							
Balance at 1 January 2020	**3,386**	**1,677**	**5,937**	**461**	**1,273**	**23,233**	**35,967**
Additions	25	–	271	–	53	57,711	58,060
Transfers	–	–	–	–	–	–	–
Disposals	–	(106)	(118)	–	–	–	(224)
Impairment	–	–	–	–	–	–	–
Balance at 31 December 2020	**3,411**	**1,571**	**6,090**	**380,225**	**2,773,422**	**80,944**	**93,803**

Accumulated Depreciation

Balance at 1 January 2020	**3,342**	**731**	**3,232**	**438**	**1,193**	–	**8,936**
Depreciation	24	174	1,365	20	51	–	1,634
Disposal	–	–	–	–	–	–	–
Balance at 31 December 2020	**3,366**	**905**	**4,597**	**458**	**1244**	**-**	**10,570**
Net book value at 31 December 2020	**45**	**666**	**1,496**	**3**	**82**	**80,944**	**83,233**

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15. Property, plant and equipment (continued)

	Software	Motor Vehicles	Leasehold Improvement	Furniture & Fittings	Plant & Equipment	Capital Work in Progress	Total
2019	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
COST							
Balance at 1 January 2019	**3,323**	**1,265**	**4,029**	**460**	**1,243**	**19,793**	**30,113**
Additions	63	412	1,908	1	30	12,575	14,989
Transfers	–	–	–	–	–	(512)	(512)
Disposals	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	(8,623)	(8,623)
Balance at 31 December 2019	**3,386**	**1,677**	**5,937**	**461**	**1,273**	**23,233**	**35,967**
ACCUMULATED DEPRECIATION							
Balance at 1 January 2019	**2,476**	**510**	**1,830**	**389**	**981**	–	**6,186**
Depreciation	866	221	1,402	49	212	–	2,750
Disposal	–	–	–	–	–	–	–
Balance at 31 December 2019	**3,342**	**731**	**3,232**	**438**	**1,193**	–	**8,936**
Net book value at 31 December 2019	**44**	**946**	**2,705**	**23**	**80**	**23,233**	**27,031**

16. Rehabilitation and restoration assets

	2020	2019
	US$ '000	**US$ '000**
COST		
Opening balance	**82,713**	**65,351**
Adjustment*	22,658	17,362
Closing Balance	**105,371**	**210,941**
ACCUMULATED DEPRECIATION		
Opening balance	**13,374**	**11,584**
Depreciation charge	2,729	1,790
Closing Balance	**16,103**	**13,374**
Closing Balance	**89,268**	**69,339**

*Adjustment relates to change in discount rates and cash flows used on the assumptions.

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17. Interest in joint ventures

The Group has a 50% interest in NiuPower and NiuEnery, (collectively, "Joint Venture"), which has developed and is operating a Power Plant project adjacent to PNG LNG project for generation of electricity. The Group's interest in the Joint Venture is accounted for using the equity method in the consolidated financial statements. Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Summarised statement of financial position of joint ventures:

	2020	2019
	US$ '000	**US$ '000**
Total Assets	110,270	88,078
Total Liabilities	–	–
Equity	**110,270**	**88,078**

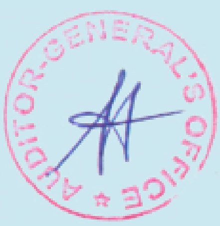
Group's share in equity (50%)	55,135	44,039
Goodwill	–	–
Carrying amount of the investment	**55,135**	**44,039**

Summarised statement of comprehensive income of joint ventures:

	2020	2019
	US$ '000	**US$ '000**
Consultancy fee	8	8
Total comprehensive loss	**8**	**8**

The joint venture operations commenced in March 2019, no other contingent liabilities or commitments as at 31 December 2020 and 2019.

The group invested in non-quoted equity shares of 12.5% in Orion Enga Children's Fund JV Limited which has been recognised at cost less impairment as fair value cannot be determined reliably. This investment has been impaired as at year end.



18. Trade and other payables

	2020	2019
	US$ '000	US$ '000
Trade creditors	2,873	4,510
Cash call advance	40,200	35,293
Accrued interest	5,670	6,384
Royalty and development levy	1,996	7,214
Other liabilities and accrual	26,275	19,803
Total	**77,014**	**73,204**

Trade creditors and other liabilities are non-interest bearing and are normally settled on a 30-day terms. Due to the short-term nature of these balances, the fair value approximates their carrying value.

19. Provisions

	2020	2019
	US$ '000	US$ '000
Current:		
Employee benefits	438	288
Noncurrent:		
Employee benefits	1,622	1,326
Rehabilitation and restoration liability	146,713	122,605
	148,335	**123,931**
Total	**148,773**	**124,219**

The reconciliation of rehabilitation and restoration liability is summarized below:

	2020	2019
	US$ '000	US$ '000
Opening balance	122,605	103,465
Accretion of interest	1,450	1,777
Adjustment*	22,658	17,363
Closing Balance	**146,713**	**122,605**

*Adjustment relates to change in discount rates and cash flows used on the assumptions.

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20. Loans and borrowings

		2020	2019
	Notes	US$ '000	US$ '000
The balance is made up as follows:			
Secured loan from joint operation	20a	1,480,200	1,654,693
BSP Loan	20b	111,000	128,975
Lease liabilities	20c	119,324	126,876
Total		**1,710,524**	**1,910,544**

Presented in the statement of financial position:

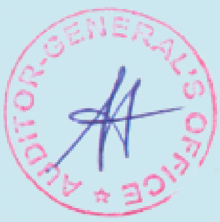
Current:			
Secured loan from joint operation	20a	210,037	170,151
BSP loan	20b	25,000	128,975
Lease liabilities	20c	7,415	7,580
		242,452	**306,706**

Noncurrent:			
Secured loan from joint operation	20a	1,270,163	1,484,542
BSP loan	20b	86,000	–
Lease liabilities	20c	111,909	119,296
		1,468,072	**1,603,838**
Total		**1,710,524**	**1,910,544**

(a) Secured loan from joint operation
The Group has an existing loan through Papua New Guinea Liquefied Natural Gas Global Company LDC ("GloCo"), a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") that was organised to conduct certain activities of the PNG LNG Project outside of PNG, including the borrowing and on-lending to the Participants of Senior Debt, and the purchase and re-sale of Project LNG and Project Liquids. The Borrower is owned by each participant in a percentage equal to its Project Interest. The Group's interest in the project as at 31 December 2020 is 16.78% (2019: 16.78%).

The PNG LNG Project achieved financial close on 12 March 2010. The maximum committed debt facility available to the PNG LNG Project at the date of signing was US$14 billion under nine loan facility agreements. On 4 October 2014, a supplemental debt facility of US$1.5 billion was secured by the PNG LNG Project.

Interest and principal on the loan is payable on specified semi-annual dates, which commenced in June 2015 with principal being repayable over 11.5 years based on a customised repayment profile.



20. Loans and borrowings (continued)

(a) Secured loan from joint operation (continued)

Following completion, the LNG sales proceeds are received into a sales escrow account from which agreed expenditure obligations are firstly made and, subject to meeting certain debt service cover ratio tests, surpluses are distributed to the project participants. The Borrower grants to the security trustee:

- A first-ranking security interest in all of the Borrower's assets, with a few limited exceptions;
- A fixed and floating charge over existing and future funds in the offshore accounts; a deed of charge (and assignment) over the sales contracts, LNG charter party agreements, rights under insurance policies, LNG supply and sales commitment agreements, on-loan agreements and the sales, shipping and finance administration agreements, collectively known as 'Borrower Material Agreements'; and
- A mortgage of contractual rights over Borrower Material Agreements.

The loan facility is subject to various covenants and a negative pledge restricting future secured borrowings, subject to a number of permitted lien exceptions. Neither the covenants nor the negative pledge have been breached at any time during the reporting period.

The Group, as a completion guarantor, has guaranteed payment by the Borrower of the Groups' share (16.78%) of the senior debt obligations up until practical completion is achieved.

The Group has also granted security over:

- The shares in each of its project participants; and
- The participants' project interests and gas field licences.

Financial completion for the PNG LNG Project was achieved on 5 February 2015. From that date, the completion guarantee that was provided by the Group for its share of the Project Finance Debt Facility was released. The Group has not provided any other security.

The breakdown of loan balance is as follows:

	2020	2019
	US$ '000	US$ '000
Current loan		
Loan – principal	226,393	186,507
Unamortized finance fees	(16,356)	(16,356)
	210,037	**170,151**
Noncurrent loan		
Loan - principal	1,287,494	1,513,887
Unamortized finance fees	(17,331)	(29,345)
	1,270,163	**1,484,542**
Total	**1,480,200**	**1,654,693**

Interest on this loan recognized in profit or loss by the Group amounted to US$83.5 million (2019: US$114.4 million).

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20. Loans and borrowings (continued)

(b) BSP Loan

The Group has outstanding loan with principal amount of US$111 million (2019: US$129 million) from Bank of South Pacific to fund the dividend payment to the shareholder, fund the interest reserve accounts, payment of fees and cost related to this loan and to fund the working capital and general corporate purposes of the Group.

In 2015, the loan agreement was amended and the principal repayment term was changed from 8 equal quarterly instalments to one lump sum payment on 30 September 2017. The effective interest rate is 5.05% in 2020 (2019: 6.05%). Subsequently, the loan has been rolled over to 21 March 2020 and further restructured on 3 December 2020 to a five-year loan. Interest on this loan recognized in profit or loss by the Group amounted to US$6.4 million (2019: US$8.1 million).

(c) Lease liabilities

The Group leases LNG carriers and tug facilities under finance lease. Two LNG carrier finance leases started in 2015 and additional one carrier started in 2016, addition two LNG carriers initially recorded as operating expenses in the prior years is now recorded in the statement of financial position as required by IFRS 16 -Leases. The leases have terms of between 10 and 20 years with varying renewal options. Title does not pass to the Group on expiration of the relevant lease period.

	2020	2019
	US$ '000	US$ '000
Non-current	111,909	119,296
Current	7,415	7,580
	119,324	**126,876**

Minimum Lease payments:		
Not later than 1 year	18,120	17,813
Later than 1 year and not later than 5 years	71,172	71,172
Later than 5 years	122,470	141,322
Total	211,762	230,307
Less: Unexpired finance charges	(92,438)	(103,431)
	119,324	**126,876**

Present value of lease liabilities:		
Not later than 1 year	7,415	6,722
Later than 1 year and not later than 5 years	43,582	41,498
Later than 5 years	68,327	78,656
	119,324	**126,876**

Interest on lease liabilities recognized in profit or loss by the Group amounted to US$11.1 million (2019:US$11.5 million).

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21. Equity

(a) Share/contributed capital

Share capital represents the consideration for shares issued by the Group. Contributed capital represents the equity contribution of the Group in which shares are still to be issued by the Group.

	2020	2019
	US$ '000	US$ '000
Share capital and contributed capital		
Share capital	1,292,478	1,292,478
Contributed capital*	(121,753)	(121,753)
Return of capital	(135,922)	(129,141)
Total share/contributed capital	**1,034,803**	**1,041,584**

Number of Ordinary Shares	2020	2019
Number of issued and paid up ordinary shares:		
Balance at beginning of the period	100	100
Ordinary shares issued and paid during the year	–	–
Ordinary shares disposed-off during the year	–	–
Balance at 31 December	**100**	**100**
Authorised ordinary shares	**100**	**100**

*Contributed capital represents additional contribution made by the equity holder in which shares will be issued in the future, this has currently been eroded due to the return on capital paid over the years to the equity holder.

On 12 October 2017, KPHL through Kumul Petroleum Development Limited (KPDL), Eda Oil Limited (EOL), and Moran Oil Limited (MOL) (herein referred to as the parties) signed a share sale agreement wherein 2,493 ordinary shares in EOL (representing 24.93% of the total 10,000 shares) is transferred to MOL for a purchase price consideration of PGK10,000,000 (US$2.86 million). The share sale agreement also provides for a vendor finance arrangement wherein MOL will repay the purchase price as consideration for the sale shares to KPDL (the Vendor Finance Debt) through future dividend declaration.

22. Related party transactions

(a) Transactions with Key management personnel

Key management includes directors and executive management. The compensation paid or payable to key management for services rendered is taken up in operating expenses. The key management remuneration and other benefits paid during the year are shown below:

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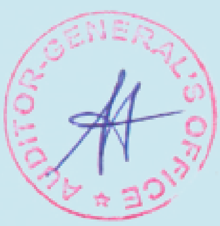
22. Related party transactions (continued)

(a) Transactions with Key management personnel (continued)

Key management includes directors and executive management. The compensation paid or payable to key management for services rendered is taken up in operating expenses. The key management remuneration and other benefits paid during the year are shown below:

	2020	2019
	US$ '000	US$ '000
Remuneration	1,334	1,211
Sitting allowance	8	10
Short term incentive	(135,922)	482
Long term retention	(135,922)	375
	2,207	**2,078**



22. Related party transactions (continued)

(b) The Group includes following wholly owned subsidiaries at reporting date:

Name	Principal activities	Country of incorporation	Date of incorporation/ acquisition	Status	% Equity interest	
					2020	2019
Kumul Petroleum (Kroton) Limited	Holds the State's interest in the PNG LNG Project	PNG	20 June 2008	Operational	100%	100%
Kumul Petroleum (Investments) Limited	Holds interest in marketable securities	PNG	15 October 2014	Inactive	100%	100%
Kumul Petroleum (Development) Limited	Holds interest in pipeline and midstream related services	PNG	19 September 2014	Operational	100%	100%
Eda Oil Limited*	Investment in development and production of hydrocarbons directly by participation in the Moran Joint Venture	PNG	11 February 2003	Operational	100%	100%
Kumul LNG Limited*	Established as a special purpose entity to hold interests in the PNG LNG project	PNG	19 May 2009	Operational	100%	100%
NPCP Oil Company Pty Ltd*	Exploration and production activities in oil and gas	Australia	20 November 2015	Operational	100%	100%
Kumul Petroleum (Pipeline) Limited	Incorporated to the interest in the Western Pipeline (Strategic Pipeline) project.	PNG	30 October 2015	Operational	100%	100%
Kumul Petroleum (Tech & Advisory) Limited	To participate in the Kumul Academy and any other up-skilling and training ventures that the Group undertakes	PNG	8 September 2014	Operational	100%	100%
Kumul Security Agent Ltd	Fund management activities	Singapore	31 August 2016	Operational	100%	100%
Kumul Lending Co Pte Ltd	Fund management activities	Singapore	8 August 2016	Operational	100%	100%
Kumul Exploration (Asia) Pte Limited	Service activities incidental to oil and gas extraction and crude petroleum and natural gas production.	Singapore	2 March 2017	Operational	100%	100%
Kumul Petroleum Marketing Pte Limited	Marketing of liquefied natural gas, condensate and other related products	Singapore	28 April 2017	Operational	100%	100%
Kumul Energy Limited	To hold interest in NiuPower and NiuEnergy joint ventures which operations has started March 2019. Also holds interest in all future power generation projects	PNG	19 September 2014	Operational	100%	100%
Kumul Petroleum Exploration Limited	To hold interest in new exploration activities	PNG	8 September 2014	Inactive	100%	100%
Kumul Petroleum Drilling Services Limited	To hold interest in drilling and related services	PNG	19 September 2014	Inactive	100%	100%
Kumul Petroleum Downstream Limited	To hold interest in downstream & petrochemical related activities	PNG	8 September 2014	Inactive	100%	100%
Western Oil Asia Pte. Ltd.	To hold interest in new exploration activities	Singapore	31 January 2019	Operational	100%	100%
Kumul Petroleum Foundation Limited	To hold charitable activities	PNG	20 October 2020	Operational	100%	100%

*Indirectly owned through its wholly owned subsidiary - Kumul Petroleum Development Limited

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22. Related party transactions (continued)

(c) The Group's interest in joint operations are as follows:

		Principal place of business	% Interest 2020	% Interest 2019
PDL1	Hides gas field	PNG	20.5	20.5
PDL7	South Hides gas field	PNG	20.5	20.5
PDL8	Angore gas field	PNG	20.5	20.5
PDL9	Juha gas field	PNG	20.5	20.5
PNG LNG	PNG LNG Project	PNG	16.79	16.79
PPFL2	PNG LNG Project	PNG	16.57	16.57
PL4	PNG LNG Project	PNG	16.57	16.57
PL5	PNG LNG Project	PNG	16.57	16.57
PL6	PNG LNG Project	PNG	16.57	16.57
PL7	PNG LNG Project	PNG	16.57	16.57
PL8	PNG LNG Project	PNG	16.57	16.57
PDL3	South East Gobe oil field	PNG	3.29	3.29
PL2 LE	South East Gobe oil field	PNG	0.0198	0.0198
PRL 9	Barikewa gas field	PNG	14.89	14.89
PRL 14	Cobra, lehi, Bilip gas field	PNG	10.94	10.94
PNG LNG	PNG LNG Global Company LDC	Bahamas	16.79	16.79
PDL 5	Moral oil field	PNG	11.75	11.75
PDL 10	Stanley	PNG	10.00	10.00
PL 10	Stanley	PNG	10.00	10.00
PRL 8	Kimu	PNG	17.00	17.00
PRL 40	Pukpuk, Douglas, Langia, NW Koko and Weimang	PNG	40.00	40.00

(d) Share in joint operation's financial information

This disclosure represents the Group's share of interest in the PNG LNG project, the four non PDL projects' (PDL 1, 7, 8 and 9) and PNG LNG Global Company LDC (Gloco).

Share in net assets

	PDLs (1,7,8,9)	PNG LNG Project	Gloco	Moran (PDL 5)	Balance
2020	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Current assets					
Cash and cash equivalents	–	–	112,953	–	**112,953**
Receivables	–	10,543	37,931	10	**48,484**
Prepayments and other receivables	1	4,293	–	–	**4,294**
Inventory	–	18,851	–	549	**19,400**

22. Related party transactions (continued)

Share in net assets (continued)

	PDLs (1,7,8,9)	PNG LNG Project	Gloco	Moran (PDL 5)	Balance
2019	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Current assets					
Cash and cash equivalents	–	–	93,413	–	**93,413**
Receivables	–	7,106	45,684	525	**53,315**
Prepayments and other receivables	191	4,556	–	–	**4,747**
Inventory	**–**	18,578	–	965	**19,543**
Noncurrent assets					
Oil and gas assets	56,382	3,497,695	–	24,558	**3,578,635**
Receivable from participants	–	–	1,739,537	–	**1,739,537**
Current liabilities					
Trade and other payables	(4,277)	(13,469)	(49,810)	(301)	**(67,857)**
Other liabilities	(111)	(1,256,223)	(80,718)	(5,060)	**(1,342,112)**
Borrowings	–	(7,383)	(1,654,693)	–	**(1,662,076)**
Payable to Participants	–	**–**	(93,396)	–	**93,396)**
Net Assets	**52,185**	**2,250,860**	**17**	**20,687**	**2,323,749**

Share in revenue and expense

	PDLs (1,7,8,9)	PNG LNG Project	Gloco	Moran (PDL 5)	Balance
2020	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Revenue	–	–	542,834	–	**542,834**
Cost of sales	–	(992,687)	(3,748)	9,417	**(987,018)**
Gross Profit	**–**	**(992,687)**	**539,086**	**9,417**	**(444,184)**
Other income	–	31,979	708	–	**32,687**
Consultancy and professional service	–	–	(124)	–	**(124)**
Operating profit	–	(960,708)	539,670	9,417	**(411,621)**
Interest income	–	–	2,203		**2,203**
Finance costs	–	–	(83,396)		**(83,396)**
Net profit/(loss)	–	**(960,708)**	**458,477**	**9,417**	**(492,814)**

22. Related party transactions (continued)

Share in revenue and expense (continued)

	PDLs (1,7,8,9)	PNG LNG Project	Gloco	Moran (PDL 5)	Balance
2019	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Revenue	–	–	804,074	–	**804,074**
Cost of sales	–	(147,911)	(12,911)	(6,342)	**(167,164)**
Gross Profit	**–**	**(147,911)**	**791,163**	**(6,342)**	**636,910**
Other income	–	4,877	654	–	**5,531**
Consultancy and professional service	–	–	(122)	–	**(122)**
Operating profit	–	(143,034)	791,695	(6,342)	**642,319**
Interest income	–	–	7,198	–	**7,198**
Finance costs	–	–	(113,025)	–	**(113,025)**
Net profit/(loss)	–	**(143,034)**	**685,868**	**(6,342)**	**536,492**

23. Commitments

(a) Capital expenditure commitments

The Group does not have any other capital commitments other than its joint venture commitments as disclosed below:

	2020	2019
	US$ '000	**US$ '000**
Capital expenditure commitments	**170,120**	**161,809**

24. Kroton Equity Option and Conversion under the Umbrella Benefit Sharing Agreement (UBSA)

KPHL and related parties recognise that Project Area Landowners, affected provincial governments ("PGs"), local-level governments ("LLGs") (collectively referred to as "Beneficiary Group" or "BG") are important stakeholders for the success and stability of the Project. On 23 May 2009, the State signed an Umbrella Benefits Sharing Agreement ("UBSA") with the Beneficiary Group. The Beneficiary Group is entitled to certain benefits under the existing policies, laws and agreements. Also, Beneficiary Group recognises this is an integrated project for the nation and sharing benefits in order for the Project to get access to the area falls/affected.

Among others, the UBSA sets out the principles of sharing of benefits between the parties, accordingly, the Beneficiary Group will be entitled to a benefit of an estimated 4.22% equity participating interest in the project by virtue of commercial option for an undivided and fixed 25.75% shareholding in KROTON (Kroton Equity).

At 31 December 2015, the options were determined not to have any intrinsic value as the exercise price was assessed to be higher than the fair value of the project.

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24. Kroton Equity Option and Conversion under the Umbrella Benefit Sharing Agreement (UBSA) (continued)

Timeline of the option exercise date:

- The options were originally exercisable between 1 January 2016 and 30 Jun 2016 at the price of US$240m per percentage point of the project interest (equivalent to total price of US$1,013m).
- On 6 June 2016 the NEC issued Decision # 137/2016 to extend the option expiry from 30 June 2016 to 30 September 2016.
- The State then by a NEC Decision # 239/2016, on 28 September 2016 revised the terms by extending the option period to the 31st of December 2016, discounting the option exercise price to US$150m per PNG LNG Project percentage point (totalling US$640.5m), and offered vendor financing through KPHL to enable the timely exercise of the Equity Option.

Leading up to the 31st of December 2016, the Beneficiary groups had not organised themselves in time to be able to execute the option transaction documents to meet the option deadline. To bridge this problem, the Beneficiary Groups, represented by Mineral Resources Development Group Limited, MRDC, on 20 December 2016 wrote to KPHL and expressed their interest in exercising the option on behalf of all those beneficiary groups that may not be able to exercise the option by 31 December 2016. In their expression of interest, the Beneficiary Groups accepted the Kroton Equity Option on the revised terms offered by the State (including KPHL's offer of vendor financing). This date of 20 December 2016 is viewed as the modification date in accordance with IFRS2 and also the date when the incremental value of the options is to be determined. Consequently, management determined the valuation of the option on this date as US$83.8m.

Following on from the expression of interest by MRDC, BG are required to execute the Unit Application Forms to secure their respective allocation of the Kroton Equity. 27% of the Kroton Equity Options were converted to Share based payment reserve - Kroton Equity as the Kroton Equity Option holders executed the Unit Application Forms prior to 31 December 2016. As the offer to the Beneficiary Groups to participate in the equity sharing benefits in the Kroton was agreed under the UBSA, the option to acquire shares under the arrangement remains available at 31 December 2017. However, the option to acquire the shares under the vendor financing arrangement has lapsed at 31 December 2016 and remains at the discretion of KPHL.

During 2017 and 2018, a further 55% and 18%, respectively, of the BGs having signed the Unit Application Forms have acquired the compound financial instrument under the vendor financing arrangement. At 31 December 2018, all the BGs have signed the Unit Application Forms.

Accounting policy and treatment adopted for the option exercise and conversion:
Based on the financing structure and repayment arrangement which provides the BG's with the right to partial dividends over the initial 20 year period as long as certain factors are satisfied (e.g. availability of profits and oil price), management are of the view that the substance of the transaction from Kroton's perspective is that of a compound financial instrument in accordance with IAS 32 Financial Instruments: Presentation. The liability component represents the obligations to make payments if profits are available and other factors are satisfied; management will not have discretion to restrict the payment of dividends if the factors, which are outside of their control, are satisfied. The total value of the arrangement, received by the beneficiaries from KPHL, represents the nature and substance of a hybrid instrument (i.e. the right to receive a distribution over 20 years, and then discretionary ordinary dividends thereafter). From an accounting perspective this substance takes the form of a compound financial instrument in accordance with IAS 32.

IAS 32 Financial Instruments: Presentation requires the issuer of a non-derivative financial instrument to evaluate theterms of the financial instrument to determine whether it contains both a liability and an equity component. This evaluation is based on the contractual terms of the financial instrument, the substance of the arrangement and the definition of a financial liability, and an equity instrument. If such components are identified, they must be accounted for separately as financial liabilities, or equity, and the liability and equity components shown separately in the statement of financial position. This treatment, commonly referred to as 'split accounting' is to be applicable to Kumul Petroleum (Kroton) Ltd as the issuer of a compound financial instrument.

24. Kroton Equity Option and Conversion under the Umbrella Benefit Sharing Agreement (UBSA) (continued)

In the issuer's financial statements, under IAS 32:

- on initial recognition of the instrument, the fair value of the liability component is calculated first and the equity component is treated as a residual; and the equity component is never remeasured after initial recognition.
- The liability component is determined as the net present value of all potential contractually determined future cash flows under the instrument, discounted at the rate of interest applied by the market at the balance date.

In accordance with the general definition of equity as a residual, the equity component of the instrument is the difference between the fair value of the compound instrument and the liability component as determined above.

In accordance with the principles in IFRS 2 Share based payments, as the financial instrument has a positive value/ benefit to the BGs, it is considered that there are unidentifiable services provided by the BGs in exchange for the financial instrument. However, the unidentifiable services to be received by Kroton do not meet the definition of an asset, hence the fair value of the total compound financial instrument is expensed through the Statement of Profit or Loss.

As noted above, on modification date, the entity recorded an incremental expense for unidentifiable services provided by the BG's and a resulting Kroton equity option share based payment reserve in accordance with IFRS2 Share based payment.

Subsequently, within the 31 December 2016 financial report, for those BG's that exercised their options on 27 December 2016, management recorded the option exercise and equity conversion as a compound financial instrument in accordance with accounting standards.

In accordance with the accounting standard IAS 32 Financial Instruments: Presentation, management recorded the relevant BG's full value of the compound financial instrument as an expense for the period.

The equity component has been valued using an assumed cash flow stream after expiry of the vendor financing arrangement period. Management recognised a financial liability for the present value of future net cash flows under the arrangement. The residual balance has been recorded in Kroton equity option share based payment reserve.

The fair value of the liability at the balance date was US$123 million (2019: US$208 million). During 2020, the Group has recognised a change in fair value of financial liabilities of US$85 million income (2019: US$5 million income).

As at date of this report, the following BG's are entitled to the Kroton equity in their respective percentages as follows:

24. Kroton Equity Option and Conversion under the Umbrella Benefit Sharing Agreement (UBSA) (continued)

As at date of this report, the following BG's are entitled to the Kroton equity in their respective percentages as follows:

Beneficiary Groups	% Shareholding in Kroton
Southern Highlands & Hela Provincial Governments	4.89%
PDL 1 (Hides) Landowners	4.89%
PDL 7 (Hides 4) Landowners	2.32%
PDL 2 (Kutubu) Landowners	3.09%
PDL 5 (Moran) Landowners	0.77%
PDL 6 (Moran) Landowners	
PDL 4 (Gobe) Landowners	0.77%
PDL 9 (Juha) Landowners	0.90%
PDL 8 (Angore) Landowners	1.67%
Fly River Provincial Government	0.26%
Gulf Provincial Government	0.64%
Central Provincial Government	0.64%
PL Landowners	2.06%
PPFL Landowners	2.83%
	25.75%

As at 31 December 2020, US$nil (2019: US$15.00 million) has been accrued for NCI's dividends. In 2020, the Group paid US$15 million dividends which was accrued in the prior year (2019: US$30 million).

25. Reconciliation of net cash flow from operating activities

	2020	2019
	US$ '000	US$ '000
Profit before taxation	270,461	270,461
Depreciation on property, plant and equipment	1,635	2,750
Depreciation on oil and gas assets	150,382	143,142
Depreciation on rehabilitation and restoration assets	2,729	1,790
Impairment losses – net of reversal	(15,377)	10,823
Changes in fair value of other financial liabilities	(85,000)	(5,000)
Finance costs	102,582	135,762
Loss on sale of assets	223	–
Unrealized forex gain on borrowings	(3,705)	(1,077)
Tax credit scheme adjustments	(18,645)	–
Cash flows from operating activities before movement in working capital	**405,285**	**647,086**

25. Reconciliation of net cash flow from operating activities (continued)

	2020	2019
	US$ '000	US$ '000
Changes in working capital:		
Decrease (increase) in receivables and other assets	(19,032)	52,347
Increase in inventories	(685)	(1,785)
Increase in trade and other payables	3,810	6,549
Increase (decrease) in employee benefits	446	(196)
Income taxes paid	–	(49,870)
Cash generated from operating activities	**389,824**	**654,131**

26. Subsequent events

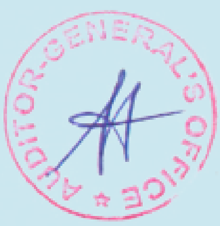
The Group declared and paid a dividend of US$ 85.5 million (K 300 million) to the State for the 31 December 2021 year end. The Group declared and paid a dividend of US$ 56.8 million (K 200 million) to the State during the year 2022.

Following the Notice of intent to cancel PDL 10 by the PNG Petroleum Minister disclosed in note 3b(vii), Arran Energy acquired the Repsol's interest in PDL 10 in January 2020, Arran Energy further acquired both Osaka and Horizon's interest in PDL 10. Arran Energy now has 90% interest in PDL10 and is the Operator while KPHL has a 10% interest in the Licence. On 3rd February 2021, Arran Energy advised the State that the Arbitration proceedings and the National Court Stay order were nullified and withdrawn after the State and Arran have agreed to discontinue the proceedings. Arran's Arbitrator has to write back to Arran acknowledging the withdrawal of the proceedings and the PNG National Court Registry has to be searched to discontinue the proceedings. On 29 April 2021, Arran provided an update to the State advising that the Courts remain closed (due to Covid) and therefore leave to discontinue proceedings has not yet been granted. The matter was subsequently discontinued.

In 2022, Arran Energy as Operator of PRL 21, PRL 28 and PPL 547 lodged APDL 12 which was rejected by the Minister on advice of the PAB. The judicial review proceedings therefore relate to the Minister'sdecision to refuse APDL 12 and were instituted by the Operator Arran against the Minister, PAB and DPE Secretary. APDL 12 development plan relied on PDL 10 Facilities, in which PDL 10 (Stanley Project) is not yet an Operating Project. This matter is purely between Arran Energy and the State and bear minimum to no impact on KPHL even if the outcome is in favour of Arran Energy. KPHL's 10% interest is only in PDL 10 of which the facilities are being relied on in the plan for APDL 12 which KPHL and Arran Energy can handle separately on a commercial terms.

Apart from the above, there is, at the date of this report, no other matter or circumstance that has arisen since 31 December 2020 that has significantly affected, or may significantly affect:

(i) the Group's operations in future financial years;
(ii) the results of those operations in future financial years; or
(iii) the Group's state of affairs in future financial years.



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