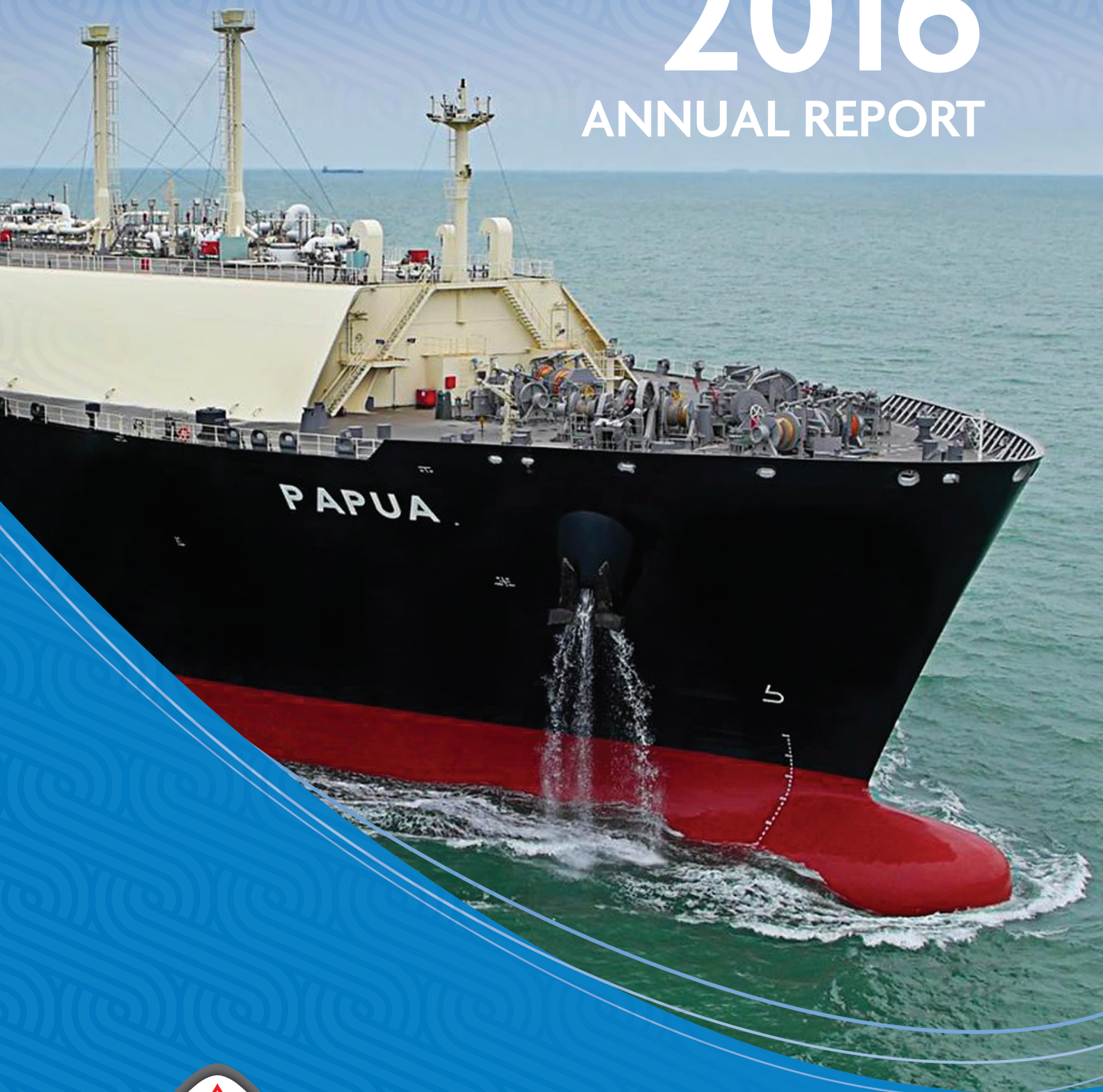


2016

ANNUAL REPORT



KUMUL PETROLEUM HOLDINGS LIMITED
National Oil Company of PNG



Contents

Vision, Mission and Values	2
Brief History	3
2016 Highlights	4
Board Chairman's Overview	5
Managing Directors Overview	6
Board of Directors	7
Board Meeting Attendance	9
Corporate Governance	9
Corporate Structure/KPHL Group of Companies	10
KPHL License Interest and Petroleum resources	11
Petroleum Operation Report	13
Consolidate Annual Financial Statement	17



Vision, Mission and Core Values

Vision

Kumul Petroleum Holding's vision is to create value and opportunity for PNG and its people by becoming a major national oil and gas Corporation. KPHL believes that it has the potential to achieve this vision because of its position as the exclusive State nominee in all oil and gas project development in PNG.

Mission

KPHL has a strong and lively vision that stands to:

- Maximise value through exploration and production in upstream opportunities;
- Build new value by diversifying into midstream business opportunities;
- Seek and evaluate opportunities for growth through external investments;
- Generate wealth and opportunity for Papua New Guineans and the Nation; and
- Manage KPHL with the highest standards of governance, responsibility and transparency.

Values

KPHL has strong values and is committed to promoting these values.

These values can be realized through:

- Benefits derived by Papua New Guinea
- Innovative and Excellence
- Accountability and Transparency
- Team Value and Diversity
- Environment- Protection and Preservation
- Safety – Health and Wellbeing



Brief History – Kumul Petroleum Holdings Limited

1. Establishment of the NPCP Group of Companies

(a) Creation of NPCP Kroton Limited

NPCP Kroton Limited was incorporated on 2nd June 2008 under the name Kroton No. 2 Limited. The name was subsequently changed to National Petroleum Company of PNG (Kroton) Limited (**NPCP Kroton**) on 23rd September 2010, at which time it was mandated by the Independent State of Papua New Guinea (**State**) to be a special purpose vehicle to hold and manage the State's 16.574481 percent interest in the PNG LNG Project.

In 2011, the National Executive Council (NEC) through NEC Decision No. 105/2011 directed that NPCP Kroton be restructured and made a business unit within IPBC and the company was retained as a shelf company.

On 30th January, 2013 through NEC Decision No. 18/2013, the NEC rescinded the previous NEC Decision No. 105/2011, and directed that NPCP Kroton be revived and its full functions be restored. The Decision approved the appointment of the Board and the Managing Director and employment of NPCP Kroton's staff as well as directing IPBC to finance its capacity building and annual plans.

In early 2014, the Board of NPCP Kroton met and approved the establishment of a NPCP Group in accordance with NEC Decision No. 108/2011. NEC Decision No. 108/2011 provided for the creation of a holding company – NPCP Holdings Limited - as a 100% owned subsidiary of IPBC and for the creation of subsidiaries under NPCP Holdings.

(b) Creation of NPCP Holdings Limited

NPCP Holdings Limited was incorporated on 16th December 2013 as Telemu No. 90 Limited and changed its name to NPCP Holdings Limited on 04th March 2014.

On 02nd September 2014, the NEC through NEC Decision No. 264 /2014, approved the establishment of NPCP Holdings Limited as a wholly-owned subsidiary of IPBC and further directed that all petroleum assets of the State, including the Oil Search shares held by the Department of Treasury, all petroleum assets held through Petromin and the NPCP Kroton shares held by IPBC be consolidated into NPCP Holdings Limited. Based on this direction, the shares of NPCP Kroton Limited held by IPBC were transferred to NPCP Holdings Limited on 17th December 2014. The NEC decision was consistent with the Government's plans to park all the State's oil and gas interests in a national oil and gas corporation and paved the way for the transition of NPCP Holdings Limited to Kumul Petroleum Holdings Limited.

(c) Transition to Kumul Petroleum Holdings Limited

The Kumul Petroleum Holdings Limited Authorization Act 2015 was passed by the National Parliament on 5 June 2015 Parliament sitting in line with the Government's Kumul Consolidation Agenda.

The Notice of Commencement of the Kumul Petroleum Holdings Limited Authorization Act 2015 ("**Kumul Petroleum Act**") was published in the National Gazette on Thursday 01st October 2015 with the Kumul Petroleum Act commencing retrospectively as at 30th September 2015.

Consistent with the *Kumul Petroleum Act*, NPCP Holdings Limited was required to have its name changed to Kumul Petroleum Holdings Limited at the Companies Register at IPA with the registration of the name change completed in October 2015.

2016 Highlights

- During 2016 KPHL successfully offered its Vendor Financing, to 80% of the beneficiaries as the lender of last resort, to the Kroton Equity Option holders.
- Petromins' Oil & Gas assets were transferred to KPHL in line with the Kumul Consolidation Agenda. This paved the way for KPHL to be the sole Oil & Gas repository for the Independent State of Papua New Guinea.
- 2016 was the second full year of production from the PNG LNG Processing Plant near Port Moresby a total of 108 LNG Cargoes were sold at the average price of US\$6.3mmbtu.
- In 2016, KPHL completed negotiation to acquire a shareholding and place on the board of PNG based training provider South Pacific Employment Institute and sponsored 16 students in the first intake.
- Launching for PNG's inaugural PNG Petroleum and Energy Summit by Minister for Petroleum and Energy Honorable Nixon Duban.
- KPHL's announcement of commercializing stranded gas resource through Western Pipeline in Sydney at the PNG Petroleum and Energy Summit.
Distributions to the State US\$30.75mn.

Business Environment

Following the steep decline in oil price from mid-2014 through 2015, the price of oil recovered from a low of \$30/bbl in January 2016 and stabilised in the range of 42/bbl to 54/bbl through the last eight months of 2016. A stable price of oil helped stabilise the import price of LNG to Japan, which ranged between \$6/MMBTU and \$10/MMBTU during 2016. Oversupply of LNG around the world led to softening in the spot price and to renegotiation of some contracts, though fortunately for Kumul Petroleum, PNG LNG contract prices remained unchanged.

In 2016 the PNG LNG Project received an average price of \$6.4/MMbtu for LNG sales and \$42.61/bbl for condensate sales. This compares with a price of \$9.55/MMbtu for LNG sales and \$51/bbl for condensate price for 2015. Kumul Petroleum adjusted its forecast of prices and has budgeted for an average price of \$7.43/MMbtu and \$50/bbl during 2017. The company's budget estimates are higher than the actuals for 2016 because a small 'rebound' and a measure of stability has returned to the markets.

Regarding conditions within PNG, the national economy slowed down due to lower returns from extraction and

agriculture sectors and also the fall in global commodity prices. Drought and frost conditions brought on by the El Nino weather pattern had a severe impact on agriculture in the first half of 2016, affecting the lives of the vast majority of PNG citizens, and this reduced the output for subsistence living and for export. The government forecasted a GDP growth of 4.3% for 2016, whereas actual GDP was about 2% lower than the forecast. Price rises driven by increased food costs and the depreciation of the Kina caused a large increase in inflation. Annual headline inflation was 9.9% in 2016, compared with 6.4% in 2015, and is expected to remain at that level in 2017.

The authorities floated plans in June 2016 to raise \$1bn on the international bond market to ease the budgetary pressures for the year, but this did not go ahead. The government again indicated in its 2017 budget release in November 2016 that it could seek to tap international bond market for funds, though neither the timing nor value were indicated. Currency restrictions do not affect Kumul Petroleum because the company receives its income in US Dollars. Down ward pressure on the Kina against the US Dollar was absorbed by intervention of the Central Bank, and the Kina/Dollar exchange rate remained stable. Kina depreciation persist amid a subdued economic growth outlook that was undermined by poor terms of trade and resultant weakness in foreign direct investment. The huge imbalances in PNG's external and fiscal accounts are reflected through the BPNG's foreign exchange reserves, which fell from an all-time high of US\$4.3bn in January 2012 to just US\$1.1bn by the end of 2016. PNG's external sector continues to be battered by headwinds stemming from depressed commodity prices and high foreign debt servicing costs.



Board Chairman's Overview



Kumul Petroleum Holdings Limited (KPHL), despite various challenges has fared well in 2016. Like any other oil and gas company, the National Oil & Gas Company (NOC) had its share of challenges mainly attributed to the continuing low commodity prices during 2016.

As a project partner and shareholder, we are very thankful ExxonMobil has been managing the PNG LNG Project very efficiently, marketing the uncontracted LNG Volumes successfully on the Spot market, keeping the operations going, and paying down the Project debt as planned.

KPHL has now grown to a net Asset position of US\$ 1.76billion (approximately PGK5.83billion). Our biggest Asset is the PNG LNG Project 16.57% interest, along with our additional interests in Hides Gas to Electricity, the South East Gobe Field (outside the PNG LNG Project area), our approximately 10% interest in Oil Search Limited, as well as the many other licences and interest that we hold.

In relation to the organizations shareholding structure, the Kroton Equity Option holders began to exercise in late 2016 utilizing the Vendor financing structure put in place by your company. Since KPHL has offered that solution, close to 80% of the Option Holders have signed up. We expect the remaining 20% to be completed by 3rd quarter of 2017, given that at current oil and gas prices Landowners and other beneficiaries cannot access other commercial arrangements.

In terms of strategic investments in projects and other ventures, the Western Province Pipeline Project is now under consideration by KPHL. Its aim is to open up competition and allow for the stranded gas fields to be commercialized, via a commercial pipeline owned by KPHL. The Strategic Pipeline will encourage exploration, as companies know there will be a route to Market.

KPHL understands that the Department of Petroleum and Energy and the Gas Project Coordination office are leading the Policy development on:

1. Third Party Access,
2. Domestic Market Obligation (DMO); and
3. National Content Policy

It is hoped that these critical Policies can become Law before the next Oil and Gas Project developments commence in order to provide clarity for investors.

Your Board knows that the organization is in good shape for the low price environment, and it will continue to act prudently and in a focused manner in order to prepare for the next wave of development in the PNG Oil and gas sector.

Managing Director's Overview



The continued steep decline in oil prices from 2015 into 2016 pulled down the price of LNG due to their inherent linkage for PNG LNG Project Long Term Gas sales agreements as well as spot sales. The consequent reduction in LNG revenue had a negative impact on KPHL's operational activities in 2016 because LNG sales are the company's main source of income. What was a seller's market turned into a buyer's market during 2014 as oil and gas prices slumped due to a substantial oversupply of oil in the world market, and the low price environment is expected to continue through the early to mid-2020s. Analysts claimed there would be a swift rebound in the price of oil, but did not seem to recognise that, historically, the price of oil is closer to \$20/barrel than the artificially-high \$100-plus prices that were achieved in 2014.

As alluded to by the Chairman, in 2016 the PNG LNG Project received an average price of \$6.30/MMbtu for LNG sales and \$42.61/bbl for condensate sales. This compares with a price of \$8.90/MMbtu for LNG sales and \$50/bbl for condensate price for 2015.

Regarding conditions within PNG, the national economy slowed down due to lower returns from extraction and agriculture sectors and also the fall in global commodity prices. Drought and frost conditions brought on by the El Nino weather pattern had a severe impact on agriculture in the first half of 2016, affecting the lives of the vast majority of PNG citizens, and this reduced the output for subsistence living and for export.

The government forecast a GDP growth rate of 4.3% for 2016, whereas actual GDP growth was about 2% lower than the forecast. Price rises driven by increased food costs and the depreciation of the Kina caused a large increase in inflation. Annual headline inflation was 9.9% in 2016, compared with 6.4% in 2015.

In relation to foreign currency, current restrictions do not affect KPHL because the company receives its income in US Dollars. Downward pressure on the Kina against the US Dollar continued, which, however, benefited KPHL in relation to paying for local services and overhead costs such as salaries. Kina depreciation persists amid a subdued economic growth outlook that was undermined by poor terms of trade and resultant weakness in foreign direct investment.

KPHL extended an MoU signed with LNG Japan, a Japanese Trading House, in November 2016. The companies are working towards establishing an unincorporated Marketing JV to participate in trading and marketing LNG. The primary focus is to sell gas from PNG to Asian buyers, and then to widen the scope of business activities to other countries. Work is in progress to prepare the necessary contractual documents to enable trading. In the meantime, KPHL has opened an office in the business district of Singapore to deal with any marketing and trading activities in the region.

Going forward

We look forward to 2017 being a better year with Oil and Gas prices improving slightly. We also look forward to the discussions around development of the next LNG Project, whether it be PNG LNG Project Expansion, standalone Papua LNG or a Combination. KPHL and Oil Search have been given the mandate to construct the POM Gas to Electricity Project, next to the PNG LNG Plant site, for which we look forward to building and commissioning that Project before the November 2018 APEC summit.



Board of Directors



FRANK M. KRAMER,
CBE BOARD CHAIRMAN

Mr Kramer has tremendous depth of experience at management and directorship level in Papua New Guinea. He is currently the Chief Executive Officer at Kramer Ausenco, the largest permanently-based engineering firm in PNG and the South West Pacific region. The firm is a major service provider to the energy and resources sectors. Mr Kramer has a long history of Board experience in various industry organizations.

He was awarded in 1985 the "Papua New Guinea 10 years Independence Medal" by the PNG Government for services to Engineering and the Community. He was also awarded in 1992 the "Commander of the Most Excellency Order for the British Empire" in the Queen's New Year honours for services to Engineering and the Community. In 1999, Mr Kramer was awarded the "Knight First Class of the Order of the Lion of Finland" by the Government of Finland for services to Finland as the Honorary Consul for Finland to Papua New Guinea.



LARRY LABE ANDAGALI,
DEPUTY CHAIRMAN

Mr Andagali brings a wealth of experience in landowner/ community participation and investment in the petroleum and energy sector in PNG.

He is currently the Managing Director of TransWonderland Limited, a local landowner transport, logistics and technical service company that services petroleum operations in the Highlands region. In his years of service in the oil and gas industry, Larry as a learned landowner has had a significant role in improving the lives of local communities, developed better working relationships with petroleum companies and assisted to redistribute wealth to the wider community through the development of sound business development strategies promoting transparency and accountability.



WAPU RODNEY SONK,
MANAGING DIRECTOR

Mr Sonk has two decades of experience as a Papua New Guinean leader in the oil & gas industry as the industry itself matured from being an oil exporting country to now LNG exporter. He was appointed Managing Director of the National Petroleum Company of PNG in January 2013. He has occupied numerous leadership roles in the Petroleum Industry of PNG since beginning his career with Chevron Nuigini Pty Ltd in 1997.

This roles include Director – PNG LNG Project – IPBC (2012), Chairperson of Society of Petroleum Engineers (PNG Section) (2011), Technical Manager, Kumul Petroleum – Managing a Multi Skilled Team of Geologist & Engineers (2010-2011), Drilling & Completions Engineer – Oil Search Head Office – Sydney office, Australia (2007-2009), Night Shift Drilling Rig Operations Supervisor (2006 – 2007) and, Field Coordinator, PNG to QLD Gas Pipeline Project FEED Team – Manage Multinational team (2005).

Mr Sonk is also a member of the International Association of Drilling Contractors (IADC), Society of Petroleum Engineers (Worldwide), and Institute of Engineers PNG.

Board of Directors continued



DR ILA TEMU
DIRECTOR

Dr. Ila Temu is Country Executive Director of Barrick (Niugini) Ltd. Dr. Temu was reappointed to this role in 2011 to provide support to a new operational team in PNG which includes maintaining and building the company's reputation as a good Corporate Citizen with key focus areas on governmental relations and engagement, industry based CSR issues, industry coalition management and networking with NGOs and other key national based stakeholders, a strategically important role for the Company to build a foundation for potential future growth and development of business. Dr. Temu brings vast experience of Executive Management and Directorship roles in the Extractive Industry as well as in policy and economic matters of PNG.

His experience in the extractive industry began when he was appointed Managing Director of the Mineral Resources Development Company Ltd in 1996. From 2000-05 he was General Manager for Placer Niugini, then General Manager Tanzania in East Africa, until 2006. Dr. Temu took the role of Country Manager with Barrick (PNG) Ltd from 2006-08, and was Director – Corporate Affairs with Barrick (PNG) Ltd from 2008-11.

Dr. Temu's professional highlights include a scholarship study in Australia under the Australian Development Assistance Bureau (ADAB); Professional Associate Award with the Environmental and Policy Institute (EAPI), East West Centre, Hawaii; Fulbright Scholarship to undertake Doctoral studies in the US; Director on MRDC Board; Editor of Pacific Economic Bulletin, NCDS Australian National University in Canberra, Australia; Council Member of the National Research Institute of PNG; Director of Dome Resources Board (Tolokuma Gold Mine), Sydney, Australia; Director of Kina Finance Ltd; Member and Chairman of the Management Group, PNG Incentive Fund/AusAID Chairman of PNG Ports Corporation; Director of BSP; Council Member of the Divine Word University, Madang; President of PNG Chamber of Mines and Petroleum, and Director of Kina Petroleum Ltd.



DR. BENEDICT YARU
DIRECTOR

Dr. Benedict Yaru is Associate Professor (adjunct), at the Institute of Applied Ecology, University of Canberra, ACT, Australia.

He acquired the Professorial appointment in the Applied Ecology Institute of the University of Canberra and the Doctor of Philosophy (PhD) in Environmental Biology, Department of Environmental Science, Faculty of Science, University of Technology Sydney.

Dr. Yaru has over 20 years of extensive experience in a variety of challenging responsibilities in Operational General Management and Consultancy roles which include Management at Senior/Executive Level, Business Planning, Operational Management, Budgets and Cost Control, Project Management, Strategic Planning, Team Building/Leadership, Purchasing/Procurement, Financial Management, Human Resources, HSES Leadership – Minerals and Hydrocarbon Industries, Government and Regulatory Approvals, Management of NGOs, Stakeholder Engagement, Integrated Community Development and Sustainability, Research and Academic Supervision.



MARK SOIPANG
DIRECTOR

A learned landowner by right in the Lihir Mine Project, Mr Soipang possesses excellent management skills as well as significant experience as a director on the board of several landowner companies in PNG.

He is currently Chairman on the Boards of MRL Capital Investment; MRL Pty Ltd, Maron Limited, Lakonput Properties, MS Holdings, as well as Vice Chairman of Anitua Group of Companies and Director on the Board of Ailia Limited.



Board Meeting Attendance

Director	Board Meeting No. 1	Board Meeting No. 2	Board Meeting No. 3	Board Meeting No. 4	Board Meeting No. 5	Board Meeting No. 6	Special Board Meeting No. 1
Frank Kramer	✓	✓	✓	✓	✓	✓	✓
Larry Andagali	✓	✓	✓	✓	✓	✓	✓
Wapu Sonk	✓	✓	✓	✓	✓	✓	✓
Dr. Benedict Yaru	✓	✓	✓	✓	✓	✓	✓
Dr. Ila Temu	✓	✓	✓	✓	✓	✓	✓
Mark Soipang			✓		✓	✓	✓

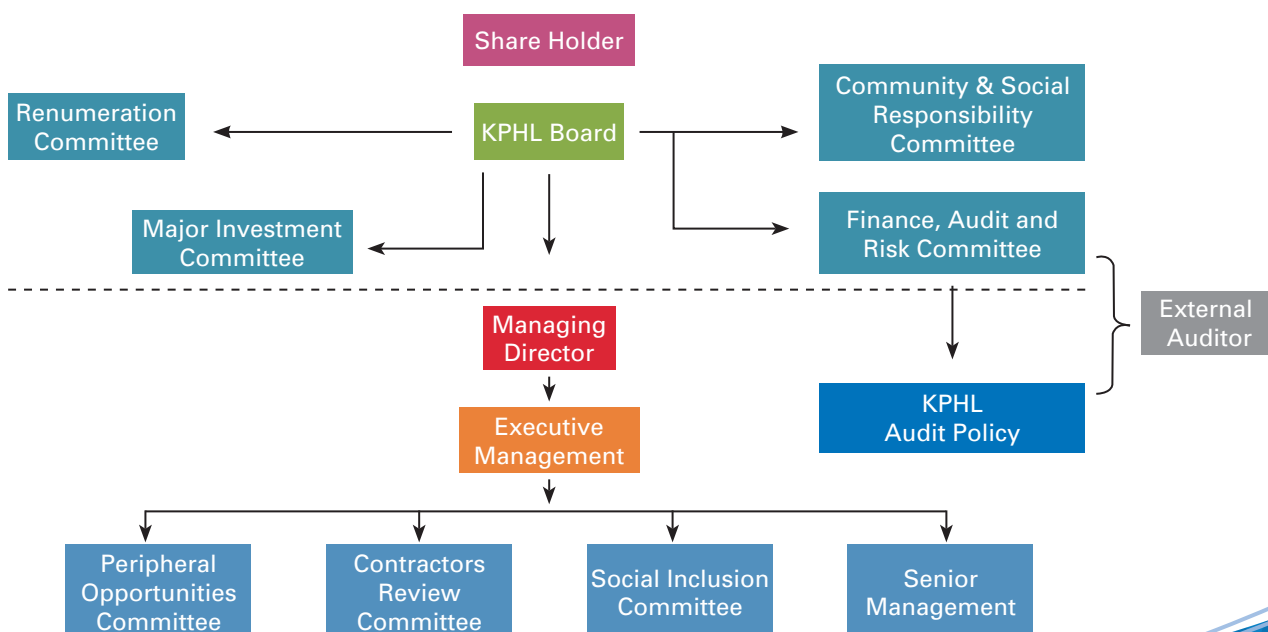
Corporate Governance

Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

As part of the company's objectives, KPH must be managed with the highest standards of governance, responsibility and transparency. The company is required to:

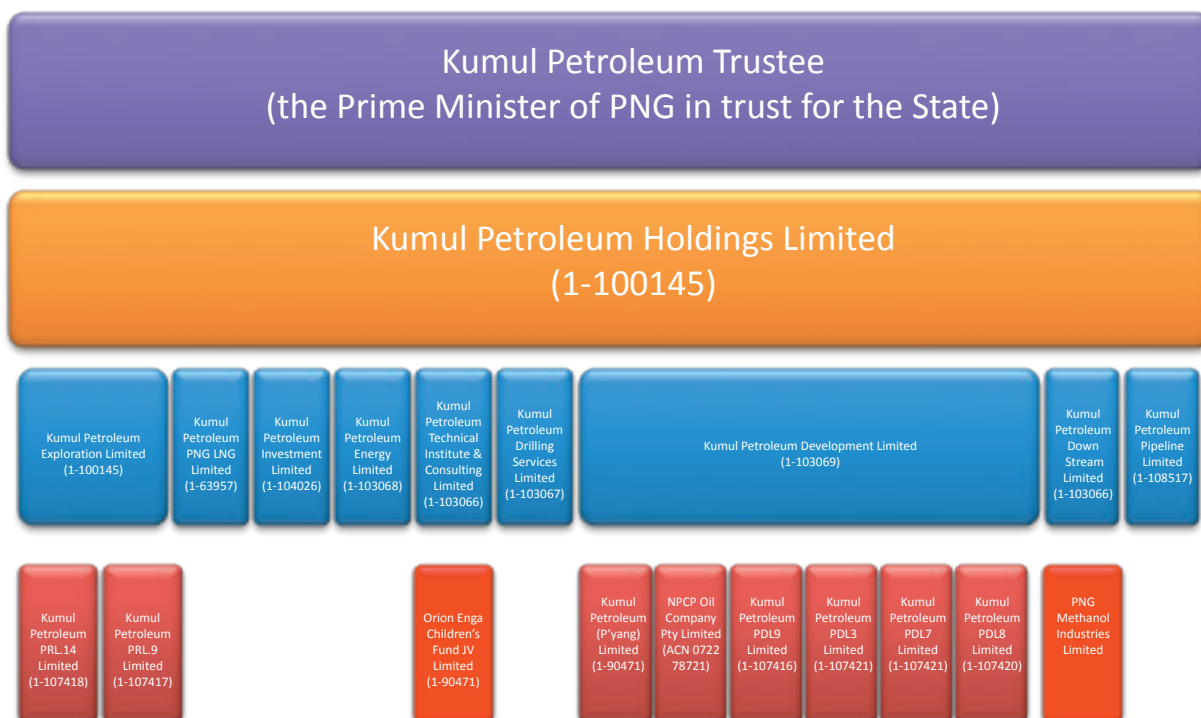
- maintain a corporate culture with the highest levels of accountability, transparency and independence; and
- Implement a transparent and measurable human resource development program for all levels in the company.

Corporate Governance Structure



Corporate Structure

KPHL has nine (9) wholly owned subsidiaries and eight specific purpose subsidiaries incorporated under two of its subsidiaries. The chart below shows its operating subsidiaries as at 31st December 2016.



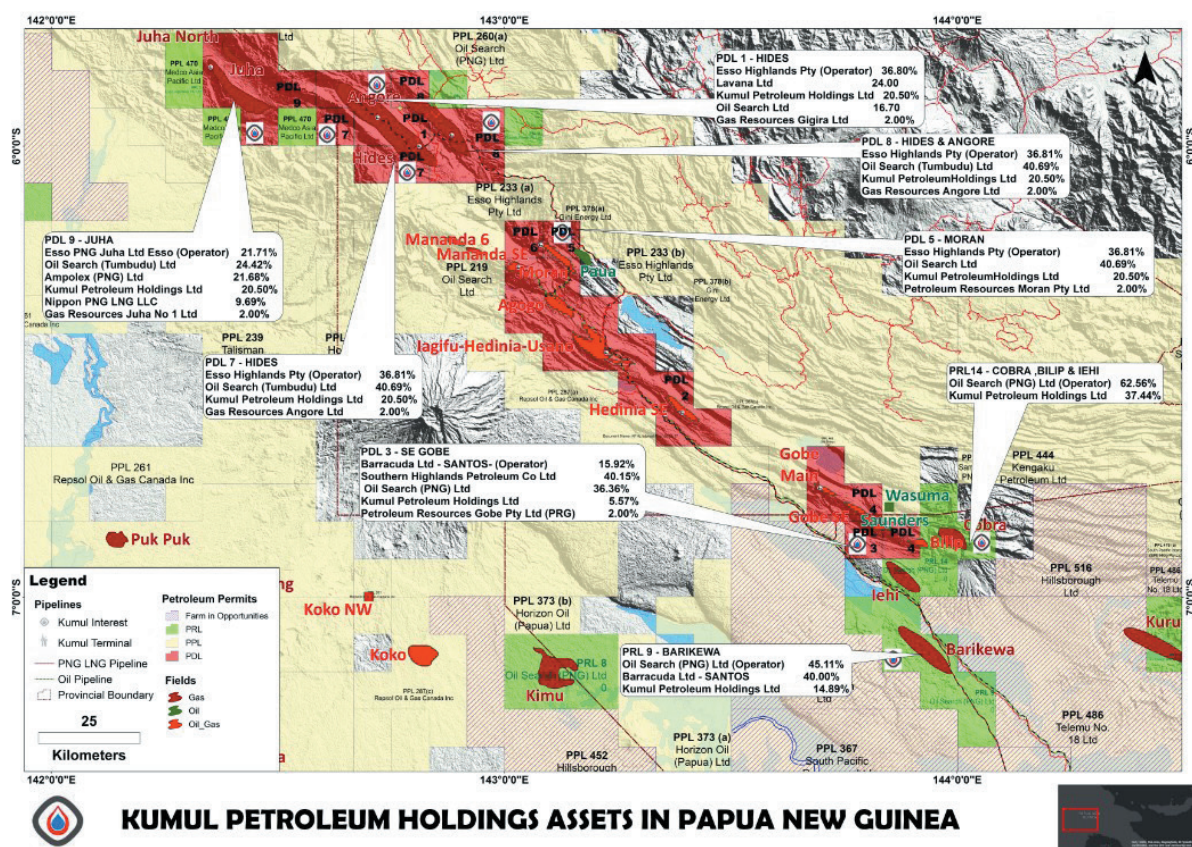
Share Holder Information

The *Kumul Petroleum Holdings Limited Authorisation Act 2015* ("**Kumul Petroleum Act**") which commenced in September 2015 provides for a change in the shareholding structure of Kumul Petroleum Holdings Limited. Section 5 (1) of the Kumul Petroleum Act provides that all the issued shares in Kumul Petroleum Holdings Limited of which IPBC is the registered holder shall be transferred to the Kumul Petroleum Trustee when the Kumul Petroleum Act comes into operation.

The Kumul Petroleum Trustee as per section 4 (2) of the Kumul Petroleum Act is the office of the Prime Minister established by section 142 (*The Prime Minister*) of the **Constitution**. The Kumul Petroleum Trustee will hold the shares in Kumul Petroleum Holdings Limited for and on behalf of the Independent State of Papua New Guinea ("**the State**") under a Trust Deed to be executed by Kumul Petroleum Holdings Limited, the Prime Minister and the State. The Trust Deed and necessary arrangements are underway to effect the transfer of shares from Kumul Consolidated Holdings Limited to the Prime Minister as the Trustee.



Map of KPHL Petroleum assets



Licence Interests and Petroleum Resources

Kumul Petroleum's participating interest remained unchanged in all licences with the exception of PDL5. In July 2016, Kumul Minerals Holdings Limited (formerly Petromin) transferred the Government's participating interest of 20.5% in PDL5 to KPHL. ExxonMobil is the Operator of PDL5 and owns 36.81%, OSL owns 40.69% and the remaining 2% is held by MRDC.

KPHL's Upstream Assets

Licence	Project	Kumul Petroleum Interest, %	
PETROLEUM LICENCES		2015	2016
PDL1	Hides gas field	20.5	20.5
PDL3	Development Licence	5.57	5.57
	Southeast Gobe oil and Gasfield	3.29	2.61
PDL 5	Moran Gas Field	-	20.5
PDL7	South Hides Gasfield	20.5	20.5
PDL8	Angore Gasfield	20.5	20.5
PDL9	Juha Gasfield	20.5	20.5
PRL9	Barikewa Gasfield	14.89	14.89
PRL14	Cobra, Lehi and Bilip Gasfield	10.94	37.44

INFRASTRUCTURE LICENCES		2015	2016
PL4	PNGLNG Project	20.5	20.5
PL5	PNGLNG Project	5.57	5.57
PL6	PNGLNG Project	3.29	2.61
PL7	PNGLNG Project	-	20.5
PL8	PNGLNG Project	20.5	20.5
PNGLNG	PNGLNG Global Company LDC	20.5	20.5
PNGLNG	PNGLNG Project	20.5	20.5
PPFL2	PNGLNG Project	14.89	14.89
PL3	SE Gobe	10.94	37.44

Petroleum reserves and resources net to Kumul Petroleum are predominantly gas and principally contained in the PNG LNG asset. The company's 2P reserves are in excess of 1.7 tcf and 26 million barrels of liquids and the company's 2C contingent resources amount to 137 bcf with a minor amount of liquids.

Kumul Petroleum's Reserve/Production Ratio at the end of 2016 was 30 years, meaning that at the current level of production, Kumul Petroleum's reserves would last 30 years.

Oil, Condensate and Gas Reserves Net to Kumul Petroleum

		Oil & Condensate	Gas	Oil & Condensate	Gas
		mmbbl	bscf	mmbbl	bscf
Reserves Category		Proved (1P)		Proved and Probable (2P)	
PNGLNG Project	¹ Project fields	21.48	1,584	24.24	1,753
PDL1	² Hides GTE	-	3.935	-	6.150
PDL3	³ South East Gobe	0.019	3.18	0.03	3.62
PDL5	⁴ Moran	1.49		2.32	
Total		23	1,616	26.59	1,794

Contingent Oil, Condensate and Gas Resources Net to Kumul Petroleum

		Oil & Condensate	Gas	Oil & Condensate	Gas
		mmbbl	bscf	mmbbl	bscf
Reserves Category		1C		2C	
PRL9	⁵ Barikewa	-	29.78	-	67.45
PRL14	⁵ Cobra, Bilip, Iehi	0.07	29.96	0.22	69.64
Total		0.07	59.74	0.22	137.09

**Notes:**

1. PNG LNG project includes Hides, Juha, Angore, and OSL operated fields of Kutubu, Agogo, Moran, SE Gobe and Gobe Main, and SE Hedinia. The reserves are as per NSAi Reserves Recertification of June 2016.
2. Hides GTE reserves are as stated on OSL 2016 Reserves and Resources Statement.
3. NSAi Reserves Assessment as of December 2015.
4. NSAi Reserves assessment of 2014 for oil; gas reserves are included in the PNG LNG Project.
5. PRL9 and PRL 14 Reserves are taken from the Operator, Oil Search Limited; net to KPH.

Petroleum Operations Report

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 the company's income in 2016. 2016 was the second full year of production from the liquefaction plant at Cape Possession near Port Moresby. During the year the Operator ran a variety of tests at levels of production in excess of the nameplate capacity of 6.9mta and achieved an average of 7.9mtpa for the year. Feed gas into the plant amounted to 384bcf, principally from the giant Hides Gasfield in the Hela Province, discovered by BP in 1987.

A total of 108 cargoes of LNG were sold at the average price of US\$6.3/mmbtu and were dispatched to customers in the Far East, principally Japan, China and Taiwan. Of these 108 cargoes, eleven were sold on the spot market to buyers apart from the four major long-term buyers.

Condensate produced from PNG LNG Project gas fields is blended with crude oil produced by Oil Search at its Kutubu Processing Facility, which are then transported via pipeline to the offshore Kumul Loading Terminal. In 2016, PNG LNG project sold 11.15 million barrels of condensate in 24 cargoes sold at an average price of US\$42.61/bbl.

Kumul Petroleum's net share of production in 2016 was 58.3 bcf of gas and 1.85 million barrels.

To date, Hides is the only field producing within the PNG LNG portfolio. Following the drilling of three appraisal wells on the Angore Discovery in 2015-16, the Operator ExxonMobil began a programme of works to bring the field to production and to tie-in to the PNG LNG infrastructure. This programme will continue through 2017 and be completed in 2018. Angore is expected to produce at 300 MMSCFD and help to sustain the production plateau of the project.

PDL3

KPHL holds a minority non-operated participating interest in PDL3, a producing licence that includes a part-share in the Southeast Gobe Field. SE Gobe Field is operated by Oil Search and is unitised between PDL3 (46.8) and PDL4 (53.2%). KPHL's interest was acquired in 2014 as part of

the company's acquisition of the PNG assets of Australian junior E&P Company Cue Energy Resources Ltd.

SE Gobe is a mature field that has produced 44.8 mmbbls of oil since 1998. For several years, natural gas in the reservoir was produced and reinjected to enhance the recovery of oil from the field. As part of planned and prudent management of the reservoir, in March 2015 the Operator began to produce and sell the gas. Though the production of oil will decline more rapidly without gas lift, the loss is more than offset by the increase in net revenue earned from the sale of gas. As a result of the operational changes, SE Gobe became a gas field for the purpose of taxation, and therefore the rate of income tax switched from 50% to 30%.

SE Gobe produced 335 Mmbbls of oil in 2016, together with a sales gas volume of 13.5 bcf. The gross revenue generated amounted to US\$14.8million, of which KPHL's share was US\$0.4million. Gas is sold to PNG LNG under contract at a price formula of 2% JCC, which amounted to an average price achieved of US\$0.84/MMBTU in 2016.

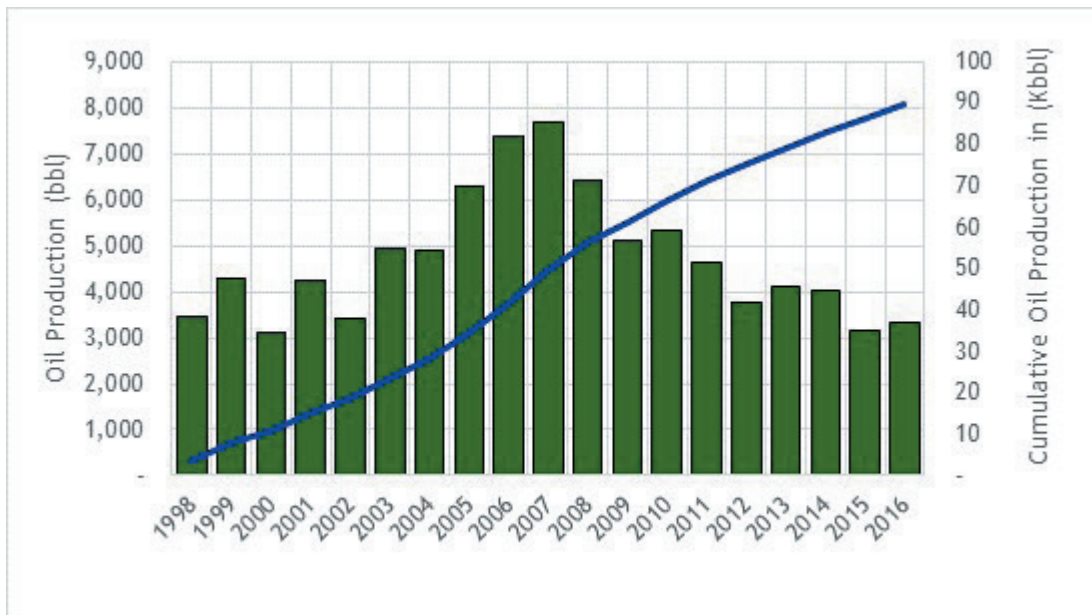
PDL 5

Until 2016, the State's share of PDL 5 was held by Petromin through two companies named Eda Oil (managing crude oil sales) and Kumul LNG (managing gas sales). The state interest in PDL 5 was transferred to KPHL as of July 2016, and the 20.5% participating interest is equivalent to 0.203709% in the PNG LNG project.

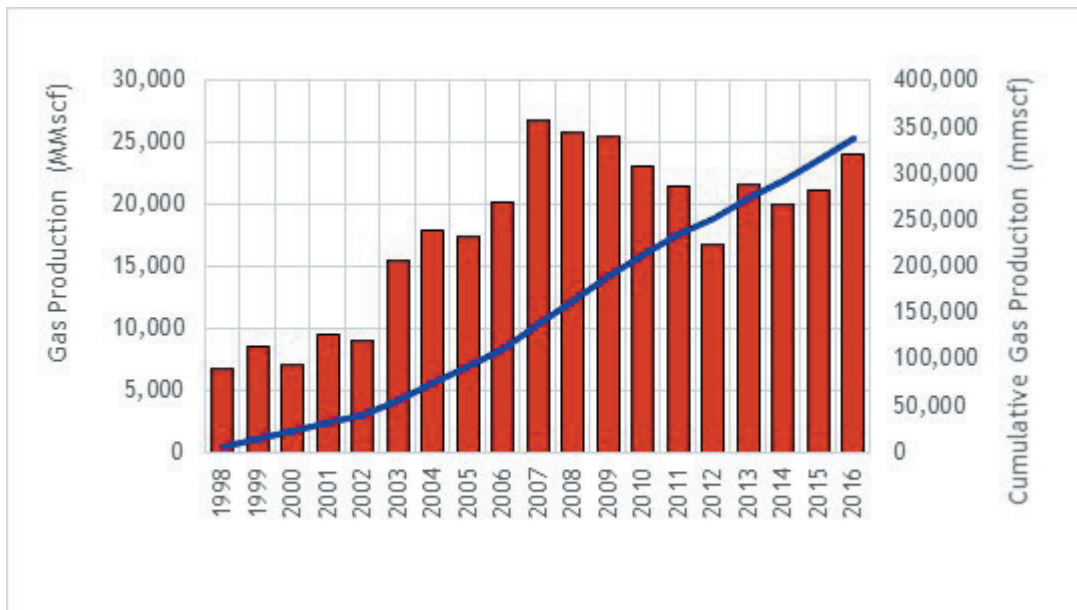
Moran is unitised across three licences, namely PDL5, PDL 2 and PDL 6. KPHL's 20.5% interest in PDL5 constitutes an 11.275% share of the Moran Unit.

Moran is a mature oilfield that began production in 1998. Production peaked at about 21,000bopd in 2007 and the field produced at an average of 8,000bopd in 2016. Production of associated gas is increasing year-on-year as the field matures, and the gas is captured by the PNG LNG Project. The field remains profitable, despite the declining production and reduced price of oil and gas, and provides a net income to KPHL.

Moran Field Historic Annual and Cumulative Oil Production



Moran Field Historic Annual and Cumulative Gas Production



PRL9 & PRL14

The company is engaged in appraising discovered gas resources in two retention licences that straddle the PNG LNG trunk gas pipeline near the southern coast of PNG. PRL9 contains the Barikewa discovery, and PRL14 contains the Lehi, Cobra and Bilip discoveries. Operator Oil Search is carry out commercialisation studies and in 2017 intends to carry out appraisal seismic data acquisition in PRL14 and appraisal drilling of Barikewa in PRL9.



Business Development

Kumul Petroleum completed or commenced several business development initiatives during the year with a view to growing and diversifying the company's activities in the petroleum sector.

Training the Nation: Kumul Petroleum Academy

A key strategic objective of the company is to support the development of a skilled national workforce for the petroleum sector. In 2016, Kumul Petroleum completed negotiations to acquire a shareholding and place on the board of a PNG-based training company that is located within the POMTECH campus in Konedebu. As part of the deal, Kumul Petroleum is paying for the construction of a 'Safe Live Process Plant' (SLPP) where trainees to the Kumul Petroleum Academy will gain hands-on experience of certain field and plant operations, but in a safe and supervised environment. The SLPP is being fabricated in the Philippines and will be imported, installed and commissioned in early 2017.

The focus of the Academy is on the delivery of a 15-month competence-based Operations & Maintenance Technician Development Programme. The first intake of 32 trainees was jointly sponsored by ExxonMobil and Kumul Petroleum and the training commenced in August 2016. After the introductory semester, the trainees will be streamed into different trade specialisations including Electrical Technician and Mechanical Technician.

Powering the Nation: POM GTE

KPHL has been actively looking for suitable opportunities to get involved in gas-to-power schemes that promote the use of PNG's domestic resources and contribute to the economic development and well-being of the nation's citizens. In 2015, the PNG LNG Project Operator ExxonMobil announced its intention to provide gas for a power plant in Port Moresby. As at the end of 2016, KPHL had secured a plot of land suitable for the siting of the power plant, but the scheme was still in consideration by the State.

Monetising the Domestic Gas Resource

A. Western Pipeline Project

Kumul Petroleum embarked on the Western Pipeline Project in 2016, with the focus to facilitate development of most of the stranded gas resources in the Western and Gulf Provinces. The project strategy is for KPHL to build a common gas pipeline infrastructure, starting from the northwest part of the Western Province, somewhere close to the Elevala-Ketu discoveries, southwards to the coastline somewhere near Kopi and then undersea to Port Moresby. The detailed pipeline route and design will be initiated in 2017 as part of a Front-End Engineering Design project (FEED). The pipeline infrastructure will

be a common facility used by all project developers engaging in developing different gas fields in the two province. KPHL believes that as the National Oil Company it should take this step to enable the development of the stranded gas fields, as well as to encourage more exploration activities in the two provinces.

B. Small Scale LNG for Power

Kumul is involved in the evaluation of small-scale LNG to power generation schemes within PNG. The intention is to identify viable power and related energy projects that Kumul may consider for joint development with other interested developers. Kumul and Oil Search signed a memorandum of understanding in late 2016 to promote this partnership in the midstream, power development and related energy projects. Studies are to be undertaken in 2017 to further assess the opportunities.

C. Methanol Project

In 2015, Kumul Petroleum signed an MOU with a major Japanese trading company named Sojitz in regard to their proposal to establish a methanol plant in Port Moresby. Kumul Petroleum and Sojitz subsequently incorporated a Joint Venture Company named Port Moresby Methanol Industry (PMI) to be the structured entity reviewing the detailed feasibility of the methanol proposal. A joint working team was formed and Senior Executives from both KPHL and Sojitz were appointed as Board members for PMI and the PMI Board of Directors held two meetings in 2016, in May and November.

Diversifying Internationally

A. LNG Marketing

KPHL extended an MoU signed with LNG Japan, a Japanese Trading House in November 2016. The companies are working towards establishing an unincorporated Marketing JV to participate in trading and marketing LNG. The primary focus is to sell gas from PNG to Asian buyers, but to widen the scope of business activities to other countries in due course. Work is in progress to prepare the necessary contractual documents to enable trading. In the meantime, KPHL has opened an office in the business district of Singapore to deal with any marketing and trading activities in the region.

B. Pertamina Joint Studies MOU

KPHL and Indonesia's National Oil Company Pertamina signed an MOU in xx 2016 to review the feasibility of cooperating across the spectrum of petroleum business activities. The scope of the joint venture studies includes marketing and trading of LNG and LPG, cross-border participation in E&P assets, and ways to develop the human capital of employees.

Stakeholder Relations

Stakeholder Relations Department is typically an external affairs team. It is structured to promote/visualise the 3 functions/responsibilities that fall under the division.

The three functions are;

Government Affairs and Community Relations - with the core function of advocating and building relationships in pursuit of KPHL's Strategic goals and objectives with key stakeholders which includes government, project impacted communities and other stakeholders.

The team also plays a support role internally to support base business and new opportunities initiated by the company.

The team also supports Government Relations & Community Affairs efforts of various project operators to achieve their work goals to progress project activities.

The companies branding and marketing efforts is a distinct function and Strategic Investment department has been created to administer and monitor this activities. The Strategic Investment roles and responsibilities includes running of the company's Social Inclusion programmes creating a sense of ownership of KPHL as a National Oil and Gas Company and also branding and Social Licence to Operate. Further to create social resilience programmes to implement under broad categories of Sponsorships, Contributions/Donations and volunteering. In the long run, develop processes and procedures to establish Tax Credit programmes and the implementation of tax credit programmes.

The Division has an Asset Protection department which Coordinates and carry out risk assessment of project activities to ensure safety and Security of company assets which includes people and property. The department will also develop safety processes and procedures for safety and protection of assets in the areas that we operate in so as to avoid loss time injuries and or ensure best practise safety measures are adopted to carry on business.

SIC Activities

KPHL is committed to the highest standards of good corporate governance and transparency.

It is also important to ensure social related activities align well with the policy guidelines set out by the Board of Directors. The policy forms part of KPHL's vision in the Strategic Plan as it aims to become the National Oil and Gas Company (NOC) of Papua New Guinea.

A total of K920, 975 was allocated in 2016 for Social

Inclusion activities conducted by Kumul Petroleum Holdings Ltd. During the year KPHL received 104 requests from groups and organisations throughout the country. Twenty-nine of these requests were approved. Eighteen of these requests came from the general community. One request each was received and approved from the following Provinces - National Capital District, Central province, Hela province, Oro (Northern) province, Western Province and Western Highlands province. There were two requests from AROB and three requests from KPHL Staff for their corporate activities, which were approved and funded.

The biggest sponsorship for last year was to the Hela Special Purpose Authority which received K110, 000 to assist with its law and order programs. Another major recipient was the Tumbuna TV - Madang Musical festival which received K100, 000 to coordinate its festival, the Pacific Sports Media and Marketing group received K100, 000 for Digicel Cup activities and Tourism Promotion Authority received K100, 000 to hold a conference.

The activities listed below received publicity in the press.

Lyke Auckland Bay Soccer Tournament - K3, 394

PNG Defence Golf Club - K5, 000

Daru General Hospital -K10, 000

Tumbuna TV (Madang Musical Festival) - K100, 000

- Basketball Federation of PNG - K5,000

- PNG Business Coalition For Women - K2,750



Kumul Petroleum Holdings Limited and its Subsidiaries

Consolidated Financial Statements For the year ended 31 December 2016

Contents

Annual Report of the Directors to the Shareholder	18
Directors' Declaration	21
Independent auditors' report	22
Consolidated Statement of Comprehensive Income	24
Consolidated Statement of Financial Position.....	25
Consolidated Statement of Changes in Equity.....	26
Consolidated Statement of Cash Flows.....	27
Notes to and forming part of the consolidated financial statements.....	28 - 68



Annual Report of the Directors to the Shareholders

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 2016. 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; and
- to hold interest in and or venture into potential downstream and petrochemical related activities

Results

For the year ended 31 December 2016, the Group made a consolidated loss for the year of US\$149.80 million (2015: US\$113.47 million profit).

Production of LNG from Train 1 and Train 2 commenced in April and May 2014, respectively. In late 2014, the PNG LNG Project reached full operating capacity. Material progress continues to be made on the expansion and development of PNG LNG Project. The PNG LNG Project is currently producing at levels well above nameplate capacity. 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, with preparations well advanced on drilling activities designed to add proven resources to the PNG LNG Project. Both PNG LNG Project expansion and the Papua LNG Project offer attractive returns and remain highly competitive relating to other possible LNG Projects in the Pacific region, even in light of revised oil price expectation.

Directors

The directors as at the date of this report are:

Frank Kramer	Non executive / Chairman	Appointed 4 March 2014
Mark Soipang	Non executive	Appointed 2 September 2014
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 Tumbulu	Non executive	Appointed 22 February 2017

Secretary

The Group secretary is Rogen Wato (Appointed 4 March 2014).

Directors' Interests

As at 31 December 2016, the directors did not have any interests in the Group warranting disclosure.





Directors' Remuneration

The Directors remuneration for the year ended 31 December 2016 is shown below:

	Remuneration US\$	Sitting allowance US\$	Short term incentive US\$	Long term retention US\$	Total US\$
Frank Kramer – Chairman	34,650	1,478	-	-	36,128
Larry Andagali - Deputy Chairman	18,326	554	-	-	18,880
Mark Soipang – Director	21,945	924	-	-	22,869
Dr. Ila Temu – Director	21,945	1,108	-	-	23,053
Dr. Benedict Yaru - Director	21,945	739	-	-	22,684

Remuneration above US\$31,111 (K100, 000) per annum

The number of employees not being directors whose total remuneration and other benefits received above US\$31,111 (K100,000) per annum from the Group during the year was 43.

Remuneration and other benefits paid to employees during the year, in excess of US\$31,111 (K100,000) in brackets of US\$31,111 (K100,000) were:

Salary bands		No. of employees
K'000	US\$'000	
100 to 199	31 to 61	28
200 to 299	62 to 93	6
300 to 399	94 to 124	1
400 to 499	125 to 155	2
Over 500	Over 156	6

Dividends

A total of US\$30.75 million (PGK100 million) was paid as dividend to the State for the year ended 31 December 2016 (2015: US\$31 million (PGK86.4 million)).

Employees

As of 31 December 2016, the Group had 73 employees (2015: 64).

Donations

Donations made by the Group as part of corporate standing in the community for the year ended 31 December 2016 is US\$2.57 million (2015: US\$ 0.83 million).

Auditors

Auditor's fees for the service rendered during the 2016 year are disclosed in Note 9 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,

DR ILA TEMU
Director
Port Moresby
Date: 31 May 2017

WAPU SONK
Managing Director
Port Moresby
Date: 31 May 2017





Director's Declaration

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.

Signed for, and on behalf of the Board,

DR ILA TEMU
Director
Port Moresby
Date: 31 May 2017

WAPU SONK
Managing Director
Port Moresby
Date: 31 May 2017





Phone: (+675) 3012200 Fax: (+675) 325 2872

Email: agopng@ago.gov.pg Website: www.ago.gov.pg



**INDEPENDENT AUDIT REPORT ON THE ACCOUNTS OF
KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES
(FORMERLY, NPCP HOLDINGS LIMITED AND ITS SUBSIDIARIES)
FOR THE YEAR ENDED 31 DECEMBER 2016**

To the Shareholders

I have audited the accompanying financial statements of **Kumul Petroleum Holdings Limited and Its Subsidiaries** for the year ended **31 December, 2016**.

The financial statements comprise:

- Consolidated Statement of Financial Position;
- Consolidated Statement of Comprehensive Income;
- Consolidated Statement of Changes In Equity;
- Consolidated Statement of Cash Flows; and
- Summary of Significant Accounting Policies and Other Explanatory Notes.

Responsibility for the Financial Statements

The Directors of the Company are responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Company. The financial statements should comply with the *Companies Act 1997* and other mandatory financial reporting requirements in accordance with the *International Financial Reporting Standards*, which have been approved by the *Accounting Standards Board* as the financial reporting standards for use in Papua New Guinea. The Directors are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Responsibility of the Auditor-General

I have conducted an independent audit in order to express an opinion to the shareholders. My audit has been planned and performed in accordance with *International Standards on Auditing* as promulgated by the *International Federation of Accountants* to obtain reasonable assurance as to whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.





The nature of an audit is influenced by factors such as the use of professional judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. I have considered the risks, based on those assessments, on the internal controls relevant to the preparation and fair presentation of the financial statements in designing audit procedures considered appropriate in the circumstances.


Procedures were performed to assess whether, in all material respects, the financial statements present fairly, in accordance with the *Companies Act, 1997*, the *International Financial Reporting Accounting Standards* and other mandatory financial reporting requirements, a view which is consistent with my understanding of the Company's financial position, and of its performance as represented by the results of their operations and cash flows.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for this report.

AUDIT OPINION

In my opinion:

- (a) the financial statements of Kumul Petroleum Holdings Limited and Its Subsidiaries for the year ended 31 December, 2016:
 - (i) give a true and fair view of the financial position and the results of its operation 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 Company, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.


PHILIP NAUGA
Auditor-General

05 June, 2017

Level 6
TISA Investment Haus
Kumul Avenue, NCD



PO Box 423
WAIGANI, NCD

Statement of Comprehensive Income

		2016	2015
	Notes	US\$'000	US\$'000
Revenue	6	547,326	691,244
Cost of sales	7	(257,772)	(258,881)
Gross profit		289,554	432,363
Other Income	8	12,435	20,954
Depreciation charges		(5,174)	(3,872)
Consultancy and professional service	9b	(6,845)	(9,473)
Employee benefits expense	9c	(8,396)	(9,289)
Other operating expenses	9a	(9,410)	(7,569)
Operating profit		272,164	423,114
Interest income		1,380	1,893
Finance costs	9d	(167,246)	(160,238)
Foreign exchange gain (loss)		6,403	108,835
Gain (loss) on valuation of derivatives	17	(55,643)	54,713
Impairment loss on available-for-sale (AFS) financial assets	16	-	(222,830)
Expense recognized for Kroton Equity	25	(166,654)	-
Profit (loss) before income tax		(109,596)	205,487
Income tax expense	10	(40,203)	(92,019)
Profit (loss) for the year		(149,799)	113,468
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
<i>in subsequent period:</i>			
Fair value adjustment on AFS financial assets	16	47,979	(9,421)
Total comprehensive income (loss) for the year		(101,820)	104,047
Attributable to:			
Equity holder of the parent		(101,820)	104,047
Non-controlling interest		-	-
		(101,820)	104,047

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

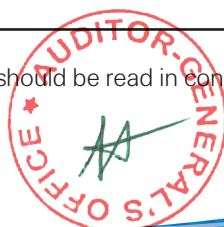




Statement of Financial Position

	Notes	2016 US\$'000	2015 US\$'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	126,068	234,854
Receivables and other current assets	10 & 12	206,499	176,982
Inventories		25,638	28,758
Derivative financial assets	17		104,050
Advances to the State	22b	50,000	125,560
Total Current Assets		408,205	670,204
Non-current Assets			
Advances to the State	22b	137,960	
Oil and gas assets	13	3,832,159	3,858,667
Property, plant and equipment	14	13,516	6,378
Rehabilitation and restoration assets	15	26,167	28,476
Derivative financial assets	17	48,407	
AFS financial assets	16	778,347	729,367
Deferred tax assets	10b	14,655	12,550
Total Non-current Assets		4,851,211	205,487
Total Assets		5,259,416	5,305,642
LIABILITIES AND EQUITY			
		(149,799)	113,468
Current Liabilities			
Provisions	19	495	644
Trade and other payable	18	44,887	64,727
Loans and borrowings	20	309,471	924,189
Other financial liabilities	25	4,320	
Total Current Liabilities		359,173	989,560
Non-current Liabilities			
Deferred tax liabilities	10	188,674	140,187
Provisions	19	42,711	40,263
Loans and borrowings	20	2,843,999	2,349,984
Other financial liabilities	25	62,420	
Total Non-current Liabilities		3,137,804	2,530,434
Total Liabilities		3,496,977	3,519,994
Equity			
Share/contributed capital	21a	1,428,685	1,428,685
Retained earnings		176,414	356,963
Reserves	21c	157,340	
Total Equity		1,762,439	1,785,648
Total Liabilities and Equity		5,259,416	5,305,642

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



Statement of Changes in Equity

Attributable to the equity holder of the Parent

Notes	Share/ Contributed Capital US\$'000	Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Non- controlling interest US\$'000	Total US\$'000
Balance at 1 January 2015	1,411,668	9,421	274,495	1,695,584	-	1,695,584
Profit for the year	-	-	113,468	113,468	-	113,468
Other comprehensive income	-	(9,421)	-	(9,421)	-	(9,421)
Total comprehensive income	-	(9,421)	113,468	104,047	-	104,047
Contribution from owner	21	17,017	-	17,017	-	17,017
Dividends paid	21	-	(31,000)	(31,000)	-	(31,000)
Balance at 31 December 2015	1,428,685	-	356,963	1,785,648	-	1,785,648
Loss for the year	-	-	(149,799)	(149,799)	-	(149,799)
Other comprehensive income	-	47,979	-	47,979	-	47,979
Total comprehensive loss	-	47,979	(149,799)	(101,820)	-	(101,820)
Reserve from common control acquisition	21	-	9,446	9,446	-	9,446
Share-based payment - Kroton Equity	21	-	99,915	99,915	-	99,915
Dividends paid	21	-	(30,750)	(30,750)	-	(30,750)
Balance at 31 December 2016	1,428,685	157,340	176,414	1,762,439	-	1,762,439

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





Statement of Cashflow

	Notes	2016 US\$'000	2015 US\$'000
Cash flows from operating activities			
Receipts from customers		543,121	582,625
Payments to suppliers and employees		(183,823)	(198,315)
Income tax paid	10c	(4,826)	(26,544)
Interest received		1,380	1,893
Dividend received		822	12,901
Net cash flow from operating activities		356,674	372,560
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,745)	(3,433)
Investment in Non Project PDL Joint Operation		(2,040)	(2,803)
Acquisition of oil and gas assets		(10,423)	(107,214)
Other investing activities		1,052	10,297
Net cash flow used in investing activities		(19,156)	(103,153)
Cash flows from financing activities			
Payment of loans and borrowings		(353,154)	(125,743)
Advances to the State	22b	(62,400)	(125,560)
Dividends paid to the equity holder of the parent	21b	(30,750)	(31,000)
Contribution received from shareholder		–	17,017
Net cash flow used in financing activities		(446,304)	(265,286)
Net movement in cash and cash equivalents		(108,786)	4,121
Opening cash and cash equivalents		234,854	230,733
Closing cash and cash equivalents	11	126,068	234,854

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



Notes to Forming part of 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, Deloitte Touche Tohmatsu tower, 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 31 May 2017.

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 derivatives and available for sale investments.

The consolidated financial statement 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.

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.

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.

(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

Business combinations between entities under common control are accounted for by applying the pooling of interest method.

Under the pooling of interest method, the acquirer accounts for the combination as follows:

- the assets and liabilities of the acquiree are consolidated using the existing carrying values instead of fair values;
- intangible assets and contingent liabilities are recognized only to the extent that they were recognized by the acquiree in accordance with applicable IFRS;
- no amount is recognized as goodwill;
- The difference between the acquirer's cost of investment and the acquiree's equity is presented in equity as "Reserves" in the consolidated statement of financial position and any subsequent changes are presented within statement of changes in equity under "Changes in equity reserves";
- any NCI is measured as a proportionate share of the book values of the related assets and liabilities;
- the income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place. and
- no restatement of financial information in the consolidated financial statements for the periods prior to the combination under common control.

(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.

(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 and determined that they comprise investments in joint operations.

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.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except in the current year, the Company adopted all new and revised IFRS, amendments to existing International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretation that are effective for annual periods beginning on or after 1 January 2016. The adoption of these standards did not have any effect on the financial performance or position of the Company.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business



combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no additional interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and

associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included





within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

Standards Issued but not yet Effective

The Group will adopt, where applicable, the following standards, amendments to existing standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new standards and interpretations to have a significant impact on its financial statements:

Description	Effective for annual periods beginning on or later
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an investor and its Associates or Joint Venture	1 January 2017
IAS 7 Disclosure Initiative – Amendments to IAS 7	1 January 2017
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses- Amendments to IAS 12	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 2 Classification and Measurement of Share-based Payment Transactions-Amendments to IFRS 2	1 January 2018
IFRS 16 Leases	1 January 2019

The Company continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2016 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the Company's financial statements when these amendments are adopted.

2.3 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

	2016	2015
	PGK'000	PGK'000
TOTAL ASSETS*	17,103,792	16,225,205
TOTAL LIABILITIES*	(11,373,106)	(10,764,508)
NET ASSETS	5,730,686	5,460,697
NET PROFIT (LOSS)**	(482,010)	1,009,587

* Translated using reporting date exchange rate of 0.3075 in 2016 (2015: 0.3270)

** Translated using average exchange rate of 0.3113 in 2016 (2015: 0.3248)

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.

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").

(c) 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

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.





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.

(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.

(d) 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

Producing oil and gas assets are depreciated /amortised over the life of the assets which is 32 years (until 2046) on a straight line basis, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the shorter period is applied.

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

Property, plant and equipment held under finance leases 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 de-recognition 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.



(e) 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 as at 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.

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 method for 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.

(f) 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).

(g) 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 financial assets at fair value through profit or loss, loans and receivables, held to-maturity investments, available-for-sale (AFS) financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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, trade and other receivables and derivative financial assets.

Subsequent measurement

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

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments - the Parent entity has no held-to-maturity investments
- AFS financial investments

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 the statement of profit or loss and other comprehensive income. 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 through 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.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. 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 effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables.

AFS financial assets

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or loss.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the

fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate ("EIR"). Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a Parent entity of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganisation; and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognised in profit or loss. Interest income (recorded as finance income in the statement of profit or loss and other comprehensive income) continues to be accrued on the reduced carrying



amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account, if a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss and other comprehensive income.

Available-for-sale (AFS) financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from OCI and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(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.

The Group financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial liabilities.

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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial recognition date and only if the conditions in IAS 39 are satisfied. The Group has not designated any financial liabilities as at fair value through profit or loss.

Held for trading

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 profit or loss.

Loans and borrowings

This is the category most relevant to the Group. Loans and borrowings are recognised initially at fair value net of transaction cost incurred. After initial recognition, interest-bearing loans and borrowings are subsequently measured at interest rate method (amortised cost). Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the effective interest rate 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 effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

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

(h) 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.

(i) 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.

(j) 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 non-current liabilities.

(k) 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.

(l) 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.

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.



(m) 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 IAS 12 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.

(n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

(o) 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.

(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.

(p) Revenue Recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, sales taxes, excise duties and similar levies. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor, has pricing latitude and is also exposed to inventory and credit risks.

Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between oil lifted and sold and the Group's share of production are not significant. Where forward sale and purchase contracts for oil or natural gas have been determined to be for trading purposes, the associated sales and purchases are reported net.

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. 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.

(q) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current 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.

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.

(r) Derivative financial instruments

The Group has entered into a collar loan arrangement. The collar loans include a borrowing element under which the Group obtained financing from the bank collateralized by available-for-sale investments (Oil Search Limited (OSL) shares) with an obligation to repay it in the future and an option (collar) element comprised of a number of put and call options over OSL shares. From accounting point of view (IAS 39) this is a hybrid contract containing a host and debt instrument (loan) and embedded derivative (collar over OSH shares).

For these contracts and the host part of the contracts containing embedded derivatives, they are accounted



for as executor contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

The contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit or loss, and presented separately.

(s) 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.

(t) 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.

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.

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 information compiled 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

(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 an 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 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 estimate 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.

(iv) Decommissioning costs

Decommissioning cost will be incurred by the Group at the end of the operating life of the oil and gas facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change – for example, in response

to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(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 recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the 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.

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) Impairment of available for sale financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from OCI and recognised in profit or loss.



**(vii) Kroton equity option and conversion**

As disclosed in Note 25 of this financial report, in the current period, management accounted for the Kroton Equity Option and Conversion. Given the nature of the transaction, it is considered to be a complex, unusual 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% which management considers appropriate in the determination of the value.

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 2016:	US\$'000	US\$'000	US\$'000	US\$'000
Assets				
Derivatives	-	48,407	-	48,407
AFS financial assets (Quoted)	778,347	-	-	778,347
Liabilities				
Loans and borrowings	-	(3,073,867)	-	(3,073,867)
Other financial liabilities	-	-	(66,740)	(66,740)
	778,347	(3,025,460)	(66,740)	(2,313,853)
As at 31 December 2015:	US\$'000	US\$'000	US\$'000	US\$'000
Assets				
Derivatives	-	104,050	-	104,050
AFS financial assets (Quoted)	729,367	-	-	729,367
Liabilities				
Loans and borrowings	-	(3,231,905)	-	(3,231,905)
	729,367	(3,127,855)	-	(2,398,488)

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:

- The Group's interest bearing borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual credit worthiness of the customer and the risk characteristics of the project.
- The Group enters into derivative financial instruments with the financial institutions with investment grade credit ratings. The collar contract valued using valuation techniques with market observable inputs are mainly OSH reference price, expected dividends, risk free rate, lender's credit spread and volatilities.
- Fair value of the quoted shares is based on price quotations at the reporting date.

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:

	2016 US\$'000	2015 US\$'000
Denominated in PNG KINA		
Cash and cash equivalent	10,008	47,252
Employee benefits		(1,009)
Borrowings	(138,908)	(146,575)
	(128,900)	(100,322)
Denominated in AUD		
Cash and cash equivalents	3	
Derivative financial assets	101,498	104,050
Available for sale financial assets	774,543	726,564
Borrowings	(735,223)	(775,643)
	140,821	54,971
Total	11,922	(45,351)

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.

Increase/decrease in foreign exchange rate	Effect on profit before tax for the year ended 31 December 2016 Increase/(Decrease) US\$'000	Effect on profit before tax for the year ended 31 December 2015 Increase/(Decrease) US\$'000
+5%	596	(2,268)
-5%	(596)	2,268

(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:

Increase/decrease in basis points	Effect on profit before tax for the year ended 31 December 2016 Increase/(Decrease) US\$'000	Effect on profit before tax for the year ended 31 December 2015 Increase/(Decrease) US\$'000
+50%	(15,180)	(16,160)
-50%	15,180	16,160



(iii) Equity price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk by placing limits on individual and total equity instruments.

Increase/decrease in percentage	Effect on profit before tax for the year ended 31 December 2016 Increase/(Decrease) US\$'000	Effect on profit before tax for the year ended 31 December 2015 Increase/(Decrease) US\$'000
+10%	77,454	72,656
-10%	(77,454)	(72,656)

(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 US\$ '000	<1 year US\$ '000	1-5 years US\$ '000	>5 years US\$ '000	Total US\$ '000
2016					
Trade creditors and other liabilities	-	44,887	-	-	44,887
Finance lease obligation	-	11,145	44,551	148,162	203,858
Borrowings including future interest	-	432,937	2,257,498	1,126,682	3,817,117
Other financial liabilities	-	4,320	14,740	47,680	66,740
	-	493,289	2,316,789	1,322,524	4,132,602

	On demand US\$ '000	<1 year US\$ '000	1-2 year US\$ '000	>5 years US\$ '000	TOTAL US\$ '000
2015					
Trade creditors and other liabilities	-	64,727	-	-	64,727
Finance lease obligation	-	5,788	23,109	77,274	106,111
Borrowings including future interest	-	1,075,015	1,442,702	1,384,823	3,902,540
	-	1,145,530	1,465,811	1,462,097	4,073,438

(c) Credit 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:

	2015 US\$ '000	2016 US\$ '000
Cash at bank	126,068	238,854
Trade receivables	194,943	173,317
Derivative financial assets	48,407	104,050
Advances to the state	187,960	125,560
AFS financial assets	778,347	729,367
Total	1,335,725	1,371,148





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. For derivatives, refer to Note 17.

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

	2016 US\$ '000	2015 US\$ '000
Revenue from sale of:		
Liquefied natural gas	449,971	594,548
Condensates	73,661	88,992
Naphtha	5,919	6,533
Crude Oil	16,991	-
Power and other sales	784	1,171
Total	547,326	691,244

7. Cost of sales

	2016 US\$ '000	2015 US\$ '000
Production cost	122,816	124,489
Depreciation of oil and gas assets	132,999	124,287
Depreciation of oil and gas assets	132,999	124,287
Royalty and development levy charges	1,563	6,764
Movement in product inventories	394	3,341
Total	258,881	257,772

8. Other Income

		2016 US\$ '000	2015 US\$ '000
Hides Gas to Electricity (HGTE) income	(i)	3,120	4,852
Gain from write-off of payables	(ii)	4,067	-
Power sales		2,518	1,366
Dividend income	16	822	12,901
Miscellaneous income		1,908	1,835
Total		12,435	20,954



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

(ii). Gain from write-off of payables relates to write-off of amounts owed by the Group to Petromin PNG Holdings Limited prior to acquisition of Eda Oil Limited.

9. Cost and expenses

(a) Other operating expenses

	2016 US\$ '000	2015 US\$ '000
Donations and community sponsorship	2,573	831
Travel and accommodation	2,417	2,067
Rental expense	854	727
Security and safety	584	474
Subscriptions	563	275
Communication and information technology	550	489
Insurance expense	244	555
Stationery and supplies	242	234
Recruitment and training expense	223	356
Meeting and conferences	212	129
Utilities, repairs and maintenance	201	240
Advertising and media	163	142
Directors fees and other expenses	147	165
Motor vehicle expenses	41	816
Other costs	396	69
	9,410	7,569

(b) Consultancy and professional services

	2016 US\$ '000	2015 US\$ '000
Consultancy fees	6,533	8,936
Audit fees	227	211
Legal fees	85	326
	6,845	9,473

c) Employee benefits expense

	2016 US\$ '000	2015 US\$ '000
Salaries and wages	5,265	4,551
Short term and long term incentive	1,533	2,245
Housing benefits	760	1,116
Annual and long service leave	236	529
Other benefits	602	848
	8,396	9,289



**(d) Finance costs**

	2016 US\$ '000	2015 US\$ '000
Loans and borrowings	157,654	153,654
Finance lease obligation	8,311	4,769
Accretion on rehabilitation provision	1,281	1,815
	167,246	160,238

10. Current and deferred income tax**a) Income tax expense**

	2016 US\$ '000	2015 US\$ '000
Current income tax (benefits)/expense	(7,028)	36,321
Deferred tax expense	47,231	55,698
Income tax expense reported in profit or loss	40,203	160,238
Prima facie tax expense is presented as follow:		
Profit before tax expense	(109,596)	205,487
Prima facie tax @ 30%	(32,879)	61,646
Non-deductible expenses	124,808	65,722
Movement in DTA previously not recognized	(51,726)	(35,349)
Income tax expense as reported in profit or loss	40,203	92, 019

b) Net deferred tax liabilities

Deferred tax asset		
Balance at beginning of year	12,550	13,235
Common control business combination	1,229	-
Timing differences and tax losses to profit or loss	876	(685)
Balance at end of year	14,655	12,550

Deferred tax liability		
Balance at beginning of year	(140,187)	(85,174)
Common control business combination	(322)	-
Timing differences to profit or loss	(48,165)	(55,013)
Balance at end of year	(188,674)	(140,187)
Net deferred tax liabilities	(174,019)	(127,637)

The net deferred tax liabilities comprises the tax effect of:

Rehabilitation and restoration liability	3,903	3,238
Leased assets	1,125	450
Tax losses	926	319
Oil and gas / plant and equipment	(151,429)	(103,581)
Unrealised exchange loss/(gain)	(28,839)	(27,938)
Provisions	337	-
Prepayments	(42)	(125)
Net deferred tax liabilities	(174,019)	(127,637)



c) Refund (Provision) for income tax refund

Opening balance for provision for income tax	698	10,475
Current tax expense	6,612	(36,321)
Common control business combination	(4,539)	-
Payments made during the year	4,826	26,544
Closing balance of provision for income tax refund	7,597	698

11. Cash and cash equivalents

	2016	2015
	US\$'000	US\$'000
Cash in bank	126,051	234,837
Share of joint venture cash at bank	17	17
	126,068	234,854

The cash at bank includes US\$3.56 million as at 31 December 2016 (2015: US\$0.16 million) representing restricted cash held by the bank for interest payment and letters of credit.

12. Receivables and other current assets

	2016	2015
	US\$'000	US\$'000
Trade receivables	43,281	21,132
Undistributed cash from PNG LNG Project	151,662	152,157
Prepayments in joint operations	2,257	2,047
Prepayments in joint operations	2,257	2,047
General prepayments	208	187
GST receivables	536	575
Tax credit scheme	279	
Income tax credits and receivables	7,597	698
Others	679	186
	206,499	176,982

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.

Project and other receivables are due within 45 days and current. No receivable balances are past due nor impaired in 2016 (2015: nil).

The fair value of receivable approximates the carrying value as they are largely due to the short term of maturities.





13. Oil and gas assets

31 December 2016	Assets in production US\$'000	Assets in evaluation and exploration US\$'000	Finance lease tugs and vessels US\$'000	Total US\$'000
Cost				
Balance at 1 January 2016	3,974,482	48,866	42,934	4,066,282
Additions for the year	10,423	2,040	38,782	51,245
Common control acquisition	164,515	-	-	164,515
Balance at 31 December 2016	4,149,420	50,906	81,716	4,282,042
Accumulated Depreciation				
Balance at 1 January 2016	205,340	-	2,275	207,615
Additions for the year	130,801	-	3,587	134,388
Common control acquisition	107,880	-	-	107,880
Balance at 31 December 2016	444,021	--	5,862	449,883
Net Book Value at 31 December 2016	3,705,399	50,906	75,854	3,832,159

31 December 2015	Assets in production US\$'000	Assets in evaluation and exploration US\$'000	Finance lease tugs and vessels US\$'000	Total US\$'000
Cost				
Balance at 1 January 2015	3,890,531	31,902	4,945	3,927,378
Additions for the year	83,951	16,964	37,989	138,904
Balance at 31 December 2015	3,974,482	48,866	42,934	4,066,282
Accumulated Depreciation				
Balance at 1 January 2015	81,053	-	200	81,253
Additions for the year	124,287	-	2,075	126,362
Balance at 31 December 2015	205,340	-	2,275	207,615
Net Book Value at 31 December 2015	3,769,142	48,866	40,659	3,858,667

Impairment assessment

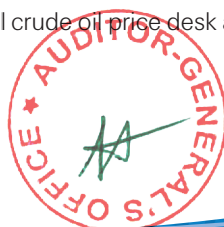
The entire PNG LNG operation is considered as one cash generating unit (CGU) for impairment testing. The calculation of value in use for the CGU assets (comprising of oil and gas assets and property, plant and equipment) is most sensitive to the following assumptions:

- Production volumes
- Discount rates
- LNG sale price

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 USD denominated nominal crude oil price desk as the basis for forecast LNG and condensate sales price.



Management believes that, currently, there is no reasonably possible change in above key assumptions which would reduce the Group's excess of recoverable amount over the carrying amounts of the CGU to zero. There were no existing impairment indicators based on Group's assessment.

14. Property, plant and equipment

	Software	Motor Vehicles	Leasehold Improvement	Furniture & Fittings	Plant & Equipment	Capital Work in Progress	Total
2016	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
COST							
Opening balance	567	1,009	1,531	407	511	4,379	8,404
Additions	315	46	20	-	557	7,161	8,099
Transfers	2,358	-	-	-	-	(2,358)	-
Disposals	-	-	(291)	-	-	-	(291)
Closing Balance	3,240	764	1,551	407	1068	9,182	16,212
ACCUMULATED DEPRECIATION							
Opening balance	532	165	667	276	386	-	2,026
Depreciation	75	354	370	33	129	-	961
Disposal	-	(291)	-	-	-	-	(291)
Closing Balance	607	228	1,037	309	515	-	2,696
Closing NBV	2,633	536	514	98	553	9,182	13,516

	Software	Motor Vehicles	Leasehold Improvement	Furniture & Fittings	Plant & Equipment	Capital Work in Progress	Total
2015	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
COST							
Opening balance	545	529	1375	261	479	1,839	5,028
Additions	22	480	156	146	32	2,540	3,376
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Closing Balance	567	1,009	1,531	407	511	4,379	8,404
ACCUMULATED DEPRECIATION							
Opening balance	520	133	175	255	286	-	1,369
Depreciation	12	32	492	21	100	-	657
Disposal	-	-	-	-	-	-	-
Closing Balance	532	165	667	276	386	-	2,026
Closing NBV	35	844	864	131	125	4,379	6,378





14. Property, plant and equipment

	Software US\$'000	Motor Vehicles US\$'000	Leasehold Improvement US\$'000	Furniture & Fittings US\$'000	Plant & Equipment US\$'000	Capital Work in Progress US\$'000	Total US\$'000
2016							
COST							
Opening balance	567	1,009	1,531	407	511	4,379	8,404
Additions	315	46	20	-	557	7,161	8,099
Transfers	2,358	-	-	-	-	(2,358)	-
Disposals	-	-	(291)	-	-	-	(291)
Closing Balance	3,240	764	1,551	407	1068	9,182	16,212
ACCUMULATED DEPRECIATION							
Opening balance	532	165	667	276	386	-	2,026
Depreciation	75	354	370	33	129	-	961
Disposal	-	(291)	-	-	-	-	(291)
Closing Balance	607	228	1,037	309	515	-	2,696
Closing NBV	2,633	536	514	98	553	9,182	13,516
2015							
COST							
Opening balance	545	529	1375	261	479	1,839	5,028
Additions	22	480	156	146	32	2,540	3,376
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Closing Balance	567	1,009	1,531	407	511	4,379	8,404
ACCUMULATED DEPRECIATION							
Opening balance	520	133	175	255	286	-	1,369
Depreciation	12	32	492	21	100	-	657
Disposal	-	-	-	-	-	-	-
Closing Balance	532	165	667	276	386	-	2,026
Closing NBV	35	844	864	131	125	4,379	6,378



15. Rehabilitation and restoration assets

	2016 US\$'000	2015 US\$'000
COST		
Opening balance	33,458	38,547
Addition	-	313
Common control acquisition	5,060	-
Adjustment*	(2,595)	(5,402)
Closing Balance	35,923	33,458
ACCUMULATED DEPRECIATION		
Opening balance	4,982	3,899
Common control acquisition	3,800	-
Depreciation charge	974	1,083
Closing Balance	9,756	4,982
Closing net book value	26,167	28,476

*Adjustment relates to change in discount rate used on the assumptions.

16. AFS financial assets

	Note	2016 US\$'000	2015 US\$'000
Quoted equity shares	(i)	774,543	726,564
Non-quoted equity shares	(ii)	3,804	2,803
		778,347	729,367

(i) AFS in quoted equity shares represents 149,390,244 shares or a 10.01% shareholding in Oil Search Limited (OSL). Reconciliation of fair value measurement of AFS financial assets in quoted equity shares is presented below

	2016 US\$'000	2015 US\$'000
Opening balance	726,564	958,815
Impairment loss	-	(222,830)
Fair value adjustment through OCI	47,979	(9,421)
Closing balance	774,543	726,564

The Group received dividends amounting to US\$0.82 million from the AFS financial assets held from Oil Search for the year ended 31 December 2016 (2015: US\$12.90 million).

(ii) Non-quoted equity shares represent 12.5% investment to Orion Enga Children's Fund JV Ltd. which has been recognised at cost less provision for impairment as fair value cannot be determined reliably. No impairment is recognised on AFS non-quoted equity shares.





17. Derivative financial assets

The UBS collar loans (Note 20) include a borrowing element under which the Group obtained financing from the bank collateralised by AFS equity shares (OSL shares) with an obligation to repay it in the future and an option (collar) element comprised of a number of put and call options over OSL shares. This is a hybrid contract containing a host debt instrument (loan) and embedded derivative (collar over OSL shares).

As at 31 December 2016, the Group had the following collar arrangements attached to its collar loans for acquisition of OSL shares:

- Collar consists of 148,144,885 call options and 148,144,855 put options with expiry dates ranges from 26 February 2018 to 1 August 2019. Options relate to 148,144,885 OSL shares; and
- Collar consists of 1,245,359 call options and 1,245,359 put options with expiry date on 2 August 2019. Options relate to 1,245,359 OSH shares.

As at 31 December 2015, the Group has the following collar arrangements:

- Collar consists of 150 Call Options and 150 Put Options with expiry dates ranges from 7 March 2016 to 3 June 2015. Each option relates to 913,500 OSH shares
- Collar consists of 15 Call Options and 15 Put Options with expiry dates ranges from 11 July 16 to 13 July 2016. Each option relates to 825,000 OSH shares

These options are carried at fair value through profit or loss and are fair valued using the Black-Scholes Option Pricing Model. The following key assumptions are used in valuing options:

	2016	2015
Reference price	AU\$7.17 per OSL share	AU\$6.70 per OSL share
Dividend yield	AU\$0.0541 to AU\$0.1062 per share	AU\$0.0823 per share
Risk free rate	1.87% to 2.13%	2.32% to 2.68%
UBS credit spread	32.51bps to 32.55bps	24.04bps
Average volatilities (call)	21-68% - 30.24%	27.5% - 37.73%
Average volatilities (put)	21-68% - 30.24%	31.71% - 37.46%

The reconciliation of fair value is summarised below:

	2016	2015
	US\$'00	US\$'000
Opening balance	104,050	49,337
Changes in assumptions	(55,243)	60,241
Exchange difference	(400)	(5,528)
Closing balance	48,407	104,050

18. Trade and other payables

	2016	2015
	US\$'00	US\$'000
Trade creditors	4,358	14,718
Cash call advance	19,22	17,594
Accrued interest	4,632	4,402
Royalty and development levy	362	3,372
Other liabilities and accrual	16,312	24,641
	44,887	64,727



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

	2016 US\$'000	2015 US\$'000
Current:		
Employee benefits	495	644
Noncurrent:		
Employee benefits	524	365
Rehabilitation and restoration liability	42,187	39,898
	42,711	40,263
	43,206	40,907

The reconciliation of rehabilitation and restoration liability is summarized below:

	2016 US\$'000	2015 US\$'000
Opening balance	39,898	44,113
Accretion of interest	1,244	1,187
Common control business acquisition	4,055	-
Adjustment*	(3,010)	(5,402)
Closing Balance	42,187	39,898

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

20. Loans and borrowings

	Note	2016 US\$'000	2015 US\$'000
The balance is made up as follows:			
Secured loan from joint operation	20a	2,188,403	2,309,687
BSP Loan	20b	138,908	146,575
UBS Collar loans	20c	735,223	775,643
ANZ Loan	20d	11,333	-
Finance lease obligation	20e	79,603	42,268
		3,153,470	3,274,173





Presented in the statement of financial position:

Current:			
Secured loan from joint operation	20a	163,939	147,854
BSP loan	20b	138,908	-
UBS Collar loan	20c	-	775,643
ANZ loan	20d	5,334	-
Finance lease obligation	20e	1,290	692
		309,471	924,189
Noncurrent			
Secured loan from join operation	20a	2,024,464	2,161,833
BSP loan	20b	-	146,575
UBS Collar loan	20c	735,223	-
ANZ loan	20d	5,999	5,999
Finance lease obligation	20e	78,313	41,576
		2,843,999	2,349,984
		3,153,470	3,274,173

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 at 31 December 2016 is 16.78% (2015: 16.57%).

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.

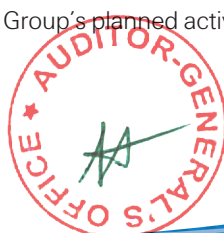
Interest and principal on the loan is payable on specified semi-annual dates, which commenced in June 2015 with principal being repayable over 11.5 years based on a customised repayment profile.

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 (16.57%) of the senior debt obligations up until practical completion is achieved. The Group, as a completion guarantor, is subject to certain covenants and undertakings. Neither the covenants nor the undertakings have been breached at any time during the reporting period or have unduly restricted the Group's planned activities.



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 Company for its share of the Project Finance Debt Facility was released. The Company has not provided any other security.

The breakdown of loan balance is as follows:

	2016 US\$'00	2015 US\$'000
Current loan		
Loan - principal	181,599	165,300
Unamortized finance fees	(17,660)	(17,446)
	163,939	147,854
Noncurrent loan		
Loan - principal	2,097,297	2,251,227
Unamortized finance fees	(72,833)	(89,394)
	2,024,464	2,161,833
Total	2,188,403	2,309,687

b) BSP Loan

In 2014, the Group obtained a loan with principal amount of PGK451 million (2016:\$139 million; 2015:\$147 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 with the first quarterly instalment due on 23 December 2015.

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 6.40% in 2016 (2015:6.15%).

c) UBS Collar Loans

The movement in the loan balances are as follows:

	2016 US\$'00	2015 US\$'000
Opening balance	775,643	829,863
Additional principal	3,225	-
Amortisation of interest	33,117	38,765
Additional unamortised finance fees	(73,695)	-
Exchange difference	(3,067)	(92,985)
Closing balance	735,223	775,643

In 2014, the Group acquired a 10.01% shareholding in Oil Search Limited (OSL) (149,390,244 shares) at a price of AUD8.20 per share. The funding for the purchase of the OSL shares was provided by UBS in the form collar loans. As at 31 December 2015, the collar loans has principal amount of AU\$1,098 million collateralized by approximately 149 million OSL shares with interest rate of 4.95% per annum. The repayment in tranches will be effective from March 2016 to July 2016.





In February 2016, the Group refinanced the original collar loans with following changes:

- The original loan that was to be repaid in tranches effective from March 2016 through to July 2016 is extended out to 2019 financial year. Payments will start in 2018;
- The original interest rate of 4.95% per annum was renegotiated down to 3% per annum; and
- Continued to limit any security for the financing to the Oil Search shares only.

The UBS collar loans are classified as noncurrent liabilities as at 31 December 2016 (current liabilities as at 31 December 2015) in the statement of financial position.

d) ANZ Loan

In 2016, the net assets of Eda Oil Limited including the loan with ANZ Bank was transferred to the Parent entity in accordance with the Kumul Petroleum Holdings Limited Authorisation Bill of 2015. The loan was acquired by Eda Oil Limited for the purposes of paying the cash calls directly to the Moran Field Operator under the PDL 5 joint venture agreement, for payment of taxes directly to the relevant PNG tax authority in relation to PDL 5 and for general corporate purposes. The interest rate in 2016 is 5.50% per annum. The principal is payable in equal quarterly instalments and the interest is payable on a quarterly basis. The last payment is due on 29 March 2019.

e) Finance lease obligation

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. 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. Please refer to Note 23 for the finance lease commitment disclosure.

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.

	2016 US\$'00	2015 US\$'000
Share capital		
Value of issued and paid up ordinary shares:		
Balance at beginning of the period	1,292,478	1,292,478
Share capital transferred during the year	-	-
Balance at 31 December	1,292,478	1,292,478
Contributed capital*		
Balance at the beginning of the year	136,207	119,190
Additions during the year	-	17,017
Transfer to share capital during the year	-	-
Balance at 31 December	136,207	136,207
Total share/contributed capital	1,428,685	1,428,685



Number of Ordinary Shares	2016	2015
Number of issued and paid up ordinary shares:		
Balance at beginning of the period	100	1
Ordinary shares issued and paid during the year	-	99
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.

b) Dividends

The Board has declared and paid a dividend of US\$30.75 million (PGK100 million) for the year ended 31 December 2016 (2015: US\$31 million (PGK86.4 million)).

c) Reserves

	Note	2016 US\$'000	2015 US\$'000
Reserve from common control acquisition	24	9,446	-
AFS reserve	16	47,979	
Kroton Equity:	25		
Share-based payment reserve		99,915	
		157,340	-

22. Related party transactions

a) Transactions with Key management personnel

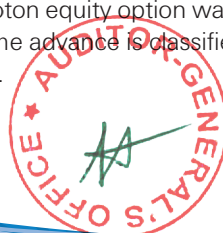
Key management includes directors and executive management. The compensation paid or payable to key management for services rendered is taken up in operating expenses. The key management remuneration and other benefits paid during the year are shown below:

	2016 US\$'00	2015 US\$'000
Remuneration	2,140	2,655
Sitting allowance	5	5
Short term incentive	681	921
Long term retention	380	645
	3,206	4,226

b) Advances to the State

In 2015, the Parent entity advanced an amount of US\$ 125,560,000 to ISPNG. In 2016, the Parent entity made additional advance to the ISPNG amounting to US\$62,400,000. The total advance to the ISPNG amounting to US\$187,960,000 and US\$125,560,000 as at 31 December 2016 and 2015, respectively.

As at 31 December 2015, the exercise of the Kroton equity option was expected to be in 30 June 2016 pursuant to the Umbrella Benefit Sharing Agreement, therefore the advance is classified as current assets. The Kroton Equity option was subsequently extended until 31 December 2016.





Management notes that the outstanding amount has been confirmed by the state through the NEC decision and therefore consider the full outstanding amount as recoverable. As at 31 December 2016, management determined that the advances to the state is at call. Further, US\$50 million classified as a current receivable and US\$137.8 million as non-current. This classification reflects the best estimate of when likely the economic benefit of the receivable would realise. Realisation of the receivable balance will occur through KPHL's ability to offset future dividend payments to the ISPNG, with the outstanding Advance to State amount. Until such time as when further information from the state becomes available as to the annual quantum and timing of repayments, the classification and subsequent measurement would be reassessed at each reporting date. As this receivable is determined to be at call there is no material fair value adjustment that may be required to the balance outstanding.

c) The Group includes following subsidiaries at reporting date:

Name	Principal activities	Country of incorporation	Date of incorporation/ acquisition	Status	% Equity interest	
					2016	2015
Kumul Petroleum (Kroton) Limited (Kumul Petroleum (PNG LNG) 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 2015	Operational	100%	100%
Kumul Petroleum Development Limited	Holds interest in pipeline and midstream related services.	PNG	19 September 2015	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%	-
Kumul LNG Limited	Established as a special purpose entity to hold interests in the PNG LNG project	PNG	19 May 2009	Operational	100%	-
NPCP Oil Company Pty Ltd*	Exploration and production activities in oil and gas	Australia	20 November 2015	Operational	100%	100%
Kumul Security Agent Limited	Fund management activities	Singapore	31 August 2016	Operational	100%	-
Kumul Lending Co Pte Limited	Fund management activities	Singapore	8 August 2016	Operational	100%	-



Name	Principal activities	Country of incorporation	Date of incorporation/ acquisition	Status	% Equity interest	
					2016	2015
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 (Kumul Petroleum Technical Institute and Consulting Limited)	To participate in the Kumul Academy and any other up-skilling and training ventures that the Group undertakes	PNG	8 September 2015	Inactive	100%	100%
Kumul Petroleum Downstream Limited	To hold interest in downstream & petrochemical related activities	PNG	8 September 2015	Inactive	100%	100%

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

		Principal place of business	% Interest	
			2016	2015
PDL 1	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
PNGLNG	PNG LNG Project	PNG	16.79	16.57
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
PRL9	Barikewa gas field	PNG	14.89	14.89
PRL 14	Cobra, Lehi, Bilip gas field	PNG	10.94	10.94
PNGLNG	PNGLNG Global Company LDC	Bahamas	16.79	16.57
PDL 5	Moral oil field	PNG	11.75	-

e) Share in joint operation's financial information

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





Share in net assets

2016	PDLs (1,7,8,9) US\$'000	PNGLNG Project US\$'000	GloCo US\$'000	Moran (PDL 5) US\$'000	Balance US\$'000
Current assets					
Cash and cash equivalents	-	-	103,922	-	103,922
Receivables		998	34,840	39	35,877
Prepayments and other receivables	55	2,218	-	-	2,273
Inventory	-	24,907	-	730	25,637
Noncurrent assets					
Oil and gas assets	41,235	3,759,354	-	24,448	3,825,037
Receivable from participants	-	-	2,268,571	-	2,268,571
Current liabilities					
Trade and other payables	-	(6,355)	(40,852)	(1,328)	(48,535)
Other liabilities	(124)	(2,047,533)	(74,156)	(846)	(2,122,659)
Borrowings	-	(8,470)	(2,188,403)	-	(2,196,873)
Payable to Participants	-		(103,905)	-	(103,905)
Net Assets	41,166	1,725,119	17	23,043	1,789,34

2015	PDLs (1,7,8,9) US\$'000	PNGLNG Project US\$'000	GloCo US\$'000	Moran (PDL 5) US\$'000	Balance US\$'000
Current assets					
Cash and cash equivalents	-	-	88,053	-	88,053
Prepayments and other receivables	605	3,198	20,730	-	35,877
Inventory	-	28,758	-	-	28,758
Noncurrent assets					
Oil and gas assets	40,561	3,809,801	-	-	3,850,362
Receivable from participants	-	-	2,356,774	-	2,356,774
Current liabilities					
Trade and other payables	-	(17,869)	(30,985)	-	(48,854)
Other liabilities	(406)	(2,108,845)	(36,831)	-	(2,146,082)
Borrowings	-	(8,802)	(2,309,688)	-	(2,318,490)
Payable to participants	-		(88,036)	-	(88,036)
Net Assets	40,760	1,706,241	17	--	1,747,018



Share in revenue and expense

	PDLs (1,7,8,9)	PNGLNG Project	GloCo	Moran (PDL 5)	Balance
2016	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	-		529,458		529,458
Cost of sales	-	(123,704)	(857)	(8,891)	(133,452)
Gross Profit	-	(123,704)	528,601	(8,891)	396,006
Other income	-	3,907	106		4,013
Consultancy and professional service	-	(135)			(135)
Other operating expense	-	-	-	-	-
Operating profit	-	(119,797)	528,572	(8,891)	399,884
Interest income	-	-	1,323	-	1,323
Finance costs	-	(8,311)	(114,020)	-	(122,331)
Net profit/(loss)	-	(128,108)	415,875	(8,891)	278,876

	PDLs (1,7,8,9)	PNGLNG Project	GloCo	Moran (PDL 5)	Balance
2015	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	-	-	690,073	-	690,073
Cost of sales	-	(124,488)	(6,765)	-	(131,253)
Gross Profit	-	(124,488)	683,308	-	558,820
Other income	-	2,664	236	-	2,900
Consultancy and professional service	-	- (191)			(191)
Other operating expense	-	-	-	-	-
Operating profit	-	(121,824)	683,353	-	561,529
Interest income	-	-	414	-	414
Finance costs	-	(4,769)	(106,691)	-	(111,460)
Net profit/(loss)	-	(126,593)	577,076	-	450,483





23. Commitments

a) Capital expenditure commitments

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

	2015 US\$'000	2016 US\$'000
Capital expenditure commitments	194,222	206,242

b) Finance lease commitments

	2016 US\$'000	2015 US\$'000
Not later than 1 year	11,145	5,788
Later than 1 year but less than 5 years	44,551	23,109
More than 5 years	148,162	77,260
Future finance charges	(123,762)	(63,889)
	80,096	42,268

c) Operating lease commitments - Lease of PNG LNG marine vessels and tugs

	2016 US\$'000	2015 US\$'000
Not later than 1 year	6,651	10,520
Later than 1 year but not more than 5 years	26,621	25,387
More than 5 years	94,549	83,261
	127,821	119,168

d) Office space operating lease commitments

	2016 US\$'000	2015 US\$'000
Not later than 1 year	526	395
Later than 1 year but not more than 5 years	130	494
More than 5 years	-	-
	656	889



24. Business acquisition under common control

In accordance with the Kumul Petroleum Holdings Limited Authorisation Bill of 2015 clause no. 15, the Group entered into a share sale agreement in 2016 with Petromin PNG Holdings Limited to transfer the ownership of Eda Oil Limited and Kumul LNG Limited to Kumul Petroleum (Development) Limited (a wholly owned subsidiary of the Parent entity) for nil consideration. As 30 June 2016, the carrying values of the assets and liabilities acquired from the business acquisition under common control is as follows:

	US\$'000
Assets	
Cash and cash equivalents	2,053
Receivables and other assets	5,836
Inventories	990
Rehabilitation and restoration asset	1,260
Oil and gas assets	52,812
Deferred tax assets	1,154
Liabilities	
Trade and other payables	(2,689)
Loans and borrowing	(38,978)
Deferred tax liabilities	(305)
Income tax payable	(4,592)
Rehabilitation and restoration provision	(4,055)
Profit and loss 1 January to 30 June 2016	(4,040)
Reserve from common control acquisition	9,446

25. 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.

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.





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

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 Company 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 Dec 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 are 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. Management are of the view that the options albeit expired at 31 Dec 2016, still remain available for exercise, as the MRDC, on behalf of the beneficiaries, confirmed via the expression of interest to exercise the options prior to the expiry of the options.

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 the terms 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.

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

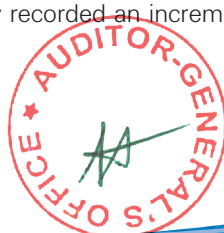
- on initial recognition of the instrument, the fair value of the liability component is calculated first and the equity component is treated as a residual; and
- the equity component is never remeasured after initial recognition.

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 time of issue to instruments.

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 IFRS2 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



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

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 IAS32 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.

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%

26. Subsequent events

As disclosed in Note 25, a number of beneficiary groups (BG's) exercised their options subsequent to period end. Management considers this as a non-adjusting subsequent event in accordance with IAS 10 Events after the balance sheet date as the legal documentation of these respective groups were executed after the reporting date and hence their portions of the Kroton Equity Treasury Shares were only legally issued after the reporting date.



