



KUMUL PETROLEUM  
HOLDINGS LIMITED

# Annual Report

## 2019





**KUMUL PETROLEUM  
HOLDINGS LIMITED**

Level 7, Kina Bank Haus, Douglas Street, Port Moresby CBD

T: (+675) 320 2253

[www.kumulpetroleum.com](http://www.kumulpetroleum.com)



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# Executive summary

**As of 2019 Kumul Petroleum remitted US\$379 million to the Independent State of Papua New Guinea — over and above dividends and taxes.**

## **Record production**

The year 2019 saw another year of record production at the PNG LNG plant — 8.58 million tonnes. Kumul Petroleum's revenue reached US\$822.04 million, up from US\$776.67 million in 2018. For the year ended 31 December 2019, Kumul Petroleum made a consolidated net profit of US\$247.96 million (2018: US\$143.49 million). A satisfactory result, considering the average oil price fell from US\$71 per barrel in 2018 to US\$64 in 2019.

## **Papua LNG agreement signed**

The signing of the Papua LNG agreement in April was one of the main events of 2019. The project has now entered the FEED phase and a final investment decision is expected in 2020. The Papua LNG Project will consist of two LNG trains of 2.7 mtpa capacity each, located at the site of the existing PNG LNG plant. First production is expected to commence in 2026.

## **Record dividends**

In 2019, Kumul Petroleum paid US\$59 million in dividends to the Government. The dividends represent 24% of the net profit after tax. In addition to the dividends, Kumul Petroleum paid a further US\$37.15 million as a return of capital and US\$17 million in corporate taxes to the State.





## Other investments

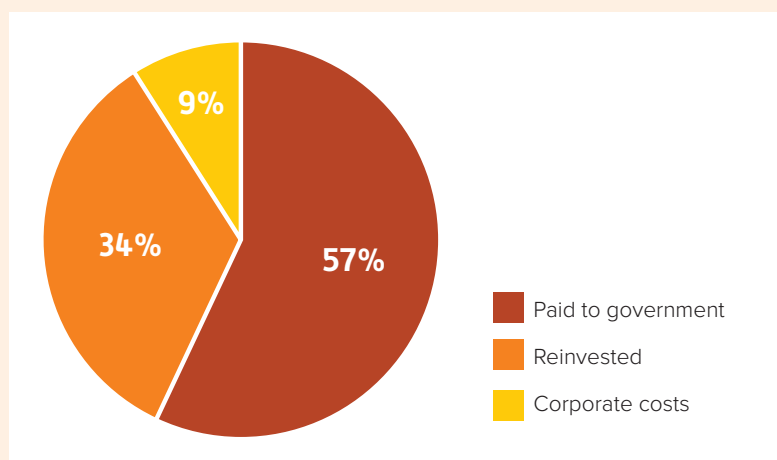
### Port Moresby Power Station

The \$100 million Port Moresby Power Station is the biggest power project in Papua New Guinea's history. The 58MW plant is powered by gas from the PNG LNG facility, which is expected to provide the Nation's Capital with affordable, reliable and clean energy. The power station completed in 2019, is a joint venture project with Oil Search Limited.

### Power to rural areas

2019 was the year the rural electrification project became real for people in the Southern Highlands and Hela Provinces. Kumul Petroleum commenced construction of more than 175 kilometres of transmission lines. Next step is for PNG Power to connect households, businesses and institutions. The rural electrification project is designed to pull people out of poverty and empower the nation. The end goal is to have every household in PNG connected by 2050.

KPHL actual use of available funds 2014–2019





# Kumul Petroleum 2019 in numbers

**114**

cargoes of  
LNG dispatched

**US\$247.96**million

Net profit

**8.5**mtpa

Production volume

**US\$15**million

Dividends paid to landowners



## Use of operating cash flow

22%

Paid to  
government

42%

Debt  
reduction

32%

Reinvested

4%

Corporate  
costs

US\$59million

Dividends paid to government

US\$37.15million

Return of capital paid to government

78

employees

US\$8.7million

donations and corporate  
social responsibility

92%

PNG nationals





# Kumul Petroleum's role in a gas project

**Kumul Petroleum plays a key role at all stages in the development of a gas project. Without Kumul Petroleum as the national oil and gas company, the joint venture will not be what it is 'a partnership' that has the developer and the state working together. In addition to this, as the state's nominee, Kumul Petroleum; protects the national interest. Put simply, this is how it works...**

1

## **Development agreements**

Joint venture partners agree on the development concepts — e.g. participation, resources, infrastructure framework and rough cost estimates. Kumul Petroleum's role is to add value for the state and therefore its people by ensuring that there are nation building aspects to the agreement — e.g. secure domestic use of resources.

2

## **Conceptual design**

Key concepts are developed — e.g. more detailed costings, marketing studies and high-level infrastructure preferences. Kumul Petroleum remains at the table, making sure nation building aspects remain a key priority.

3

## **Gas agreement**

Joint venture partners agree on the key terms with the Independent State of Papua New Guinea — e.g. fiscal elements, physical field allocation, key development concepts, milestones and any other special conditions. Kumul Petroleum provides the State with technical and legal expertise as well as financial services — e.g. modelling and external advisory services.

Kumul Petroleum also negotiates the terms of Papua New Guinea's participation in the project — e.g. equity, share of profits and marketing rights.

4

## **Financing**

Joint venture partners, usually led by the operator and assisted by a leading financial institution, prepare and submit to capital markets the financing requirements of the project. This submission includes all technical, safety, community and environmental aspects of the project in addition to the project's economic and financial performance forecasts. Assuming the project is sound, a financing package is negotiated with lenders that includes agreement on the amount of equity the joint venture partners must inject and the full terms for all borrowings. Kumul Petroleum plays a key role in these negotiations.





5

## Front End Engineering Design (FEED)

Detailed on the ground cost development, marketing of offtake, capital raising, preconstruction program, preparation and negotiation of the legal framework underpinning the project. Kumul Petroleum raises capital for — at least — the carry shortfall and markets the equity sales. Kumul Petroleum makes sure to maximise the benefit to the State and promotes peripheral opportunities and nation building policies. Kumul Petroleum is also in charge of negotiating the legal framework of the project and the back-in value.

6

## Final Investment Decision (FID)

Joint venture partners sanction the project. Engineering, procurement and construction contracts are executed. Sales and purchase agreement conditions are met. Financial loans are exercised and funds committed to the project. Kumul Petroleum secures its equity and takes a seat at the table at the critical meeting forums.

7

## Construction

Engineering, procurement and construction contracts are mobilised. Owners monitor the progress of both the in-country work and the external prerequisites — e.g. prefab, shipping, re-gas construction and port modification. Kumul Petroleum constantly monitors the construction process and looks at ways to maximise the value for Papua New Guinea by supporting the coordination of the State's critical activities.

8

## Production

The facility starts operating. Engineering, procurement and construction contracts reach their financial completion. Loans are paid down and surpluses distributed. Kumul Petroleum keeps monitoring the project on behalf of the people of Papua New Guinea. More than 80% of Kumul Petroleum's revenue is remitted to the Independent State of Papua New Guinea.





# Empowering a nation

**As Papua New Guinea's national oil company, Kumul Petroleum is committed to maximising the returns of our natural resources to the benefit of the people of PNG. Here are a few of the activities that the organisation supported under the banner of Corporate Social Responsibility initiatives in 2019...**

## **Disaster relief**

In June 2019, the Mt Ulawun volcano in West New Britain began erupting. In addition to the volcanic eruption, heavy rains and floods damaged bridges and made it impossible for relief assistance to reach affected communities. More than 11,000 people were affected, with whole communities displaced to care centres.

Kumul Petroleum supported the disaster relief with a K100,000 donation that provided food, shelter and clean water to the people living in those care centres.

## **Raising PNG's flag at the 2019 16th Pacific Games**

To help raise PNG's flag at the 2019 Pacific Games, Kumul Petroleum was a major sponsor, committing K750,000 to boost the participation of athletes at the 16th Pacific Games in Apia, Samoa in July.

The PNG Olympic Committee's main vision is to inspire and unite Papua New Guineans through sporting excellence. A vision, that Kumul Petroleum believes in with its support to sports, particularly football at the domestic level.

Football was of course one of the codes that was selected to participate in the regional games with representation by the Men's and Women's Teams. The Papua New Guinea Women's Team are four time Pacific Games Gold Medalists, having held the top medal position since 2003, and celebrated their fifth consecutive win at the 2019 Pacific Games.





Kumul Petroleum supported the National Soccer League with K1 million in 2019



**Dianne Aikung**  
Company Secretary/  
Lawyer

"I'm excited to work for Kumul Petroleum, a company that gives back a lot of value to its 8 million shareholders, the people of PNG. I feel that through my work here, I contribute to creating wealth and value for our people today and into the future."

## Soccer success

Soccer is the largest sport in the world — and the only sport that is played by both genders throughout the country. To support the growth of soccer in Papua New Guinea, Kumul Petroleum has entered a partnership with the PNG Football Association.

In 2019, Kumul Petroleum invested K1 million in the premier competition, the National Soccer League. Twenty-six teams from all four regions competing, with Toti City FC claiming the inaugural Kumul Petroleum Cup with a 5–4 victory over MRDC Hekari United in the grand final.



Toti City FC claimed the inaugural Kumul Petroleum Cup



**Fabian Kuias**  
Financial Accountant

"The complexity of our industry makes working for Kumul Petroleum very exciting. Continuous training keeps staff on top of their roles and responsibilities. I attend courses and workshops every year — one year I was sent to Singapore to train with Oracle."



# Empowering a nation





## Education and access to affordable, reliable power are critical to Papua New Guinea's future. Here are some of the projects Kumul Petroleum supported in 2019...

### Children are our future

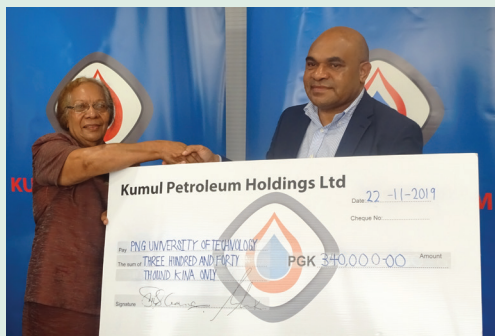
Life PNG Care is a charity that gives street children in Port Moresby a place to stay and an education. Kumul Petroleum's 2019 Charity Golf Challenge raised K100,000 for the charity, most of which will go towards housing, meals and mobile education. A similar amount was raised for Life PNG Care in 2018.

The Rara Rarei Foundation in the Autonomous Region of Bougainville is another charity Kumul Petroleum supported in 2019. A donation of K10,000 to the Foundation will help improve literacy rates in primary schools in the region.

### Supporting engineers

The PNG University of Technology (Unitech) is a long standing partner of Kumul Petroleum. In 2018, Kumul Petroleum assisted Unitech with an initial funding of K144,000 towards accrediting engineering programs under the Washington Accord, a globally recognised standard.

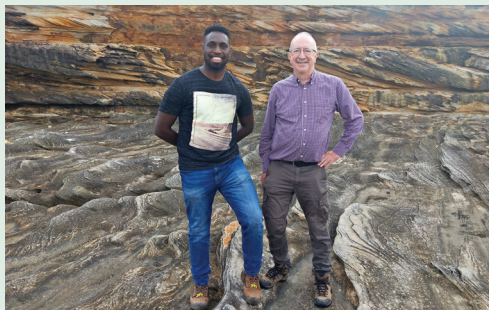
This year we supported Unitech with K340,000 towards laboratory equipment. Many of Papua New Guinea's top engineers are Unitech graduates, several are employed by Kumul Petroleum.



Unitech received K340,000 from Kumul Petroleum in 2019

### Graduate development

Kumul Petroleum's Graduate Development Program was established in 2015 to educate future leaders in the oil and gas industry. The program runs for two years, during which selected graduates are put through their paces domestically as well as internationally.



Geologist Ivano Ivano (left) on a field trip in Australia

One such example is Geologist Ivano Ivano who entered the program in 2017: "As part of my training I've been to Japan, Singapore, Malaysia...and in 2019, I obtained a master's degree from the Australian School of Petroleum. I can't wait to put my knowledge and skills to good use for Kumul Petroleum and for the country."



**Ken Guba Vei**  
Geophysicist

"In 2019 I returned from Australia, having completed my Master of Science degree in Exploration Geophysics. Kumul Petroleum supported my studies and I feel very privileged to work for my country's national oil company."



**Nelloreen Aingiris**  
Administration Assistant

"I started working for Kumul Petroleum as a receptionist in 2016. Two years later I was promoted to Administration Assistant and in 2019 I was sent to Singapore to study Contract Management and Administration. The company helps you grow."



# Empowering a nation

## **Kumul Petroleum Academy is preparing a new generation of Papua New Guineans for bright futures in the oil and gas industry.**

### **In Operation since 2016**

During construction of the PNG LNG plant a lot of international labour was mobilised as Papua New Guinea did not have the skilled labour to support to project construction. In the future, Kumul Petroleum wants Papua New Guineans to have the opportunity in those positions to participate in future projects. This is why Kumul Petroleum Academy was established in 2016 with the aim of educating a new generation of Papua New Guineans for technical jobs in the oil and gas industry.

### **State-of-the-art facilities**

Kumul Petroleum Academy is a state-of-the-art training facility. No other nation in the Pacific Islands region has a live gas processing training plant.

At the end of the 12 month training program, Kumul Petroleum Academy graduates are fully qualified for technical jobs in the oil and gas industry. In 2019, all 38 graduates were offered jobs in the oil and gas industry upon completion of the training program.

### **Gender balance**

The oil and gas industry is traditionally a male dominated industry, yet at Kumul Petroleum we aspire to change this by promoting equal opportunity and acceptance to the Academy is based on academic excellence with more than a third of the 2019 graduates being women. Kumul Petroleum welcomes this development. We want to empower the people of PNG... no matter what their gender or age. Everybody has a place in our society and our job is to maximise the benefit of our natural resources to the people of PNG. Education is the best long term investment a country can make.



*More than a third of Kumul Academy's 2019 graduates were women.*

*Image credit: Greg Dries Photography*





Image credit: Greg Dries Photography



**Philomena Walwal**  
Personal Assistant to  
the COO

“Everyone at Kumul Petroleum is like family to each other. Employee welfare is well taken care of and we have a great working environment. The company has sponsored my studies in business and management at the International Training Institute.”

## Meet some of our students

**Present Kopeap**, 25. Present is from Mendi in the Southern Highlands Province. He worked as a mechanic before joining Kumul Petroleum Academy.



**Judy Sasa**, 22. Judy obtained a Diploma of Electrical Engineering before joining Kumul Petroleum Academy. She is from the Morobe Province.

**Anita Ali Kaia**, 30. Anita is from Erave in the Southern Highlands Province. She was a student at Port Moresby Business College before joining Kumul Petroleum Academy.

**Newman Paua**, 28. Newman worked as a light vehicle mechanic at Mt Hagen Technical College before joining Kumul Petroleum Academy. He is from the Western Highlands Province.

## Recent graduates



**Ishmael Duma**, 25, graduated in 2019 and is now employed as a mechanical technician at Kumul Petroleum Academy.

**“My training helped me mentally and intellectually. I am now able to perform troubleshooting and repairs to equipment, manufacture spare parts and understand how an oil and gas plant works.”**



**Zechariah Akore**, 25, graduated in 2019 and is now employed as a mechanical technician at Kumul Petroleum Academy.

**“My education was sponsored by Kumul Petroleum and I was privileged to be trained by highly skilled and experienced educators. The confidence in executing my role as a mechanical technician will always be with me, wherever I go.”**



**Ephraim Tammy**  
Manager Kumul Energy

“The best thing about working for Kumul Petroleum is having an employer that helps you grow. Opportunity is endless and in your own little way you can contribute to something that touches the lives of every Papua New Guinean.”



*Construction of 175 km  
of transmission lines  
started in 2019*

# **Empowering a nation**



**2019 marked the first step towards a future where every Papua New Guinean has access to electricity. Kumul Petroleum has embarked on supporting the Government reach the goal of 100% by 2050 with two key projects — first the Port Moresby Power Project was completed this year, followed by the start of the rural electrification programme within the same year.**

### 100% by 2050

The Independent State of Papua New Guinea has set an ambitious target of 100% of households having access to electricity by 2050. Kumul Petroleum has accepted the role as the main driver of the process. The aim, being that within the next 10 years there will be an increase in the number of households with electricity from 14% today, to 70% in 2030.

### 175 km transmission lines

The Rural Electrification Project kicks off in the two host provinces of the PNG LNG Project: Hela and Southern Highlands. Construction of transmission lines – funded by Kumul Petroleum – was commenced in 2019. The first 153 kilometres got underway in March and another 22.5 kilometres commenced in November. Once completed, this first stage of the project will provide electricity to 12 hospitals, 27 schools, 65 churches, hundreds of businesses and thousands of residents.

### Partnering with PNG Power

The rural electrification project is a partnership between Kumul Petroleum and PNG Power Limited. Kumul Petroleum delivers the infrastructure, while PNG Power Limited connects individual households, hospitals, schools, churches and businesses to the grid. Rural electrification has no commercial value for Kumul Petroleum, however, it is part of our commitment to empower the nation.



*By 2027, it is envisaged that construction of transmission lines will have commenced in all 22 provinces*

### Next phases

The next phases of the rural electrification project has been outlined. By 2027, it is envisaged that construction of transmission lines will have commenced in all 22 provinces of Papua New Guinea. We can soon start to envisage a future where the vast majority of Papua New Guineans have access to reliable power.

### Rural electrification 2019–2027



**Mark Pyambao**  
Government Affairs  
Coordinator

“Since my first day in 2014, the company has supported my growth. Thanks to Kumul Petroleum I have completed law studies at the University of PNG as well as other studies. They even sent me to Malaysia to study.”



**Jason Anthony**  
IT Officer

“I’m proud of being part of a team of Papua New Guineans working hard to ensure that we achieve Kumul Petroleum’s vision in our lifetime: Create value and opportunity for PNG and its people by becoming a major national oil and gas company.”



# **Vision for the future**





## Vision

**Kumul Petroleum will create value and opportunity for Papua New Guinea and its people from the nation's petroleum resources.**

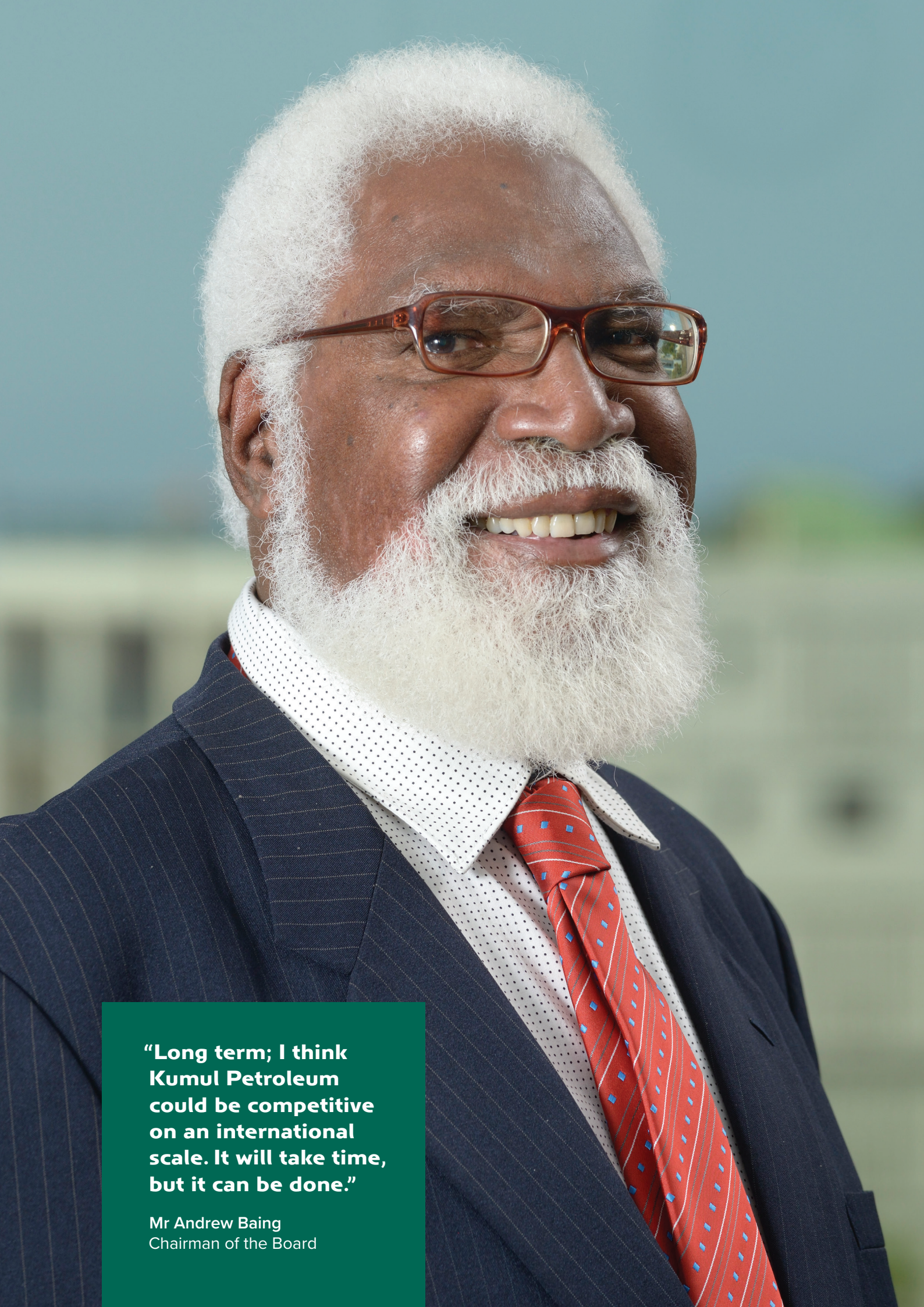
## Strategic themes

Invest in the development and production of oil and gas reserves for the nation's benefit	Enter into midstream and downstream petroleum infrastructure projects	Diversify into petroleum products and the energy distribution sector	Be a national champion and the industry advisor to government and state agencies	Govern KPHL in line with international best practice	Be a good corporate citizen and maintain our social licence to operate
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## Strategic goals

<p>Maximise the value of our back-in rights</p> <p>Become an operator of a petroleum licence</p> <p>Enter into strategic retention and development licences</p> <p>Develop strategic alliances with IOCs and other industry partners</p> <p>Facilitate the commercialisation of stranded petroleum resources</p>	<p>Develop and control transportation of gas and LNG throughout PNG</p> <p>Influence major operators to optimise their development options and maximise value</p> <p>Facilitate the development of mid and downstream projects where they are economically and socially viable</p>	<p>Actively pursue domestic and international marketing and trading opportunities in LNG and petroleum</p> <p>Supply gas to power projects and other gas related domestic industries</p> <p>Invest in and/or operate gas fired power stations</p> <p>Encourage investment in petrochemicals using domestic feedstock</p>	<p>Be an expert industry advisor to the state and its instrumentalities</p> <p>Promote programs to develop oil and gas skills and knowledge in country</p> <p>Advocate national content in policy development and implementation</p> <p>Provide a reasonable and sustainable return on investment to KPHL's shareholders</p> <p>Develop a national oil and gas database</p>	<p>Strive for a corporate culture with the highest levels of compliance and social responsibilities</p> <p>Ensure that KPHL and its contractors adhere to the values outlined in the KPHL Code of Conduct</p> <p>All company activities will have risk safeguards</p> <p>Manage HSES in line with international best practice</p> <p>Implement a transparent and measurable human resource development program for all levels in the company</p> <p>An engaged and inclusive workplace with high levels of knowledge and talent, a culture of learning and accountability, and a focus on career development</p>	<p>Fulfil KPHL's social inclusion policy</p> <p>Contribute to PNG's social development through targeted investments and sponsorships</p> <p>High public awareness of KPHL's activities to build KPHL's positive corporate image</p> <p>Ensure KPHL is recognised as the nation's NOC</p> <p>Ensure effective engagement with landowners</p>
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**“Long term; I think Kumul Petroleum could be competitive on an international scale. It will take time, but it can be done.”**

Mr Andrew Baing  
Chairman of the Board



# Chairman's Report

**Mr Andrew Baing was appointed Chairman of the Board of Kumul Petroleum in April 2019. He looks forward to contributing to the development of Papua New Guinea's oil and gas industry for the benefit of the nation.**

## An honour

I was honoured to be offered the position of Chairman when Sir Moi Avei's term concluded. I accepted the challenge because the oil and gas industry has the potential to create considerable wealth and opportunities for Papua New Guinea going forward. I see Kumul Petroleum as the flagship for Papua New Guinea and I'd like to contribute as much as I can.

## Domestic use

Papua New Guinea has vast oil and gas resources but only 14% of the population has access to electricity. We need to change that — and the work is underway. 2019 was a milestone year where the Port Moresby Power Station was completed and rural electrification became a reality for thousands of Papua New Guineans — with millions more to follow. Kumul Petroleum was the key driver behind both these nation-building projects.

## Grow assets

Short term I don't see any major changes in the way Kumul Petroleum operates. The Papua LNG project and the P'nyang Development project are both in the pipeline — together with the existing PNG LNG Project they will establish PNG as a major player in the global LNG market. The completion of these projects will offer Kumul Petroleum a great opportunity to grow its assets on behalf of the people of Papua New Guinea.

## Production and marketing

Long term I'd like to see Kumul Petroleum become increasingly independent of external joint venture partners. I'd like to see us progress towards becoming an operator of oil and gas projects. I'd like to see us market our products independently in Southeast Asia and China. Some day I'd even like to see us invest in overseas projects. I think Kumul Petroleum could be competitive on an international scale in the future. It will take time but it can be done.

## Build expertise

To reach our long term goals, we need to build expertise in the country. We need more Papua New Guineans obtaining university degrees and training in the oil and gas industry. Kumul Petroleum already does a lot of this. We send our engineers and geologists overseas to learn and we educate a new generation of Papua New Guineans at the Kumul Petroleum Academy. We can do more. We will do more.



Image credit: Greg Dries Photography

*Kumul Petroleum Academy educates a new generation of Papua New Guineans in the oil and gas industry.*


## Sovereign wealth fund

I believe the significant dividends paid by Kumul Petroleum to the Independent State of Papua New Guinea should be invested in a sovereign wealth fund. For rainy days — and also to diversify Papua New Guinea's economy so we're less dependent on the extractive industry. The fund could facilitate investments in e.g. service industries and tourism.

Kumul Petroleum is empowering the nation.

**Andrew Baing**  
Chairman



A professional headshot of Mr Wapu Sonk, a middle-aged man with a balding head and a friendly expression. He is wearing a dark navy blue suit jacket over a light blue and white checkered shirt and a red tie with a subtle pattern. The background is a soft, out-of-focus grey.

**“The Papua LNG project and the P’nyang Development project are set to add three 2.7 mtpa LNG trains to the PNG LNG facility and establish Papua New Guinea as one of the world’s Top-5 LNG exporters.”**

Mr Wapu Sonk  
Managing Director



# Managing Director's Report

**2019 was another great year for Kumul Petroleum. The PNG LNG plant continues to break records, paving the way for further investments in Papua New Guinea's future.**

## Record production

Thanks to another year of record production at the PNG LNG plant of 8.58 million tonnes per annum we reached a revenue of US\$822.04 million, up from US\$776.67 million the year before.

For the year ended 31 December 2019, Kumul Petroleum made a consolidated net profit of US\$247.96 million (2018: US\$143.49 million). The result was better than expected, considering the average oil price fell from US\$71 per barrel in 2018 to US\$64 this year.

## Papua LNG agreement signed

One of the main events of the year was the signing of the Papua LNG agreement in April. The agreement defines the fiscal framework for the project and allows the partners to enter the FEED phase of study that will lead to the final investment decision (FID) in 2022. The Papua LNG Project will consist of two LNG trains of 2.7 mtpa capacity each, located at the site of the existing PNG LNG plant.

## Power plant completed

The 58MW Port Moresby Power Station was completed in 2019. The plant is powered by gas from the PNG LNG facility and is the biggest power project in PNG's history. The shift from fossil fuel to gas-powered electricity will save PNG Power more than K100 million in fuel purchase annually and provide Port Moresby with cheap, reliable and clean energy. The plant is a 50/50 joint venture between Kumul Petroleum and Oil Search.

## Rural electrification on track

Rural electrification is a project close to my heart. Implementation in the Southern Highlands and Hela Provinces kicked off in 2019, with Kumul Petroleum building transmission lines and PNG Power in charge of connecting households, businesses and institutions. Rural electrification has no commercial value for Kumul Petroleum — it is designed to pull people out of poverty and empower the nation. The end goal is to have every household in PNG connected by 2050.

## Dividend payment

In 2019, Kumul Petroleum paid US\$59 million in dividends to the Government. The dividends represent 24% of the net profit after tax. In addition to the dividends, Kumul Petroleum paid a further US\$31.5 million as a return of capital and US\$17 million in corporate taxes to the State.

## New PM and Chairman

Former Finance Minister James Marape was elected as Papua New Guinea's new Prime Minister — and trustee of KPHL — in May, and in April we welcomed our new Chairman of the Board, Andrew Baing. Both are supportive of our strategic direction and we look forward to creating great results together in the future.

## Investments and marketing

Kumul Petroleum has returned unqualified audit reports to its shareholder every single year since we started receiving revenue from the PNG LNG Project in 2014. To prepare for raising capital for future investments, we improved our internal controls further in 2019. This was also the year we prepared to market our stream of LNG. In a joint venture with Total, Kumul Petroleum staff were trained for a future with bilateral relationships with key buyers in the region.

## Future strategies

The Papua LNG project and the P'nyang Development project are set to add three 2.7 mtpa LNG trains to the PNG LNG facility and establish Papua New Guinea as one of the world's Top-5 LNG exporters. Our ambition is to drive a development agenda for the country by moving into energy distribution for the benefit of all Papua New Guineans.

## Wapu Rodney Sonk

Managing Director



# Board of Directors



*From left: Dr Benedict Yaru, Peterson Pipi, Wapu Rodney Sonk and Dr Ila Temu.*



*Chairman Andrew Baing*

## **Andrew Baing**

### **Chairman**

Mr Andrew Baing was appointed Chairman of the Board of Kumul Petroleum in April 2019. Mr Baing, is a well-known political figure in Papua New Guinea, having had extensive experience in local, national and international politics and has held leadership roles in the public and private sector.

As a former Member of National Parliament for fifteen years and a senior public servant, Mr Baing has a wealth of experience. (To put things into perspective) He has held seven ministerial portfolios and various advisory roles to former prime ministers and parliamentary ministers.

He has also represented Papua New Guinea at international governmental conferences such as UNESCO in Paris and APEC ministerial conferences in Seoul, South Korea.

Mr Baing is a nationalist and always makes his decisions based on the best interest of the people he serves, Papua New Guineans and the State of Papua New Guinea.

## **Dr Benedict Yaru**

### **Director**

Dr Benedict Yaru is a founding Director of Kumul Petroleum and has over 30 years of extensive experience with a variety of challenging responsibilities in operational general management and consultancy roles. These include management at senior/ executive level, business planning, operational management, budget and cost control, project management, strategic planning, team building/ leadership, purchasing/procurement, financial management, human resources and HSES leadership. He has worked in the minerals and hydrocarbon industries, with government and regulatory approvals, management of NGOs, stakeholder engagement, integrated community development and sustainability, research and academic supervision.

For over six years, Dr Yaru was an Associate Professor (adjunct) at the Institute of Applied Ecology, University of Canberra, ACT, Australia. He is also a Doctor of Philosophy (PhD) in Environmental Biology, acquired from the University of Technology in Sydney, Australia.





## Peterson Pipi

### Director

Mr Peterson Pipi was appointed as a Director by the Kumul Petroleum Trustee to the Kumul Petroleum Holdings Limited Board on 22 February 2017.

Mr Pipi has over 22 years of experience in mining, oil and gas industries including being the General Manager of Gigira Development Corporation Limited (GDC), a landowner company in Hides Gas Field since 2011. Mr Pipi also serves as a Director on the PNG Mining and Petroleum Hospitality Services Limited (PMPHSL).

Mr Pipi attained a Bachelor of Commerce (BCom) from the University of Papua New Guinea in 1994. He further attained a Diploma in Economic Policy Analysis at the National Research Institute of Papua New Guinea in 1995. Mr Pipi is also a member of other professional bodies in PNG and abroad, including the PNG Institute of Directors (PNGID) and the Australian Institute of Company Directors (MAICD).

## Wapu Rodney Sonk

### Managing Director

Mr Wapu Sonk was appointed Managing Director of the National Petroleum Company of PNG in January 2013.

He has two decades of experience as a Papua New Guinean leader in the oil & gas industry

As the country matured from being an oil exporter to a major LNG exporter, Mr Sonk has occupied numerous leadership roles in the petroleum industry of PNG since beginning his career with Chevron Niugini Pty Ltd in 1997.

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

Mr Sonk holds a Bachelor in Mining Engineering from the University of Technology in Lae, Papua New Guinea.

He also holds a Diploma of Business (Business Management) from Melbourne Business School, Mt Eliza Centre for Executive Education, Australia.

## Dr Ila Temu

### Director

Dr Ila Temu is a founding Director of Kumul Petroleum and brings to the Board a considerable wealth of experience in executive management and directorship roles in the extractive industry as well as in policy and economic matters of PNG.

He is currently the Country Executive Director of Barrick (Niugini) Ltd, and prior to this he held senior executive roles in Placer Dome both abroad and within PNG. His senior positions in public organisations include roles as senior lecturer in Economics at the University of PNG and Director of the National Research Institute and the Bank of South Pacific. He is also currently a Director of Kina Petroleum.

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



*From left: Luke Liria, Greg Heaney, Wapu Rodney Sonk, John Bennett and Rogen Wato.*

## Executive Team

**The Executive Team combined boasts over a century of professionalism, commercial acumen and oil and gas experience.**

**Together they enable the Managing Director to achieve Kumul Petroleum's strategic goals and ambitious objectives for the future.**

### **Luke Liria**

#### **Executive GM Corporate Services**

Luke Liria has 30 years' experience as a professional in the oil and gas industry, having worked for industry names such as Bechtel, Chevron and Oil Search. He was appointed Executive General Manager to oversee aspects of corporate services that include key socio-economic projects by Kumul Petroleum with investments in rural electrification, Kumul Petroleum Academy and Kumul Petroleum Foundation. In 2016, he was honoured with the title of 'Executive of the Year' by the PNG Human Resource Institute. Mr Liria is also the creator and founder of Papua New Guinea Leadership Network, an organisation that focuses on teaching, coaching and speaking on leadership in Papua New Guinea.





### **Greg Heaney**

#### **Chief Financial Officer**

Greg Heaney is a highly qualified Chief Financial Officer. He has also served as MD, CEO and Company Director with more than 35 years of experience in financial and general management for large publicly listed companies within Australia and abroad. Greg's experience in the resource sector includes ten years with the LASMO Group, which at the time was one of the world's largest independent oil and gas exploration and production companies, working in Australia, Great Britain, USA and Indonesia. Mr Heaney was previously the Chief Financial Officer of Queensland Cotton Holdings Limited and of Roche Mining.

### **John Bennett**

#### **Chief Operating Officer**

John Bennett was appointed to the role of Chief Operating Officer of Kumul Petroleum in March 2018. Mr Bennett is a chartered professional engineer and a Fellow and EngExec member of Engineers Australia. His management background is coupled with over 30 years of experience in building and developing multidisciplinary technical teams for delivery of complex downstream projects in the oil and gas, power and hydrocarbon industries. Mr Bennett has worked on both the client and contractor sides on a number of mega LNG projects.

### **Rogan Wato**

#### **Chief Legal Officer**

Rogan Wato joined Kumul Petroleum in October 2010 as a legal officer. Following two restructures of the company in 2011 and 2013, he has since been instrumental in reforming relevant government policy and law which has transformed Kumul Petroleum from an investment vehicle to the NOC of Papua New Guinea. He was appointed Company Secretary in February 2013 and made General Counsel in July 2016. He holds a Bachelor of Laws and a Master of Laws (with High Distinction) from the University of PNG. Mr Wato previously practised law at Posman Kua Aisi Lawyers in the commercial and natural resources space.





# Petroleum operations in 2019

## PNG LNG

Kumul Petroleum's substantial participating interest in the PNG LNG Project is the company's most important asset and provides the bulk of the company's income. Feed gas into the PNG LNG plant amounted to 372 bcf, principally from the Hides gas field in the Hela Province. A total of 114 cargoes of LNG were sold at the average price of US\$9.70/mmbtu and were dispatched to customers in the Far East, principally Japan, China and Taiwan. Of these 114 cargoes, 11 were sold on the spot market to buyers apart from the major long-term buyers.

Condensate from the PNG LNG Project gas fields is blended with crude oil produced by Oil Search at its Kutubu processing facility and transported via pipeline to the offshore Kumul Loading Terminal. In 2019, the PNG LNG Project sold 9.1 million barrels of condensate (this excludes ExxonMobil share which is marketed separately) in 14 cargoes at an average price of US\$62.98/bbl. Kumul Petroleum's net share of production in 2019 was 61 bcf of gas and it sold 1.70 million barrels.

A fieldwide production curtailment from September to early November due to a CALM buoy issue at the Kumul Marine

Terminal only slightly impacted PNG LNG production. Production averaged 8.58 mtpa, above the 8.5 mtpa forecasted production for 2019.

The Angore tie-in project was disrupted through landowner incursions and the earthquake of 2018. An Alternate Dispute Resolution (ADR) is in progress to resolve landowner issues. This delay was further compounded by Angore Wells (A1 and A2) integrity issues for which the JV has resolved to P&A (Plug-and-Abandon) in early 2020. Replacement wells, Angore C1 and C2, are now planned for 2021/2022 following completion of the Hides-F2 drilling. The forecast for Angore first gas is now late 2022 or late 2024 (worst case) with critical path being resolution of landowner issues.

The deferment of Angore results in ullage that needs to be filled and one of the likely options is the Hides-F2 well. There is an opportunity to test the footwall play in the Hides structure with a ready fallback option of completing the well in the main Hides accumulation. The fallback option means an additional take point in the Hides structure and therefore acceleration of Hides gas. This is now scheduled for late 2020 drilling.





Image credit: ExxonMobil

*The onshore pipeline runs for 290 km*

## PDL 9 – Muruk

The operator completed the successful drilling of the Muruk-2 well in 2019. Muruk-2 follows the successful Muruk-1 gas discovery well drilled in December 2016, which materially upgraded a number of prospects along the Hides-P'nyang trend. Work in progress or in the planning stage include Muruk-2 well core studies and integration of newly acquired seismic and development studies in 2020.

## PDL 3

Post the acquisition of JX Nippon's interest in June 2017, Kumul Petroleum now holds a substantial non-operated participating interest in PDL 3, a producing licence that includes a part-share in the Southeast Gobe Field. SE Gobe Field is operated by Oil Search Ltd and is unitised between PDL 3 (46.8%) and PDL 4 (53.2%). SE Gobe is a mature field that has produced 45.36 million bbls of oil since 1998. SE Gobe produced a gross 150 kbbls of oil and 7 bcf of gas in 2019. Total gas sold to PNG LNG in 2019 was about 6.5 bcf.

The fieldwide production curtailment from September to early November 2019 due to Kumul Marine Terminal's CALM buoy issue did not impact SE Gobe production significantly.



Image credit: ExxonMobil

*Hides gas conditioning plant*





### PDL 5

Moran is unitised across three licences, namely PDL 5, PDL 2 and PDL 6. Kumul Petroleum's 20.5% interest in PDL 5 constitutes an 11.275% share of the Moran Unit. The Moran field is a mature oilfield that began production in 1998. Production peaked at about 21,000 bopd gross in 2007 and has declined since then.

Despite the success in wellwork (Moran 4 and Moran 6 workovers and Moran 15ST2 drilling) in 2019, production was impacted significantly by HP compression issues at the Agogo Production Facility, a gas leak at the Moran-4/6/9 header and the fieldwide production curtailment due to Kumul Marine Terminal's CALM buoy issue. The benefits of the wellwork will start to be realised in 2020 and onwards.

Moran 15ST2 successfully encountered oil in the Toro and Digimu reservoirs. Pressures confirm this as an extension of the block which had the original borehole, Moran 15. Further work is now being undertaken to appraise the SE end of the Moran field.

### PDL 10

Kumul Petroleum's 10% participating interest was acquired in May 2017 as a part of the former Mitsubishi Corporation's PNG assets. In July 2018, the Minister for Petroleum issued notices of intention to cancel the PDL 10 licence and a notice of cancellation of the Stanley Gas Agreement. The operator, Repsol, endeavoured to resolve the licence issues with the Minister and his office. However, arbitration was triggered in December 2018 and the matter remains unresolved.



Drilling at Hides





*A total of 114 cargoes of LNG were shipped in 2019*

## PRL 8

In May 2017, Kumul Petroleum acquired 17% participating interest in PRL 8 Kimu from Japan's Mitsubishi Corporations. The Kimu gas field was first discovered in 1999 with the drilling of Kimu 1. Additional seismic data was acquired in 2016 with field studies continuing in 2017 for a possible well location selection for an appraisal well. In 2018, the Kimu 2 appraisal well was successfully drilled encountering gas in targeted Sandstone, Alene. These results were significant as they underpinned a possible gas volume in place in the 400–900 bcf range (on a gross basis) subject to further independent certification. Work in 2019 focussed on evaluations on potential development pathways and subsequent PDL application as the current PRL licence is in its final term, expiring in October 2020.

## PRL 9

Kumul Petroleum is engaged in appraising discovered gas resources in two retention licences that straddle the PNG LNG trunk gas pipeline, namely PRL 9 and PRL 14 near the southern coast of PNG. PRL 9 contains the Barikewa discovery. The Barikewa 3 appraisal well encountered gas in the target Toro and Hedina Sandstone reservoirs in 2018. Subsequent work in

2019 focussed on evaluations of potential development pathways and subsequent PDL application as the current PRL licence is in its final term, expiring in October 2020.

## PRL 14

PRL 14 is another retention licence that straddles the PNG LNG trunk gas pipeline near the southern coast of PNG. PRL 14 contains the Iehi, Cobra and Bilip discoveries. In 2018 the operator, Oil Search Ltd, reported that it had completed the 50 km seismic program that was to assess the potential of the Gobe Footwall prospect and to constrain the Iehi gas discovery. The data is currently with Kumul Petroleum for review.

## PRL 40

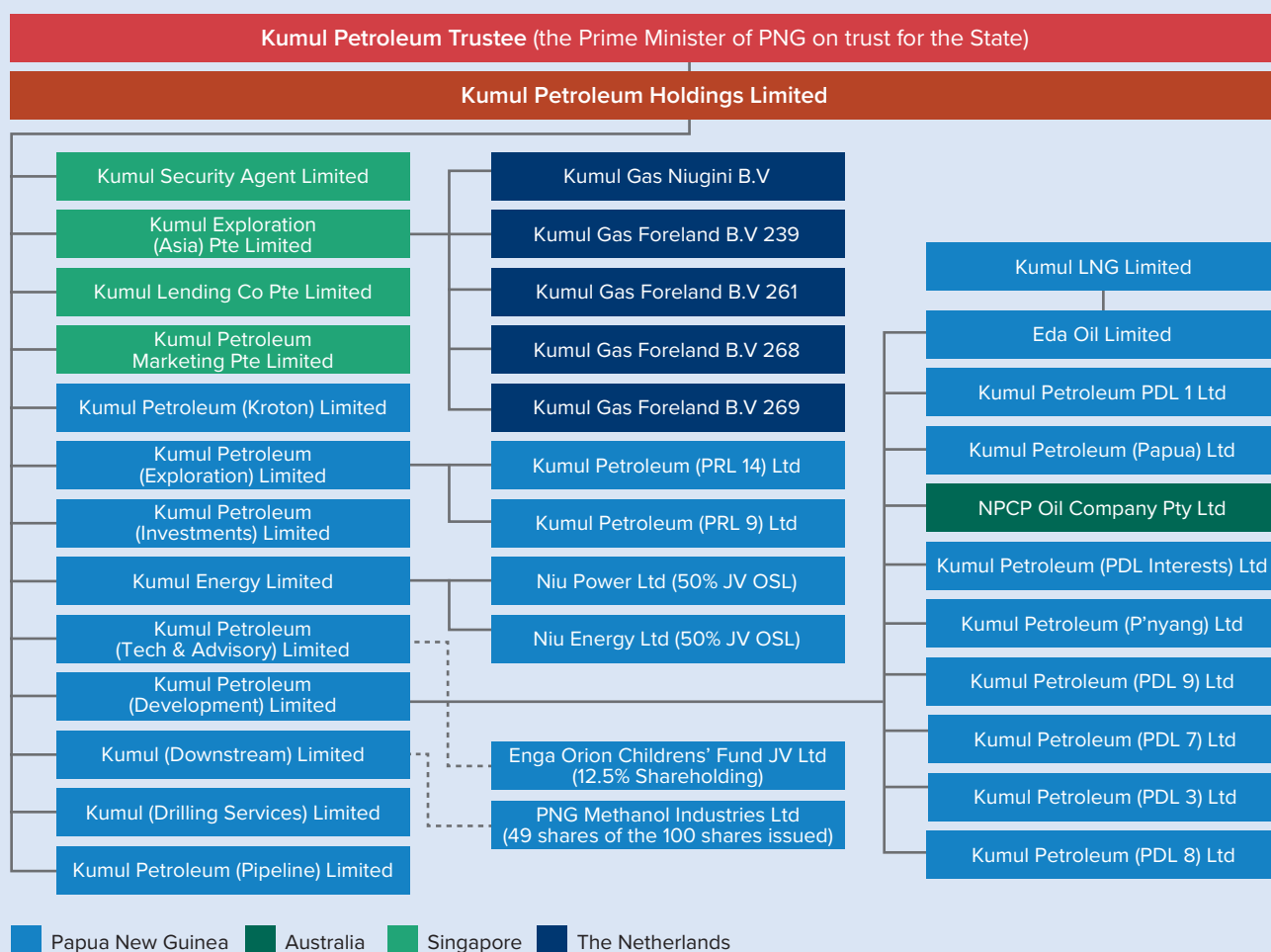
Kumul Petroleum acquired JX Nippon's interest in PRL 40 in June 2017. 20% of this was swapped in 2019 for interest in PRL 28 with Horizon Oil. PRL 40 contains the Puk Puk and Douglas gas discoveries in the Western Province.



# Corporate structure and governance

## Corporate structure

Kumul Petroleum Holdings Limited has nine wholly owned subsidiaries and eight specific purpose subsidiaries incorporated under two of its subsidiaries. The chart below shows its operating subsidiaries as at 31 December 2019.



## Shareholder information

The Kumul Petroleum Holdings Limited Authorisation Act 2015 ('Kumul Petroleum Act') came into effect in September 2015. The Act provides that upon the signing of a Kumul Petroleum Trust Deed, all of the issued shares in KPHL will vest in a trust to be settled among the State (as beneficiary), the Prime Minister (as Trustee) and KPHL (representing the trust property, being all the issued shares in KPHL). The Trust Deed was signed on 26 May 2016 and established the Kumul Petroleum Share Trust.

In accordance with the provisions of the Kumul Petroleum Act and the Trust Deed, the Kumul Petroleum Trustee is the legal owner of all of the shares in Kumul Petroleum Holdings Limited and holds those shares in trust for the beneficiary (the State), subject to the terms of the Kumul Petroleum Act and the Trust Deed. The Trustee as per section 4(2) of the Kumul Petroleum Act is the person holding the office of the Prime Minister from time to time pursuant to section 142 of the Constitution of the Independent State of Papua New Guinea.



## Corporate governance

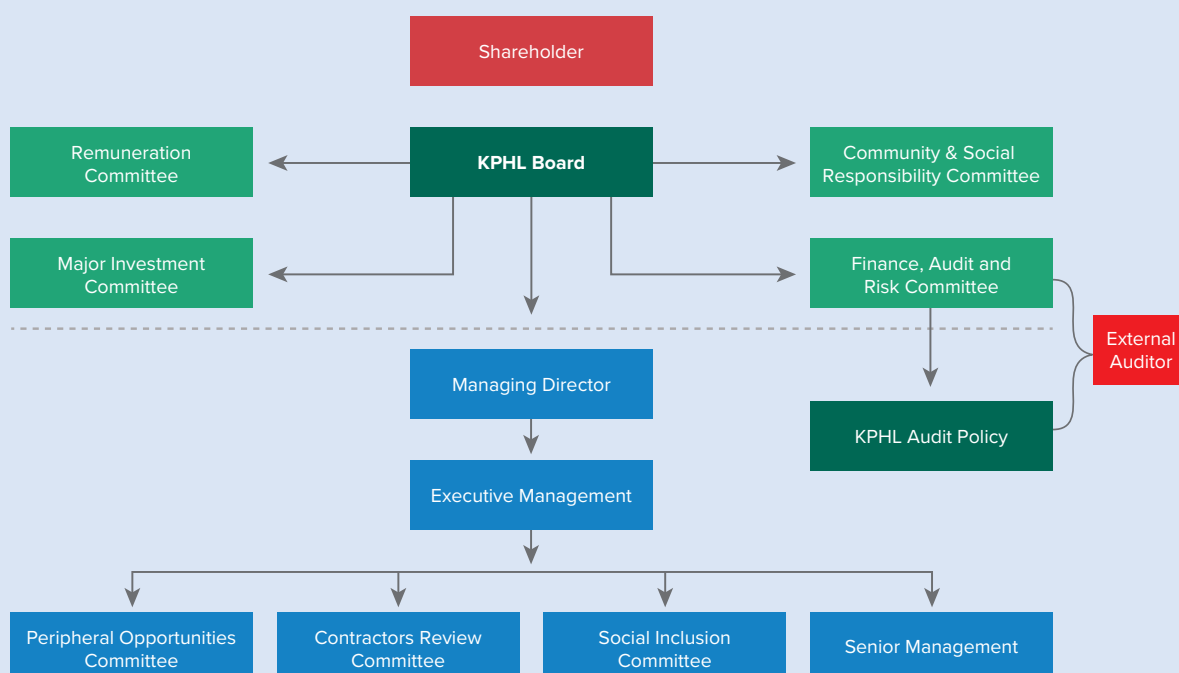
As part of its strategic goals, Kumul Petroleum strives to emulate the levels of governance required of a publicly listed company. In order to advance this vision, Kumul Petroleum has adopted and implemented measures that aim to build and maintain a corporate culture with the highest levels of accountability, transparency and independence. These measures include a transparent and measurable human resource program for all levels of the company.

Board appointment follows an independent process under the Kumul Petroleum Act whereby the existing Board selects and recommends suitable candidates to the Trustee in line with the company's prevailing commercial goals and skills requirement. Each candidate must pass a 'fit and proper person's test' and the very high qualifications prescribed by the Kumul Petroleum Act. The test and qualifying processes are administered independently from the company through any of the Big 4 international accounting firms. The Trustee appoints a Director only from the qualified list forwarded to him by the Board.

The company implements the Annual Operating Plan (AOP) each year consistent with the requirements of the Kumul Petroleum Act. The Board implements the approved AOP through:

- Board subcommittees and management under the leadership of the Managing Director and his team of experienced executive managers;
- A robust Delegation of Authority policy and Tender & Procurement policy which are administered by a Tender & Contracts Committee made up of senior managers from each key division;
- Timely audits of the company's financial statements; and
- Recognising and utilising world class partners (Total SA to market LNG from Papua LNG Project, and continued partnerships with Oil Search and ExxonMobil) and top-end international legal and financial advisors and leading commercial and technical advisors.

As a result, Kumul Petroleum has been able to achieve and maintain an outstanding record of returning 'unqualified audit reports' to its shareholder every year since receiving its first LNG sales revenues from the PNG LNG Project in 2014. This is an unprecedented feat for any PNG state owned enterprise. Kumul Petroleum's financial statements are audited by one of the Big 4 international accounting firms. The audited financial statements are then reviewed and signed-off on by the Auditor General of Papua New Guinea as required by law.





# Licence interests and petroleum resources

In February 2017, Kumul Petroleum acquired from Mitsubishi Corporation and its subsidiaries their PNG assets in PDL 10, PRL 8 and PRL 40. A swap deal was made with Horizon Oil (Papua) Ltd. in Q4 2017 to exchange 20% interest of PRL 40 from Kumul Petroleum for 20% interest in PRL 28 Ubuntu. However, this swap was only effected in 2019, when the then Petroleum Minister approved this. In June 2017, Kumul Petroleum also acquired from JX Nippon its interest in PDL 3.

## Kumul Petroleum's Upstream Assets

Petroleum licences	Project	Kumul Petroleum Interest (%)	
		2018	2019
<b>PDL 1</b>	Hides gas field	20.50	20.50
<b>PDL 3</b>	Development licence	45.72	45.72
	Unitised SE Gobe gas field	21.40	21.40
<b>PDL 5</b>	Development licences	20.50	20.50
	Unitised Moran oil field	11.30	11.30
<b>PDL 7</b>	South Hides gas field	20.50	20.50
<b>PDL 8</b>	Angore gas field	20.50	20.50
<b>PDL 9</b>	Juha gas field	20.50	20.50
<b>PDL 10</b>	Stanley gas field	10.00	10.00
<b>PRL 8</b>	Kimu gas field	17.00	17.00
<b>PRL 9</b>	Barikewa gas field	14.89	14.89
<b>PRL 14</b>	Cobra, Lehi and Bilip gas field	37.44	37.44
<b>PRL 28</b>	Ubuntu gas field	00.00	20.00
<b>PRL 40</b>	Puk Puk, Douglas gas field	40.00	20.00

Infrastructure licences	Project	Kumul Petroleum Interest (%)	
		2018	2019
<b>PL 4</b>	PNG LNG Project	20.5	20.5
<b>PL 5</b>	PNG LNG Project	5.57	5.57
<b>PL 6</b>	PNG LNG Project	2.61	2.61
<b>PL 7</b>	PNG LNG Project	20.5	20.5
<b>PL 8</b>	PNG LNG Project	20.5	20.5
<b>PNG LNG</b>	PNG LNG Global Company LDC	20.5	20.5
<b>PNG LNG</b>	PNG LNG Project	20.5	20.5
<b>PPFL 2</b>	PNG LNG Project	14.89	14.89
<b>PL 3</b>	SE Gobe	37.44	37.44



Petroleum reserves and resources net to Kumul Petroleum are predominantly gas and principally contained in the PNG LNG asset. The company's 1P reserves are in excess of 1.4 Tcf and 18 million barrels of liquids and the company's 2C contingent resources amount to 224 bcf and 2.2 million barrels of liquid.

Kumul Petroleum's Proved 1P Reserve/Production Ratio at the end of 2019 was 21 years, meaning that at the current level of production, Kumul Petroleum's Proved 1P reserves would last 21 years.

### Oil, Condensate and Gas Reserves Net to Kumul Petroleum 2019

		Oil & Condensate	Gas	Oil & Condensate	Gas
		MMbbl	Bscf	MMbbl	Bscf
Reserves Category		Proved (1P)		Proved and Probable (2P)	
PNG LNG Project	Project fields <sup>1</sup>	17.34	1395.20	20.10	1558.20
PDL 1	Hides GTE <sup>2</sup>	—	—	—	—
PDL 3	South East Gobe <sup>3</sup>	0.098	5.64	0.198	8.97
PDL 5	Moran <sup>4</sup>	1.19	19.45	2.02	25.87
Total		18.63	1420.28	22.32	1593.03

### Contingent Oil, Condensate and Gas Resources Net to Kumul Petroleum 2019

		Oil & Condensate	Gas	Oil & Condensate	Gas
		MMbbl	Bscf	MMbbl	Bscf
Reserves Category		1C		2C	
PDL 10	Stanley <sup>5</sup>	1.01	31.50	1.27	39.90
PRL 8	Kimu <sup>6</sup>	—	6.46	—	15.98
PRL 9	Barikewa <sup>7</sup>	—	29.78	—	67.45
PRL 14	Cobra, Bilip, Lehi <sup>7</sup>	0.07	29.95	0.22	69.64
PRL 28	Ubuntu <sup>8</sup>	0.2	20.02	0.71	31.90
PRL 40	Puk Puk, Douglas <sup>8</sup>	—	77.78	—	109
Total		1.28	165.71	2.2	224.87

#### 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. PDL 3 additional interest acquired from JX Nippon in 2017.

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

5. PDL 10 added in 2017 as acquisition from Mitsubishi Corporation.

6. PRL 8 added in 2017 as acquisition from Mitsubishi Corporation.

7. PRL 9 and PRL 14 Reserves are taken from the Operator, Oil Search Limited; net to KPHL.

8. PRL 40 added in 2017 as acquisition from Mitsubishi Corporation. 50% of KPHL equity in PRL 40 or 20% was swapped with 20% equity for Horizon Oil in PRL 28 in June 2017. This, however, was effected in 2019 after approval by the Petroleum Minister. Ubuntu reserves per GCA 2012.



# Economy and market overview





## Global overview

According to the International Monetary Fund, the pace of global economic activity in 2019 remained weak after slowing sharply in the last three quarters of 2018. In particular, the momentum in manufacturing activity has weakened substantially to levels not seen since the global financial crisis. A World Bank report also pointed out that global growth has continued to soften in 2019. Subdued investment in emerging market and developing economies (EMDEs) is dampening potential growth prospects. The World Bank also raised concern on rising debt, which may make it difficult for EMDEs to respond to adverse developments and to finance growth-enhancing investments.

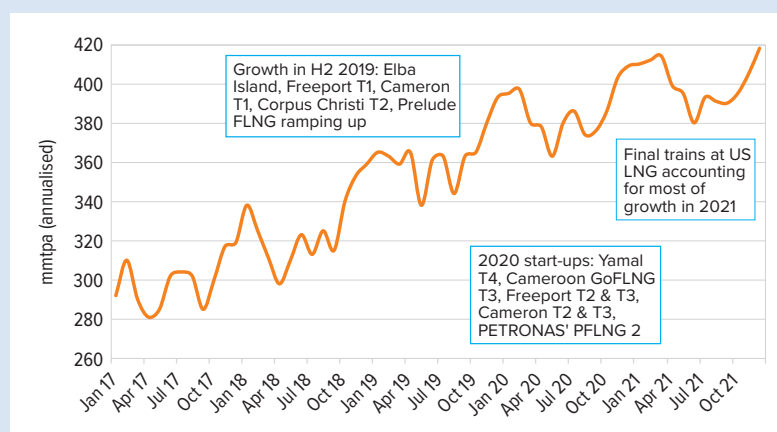
Regardless of the general global economic performance, the global LNG supply was expected to grow by 12% year-over-year in 2019 to about 364MT. The first half of 2019 saw strong growth as Yamal production reached 10% above nameplate and Cameron T1, Prelude FLNG and Corpus Christi T2 all started production.

Growth continued in the second half of 2019 with Freeport T1's first cargo in September and the Elba Island project ramping up gradually from September. Ample LNG supply weighed down spot prices to as low as \$4/mmbtu and this has resulted in inventories reaching historical highs in both Europe and Asia.

Demand for LNG in the Asian market in 2019 was 242MT, less than a 1% increase from 240MT in 2018.

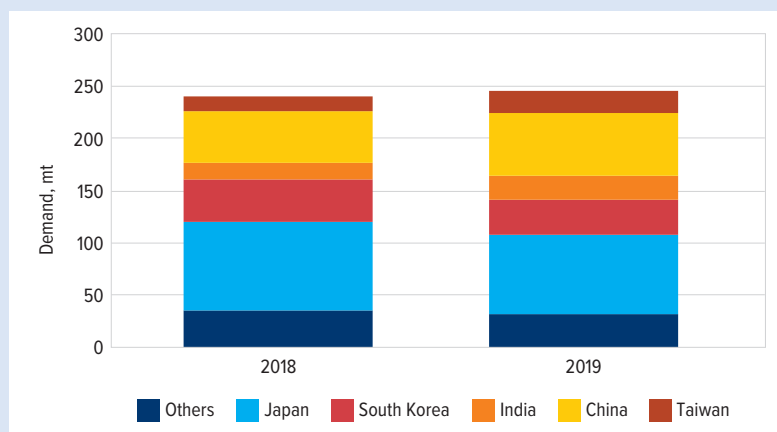
China and Japan still top the demand list in the Asian market. Their demand is met by the largest suppliers like Australia, Russia and Qatar but Papua New Guinea among the top five suppliers to China and within the top 9 suppliers to Japan in 2018 and 2019.

## Global LNG Supply



Source: Wood Mackenzie

## Asia LNG Demand



Source: FGE



### PNG LNG Project

The PNG LNG Project has been producing above its nameplate capacity of 6.9 mtpa, reaching up to 8.5 mtpa as the new production rate in 2018. In 2019, the production output remains at 8.5mtpa regardless of a major setback due to the CALM Buoy issue at Kumul Marine Terminal. About 1.2 mtpa of the additional volume produced was sold via mid-term deals while the remaining additional volumes were sold through spot sales. The additional volumes from the PNG LNG Project add to the existing high liquid LNG market in Asia. In 2019, the PNG LNG average spot price for cargoes delivered to the Asian market was around \$6.14/mmbtu, 31% lower than the average spot price of \$8.90/mmbtu in 2018. This was due to the liquidity in the LNG market, driven by a host of factors such as China's Gas-to-Coal switching policy, the China-Russia gas pipeline from December 2020 and China's political and trade issues with the US.

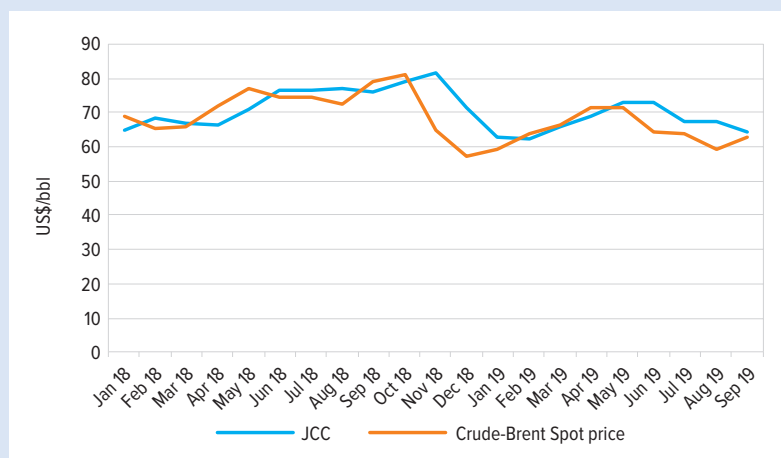
Kumul Petroleum generates its LNG revenue from the long-term LNG, mid-term and spot sales. The pricing of long and mid-term cargoes is based on Japan Crude Cocktail (JCC), the average landed price of all crude

oil imports into Japan. Pricing for spot LNG cargoes, however, depends on the Japan-Korea Marker (JKM), the LNG benchmark price assessment for spot physical cargoes. JKM reflects the spot market value of cargoes delivered ex-ship (DES) into Japan, South Korea, China and Taiwan. The JKM Asian LNG spot price dropped as low as \$4.263/mmbtu in June from a high of just over \$12/mmbtu in September last year, according to S&P Global Platts price assessments.

The long and mid-term LNG sales revenue represents more than 70% of LNG sales, which depends on the JCC price and therefore on the movement in the crude oil price. In 2019, oil price averaged around the \$64/bbl mark, deteriorating from an average of \$71/bbl in 2018. The fall in prices was a result of a strong stance by the US on the Iran and Venezuela sanctions and its trade war against China, amid the OPEC production cut and other geopolitical issues in the Middle East.

JCC lags by three months as reflected in the graph. Hence effects of changes in crude oil prices on JCC are experienced in the long and mid-term sales three months after the actual changes.

### 2018–2019 Crude Oil & JCC price movement



Source: Kumul Petroleum

### Domestic economy

PNG's economy is dependent on the resource sector, mainly on oil and gas since PNG commenced LNG production in 2014. In 2018, GDP growth was -0.6% with oil and gas contribution falling by 3.5%. This was attributed to unfavourable oil prices and the impact of the earthquake in the first half of 2018. In 2019, GDP is expected to grow by 4.8%, with 2.7% from the oil and gas.



However, the Asian Development Bank's forecasted GDP for 2020 is set to be 2.1%, much lower than the 2019 figure.

As the national oil company, Kumul Petroleum is affected by the macroeconomic indicators such as the currency strength and stability as its revenues and up-stream costs are paid in US\$. Other costs such as overheads and corporate costs are paid in PGK.

US dollar currency availability has been one of the ongoing challenges for the PNG business community and the government has committed in its annual budgets and reform agenda to have a free flowing exchange rate. While there are ongoing reforms to strengthen the monetary and exchange rate policy to stimulate private sector growth, the short-term foreign exchange difficulties have worsened as indicated in the Mid-Year Economic and Fiscal Outlook (MYEFO) report due to:

- Lack of US dollars entering the PNG market, due to an unanticipated decline in external borrowing by the government and lower export earnings over the first half of 2019
- The halting of the foreign exchange backlog program with the consequence that the FX backlog has widened further in recent months

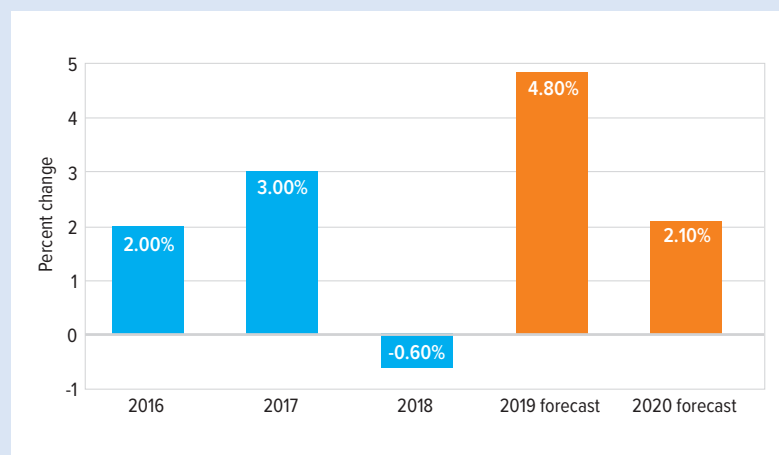
The rationing of foreign reserves has artificially suppressed import demand for nearly four years now. Owing to PNG's high level of dependence on imports for capital and consumer goods, there has been a significant suppression of investment and consumption activity in the economy. This lack of currency availability has in large part been triggered by the need for LNG project partners to repay their debts on the project,

there have been massive capital account outflows on the order of 25–28% of GDP recorded in recent years. The result was a plunge in FX reserves from a record high of US\$4.2 billion in mid-2012 — the peak of LNG construction — down to a low of US\$1.6 billion in mid-2016. Reserves have since hovered between US\$1.6 billion and US\$1.8 billion.

To cope with the shortages of foreign reserves, there has been rationing of reserves being made available to the broader PNG economy. The rationing policy has focused on supporting priority imports such as food and has created significant backlogs in import funding and arrears.

The current government has announced the 2020 budget of K18.7 billion against a deficit of K4.6 billion, the highest ever in any budget to date. Debt-to-GDP ratio constitute about 40.3%, slightly higher than the 2019 budget of 38.5%. This indicates that the government will increase its debt, adding more woes to the current investment climate. At this juncture, planned investments in LNG and mining projects are expected to increase FX inflows into the economy and are likely to ease the economic growth to potentially 3-4% a year as indicated by the World Bank.

#### PNG GDP Growth Rate: % per year



Source: Asian Development Bank: Asian Development Outlook 2019 Update



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

KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

**Consolidated Financial Statements  
for the year ended 31 December 2019**

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*Hides gas conditioning plant*





## KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

### Annual report of the Directors to the Shareholder for the year ended 31 December 2019

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 2019. The Parent entity was incorporated on 04 March 2014.

#### Principal Activity

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

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

#### Results

For the year ended 31 December 2019, the Group made a consolidated net profit for the year of US\$247.96 million (2018: US\$143.49 million).

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. In December 2017, P’nyang-South2ST1 appraisal well was successfully drilled and encountered good-quality, gas-bearing Toro and Digimu sands, confirming the presence of gas in the south-eastern part of the P’nyang field. Discussion by the JV partners on the recertification of the field’s gas resources is still ongoing as of 2020, if approved, is expected to result in the addition of 1C contingent resources that can be used to underpin marketing and financing discussions for PNG LNG expansion. Both PNG LNG Project expansion and the Papua LNG Project, through their “Propose Integrated Development Concept” offer attractive returns and remain highly competitive when compared to other possible LNG Projects in the South — East Asia region.

#### Directors

The directors as at the date of this report are:

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

#### Secretary

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

#### Directors’ Interests

As at 31 December 2019, the directors did not have any interests in the Group warranting disclosure (2018: Nil).





## KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

### Annual report of the Directors to the Shareholder for the year ended 31 December 2019

#### Directors' Remuneration

The Non-Executive Directors' remuneration for the year ended 31 December 2019 is shown below:

	Remuneration	Sitting allowance	Short term incentive	Long term retention	Total
	US\$	US\$	US\$	US\$	US\$
Andrew Baing — Chairman	42,817	2,517	—	—	45,334
Dr. Ila Temu — Director	36,894	2,517	—	—	39,411
Dr. Benedict Yaru — Director	36,894	2,517	—	—	39,411
Peterson Pipi — Director	36,894	2,517	—	—	39,411
<b>Total</b>	<b>153,499</b>	<b>10,068</b>	<b>0</b>	<b>0</b>	<b>163,567</b>

#### Remuneration above US\$28,600 (K100, 000) per annum

The number of employees not being directors whose total remuneration and other benefits received above US\$28,600 (K100,000) per annum from the Group during the year was 54.

Remuneration and other benefits paid to employees during the year, in excess of US\$28,600 (K100,000) in brackets of US\$28,600 (K100,000) were:

Salary bands		No. of employees
K'000	US\$'000	
100 to 199	31 to 61	33
200 to 299	62 to 93	9
300 to 399	94 to 124	2
400 to 499	125 to 155	0
Over 500	Over 156	10

#### Dividends

A total of US\$59 million (PGK200 million) was declared as dividend to the State for the year ended 31 December 2019 (2018: US\$91.20 (PGK300 million)).

#### Employees

As of 31 December 2019, the Group had 78 employees (2018: 82).





**Annual report of the Directors to the Shareholder**  
for the year ended 31 December 2019

**Donations and community sponsorships**

Donations and community sponsorship made by the Group as part of corporate standing in the community for the year ended 31 December 2019 is US\$8.9 million (2018: US\$3.02 million).

**Auditors**

Auditor's fees for the service rendered during the 2019 year are disclosed in Note 9b to the consolidated financial statements.

**Accounting Policies**

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

**Subsequent Events**

Subsequent events that can have impact on the consolidated financial statements have been disclosed in Note 25 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 its 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. Benedict Yaru**  
**Chairman**  
Port Moresby  
20 August 2021



**Wapu Sonk**  
**Managing Director/Executive Director**  
Port Moresby  
20 August 2021





## KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

### Directors' Declaration

for the year ended 31 December 2019

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the directors.

On behalf of the Directors,



**Dr. Benedict Yaru**  
**Chairman**

Port Moresby

20 August 2021



**Wapu Sonk**  
**Managing Director/Executive Director**

Port Moresby

20 August 2021





# Independent audit report to the shareholders on the financial statements of Kumul Petroleum Holdings Limited and its subsidiaries

for the year ended 31 December 2019



Phone: (+675) 3012200

Fax: (+675) 325 2872

Email: agopng@ago.gov.pg

Website: www.ago.gov.pg

Our Reference: 31-73-5

## QUALIFIED OPINION

I have audited the financial statements of **Kumul Petroleum Holdings Limited and its Subsidiaries (the Group)**, which comprise the Consolidated Statement of Financial Position as at **31 December 2019**, 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.

In my Opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph below:

- (a) The financial statements of Kumul Petroleum Holdings Limited and its Subsidiaries (the Group) for the year ended 31 December, 2019:
  - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
  - (ii) the financial statements have been presented in accordance with the *Companies Act 1997, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;
- (b) Proper accounting records have been kept by the Group, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

## BASIS FOR QUALIFIED OPINION

### Comparative information

The Group had incorrectly accounted for the Kroton Equity Options (Options) in prior periods. As a result of this, the Statement of Comprehensive Income includes an expense recognised for the Options of US\$56,769,100 for the year ended 31 December 2018. The expense for the 2018 accounting period should have been Nil. In addition, changes in the fair value of the financial liabilities was US\$28,745,183 rather than US\$34,400,000. No adjustments to the comparative information have been made to reflect the correct accounting treatment. Had this been corrected, the net profit before tax for the year ended 31 December 2018 would have been increased from US\$143,485,000 to US\$194,599,000. This error has not impacted the Consolidated Statement of Financial Position for the year ended 31 December 2018 and 31 December 2019, or the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity or Consolidated Statement of Cash Flows for the year ended 31 December 2019.

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

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

Level 6  
TISA Investment Haus  
Kumul Avenue, NCD



PO Box 423  
WAIGANI, NCD  
Papua New Guinea



# Independent audit report to the shareholders on the financial statements of Kumul Petroleum Holdings Limited and its subsidiaries

for the year ended 31 December 2019

## Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions may cast significant doubt on the Groups ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

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



**GORDON KEGA MBA, CPA**  
Auditor-General

29 September 2021



## KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

## Consolidated Statment of Comprehensive Income

for the year ended 31 December 2019

		2019	2018
	Notes	US\$'000	US\$'000
Revenue	6	822,043	776,670
Cost of sales	7	(298,403)	(288,076)
<b>Gross profit</b>		<b>523,640</b>	<b>488,594</b>
Other Income	8	13,695	9,999
Consultancy and professional service	9b	(6,024)	(5,459)
Depreciation charges	15	(2,750)	(1,539)
Employee benefits expense	9c	(16,171)	(12,890)
Other operating expenses	9a	(20,620)	(13,104)
<b>Operating profit</b>		<b>491,770</b>	<b>465,601</b>
Interest income		7,318	5,719
Finance costs	9d	(135,762)	(137,984)
Foreign exchange gain		1,058	3,021
Impairment loss		(10,488)	(10,787)
Changes in fair value of other financial liabilities	24	5,000	(28,745)
Expense recognized for Kroton Equity Option	24	–	(56,769)
<b>Profit (loss) before income tax</b>		<b>358,896</b>	<b>240,056</b>
Income tax expense	10a	(110,939)	(96,571)
<b>Net Profit for the year</b>		<b>247,957</b>	<b>143,485</b>
<b>Other comprehensive income</b>			
<i>Item that may be reclassified to profit or loss in subsequent period:</i>		–	–
<b>Total comprehensive income for the year</b>		<b>247,957</b>	<b>143,485</b>
<b>Attributable to:</b>			
Equity holder of the parent		170,835	97,290
Non-controlling interest		77,122	46,195
		<b>247,957</b>	<b>143,485</b>

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





KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

**Consolidated Statment of Financial Position**

for the year ended 31 December 2019

		2019	2018
	Notes	US\$'000	US\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	11	217,371	110,966
Receivables and other current assets	12	210,941	263,288
Inventories	13	26,567	24,782
<b>Total Current Assets</b>		<b>454,879</b>	<b>399,036</b>
<b>Non-current Assets</b>			
Oil and gas assets	14	3,608,214	3,629,490
Property, plant and equipment	15	27,031	23,927
Rehabilitation and restoration assets	16	69,339	53,767
Interest in joint ventures	17	44,039	37,382
<b>Total Non-current Assets</b>		<b>3,748,623</b>	<b>3,744,566</b>
<b>Total Assets</b>		<b>4,203,502</b>	<b>4,143,602</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payable	18	73,204	66,655
Income tax payable	10c	6,827	11,083
Provisions	19	288	668
Loans and borrowings	20	306,706	320,552
Other financial liabilities	24	14,000	9,450
Dividends payable		15,000	30,000
<b>Total Current Liabilities</b>		<b>416,025</b>	<b>438,408</b>
<b>Non-current Liabilities</b>			
Deferred tax liabilities	10b	335,264	269,939
Provisions	19	123,931	104,608
Loans and borrowings	20	1,603,838	1,733,461
Other financial liabilities	24	194,000	203,550
<b>Total Non-current Liabilities</b>		<b>2,257,033</b>	<b>2,311,558</b>
<b>Total Liabilities</b>		<b>2,673,058</b>	<b>2,749,966</b>
<b>Equity</b>			
Share/contributed capital	21a	1,041,584	1,078,733
Retained earnings		242,788	130,953
Reserves	21c	9,446	9,446
<b>Equity attributable to equity holders of the parent</b>		<b>1,293,818</b>	<b>1,219,132</b>
Non-controlling interest		236,626	174,504
<b>Total Equity</b>		<b>1,530,444</b>	<b>1,393,636</b>
<b>Total Liabilities and Equity</b>		<b>4,203,502</b>	<b>4,143,602</b>

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



KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

**Consolidated Statment of Changes in Equity**  
for the year ended 31 December 2019

	Notes	Attributable to the equity holder of the Parent				Non-controlling Interest	Total
		Share/ Contributed Capital	Retained Earnings	Reserves	Total		
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
		Note 21a		Note 21c			
<b>Balance at 1 January 2018</b>		<b>1,170,725</b>	<b>124,863</b>	<b>24,949</b>	<b>1,320,537</b>	<b>131,767</b>	<b>1,452,304</b>
Net loss for the year		–	97,290	–	97,290	46,195	143,485
Other comprehensive income		–	–	–	–	–	–
Total comprehensive loss		–	97,290	–	97,290	46,195	143,485
Dividends paid	21b	–	(76,225)	–	(76,225)	(30,000)	(106,225)
Other distribution from equity	21c	–	(14,975)	–	(14,975)	–	(14,975)
Share-based payment – Kroton Equity	21d	–	–	(15,503)	(15,503)	–	(15,503)
Exercise of Kroton Equity Option		–	–	–	–	26,542	26,542
Return of capital	21a	(91,992)	–	–	(91,992)	–	(91,992)
<b>Balance at 31 December 2018</b>		<b>1,078,733</b>	<b>130,953</b>	<b>9,446</b>	<b>1,219,132</b>	<b>174,504</b>	<b>1,393,636</b>
Net profit for the year		–	170,835	–	170,835	77,122	247,957
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income		–	170,835	–	170,835	77,122	247,957
Dividends paid	21b	–	(59,000)	–	(59,000)	(15,000)	(74,000)
Share-based payment – Kroton Equity		–	–	–	–	–	–
Exercise of Kroton Equity Option		–	–	–	–	–	–
Return of capital	21a	(37,149)	–	–	(37,149)	–	(37,149)
<b>Balance at 31 December 2019</b>		<b>1,041,584</b>	<b>242,788</b>	<b>9,446</b>	<b>1,293,818</b>	<b>236,626</b>	<b>1,530,444</b>

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





## KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

**Consolidated Statment of Cash Flows**

for the year ended 31 December 2019

		2019	2018
	Notes	US\$'000	US\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		887,190	744,995
Payments to suppliers and employees		(190,508)	(176,169)
Income tax paid	10c	(49,869)	(37,719)
Interest received		7,318	5,719
<b>Net cash flow from operating activities</b>		<b>654,131</b>	<b>536,826</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	15	(14,989)	(3,167)
Acquisition of oil and gas assets	14	(44,490)	(22,428)
Investment in joint ventures		(6,657)	(37,382)
Investment in evaluation and exploration	14	(24,711)	(37,178)
<b>Net cash flow used in investing activities</b>		<b>(90,847)</b>	<b>(100,155)</b>
<b>Cash flows from financing activities</b>			
Payment of loans and borrowings		(196,548)	(183,372)
Interest paid		(134,182)	(137,489)
Cash provided to the State	21a	(37,149)	(91,992)
Dividends paid to the equity holder of the parent	21b & 24	(89,000)	(90,000)
<b>Net cash flow used in financing activities</b>		<b>(456,879)</b>	<b>(502,853)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>106,405</b>	<b>(66,182)</b>
Opening cash and cash equivalents		110,966	177,148
<b>Closing cash and cash equivalents</b>	11	<b>217,371</b>	<b>110,966</b>

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



**Notes to the consolidated Financial Statements**  
for the year ended 31 December 2019

## 1. General Information

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

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 20 August 2021.

## 2. Significant Accounting Policies

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

### 2.1 Basis of preparation

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

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

### 2.2 Basis of consolidation

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

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

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





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 2. Significant Accounting Policies continued

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.

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

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

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

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

#### (i) Business combinations

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

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



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 2. Significant Accounting Policies continued

#### (ii) Business combinations between entities under common control

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

#### (iii) Subsidiaries

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

#### (iv) Joint arrangements

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

##### *Joint operations*

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

##### *Joint ventures*

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

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of that entity.





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 2. Significant Accounting Policies continued

#### 2.3 Changes in accounting policies and disclosures

##### (i) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2019

- IFRIC 23, "Uncertainty over income tax treatments"
- Annual improvements 2015-2017
- Amendment to IFRS 9 on prepayments features with negative compensation
- Amendments to IAS 28 "Investments in associates" on long term interests in associates and joint ventures
- Amendments to IAS 19 "Employee benefits" on plan amendments, curtailment or settlement.
- IFRS 16 "Leases"

The implementation of IFRS 16 Leases required the Group to change its accounting policy as a lessee under lease contracts as set out below. The other changes did not have a material impact on the Group.

##### **Impact of change in accounting policy for leases as lessee**

IFRS 16 replaces the guidance in IAS 17 'Leases', IFRIC 4: 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases — Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The Group was required to change its accounting policy for lease contracts as a lessee in accordance with IFRS 16 with effect from 1 January 2019.

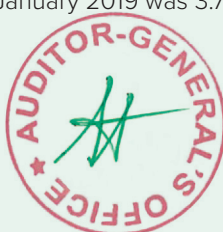
Previously, leases in which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the company had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were 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 was apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of finance charges, were included in borrowings in the statement of financial position. The property, plant and equipment acquired under finance leases was depreciated over the shorter of the useful life of the asset and the lease term.

From 1 January 2019, all leases are now accounted for in accordance with the policy set out in Note 2 (n) below. In accordance with the transition provisions of IFRS 16, the company has elected to apply the simplified approach to adopting the new rules retrospectively with the cumulative effect of initially applying the standard recognised as at 1 January 2019. Comparatives for the year ended 31 December 2018 have not been restated.

The Group has also applied the following practical expedients under IFRS 16:

- No adjustments are made on transition for leases for which the underlying asset is of low value.
- Single discount rate is applied to portfolio of leases with reasonably similar characteristics.
- The Group does not apply the standard to leases which the lease term ends within 12 months from 1 January 2019.
- The Group uses hindsight in determining lease term for contracts that contain options for extension or termination.

On adoption, the Group has recognised lease liabilities in respect of leases previously classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the company's incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.7%.



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

The additional lease liabilities recognised as at 1 January 2019 was US\$56,748,788 as set out below. The associated right-of-use assets have been recognised at an equivalent amount (Note 14 & 23b), and accordingly there was no adjustment required to retained earnings as at 1 January 2019.

Leased assets previously classified as finance leases under IAS 17 and included within property, plant and equipment have been reclassified to right-of-use assets at their carrying amount as at 1 January 2019.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application.

Reconciliation for the differences between operating lease commitments disclosed as at 31 December 2018 and lease liabilities recognised at date of initial application at 1 January 2019 is as follows:

	2019
	US\$'000
Operating lease commitments disclosed as at 31 December 2018	66,984
Discounted at the incremental borrowing rate	56,749
Add: New lease liabilities recognised as at 1 January 2019	–
Less: Short term and low value lease obligations	–
<b>Lease liability recognised as at 1 January 2019</b>	<b>56,749</b>

### (ii) New standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2019 and not early adopted

- Amendments to IFRS 3 — definition of a business
- Amendments to IAS 1 and IAS 8 on the definition of 'material'
- Amendments to IFRS 9, IAS 39 and IFRS 7 — interest rate benchmark reform IFRS 17: 'Insurance contracts'

The Group is currently conducting its initial investigations to consider whether there are any measurement or recognition issues arising from the release of these new pronouncements that will have a significant impact on the reported financial position or financial performance of the Group.

## 2.4 Summary of significant accounting policies

### (a) Foreign currency translation

#### (i) Functional and presentation currency

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





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 2. Significant Accounting Policies continued

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	
	2019	2018
	PGK'000	PGK'000
Total Assets*	14,697,559	14,312,960
Total Liabilities*	(9,346,357)	(9,499,019)
<b>Net Assets</b>	<b>5,351,202</b>	<b>4,813,941</b>
<b>Net Profit (Loss)**</b>	<b>862,159</b>	<b>484,419</b>

\*Translated using reporting date exchange rate of 0.286 in 2019 (2018: 0.2895)

\*\*Translated using average exchange rate of 0.2876 in 2019 (2018: 0.2962)

#### (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").



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

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

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

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

#### (i) Pre-permit costs

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

#### (ii) Exploration and evaluation costs

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

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

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

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

#### (iii) Development and producing costs

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

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

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

#### (i) Initial recognition

Oil and gas assets and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

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





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 2. Significant Accounting Policies continued

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

#### (ii) Depreciation/amortisation

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

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

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

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

Right of Use assets are depreciated over the shorter of lease term and estimated useful life. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on 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.



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

### (d) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets with definite lives are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any. Indefinite lived intangibles are not amortised, instead they are tested for impairment annually.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised. Instead, the related expenditure is recognised in profit or loss in the period in which the expenditure is incurred.

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

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.

### (e) Impairment of non-financial assets

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

### (f) Financial instruments — initial recognition and subsequent measurement

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

#### (i) Financial assets

##### Initial recognition and measurement

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





## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date at which the Group commits to purchase or sell the asset.

The Group financial assets include cash and cash equivalents, receivable and other current assets and amounts due from related parties.

### Subsequent measurement

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

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

### Financial assets at fair value through profit or loss

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value 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.

### Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

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

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

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



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

### **Financial assets at fair value through OCI (debt instruments)**

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

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

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

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

### **Financial assets designated at fair value through OCI (equity instruments)**

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

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

### **Derecognition**

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

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

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

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





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 2. Significant Accounting Policies continued

#### Impairment of financial assets

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

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

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

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

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

#### (ii) Financial liabilities

##### Initial recognition and measurement

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

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



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

### 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 are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

#### **Loans and borrowings**

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

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

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

#### **(g) Cash and short-term deposits**

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

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

#### **(h) Inventories**

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

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

#### **(i) Trade payables**

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





## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

### (j) Borrowing cost

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

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

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

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

### (k) Current and deferred income tax

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

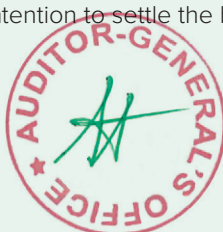
The current income tax charge is calculated on the basis of the tax laws enacted. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts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

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

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.



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

### (l) Royalties and development levies

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

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

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

#### **Accounting policies applied from 1 January 2019**

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

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

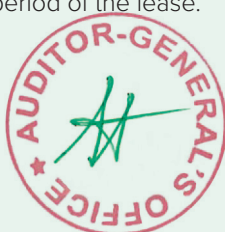
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably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

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

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

#### **Accounting policies applied until 31 December 2018**

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.





## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

#### 2. Significant Accounting Policies continued

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.

#### (n) Provisions

##### (i) General

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

##### (ii) Decommissioning liability — rehabilitation and restoration

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

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

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

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

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Parent entity considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to profit or loss.



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

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.

### (o) Revenue Recognition

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

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

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

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

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

### Sale of oil and petroleum products

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





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 2. Significant Accounting Policies continued

#### (i) Variable consideration

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

#### (ii) Significant financing component

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

#### Dividend Income

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

#### Interest Income

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

#### Contract balances

##### Contract assets

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

##### Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section b) Financial instruments — initial recognition and subsequent measurement. Refer to Note 12 for the balances of trade receivables.

##### Contract liabilities

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



**Notes to the consolidated Financial Statements**  
for the year ended 31 December 2019

**2. Significant Accounting Policies continued**

**(p) 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.

**(q) Share/contributed capital**

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

**(r) Fair value measurement**

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

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

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

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

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

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





**Notes to the consolidated Financial Statements**  
for the year ended 31 December 2019

## 2. Significant Accounting Policies continued

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.



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

### 3. Significant accounting judgements, estimates and assumptions continued

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

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

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

#### (b) Estimates and assumptions

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

#### (i) Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on 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





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 3. Significant accounting judgements, estimates and assumptions continued

#### (ii) Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from future either exploration or sales, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself 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.



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

### 3. Significant accounting judgements, estimates and assumptions continued

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

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

#### (vi) Kroton equity option and conversion

As disclosed in Note 25 of this financial report, management has accounted for the Kroton Equity Option and Conversion in accordance with the group accounting policy, terms of the instruments and the applicable accounting standard. Given the nature of the transaction, it is considered to be a complex transaction which has occurred outside of the normal course of business. The accounting for the transaction includes a number of significant judgments, assumptions and estimates involved. The following assumptions are considered to be the key material assumptions adopted in the recognition and measurement of the transaction:

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

#### (vii) Notice of intent to cancel PDL 10

Repsol, as operator of the PDL 10 licence in PNG, received notices of intent to cancel PDL 10 and a notice to terminate the Stanley Gas Agreement for PDL 10 from the PNG Petroleum Minister. The licensees submitted a written response to the Minister on 24 July 2018. Repsol and the Group are of the view that the notices are without merit and are procedurally invalid. Meetings were held with the Minister to resolve the matter and discussions were constructive. Owing to procedural timelines arising from the Minister’s notices and the Stanley gas agreement, Repsol, on behalf of the joint venture, initiated the formal dispute resolution process required under the gas agreement, referring the matter to arbitration in November 2018. Initiation of the formal process serves to ensure parties’ positions are safeguarded. Whilst the notices are a potential indicator of impairment, on the basis that tenure remains current, and the notices are without merit and procedurally invalid, no impairment has been recorded as at 31 December 2019. In the event that the licences were to be cancelled, whilst the Group would likely mount a strong legal challenge, the maximum impairment charge that would be recorded at 31 December 2019 is US\$9.3 million. Refer to note 25 for subsequent event.





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 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 2019	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Assets</b>				
Financial assets through OCI	—	—	—	—
<b>Liabilities</b>				
Other financial liabilities	—	—	(208,000)	(208,000)
	—	—	(208,000)	(208,000)

	Level 1	Level 2	Level 3	Total
As at 31 December 2018	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Assets</b>				
Financial assets through OCI	—	—	—	—
<b>Liabilities</b>				
Other financial liabilities	—	—	(213,000)	(213,000)
	—	—	(213,000)	(213,000)

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

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

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

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



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

## 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:

	2019	2018
	US\$'000	US\$'000
<b>Denominated in PNG KINA</b>		
Cash and cash equivalent	4,932	683
Borrowings	(128,975)	(130,565)
<b>Total</b>	<b>(124,043)</b>	<b>(129,882)</b>

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

	Effect on profit before tax for the year ended 31 December 2019 Increase/(Decrease)	Effect on profit before tax for the year ended 31 December 2018 Increase/(Decrease)
<b>USD Against PGK</b>	<b>US\$'000</b>	<b>US\$'000</b>
Weakened +5% (2018: +5%)	(6,202)	(6,494)
Strengthened -5% (2018: -5%)	6,202	6,494

##### (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:

	Effect on profit before tax for the year ended 31 December 2019 Increase/(Decrease)	Effect on profit before tax for the year ended 31 December 2018 Increase/(Decrease)
<b>Increase/decrease in basis points</b>	<b>US\$'000</b>	<b>US\$'000</b>
+50	(8,918)	(9,771)
-50	8,918	9,771



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 5. Financial risk management policies and objectives continued

#### (b) Liquidity risk

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

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

	On demand	<1 year	1–5 years	>5 years	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>2019</b>					
Trade creditors and other liabilities	–	73,204	–	–	73,204
Finance lease obligation	–	18,737	71,426	140,225	230,388
Borrowings including future interest	–	399,177	1,740,653	–	2,139,830
Other financial liabilities	–	14,000	60,625	133,375	208,000
	–	505,118	1,872,704	273,600	2,651,422
	On demand	<1 year	1–5 years	>5 years	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>2018</b>					
Trade creditors and other liabilities	–	66,655	–	–	66,655
Finance lease obligation	–	11,131	44,551	125,901	181,583
Borrowings including future interest	–	425,085	1,564,827	464,417	2,454,329
Other financial liabilities	–	9,450	47,894	155,656	213,000
	–	512,321	1,657,272	745,974	2,915,567

#### (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:

	2019	2018
	US\$'000	US\$'000
Cash at bank	217,371	110,966
Trade receivables	200,932	252,384
<b>Total</b>	<b>418,303</b>	<b>363,350</b>

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.



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 5. Financial risk management policies and objectives continued

#### Capital management

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

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

### 6. Revenue from contracts with customers

#### Type of goods

	2019	2018
	US\$'000	US\$'000
Revenue from sale of:		
Liquefied natural gas	695,118	707,062
Condensates	108,412	52,123
Naphtha	10,428	8,688
Crude Oil	8,085	6,837
Power and other sales	–	1,960
<b>Total revenue from contracts with customers</b>	<b>822,043</b>	<b>776,670</b>

#### Geographical markets

	2019	2018
	US\$'000	US\$'000
Japan	259,035	313,265
Republic of China	117,992	60,732
People's Republic of China	286,615	369,300
Singapore	79,251	27,171
Others	79,150	6,202
<b>Total revenue from contracts with customers</b>	<b>822,043</b>	<b>776,670</b>

All revenue recognized at point in time.

### 7. Cost of sales

	2019	2018
	US\$'000	US\$'000
Production cost	144,250	147,100
Depreciation of oil and gas assets	141,083	137,305
Royalty and development levy charges	13,070	10,832
Movement in product inventories	–	(219)
<b>Total</b>	<b>298,403</b>	<b>295,018</b>





# KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

## Notes to the consolidated Financial Statements for the year ended 31 December 2019

### 8. Other income

		2019	2018
	Notes	US\$'000	US\$'000
Hides Gas to Electricity (HGTE) income	(i)	6,728	2,970
Miscellaneous income		6,967	7,029
<b>Total</b>		<b>13,695</b>	<b>9,999</b>

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

### 9. Cost and expenses

#### (a) Other operating expenses

	2019	2018
	US\$'000	US\$'000
Donations and community sponsorship	8,856	3,015
Rental expense	456	1,383
Travel and accommodation	1,568	3,304
Communication and information technology	986	1,137
Security and safety	516	565
Insurance expense	111	160
Directors fees and other expenses	520	152
Meeting and conferences	389	392
Recruitment and training expense	560	493
Subscriptions	250	301
Stationery and supplies	70	89
Advertising and media	209	171
Motor vehicle expenses	93	260
Utilities, repairs and maintenance	166	400
Other costs	5,870	1,282
<b>Total</b>	<b>20,620</b>	<b>13,104</b>

#### (b) Consultancy and professional services

	2019	2018
	US\$'000	US\$'000
Consultancy fees	5,040	4,228
Audit fees	954	1,010
Legal fees	30	221
<b>Total</b>	<b>6,024</b>	<b>5,459</b>



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 9. Cost and expenses continued

#### (c) Employee benefits expense

	2019	2018
	US\$'000	US\$'000
Salaries and wages	7,135	7,446
Short term and long term incentive	7,421	3,005
Housing benefits	281	843
Annual and long service leave	382	703
Other benefits	952	893
<b>Total</b>	<b>16,171</b>	<b>12,890</b>

#### (d) Finance costs

	2019	2018
	US\$'000	US\$'000
Loans and borrowings	122,604	127,135
Finance lease obligation	11,452	9,689
Accretion on rehabilitation provision	1,706	1,160
<b>Total</b>	<b>135,762</b>	<b>137,984</b>

### 10. Current and deferred income tax

#### (a) Income tax expense

	2019	2018
	US\$'000	US\$'000
Current income tax expense	46,816	45,093
Deferred tax expense and others	64,123	51,478
Income tax expense reported in profit or loss	110,939	96,571
Prima facie tax expense is presented as follows:		
Profit before tax expense	338,896	240,056
Prima facie tax @ 30%	101,669	72,017
Non-deductible expenses	3,108	42,310
Movement in DTA previously not recognized	6,162	(17,756)
Income tax expense as reported in profit or loss	<b>110,939</b>	<b>96,571</b>





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 10. Current and deferred income tax continued

#### (b) Net deferred tax liabilities

	2019	2018
	US\$'000	US\$'000
<b>Deferred tax asset</b>		
Balance at beginning of year	24,453	13,955
Deductible temporary differences and tax losses to profit or loss	(13,289)	10,074
Tax losses recognised	1,035	424
<b>Balance at end of year</b>	<b>12,199</b>	<b>24,453</b>
<b>Deferred tax liability</b>		
Balance at beginning of year	(294,392)	(224,505)
Taxable temporary differences to profit and loss	(53,071)	(69,887)
<b>Balance at end of year</b>	<b>(347,463)</b>	<b>(294,392)</b>
<b>Net deferred tax liabilities</b>	<b>(335,264)</b>	<b>(269,939)</b>

The net deferred tax liabilities comprises the tax effect of:

Rehabilitation and restoration liability	6,159	5,089
Leased assets	4,076	2,946
Oil and gas / plant and equipment	(347,395)	(278,880)
Provisions	568	543
Prepayments	(66)	(61)
Tax losses carry-forward	1,394	424
<b>Net deferred tax liabilities</b>	<b>(335,264)</b>	<b>(269,939)</b>

#### (c) Refund (Provision) for income tax refund

Opening balance for provision for income tax	(11,083)	(12,186)
Current tax expense	(53,366)	(45,916)
Common control business combination	–	1,248
Payments made during the year	49,869	37,719
Tax credits during the year	6,535	5,350
Under / Over Provision of Tax in Prior Years	1,218	2,702
<b>Closing balance of refund (provision) for income tax refund</b>	<b>(6,827)</b>	<b>(11,083)</b>



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 11. Cash and cash equivalents

	2019	2018
	US\$'000	US\$'000
Cash in bank	217,354	110,949
Share of joint venture cash at bank	17	17
<b>Total</b>	<b>217,371</b>	<b>110,966</b>

The cash at bank does not include any restricted cash held by the bank for interest payment and letters of credit as at 31 December 2019 (2018: Nil).

### 12. Receivables and other current assets

	2019	2018
	US\$'000	US\$'000
Trade receivables	62,475	68,142
Undistributed cash from PNG LNG Project	138,457	184,242
Prepayments in joint operations	4,531	4,467
General prepayments	402	715
GST receivables	568	281
Tax credit scheme	–	279
Others	4,508	5,162
<b>Total</b>	<b>210,941</b>	<b>263,288</b>

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

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

Lifetime ECL impairment is assessed by individual customer basis and group of customers, based on historical write-offs, customer ratings and payment cycles of the customers. The Group recognized impairment loss amounting to US\$ 0.4 million in 2019 (2018: nil).

### 13. Inventories

	2019	2018
	US\$'000	US\$'000
Spare parts and consumables	18,540	17,985
LNG, Naphtha and condensate products	8,027	6,797
<b>Total</b>	<b>26,567</b>	<b>24,782</b>





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 14. Oil and gas assets

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

	Assets in production	Assets in evaluation and exploration	Right of Use Asset (tugs and vessels)	Total
31 December 2018	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Cost</b>				
Balance at 1 January 2018	4,170,660	71,231	81,716	4,323,607
Additions for the year	22,428	37,178	–	59,606
Reclassification	3,547	(3,547)	–	–
<b>Balance at 31 December 2018</b>	<b>4,196,635</b>	<b>104,862</b>	<b>81,716</b>	<b>4,383,213</b>
<b>Accumulated Depreciation</b>				
Balance at 1 January 2018	577,472	26,416	10,035	613,923
Additions for the year	128,685	–	4,173	132,858
Impairment loss	–	6,942	–	6,942
<b>Balance at 31 December 2018</b>	<b>706,157</b>	<b>33,358</b>	<b>14,208</b>	<b>753,723</b>
<b>Net Book Value at 31 December 2018</b>	<b>3,490,478</b>	<b>71,504</b>	<b>67,508</b>	<b>3,629,490</b>

#### 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.



# KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

## Notes to the consolidated Financial Statements for the year ended 31 December 2019

### 14. Oil and gas assets continued

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

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

### 15. Property, plant and equipment

	Software	Motor Vehicles	Leasehold Improvement	Furniture & Fittings	Plant & Equipment	Capital Work in Progress	Total
2019	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>COST</b>							
Balance at 1 January 2019	3,323	1,265	4,029	460	1,243	19,793	30,113
Additions	63	412	1,908	1	30	12,575	14,989
Transfers	–	–	–	–	–	(512)	(512)
Disposals	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	(8,623)	(8,623)
Balance at 31 December 2019	3,386	1,677	5,937	461	1,273	23,233	35,967
<b>ACCUMULATED DEPRECIATION</b>							
Balance at 1 January 2019	2,476	510	1,830	389	981	–	6,186
Depreciation	866	221	1,402	49	212	–	2,750
Disposals	–	–	–	–	–	–	–
Balance at 31 December 2019	3,342	731	3,232	438	1193	–	8,936
Net book value at 31 December 2019	44	946	2,705	23	80	23,233	27,031
<b>2018</b>							
	Software	Motor Vehicles	Leasehold Improvement	Furniture & Fittings	Plant & Equipment	Capital Work in Progress	Total
2018	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>COST</b>							
Balance at 1 January 2018	3,323	1,140	1,860	460	1,147	24,067	31,997
Additions	–	125	2,169	–	96	777	3,167
Transfers	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	(5,051)	(5,051)
Balance at 31 December 2018	3,323	1,265	4,029	460	1,243	19,793	30,113
<b>ACCUMULATED DEPRECIATION</b>							
Balance at 1 January 2018	1,560	370	1,602	355	760	–	4,647
Depreciation	916	140	228	34	221	–	1,539
Disposals	–	–	–	–	–	–	–
Balance at 31 December 2018	2,476	510	1,830	389	981	–	6,186
Net book value at 31 December 2018	847	755	2,199	71	262	19,793	23,927

## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 16. Rehabilitation and restoration assets

	2019	2018
	US\$'000	US\$'000
<b>COST</b>		
Opening balance	65,351	35,461
Adjustment*	17,362	29,890
<b>Closing Balance</b>	<b>82,713</b>	<b>65,351</b>
<b>ACCUMULATED DEPRECIATION</b>		
Opening balance	11,584	10,646
Depreciation charge	1,790	938
<b>Closing Balance</b>	<b>13,374</b>	<b>11,584</b>
<b>Closing net book value</b>	<b>69,339</b>	<b>53,767</b>

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

### 17. Interest in joint ventures

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

Summarised statement of financial position of joint ventures:

	2019	2018
	US\$'000	US\$'000
Total Assets	88,078	74,764
Total Liabilities	–	–
Equity	88,078	74,764
Group's share in equity (50%)	44,039	37,382
Goodwill	–	–
<b>Carrying amount of the investment</b>	<b>44,039</b>	<b>37,382</b>

Summarised statement of comprehensive income of joint ventures:

	2019	2018
	US\$'000	US\$'000
Consultancy fee	8	8
<b>Total comprehensive loss</b>	<b>8</b>	<b>8</b>





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 17. Interest in joint ventures continued

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

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

### 18. Trade and other payables

	2019	2018
	US\$'000	US\$'000
Trade creditors	4,510	12,019
Cash call advance	35,293	18,497
Accrued interest	6,384	5,591
Royalty and development levy	7,214	6,344
Other liabilities and accrual	19,803	24,204
<b>Total</b>	<b>73,204</b>	<b>66,655</b>

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.

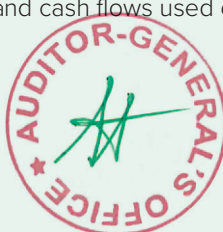
### 19. Provisions

	2019	2018
	US\$'000	US\$'000
<b>Current:</b>		
Employee benefits	288	668
<b>Noncurrent:</b>		
Employee benefits	1,326	1,143
Rehabilitation and restoration liability	122,605	103,465
	123,931	104,608
<b>Total</b>	<b>124,219</b>	<b>105,276</b>

The reconciliation of rehabilitation and restoration liability is summarized below:

	2019	2018
	US\$'000	US\$'000
<b>Opening balance</b>	<b>103,465</b>	<b>73,055</b>
Accretion of interest	1,777	1,603
Adjustment*	17,363	28,807
<b>Closing Balance</b>	<b>122,605</b>	<b>103,465</b>

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



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 20. Loans and borrowings

		2019	2018
	Notes	US\$'000	US\$'000
The balance is made up as follows:			
Secured loan from joint operation	20a	1,654,693	1,846,118
BSP Loan	20b	128,975	130,565
Lease liabilities	20c	126,876	77,330
		<b>1,910,544</b>	<b>2,054,013</b>

Presented in the statement of financial position:

<b>Current:</b>			
Secured loan from joint operation	20a	170,151	188,546
BSP loan	20b	128,975	130,565
Finance lease obligation	20c	7,580	1,441
		<b>306,706</b>	<b>320,552</b>
<b>Noncurrent:</b>			
Secured loan from joint operation	20a	1,484,542	1,657,572
Finance lease obligation	20c	119,296	75,889
		<b>1,603,838</b>	<b>1,733,461</b>
<b>Total</b>		<b>1,910,544</b>	<b>2,054,013</b>

#### (a) Secured loan from joint operation

The Group has an existing loan through Papua New Guinea Liquefied Natural Gas Global Company LDC ("GloCo"), a limited duration company incorporated under the laws of the Commonwealth of the Bahamas (the "Borrower") that was organised to conduct certain activities of the PNG LNG Project outside of PNG, including the borrowing and on-lending to the Participants of Senior Debt, and the purchase and re-sale of Project LNG and Project Liquids. The Borrower is owned by each participant in a percentage equal to its Project Interest. The Group's interest in the project as at 31 December 2019 is 16.78% (2018: 16.78%).

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

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

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.



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

#### 20. Loans and borrowings continued

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

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

The Group has also granted security over:

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

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

The breakdown of loan balance is as follows:

	2019	2018
	US\$'000	US\$'000
Current loan		
Loan – principal	186,507	204,902
Unamortized finance fees	(16,356)	(16,356)
	<b>170,151</b>	<b>188,546</b>
Noncurrent loan		
Loan – principal	1,513,887	1,700,393
Unamortized finance fees	(29,345)	(42,821)
	<b>1,484,542</b>	<b>1,657,572</b>
Total	<b>1,654,693</b>	<b>1,846,118</b>

#### (b) BSP Loan

The Group has outstanding loan with principal amount of US\$129 million (2018: 131 million) from Bank of South Pacific to fund the dividend payment to the shareholder, fund the interest reserve accounts, payment of fees and cost related to this loan and to fund the working capital and general corporate purposes of the Group.

In 2015, the loan agreement was amended and the principal repayment term was changed from 8 equal quarterly instalments to one lump sum payment on 30 September 2017. The effective interest rate is 6.05% in 2019 (2018: 6.15%). Subsequently, the loan has been rolled over for another year and will mature on 31 May 2020.

#### (c) Lease liabilities

The Group leases LNG carriers and tug facilities under finance lease. Two LNG carrier finance leases started in 2015 and additional one carrier started in 2016, addition two LNG carriers initially recorded as operating expenses in the prior years is now recorded in the statement of financial position as required by IFRS 16 — Leases. The leases have terms of between 10 and 20 years with varying renewal options. Title does not pass to the Group on expiration of the relevant lease period. Please refer to Note 23 for the finance lease commitment disclosure.





## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 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.

	2019	2018
	US\$'000	US\$'000
<b>Share capital and contributed capital</b>		
Share capital	1,292,478	1,292,478
Contributed capital*	(121,753)	(121,753)
Return of capital	(129,141)	(91,992)
<b>Total share/contributed capital</b>	<b>1,041,584</b>	<b>1,078,733</b>

Number of Ordinary Shares	2019	2018
<b>Number of issued and paid up ordinary shares:</b>		
Balance at beginning of the period	100	100
Ordinary shares issued and paid during the year	—	—
Ordinary shares disposed-off during the year	—	—
<b>Balance at 31 December</b>	<b>100</b>	<b>100</b>
<b>Authorised ordinary shares</b>	<b>100</b>	<b>100</b>

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

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

On 9 February 2018, a restraining order was issued by the National Court which stopped the parties from completing or otherwise executing the terms of the sale and purchase agreement on 12 October 2017 regarding the disposition of the 5% equity of EOL's interest in PDL5.

On 15 August 2019, the court dismissed the proceedings which paved the way for the shares to be transferred as per the share sale agreement dated 12 October 2017.

Whilst there is a legal transfer of shares from KPDL to MOL, the Company has assessed that there is no economic substance to the transaction. The net assets value of EOL is significantly lower than the purchase price consideration of PGK10 million at grant date and at 31 December 2019. Further, considering the current financial performance and the current economic downturn in the oil industry, it is evident as at 31 December 2019 that it is not probable that future economic benefits will be realised to enable MOL to settle the purchase price consideration. Accordingly, no accounting entries have been recorded as at 31 December 2019.



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 21. Equity continued

#### (b) Dividends to State

The Board has declared a dividend of US\$59 million (PGK200 million) for the year ended 31 December 2019 (2018: US\$76.23 million (PGK250 million)).

#### (c) Other distribution from equity

Following the earthquake that impacted the Highlands in 2018, the NEC, in its decision no. 82/2018, directed the Group to donate US\$14.98 million (PGK50 million) to the Earthquake Disaster Relief Appeal. This amount has been accounted for as a reduction in equity as it represents a transaction with the owners in their capacity as owners.

#### (d) Reserves

		2019	2018
	Notes	US\$'000	US\$'000
Balance at the beginning of the year		9,446	24,949
Kroton Equity:	24		
Share-based payment reserve		—	(15,503)
		<b>9,446</b>	<b>9,446</b>

### 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:

	2019	2018
	US\$'000	US\$'000
Remuneration	1,211	1,501
Sitting allowance	10	—
Short term incentive	482	365
Long term retention	375	163
	<b>2,078</b>	<b>2,029</b>



# KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

### 22. Related party transactions continued

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

Name	Principal activities	Country of incorporation	Date of incorporation/ acquisition	Status	% Equity interest	
					2019	2018
Kumul Petroleum (Kroton) Limited	Holds the State's interest in the PNG LNG Project	PNG	20 June 2008	Operational	100%	100%
Kumul Petroleum (Investments) Limited	Holds interest in marketable securities	PNG	15 October 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%	100%
Kumul LNG Limited*	Established as a special purpose entity to hold interests in the PNG LNG Project	PNG	19 May 2009	Operational	100%	100%
NPCP Oil Company Pty Ltd*	Exploration and production activities in oil and gas	Australia	20 November 2015	Operational	100%	100%
Kumul Petroleum (Pipeline) Limited	Incorporated to the interest in the Western Pipeline (Strategic Pipeline) project.	PNG	30 October 2015	Operational	100%	100%
Kumul Petroleum (Tech & Advisory) Limited	To participate in the Kumul Academy and any other up-skilling and training ventures that the Group undertakes	PNG	8 September 2015	Operational	100%	100%
Kumul Security Agent Ltd	Fund management activities	Singapore	31 August 2016	Operational	100%	100%
Kumul Lending Co Pte Ltd	Fund management activities	Singapore	8 August 2016	Operational	100%	100%
Kumul Exploration (Asia) Pte Limited	Service activities incidental to oil and gas extraction and crude petroleum and natural gas production.	Singapore	2 March 2017	Operational	100%	100%
Kumul Petroleum Marketing Pte Limited	Marketing of liquefied natural gas, condensate and other related products	Singapore	28 April 2017	Operational	100%	100%
Kumul Energy Limited	Holds interest in all future power generation projects	PNG	19 September 2015	Inactive	100%	100%
Kumul Petroleum Exploration Limited	To hold interest in new exploration activities	PNG	8 September 2015	Inactive	100%	100%
Kumul Petroleum Drilling Services Limited	To hold interest in drilling and related services	PNG	19 September 2015	Inactive	100%	100%
Kumul Petroleum Downstream Limited	To hold interest in downstream & petrochemical related activities	PNG	8 September 2015	Inactive	100%	100%

\*Indirectly owned through its wholly owned subsidiary — Kumul Petroleum Development Limited





# KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

## Notes to the consolidated Financial Statements for the year ended 31 December 2019

### 22. Related party transactions continued

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

Name	Principal activities	Principal place of business	% Equity interest	
			2019	2018
PDL 1	Hides gas field	PNG	20.5	20.5
PDL 7	South Hides gas field	PNG	20.5	20.5
PDL 8	Angore gas field	PNG	20.5	20.5
PDL 9	Juha gas field	PNG	20.5	20.5
PNG LNG	PNG LNG Project	PNG	16.79	16.79
PPFL 2	PNG LNG Project	PNG	16.57	16.57
PL 4	PNG LNG Project	PNG	16.57	16.57
PL 5	PNG LNG Project	PNG	16.57	16.57
PL 6	PNG LNG Project	PNG	16.57	16.57
PL 7	PNG LNG Project	PNG	16.57	16.57
PL 8	PNG LNG Project	PNG	16.57	16.57
PDL 3	South East Gobe oil field	PNG	3.29	3.29
PL2 LE	South East Gobe oil field	PNG	0.02	0.02
PRL 9	Barikewa gas field	PNG	14.89	14.89
PRL 14	Cobra, Lehi, Bilip gas field	PNG	10.94	10.94
PNG LNG	PNG LNG Global Company LDC	Bahamas	16.79	16.79
PDL 5	Moran oil field	PNG	11.75	11.75
PDL 10	Stanley	PNG	10.00	10.00
PL 10	Stanley	PNG	10.00	10.00
PRL 8	Kimu	PNG	17.00	17.00
PRL 40	Pukpuk, Douglas, Langia, NW Koko and Weimang	PNG	40.00	40.00

### (d) Share in joint operation's financial information

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



# KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

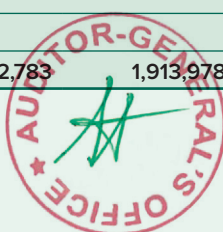
## Notes to the consolidated Financial Statements for the year ended 31 December 2019

### 22. Related party transactions continued

#### Share in net assets

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

	PDLs (1,7,8,9)	PNG LNG Project	Gloco	Moran (PDL 5)	Balance
2018	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Current assets</b>					
Cash and cash equivalents	–	–	127,271	–	127,271
Receivables	–	6,688	62,729	600	70,017
Prepayments and other receivables	243	4,335	–	–	4,578
Inventory	–	18,022	–	455	18,477
<b>Noncurrent assets</b>					
Oil and gas assets	39,367	3,543,112	–	14,285	3,596,764
Receivable from participants	–	–	1,930,895	–	1,930,895
<b>Current liabilities</b>					
Trade and other payables	(4,991)	(10,936)	(76,026)	(592)	(92,545)
Other liabilities	(1,836)	(1,599,890)	(71,480)	(1,531)	(1,674,737)
Borrowings	–	(47,353)	(1,846,118)	–	(1,893,471)
Payable to Participants	–	–	(127,254)	–	(127,254)
<b>Net Assets</b>	<b>32,783</b>	<b>1,913,978</b>	<b>17</b>	<b>13,217</b>	<b>1,959,995</b>



# KUMUL PETROLEUM HOLDINGS LIMITED AND ITS SUBSIDIARIES

## Notes to the consolidated Financial Statements for the year ended 31 December 2019

### 22. Related party transactions continued

#### Share in revenue and expense

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

	PDLs (1,7,8,9)	PNG LNG Project	Gloco	Moran (PDL 5)	Balance
2018	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	–	–	767,874	–	767,874
Cost of sales	–	(715,076)	(10,700)	(4,056)	(729,832)
<b>Gross Profit</b>	–	<b>(715,076)</b>	<b>757,174</b>	<b>(4,056)</b>	<b>38,042</b>
Other income	–	16,888	1,540	–	18,428
Consultancy and professional service	–	–	(121)	–	(121)
Operating profit	–	(698,188)	758,593	(4,056)	56,349
Interest income	–	–	5,672	–	5,672
Finance costs	–	(9,572)	(118,615)	–	(128,187)
<b>Net profit/(loss)</b>	–	<b>(707,760)</b>	<b>645,650</b>	<b>(4,056)</b>	<b>(66,166)</b>

### 23. Commitments

#### (a) Capital expenditure commitments

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

	2019	2018
	US\$'000	US\$'000
Capital expenditure commitments	161,809	172,771

#### (b) Lease commitments

	US\$'000
Operating lease commitments disclosed as at 31 December 2018	66,984
(Less:) Executed leases not commenced prior to 1 January 2019	–
Discounted using the weighted average incremental borrowing rate at date of initial application of 3.7%	(10,235)
Implementation impact of IFRS 16 effective 1 January 2019	56,749
Finance lease liability recognised as at 31 December 2018	77,330
<b>Liability recognized as at 1 January 2019</b>	<b>134,079</b>



## Notes to the consolidated Financial Statements

### for the year ended 31 December 2019

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

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

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

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

Timeline of the option exercise date:

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

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

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

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



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

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

#### 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 balance date.

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

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

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



## Notes to the consolidated Financial Statements

for the year ended 31 December 2019

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

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

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

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

The fair value of the liability at the balance date was US\$208million (2018: US\$213 million). The decrease in the liability of US\$ 5 million in 2019 (2018: US\$28.7 million increase) was recognised in the profit and loss.

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	
PDL 6 (Moran) Landowners	0.77%
PDL 4 (Gobe) Landowners	0.77%
PDL 9 (Juha) Landowners	0.90%
PDL 8 (Angore) Landowners	1.67%
Fly River Provincial Government	0.26%
Gulf Provincial Government	0.64%
Central Provincial Government	0.64%
PL Landowners	2.06%
PPFL Landowners	2.83%
	25.75%

As at 31 December 2019, US\$ 15.00 million (2018: US\$ 30.00 million) has been accrued for NCI's dividends. In 2019, the Group paid US\$ 30 million dividends which was accrued in the prior year (2018: US\$ nil).





**Notes to the consolidated Financial Statements**  
for the year ended 31 December 2019

**25. Subsequent events**

The Group declared and paid a dividend of US\$ 57.95 million (K 200million) to the State for the 31 December 2020 year end. The board declared a dividend of US\$ 45.8million (K 163million) to the State for the 31 December 2021 year end in line with NEC decision number 09/2021 in February 2021.

The World Health Organisation declared a pandemic in relation to the Novel Coronavirus (COVID-19) on 11 March 2020. The outbreak is causing unprecedented social disruption, and global economic and financial markets volatility. As the emergence of the situation is in its earlier stages, the full extent of exposures to and impacts on the Group are uncertain. The Group is assessing and closely monitoring emerging risks and take appropriate and timely actions to minimise the impact.

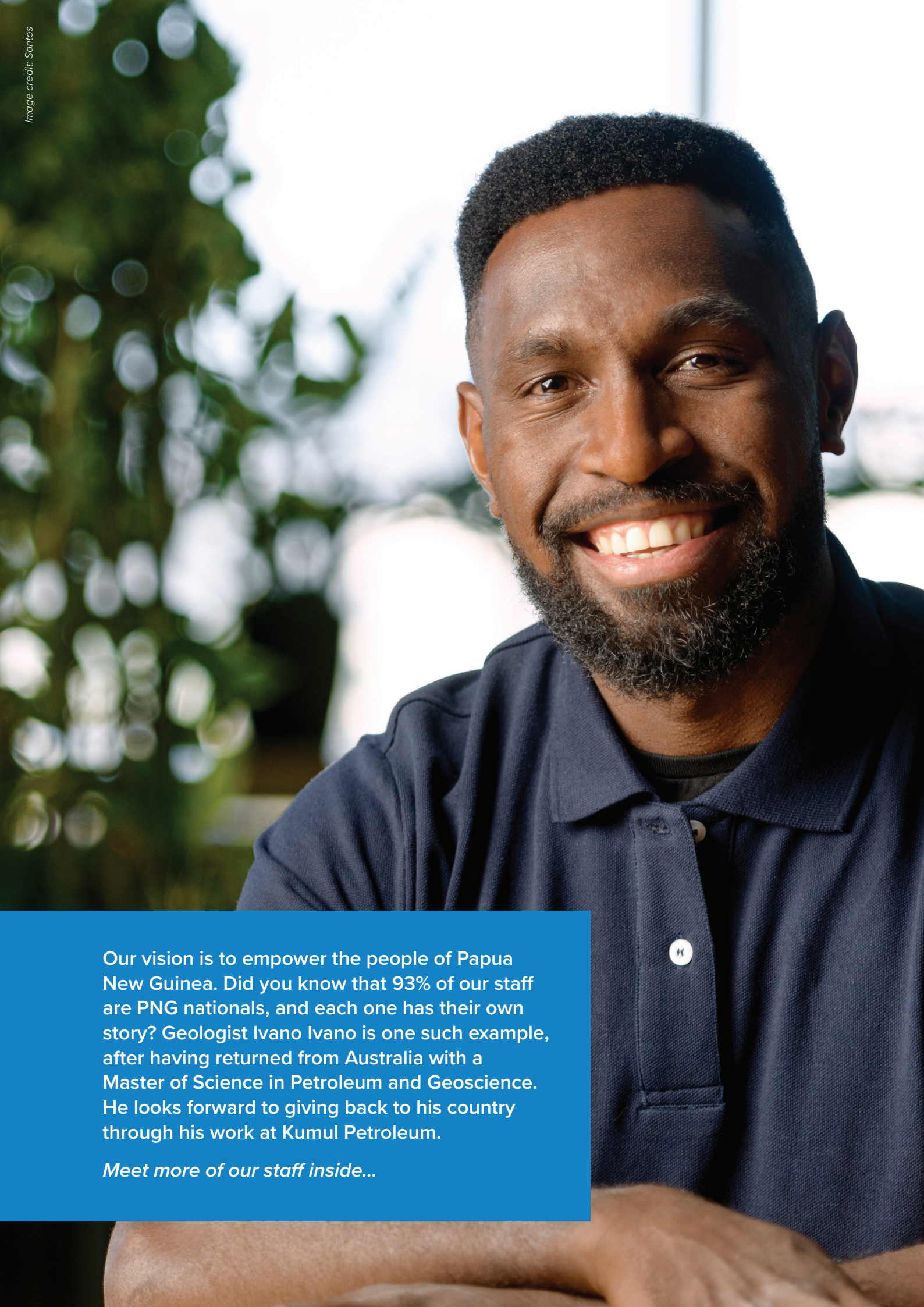
Following the Notice of intent to cancel PDL 10 by the PNG Petroleum Minister disclosed in note 3b(vii), Arran Energy acquired the Repsol's interest in PDL 10 in January 2020, Arran Energy further acquired both Osaka and Horizon's interest in PDL 10. Arran Energy now has 90% interest in PDL10 and is the Operator while KPHL has a 10% interest in the Licence. On 3rd February 2021, Arran Energy advised the State that the Arbitration proceedings and the National Court Stay order were nullified and withdrawn after the State and Arran have agreed to discontinue the proceedings. Arran's Arbitrator has to write back to Arran acknowledging the withdrawal of the proceedings and the PNG National Court Registry has to be searched to discontinue the proceedings. On 29 April 2021, Arran provided an update to the State advising that the Courts remain closed (due to Covid) and therefore leave to discontinue proceedings has not yet been granted. Once the proceedings are discontinued, then Arran will provide the State with a written confirmation. Arran is now working on the Project Decision and Development Plan (which is essentially the same as the one submitted by Horizon in 2012 and approved by the Minister in 2014) and the Stanley Development Plan is being revised.

Apart from the above, there is, at the date of this report, no other matter or circumstance that has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

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





A close-up portrait of a smiling Black man with a short beard and mustache, wearing a dark blue polo shirt. He is looking directly at the camera. The background is a soft-focus outdoor scene with green foliage and a bright light source, creating a bokeh effect.

Our vision is to empower the people of Papua New Guinea. Did you know that 93% of our staff are PNG nationals, and each one has their own story? Geologist Ivano Ivano is one such example, after having returned from Australia with a Master of Science in Petroleum and Geoscience. He looks forward to giving back to his country through his work at Kumul Petroleum.

*Meet more of our staff inside...*