



# **KINA PETROLEUM LIMITED**

## **ANNUAL REPORT**

**COMPANY NO. 1-63551 ARBN 151 201 704**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

## DIRECTORS' REPORT

The Directors present their report on the Company and its controlled entities for the year ended 31 December 2014.

### DIRECTORS

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

#### **John Prendiville – Non Executive Chairman, Resigned 6 November 2014**

John is a graduate of the Royal Military College, Duntroon. He has a BSc (Hons) and MBA. John was a chairman of Macquarie Capital Advisors, based in Sydney, and was head of the global resource group for Macquarie. John was with Macquarie for 20 years and was instrumental in some of the largest and most complex takeovers, financings and transactions in Australia and offshore. Over the last 8 years, he built their resource team from one primarily focused in Australia to one of the largest and most profitable teams globally in mining and metals and, more importantly, the oil and gas space globally, from Houston to Calgary, London, Africa, Asia and Australia.

#### **Richard Robinson, Non-Executive Director, Appointed Chairman 6 November 2014**

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

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

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

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

Richard's 30 years of experience extends to both UK and Norwegian sectors of the North Sea, Africa, Indonesia, PNG, NZ and onshore and offshore Australia. Richard has 20 years of experience as an operator in the lowland and highland jungles of PNG and has managed junior companies such as Sydney Oil Company as well as majors such as Santos in the capacity of Exploration Manager, South East Asia.

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

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

Ila achieved a distinguished career with the University of Papua New Guinea, the National Research Institution, the Australian National University and the University of California, Davis USA, where he was awarded his PhD. Ila entered the private sector in 1996 when he was appointed Managing Director, Mineral Resources Company and during 2000 he accepted the appointment as General Manager, Government Relations, Placer Niugini Ltd. Ila is President, PNG Chamber of Mines and Petroleum, Director Corporate Affairs, Australia Pacific, for Barrick PNG, Non-Executive Director Bank South Pacific Limited, Chairman of PNG Ports Corporation, Director Bank of South Pacific Capital Port Moresby and Council Member, Divine Word University.

## DIRECTORS' REPORT

### Barry Tan, Non-Executive Director

Appointed 1<sup>st</sup> March, 2009 on the formation of Kina Petroleum Limited as the Executive Director, Barry Tan is a naturalised citizen of Papua New Guinea and has spent over 35 years in Papua New Guinea developing and operating various businesses in Papua New Guinea. Barry is currently Chairman of TST Trading, Chairman of the TST Group of Companies that span property development and running supermarket franchises in PNG and also diversified industry through Starland Freezers, Tanpac and Kokoda Tailoring.

Barry brings to the Company a wealth of knowledge in understanding the culture of PNG and the most efficient way to run the business. Barry also has a strong network of interpersonal relationships in commerce in PNG through his various associations.

### David Vance, Non-Executive Director, Appointed 6 November 2014

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

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

## COMPANY SECRETARY

The Company Secretary as at the end of the financial year and at the date of this report is:

### Peter Impey, Company Secretary

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

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

## PRINCIPAL ACTIVITIES

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

## OPERATING RESULTS

The net loss of the consolidated group after income tax for the year was US\$3,259,818 (2013: US\$3,233,747).

## DIVIDENDS

No dividends have been paid or declared by the consolidated group since the beginning of the year.

## **DIRECTORS' REPORT**

### **FINANCIAL POSITION**

The net assets of the consolidated group at 31 December 2014 were US\$38,834,218 (2013: US\$27,010,211). At 31 December 2014 the Company had a cash balance of US\$15,416,903 (2013: US\$6,411,591).

### **STATE OF AFFAIRS**

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

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

#### Background

Kina Petroleum Ltd ("Kina", "KPL" or "the Company") was formed in 2009 to participate in the exploration and acquisition of oil and gas assets in PNG. From 2010 through to the end of 2012, the Company undertook a high level of commercial and exploration activity including entry into farm-in agreements in respect of PPLs 338 & 339, acquisition of seismic surveys, and the successful appraisal of the Elevala and Ketu Gas Condensate Fields in PRL 21. The Company funded these activities through an Initial Public Offering of its securities in late 2011 on both the Australian Stock Exchange ("ASX") and the Port Moresby Stock Exchange ("PomSox"), coupled with a further placement of shares and exercise of options in the second half of 2012. In 2013 the Company materially complemented the preceeding years' activities with, among other things, the successful drilling and testing of the Tingu well in PRL 21, the farmout of interests in PPL 337 and PPL 437 licences to Heritage Oil Limited and the commencement of aerogravity surveys in the Western Province licences.

In 2014, the Company built upon these solid foundations via:

- Subscription by Mr Phil Mulacek's PIE Holdings LLP for 19.99% of the share capital of the Company, providing enhanced certainty of funding for pre-development and other activity.
- Lodgement with the Government of PNG of Petroleum Development Licence and Pipeline Licence applications for the proposed PRL 21 liquids stripping development.
- Completion of a 102km seismic program over the Elevala/Ketu/Tingu fields in PRL 21 to support planning of well locations for the proposed liquids stripping development.
- Completion of an aerogravity survey over PPLs 435 & 436 of almost 12,500 km in preparation for farmout and seismic program delineation.
- Completion of a 106km seismic acquisition program in PPL 437 aimed at delineating the Malisa South lead as a drillable prospect.
- Acquisition of an additional 7.5% participating interest in PPL 437 upon the withdrawal of Cott Oil and Gas Limited from the licence.
- Commencement of preparatory drilling activity in PPL 337 ahead of a planned spud of two wells in the first half of 2015
- Confirmation of the Company holding a 100% interest in the PPL 338 licence which is believed to contain an extension of the Triceratops field. PPL 338 is in the same play fairway as, and in close proximity to, the Elk/Antelope discovery. The licence also borders the acreage in which the Triceratops field was discovered.

#### Existing Projects

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

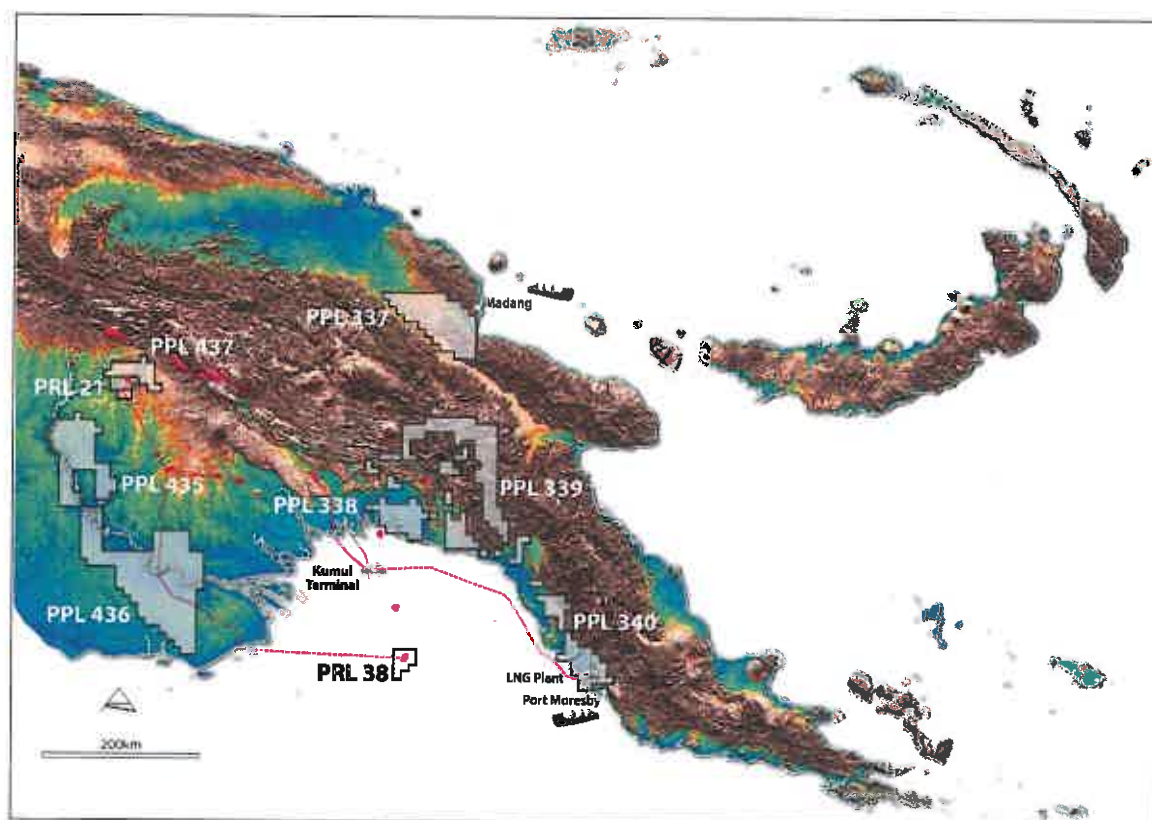
License	Prospect	Ownership	Operator
PPL 337	Banam/Kwila	Kina 90% (with Heritage having the ability to earn a further 60% participating interest, in addition to their existing 10% participating interest, via funding the drilling of two wells).	Kina, subject to farm-in arrangements with Heritage Oil Ltd.
PPL 338	Triceratops Extension / Iviri South	Kina 100%.	Kina
PPL 339	Wulai	Kina 100% (with Oil Search (PNG) Ltd having the ability to earn a 70% participating interest through funding seismic and drilling exploration expenditure).	Kina, subject to farm-in arrangements with Oil Search Ltd.
PPL 340	In progress	Kina 100%	Kina
PPL 435	In progress	Kina 50%	Kina

## DIRECTORS' REPORT

PPL 436	In progress	Kina 50%	Kina
PPL 437	Malisa South	Kina 87.5% (with Heritage having the ability to earn a further 50% and operatorship in addition to their existing 12.5% participating interest through funding Kina's share of a seismic program and drilling of a well)	Kina, subject to farmin arrangements with Heritage Oil Ltd
PRL 21	Elevala/Ketu/Tingu Fields	Kina 15%	Horizon Oil Ltd
PRL 38	Pandora Fields	Kina 25%	Talisman

### Overview of PNG Exploration Activities

The majority of the Company's tenements are all located within the prospective Papuan Basin of PNG – see Figure 1. The projects are prospective for oil and gas close to existing or proposed export infrastructure.



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

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

#### PRL 21 (Kina 15%)

The key activities in PRL 21 during 2014 were:

- Submission of a petroleum development licence application licence during March;
- front end engineering and design (FEED) for liquids development;
- development of contracting processes; and

## DIRECTORS' REPORT

- completion of seismic acquisition, to determine optimal development drilling locations ahead of FID.

Upon completion of these activities, along with environmental and social mapping/landowner assessments, the joint venture will move towards FID.

The economics of field development and the development plan itself are being reviewed by the Company and its licence co-owners in light of the current commodity price environment. Nevertheless, the Company believes the hydrocarbon accumulations in PRL 21 are commercially developable resources and valuable strategic assets based on the estimated size and the strong interest in commercialisation of Western Province hydrocarbon resources from both Government and private sectors given the imminent development of gas resources from the P'nyang field. Economics of any development could be enhanced if combined with Elevala, Ketu and Stanley which could yield a cumulative quantity of gas in excess of 3 TCF.

Consistent with the Company's desire to move on a path to FID, the focus has been on honing the PRL21 Field Development Plan (FDP) models. A combined Elevala and Ketu field static model was built to test various facies and property distribution scenarios. Routine core analysis and special core analysis programs of the Tingu-1 well was completed mid-year.

A seismic program (the Tana survey) of 101.9 line km data was acquired across the Elevala and Ketu structures. The survey began in September 2014 and was completed by November 2014. The overall objective of the program was to better define development drilling locations via replacement of vintage lines of poor quality and uncertain location, better definition of fault presence and orientation, provision of strike line infill, and obtaining additional velocity control for depth conversion purposes.

Data from the survey have been processed and interpretation is ongoing. Reprocessing of all the existing seismic data in the licence was also undertaken with the objectives of improving velocity information and statics reduction.

### **PRL 38 (Kina 25%)**

PRL 38 is located offshore Gulf of Papua and incorporates the Pandora A and B reef gas discoveries. There are also prospective additions between the A and B reefs and several further undrilled reef structures. Kina believes this gas resource is significant in size and upside potential will see development either on a stand-alone basis or as part of an aggregated development with other hydrocarbons from the Western Province.

Potential development options for this gas include:

- Floating LNG, assuming a Build, Own, Operate (BOO) approach with the production facility operator absorbing the majority of the capital component of the development recouped through processing fees;
- Stand-alone platform development using a jack-up rig to support liquefaction facilities;
- Aggregation with other offshore discoveries and recent onshore discoveries in Gulf Province;
- Aggregation with Western Province gas assets.

Other parties in PRL 38 include Talisman (25%), Santos (10%) and Cott Oil and Gas (40%). In the event that any of these parties desires to reduce its position in PRL 38 because of a change of strategy or otherwise, KPL is well placed to build its position and influence the development options for PRL 38.

### **PPL 337 (Kina 90%, subject to farmin arrangements with Heritage Oil Ltd)**

Activities in PPL 337 throughout 2014 were focussed on drilling planning and preparation.

Kina is being carried by Heritage Oil through an uncapped, two-well drilling program in PPL 337. In the event of success at either location, Kina will be carried through a follow-up seismic program to a maximum of 100 line km or US\$8m cost. This activity represents the first exploration drilling to be undertaken by Kina outside of PRL 21. Furthermore, the Raintree and Kwila wells planned by Heritage represent the first drilling activity in the North New Guinea Basin for over 20 years. Upon completion of the drilling and subsequent seismic program Heritage will earn a 70% interest and operatorship in the licence and Kina's retained equity will be 30%.

Both wells are targeting dry gas and source is considered a low risk, as there are numerous seeps comprising 99% methane nearby at Banam. Potential offtake partners in and around Madang, include power generation

## DIRECTORS' REPORT

for Madang town as well as the mining operations at Ramu NiCo and Yanderra. Should a large enough discovery be made, deep water access at Astrolabe Bay could provide a convenient location for an LNG project.

### **PPL 338 (Kina 100%)**

PPL 338 is located at the eastern margin of the East Papuan Basin, near the Elk-Antelope gas discovery.

The Triceratops Updip, Triceratops North and Bobcat Northwest prospects in the north of PPL 338 all result from the 2014 interpretation of 2013 Tagula seismic data acquired in 2013. An appraisal well (Triceratops-3) is planned in the adjacent PPL only three km from its boundary with PPL 338. Success at Triceratops-3 could confirm the Triceratops structure extends into PPL 338. The most likely case is a reservoir shallower than those reported at Triceratops-2. KPL is currently reprocessing Tagula seismic data to high-grade future drilling locations.

In central PPL 338 Kina recognises two leads; Waxbill and Brown Lory, both west of the Raptor-1 well in the adjacent PPL. These leads are on the footwall of the Kereru and Era Faults. Puri-1 (1957) flowed 1,610 bopd from fractured Puri Limestone at 2280m for 9 days before watering out. Although the seismic data quality is too poor to define whether the Waxbill structures are reefal, it is possible to map a closure at Waxbill, up-dip of the zone that flowed oil in Puri-1.

In the south of PPL 338 two very large prospects are interpreted at Mangrove and Nipa. In Late 2014, Kina undertook reprocessing tests of vintage seismic data. The reprocessed data show significant improvement over the original. The improved structural resolution of the PSTM data has allowed a better understanding of growth and thickening of the shoaling facies in the Upper Miocene section. At Mangrove top reservoir may be as shallow as 800m below surface with vertical closure upwards of 200m.

Nipa is a large mapped closure of up to 170 sq km between Mangrove to the north and Uramu gas field to the south offshore. Kina's current mapping limit of Nipa closure has a vertical relief of up to 690m and top carbonate at 1160m.

The reservoir depth proposed for Nipa and Mangrove is within the capacity of the rig being used in PPL 337, and Kina is in discussion with drilling contractors to further evaluate the suitability of drilling Nipa and Mangrove using this type of rig. Both prospects are accessible by river and a barge supported operation is being evaluated.

A full appraisal of Mangrove and Nipa awaits completion of seismic reprocessing of vintage data in Q1 2015.

### **PPL 339 (Kina 100% subject to farmin arrangements with Oil Search (PNG) Ltd)**

Exploration activity within PPL 339 during 2014 comprised a follow up aerogravity gradiometry and aeromagnetic survey over the Bowerbird and Cassowary Leads in the south of the licence. Late in the year, a follow up 20 line km seismic survey based on the aerogravity data was acquired.

Seismic data acquired over the Upoia bores has been reprocessed and although structure is complex, there is evidence for basement uplift from the northeast. Interpretation of the seismic shows indications of carbonate reef development to the north east of Upoia bores which may have grown on older limestones which have been mapped out by Kina as the Bowerbird and Cassowary Leads.

Geochemical screening analyses of two seep oils from Upoia-1 and Upoia-2 show biodegradation but the biomarkers indicate that the Upoia oil seeps may have been generated from clay-rich marine Jurassic or younger source rocks containing terrestrial organic matter.

Bowerbird and Cassowary are along trend from, and south of, the Elk/Antelope Gas field. KPL intends reprocessing all data in the Bowerbird & Cassowary area to facilitate correlation with the more comprehensive data set in PPL 338.

Although the reservoir depth of Bowerbird and Cassowary is still being evaluated, Kina's view is that both prospects will be at a depth within the range of a slim-hole rig. Drilling of Bowerbird and Cassowary would form part of a multi-well slimhole program that would incorporate drilling in neighbouring PPL 338.



## DIRECTORS' REPORT

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

Activity in PPL 340 during 2014 primarily comprised interpretation of data from the late 2013 aerogravity and aeromagnetic survey and combining the PPL 340 data with other gravity and magnetic data sets acquired through data trading with adjacent operators. Leading from that interpretation, Kina also commenced a structural and prospect review to define priority targets for seismic acquisition in 2015.

Aerogravity data interpretation confirms the architecture of the Kapuri Platform under the coastal plain and structurally ahead of the Owen-Stanley uplift. Seismic suggests a reef build up or rollover along the plunging trend of the uplifted and outcropping Port Moresby Association rocks to the south and an uplifted block east of Oroï.

Interpretation of the proprietary aerogravity and aeromagnetic survey over PPL 340 has high-graded three structural leads within PPL 340 - Port Moresby, Rorona Updip and Lizard. Drilling targets in each of these prospects are at depths of between 500m and 1000m. The Greater Lizard prospect is only 100 km by road from the capital of Port Moresby and could be tested by a slimhole rig. Ideally, this would be part of a multi-well program with PPLs 338 & 339.

Until recently Kina believed these structures had only dry gas potential suited for power generation for the Port Moresby market. However we believe now that the liquids potential of northern PPL 340 is considerably upgraded. InterOil announced it had suspended Wahoo-1 due to the intersection of high formation pressures within the Orubadi mudstone which contained thermogenic hydrocarbons, and Wahoo is located less than 20km from the boundary of PPL 340.

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

### **PPL 435 (Kina 50%)**

An aerogravity and aeromagnetic survey was undertaken over PPLs 435 and 436 between January and June of 2014. Interpretation of those data was undertaken both discretely and as part of a regional study with other gravity and magnetic data sets acquired through data trading with adjacent operators. Key to the interpretation has been a comprehensive study of the architecture of the basement underlying the western and south-western part of the Papuan Basin.

Preliminary interpretation suggests two major zones of structural interest in PPL 435; the Aiambak and Lake Murray East prospects in PPL 435.

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

KPL is commencing a major reprocessing program comprising all of the available vintage seismic data base over PPL 435. The focus of the reprocessing will be to confirm stratigraphy and thickness of reservoir sequences at Aiambak and Lake Murray East. Once complete, the combined technical data from the aerogravity/aeromagnetic Survey and the reprocessed seismic lines will form the basis of a farmout proposal that will include material seismic acquisition and drilling programs.

### **PPL 436 (Kina 50%)**

As noted above, an aerogravity and aeromagnetic survey was undertaken over PPLs 435 and 436 between January and June of 2014. Interpretation of those data was undertaken both discretely and as part of a regional study with other gravity and magnetic data sets acquired through data trading with adjacent operators. Key to the interpretation has been a comprehensive study of the architecture of the basement underlying the western and south-western part of the Papuan Basin.

Kina recognises oil and wet gas potential in multiple reservoirs within PPL 436. A series of fault blocks have been mapped that could host a large oil resource close to the Fly River and the southern coast line. These traps form at the basin margin of the Papuan Basin and remain the preferred lead areas.

## DIRECTORS' REPORT

The interpreted structures in PPL 436 all target wet gas from multiple reservoir intervals and are large enough to host multi-TCF accumulation of gas and hundreds of millions of barrels of oil. Any hydrocarbons in PPL 435 and 436 would be attractive due to proximity to the Fly River. In the event of a gas discovery these PPLs are well placed for any future gas aggregation strategy.

The Oriomo area of PPL 436 remains very prospective based on the preliminary interpretation of the aeromagnetic and aerogravity data. It is a focus for oil from the east being up-dip and on the drainage path from the Panakawa oil seep. It has multiple Jurassic and Early Cretaceous reservoir targets all at depths of 1800m or shallower.

Coincident with activity in PPL 435, KPL will commence a major reprocessing program over PPL 436. As in PPL 435, when complete, the combined technical data from the aerogravity/aeromagnetic Survey and the reprocessed seismic lines will form the basis of a farmout proposal that will include material seismic acquisition and drilling programs.

### **PPL 437 (Kina 80%, subject to farmin arrangements with Heritage Oil Ltd)**

Acquisition of the 2014 Gosur Seismic Survey was completed in the September quarter. Kina was fully carried by Heritage through this 2D seismic program and, under the terms of the farm in agreement, will be carried through a subsequent exploration well where Heritage exercise its option to acquire a further 20% equity. Processing of the Gosur 2014 data was completed in Q4 of 2014.

The Gosur Seismic Survey focussed on enhancing the definition of the Malisa South Prospect due to its proximity to the proposed PRL 21 Development infrastructure and because of the good quality Elevala Sandstone and Toro Sandstones intersected in Tingu 1.

Testing of the Elevala Sand in PRL 21 has demonstrated the capacity of single wells to flow at nearly 50MMcu ft/d and in excess of 3,000 bopd, and remains the primary reservoir target. Intersection of good shows in a good quality Toro Sandstone at Tingu-1 has elevated the Toro Sandstone as a deeper objective at Malisa South. Preliminary planning for a Malisa South well has commenced, with that well to be drilled in the next 12 – 18 months.

In late 2014 Cott Oil and Gas Limited surrendered its 20% holding in PPL 437 in exchange for a waiver from all ongoing costs related to that licence. Cott's holding was assumed by Heritage and Kina with 7.5% for Kina and 12.5% for Heritage. Ministerial approval of the transfer was received in late 2014, subject to entry to the Register of Oil and Gas interests of the State of PNG. This occurred in February 2015. Pursuant to the farmin agreement, the Gosur seismic program also triggered Heritage's right to earn a 30% participating interest in the licence from Kina. Government approval of this is expected in early 2015.

### **Corporate Activity**

#### **Project Activity**

In November of 2014, the company secured PIE Holdings LP as a cornerstone investor via a private placement of 61,379,783 shares at 30c. This raised approximately \$A 17.4m (\$US 15.0m) (after transaction costs) and will see the company well positioned to undertake continued pre development activity in PRL 21 and capitalise on exploration or growth opportunities as they arise.

The Company remains actively focussed on opportunities for growth and continues to undertake, various discussions and project evaluation activities in pursuit of this objective.

## ENVIRONMENTAL ISSUES

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

## DIRECTORS' REPORT

### REMUNERATION REPORT

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

#### Remuneration Policy and Practices

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

i. Non-Executive Directors

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

The maximum aggregate annual remuneration of Non-Executive Directors is subject to approval by the shareholders in general meeting. The shareholders have determined at a general meeting held on 9 March 2010 the maximum aggregate remuneration amount to be \$350,000 per year. The Directors have resolved that the fees payable to non-executive directors for all Board activities are \$155,000 per year plus superannuation guarantee contributions of 9% per annum where required by legislation.

ii. Key management personnel

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

#### Company performance and director and executive remuneration

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

##### *Director Options*

There were no Director Options outstanding at 31 December 2014 with all such previously issued options having been exercised in 2013.

##### *Executive Options*

The Company has issued options to its Chief Financial Officer, Mr Alex Mitchell.

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

- i. Number of options issued – 1,500,000;
- ii. Exercise price – \$0.50;
- iii. Vesting conditions – the options are divided into 3 equal tranches, each with different vesting conditions as follows:
  - (A) Tranche 1 – vesting upon one year anniversary date of employment with the Company (Tranche 1 vesting date);

## DIRECTORS' REPORT

(B) Tranche 2 - vesting upon two year anniversary date of employment with the Company (Tranche 2 vesting date);

(C) Tranche 3 - vesting upon the 30 month anniversary of employment with the Company (Tranche 3 vesting date);

iv. Expiry date - each tranche of options expires 3 years from the date of issue.

Options had also been issued to the Company's Chief Geologist, Ms Okaro Yogi, however upon cessation of her employment with the Company during 2014, those options expired.

### Remuneration of Directors and Key Management for the year to 31 December 2014

	Short-term benefits		Post employment		Share-based payments		Total remuneration represented by options and shares
	Cash salary and fees	Short term incentives	Super-annuation	Termination benefits	Options	Shares	
	US\$	US\$	US\$	US\$	US\$	US\$	%
<b>2014</b>							
<b>Directors</b>							
John Prendiville	53,488	-	-	61,310	-	-	-
Richard Schroder	239,132	-	31,583	-	-	-	-
Richard Robinson	44,743	-	-	-	-	19,432	30
Barry Tan	45,975	-	-	-	-	18,048	28
Dr Ila Temu	50,692	-	-	-	-	18,048	26
David Vance	-	-	-	-	-	3,068	100
<b>Total Directors</b>	<b>434,030</b>	<b>-</b>	<b>31,583</b>	<b>61,310</b>	<b>-</b>	<b>58,596</b>	<b>10</b>
<b>Key Management</b>							
A Mitchell	180,477	-	16,243	-	32,724	-	14
<b>Total Key Management</b>	<b>180,477</b>	<b>-</b>	<b>16,243</b>	<b>-</b>	<b>32,724</b>	<b>-</b>	<b>14</b>
<b>Total</b>	<b>614,507</b>	<b>-</b>	<b>47,826</b>	<b>61,310</b>	<b>32,724</b>	<b>58,596</b>	<b>11</b>

### Remuneration of Directors and Key Management for the year to 31 December 2013

	Short-term benefits		Post employment		Share-based payments		Total remuneration represented by options and shares
	Cash salary and fees	Short term incentives	Super-annuation	Termination benefits	Options	Shares	
	US\$	US\$	US\$	US\$	US\$	US\$	%
<b>2013</b>							
<b>Directors</b>							
John Prendiville	50,360	-	-	-	-	17,539	26

## DIRECTORS' REPORT

Richard Schroder	265,078	-	29,373	-	90,745	-	385,196	24
Richard Robinson	687	-	-	-	-	1,028	1,715	60
Barry Tan	36,255	-	-	-	-	11,693	47,948	24
Dr Ila Temu	37,586	-	-	-	4,491	11,693	53,770	30
<b>Total Directors</b>	<b>389,966</b>	<b>-</b>	<b>29,373</b>	<b>-</b>	<b>95,236</b>	<b>41,953</b>	<b>556,528</b>	<b>25</b>

### Key Management

A Mitchell	193,400	35,932	17,673	-	74,660	-	321,665	23
<b>Total Key Management</b>	<b>193,400</b>	<b>35,932</b>	<b>17,673</b>	<b>-</b>	<b>74,660</b>	<b>-</b>	<b>321,665</b>	<b>23</b>
<b>Total</b>	<b>583,366</b>	<b>35,932</b>	<b>47,046</b>	<b>-</b>	<b>169,896</b>	<b>41,953</b>	<b>878,193</b>	<b>24</b>

### Directors' securities holdings

As at the date of this report, the relevant interests of the Directors in the securities of the Company were as follows:

	Number	
	Fully paid ordinary shares	Options
<b>For the year to 31 December 2014</b>		
Richard Robinson	300,000	-
Richard Schroder	15,752,381	-
Barry Tan	17,520,001	-
Dr Ila Temu	510,000	-
David Vance	-	-
	<b>34,082,382</b>	<b>-</b>

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

### End of audited Remuneration Report

## DIRECTORS' REPORT

### SHARE OPTIONS

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

#### 2014

Options exercisable at \$0.50 per share on or before 16 December 2015 1,500,000

#### 2013

Options exercisable at \$0.50 per share on or before 16 December 2015 1,500,000

Options exercisable at K1.10 per share on or before 3 May 2016 600,000

### MEETINGS OF DIRECTORS

Attendances by each director to meetings of directors (including committee of directors) during the year to 31 December 2014 were as follows:

	Board Meetings		Audit Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
<b>2014</b>				
John Prendiville	9	7	2	2
Richard Schroder	10	9	-	-
Barry Tan	10	9	2	2
Dr Ila Temu	10	8	2	2
Richard Robinson	10	9	-	-
David Vance	1	1	-	-
<b>2013</b>				
John Prendiville	8	8	2	2
Richard Schroder	8	8	-	-
Barry Tan	8	7	2	2
Dr Ila Temu	8	8	2	2
Richard Robinson	1	1	-	-

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

### INDEMNIFYING OFFICERS OR AUDITORS

During the year the Company paid a premium of USD equivalent \$26,783 (2013: \$17,875) in respect of a contract insuring the Directors and officers of the Company against a liability incurred by such Directors and officers. The Company has not otherwise, during or since the end of the year, indemnified or agreed to indemnify the auditor of the Company, or of any related body corporate, against a liability incurred by such auditor.

### PROCEEDINGS

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## DIRECTORS' REPORT

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no material events subsequent to year end.

### NON-AUDIT SERVICES

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

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

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



Mr Richard Schroder  
Managing Director

Dated this 26th day of March 2015

## CORPORATE GOVERNANCE STATEMENT

The Company has adopted a comprehensive system of control and accountability as the basis for the administration of corporate governance.

The Board is responsible to Shareholders for the overall management of the Company's business and affairs. The Directors' overriding objective is to increase Shareholder value within an appropriate framework, which protects the rights and interests of Shareholders and ensures the Company is properly managed.

The Company's corporate governance principles and policies are structured with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition) with 2010 Amendments ("Principles and Recommendations"), which are as follows:

<b>Recommendation 1</b>	Lay solid foundations for management and oversight;
<b>Recommendation 2</b>	Structure the Board to add value;
<b>Recommendation 3</b>	Promote ethical and responsible decision making;
<b>Recommendation 4</b>	Safeguard integrity in financial reporting;
<b>Recommendation 5</b>	Make timely and balanced disclosures;
<b>Recommendation 6</b>	Respect the rights of shareholders;
<b>Recommendation 7</b>	Recognise and manage risk;
<b>Recommendation 8</b>	Remunerate fairly and responsibly;

There is no prescriptive, legislative approach but instead, ASX listed companies are required to explain why they choose to depart from the Principles and Recommendations. The following policies and procedures have been implemented and are available in full on the Company website at [www.kinapetroleum.com](http://www.kinapetroleum.com):

- Code of Conduct;
- Board Charter;
- Nomination and Remuneration Committee Charter;
- Continuous Disclosure Policy and Communication Strategy;
- Audit and Risk Management Committee Charter;
- Share Trading Policy and
- Diversity Policy

In accordance with recommendations of the ASX, information published on the Company's web site includes charters of the Board and its subcommittees, codes of conduct and other policies and procedures relating to the Board and its responsibilities.

To the extent that they are relevant to the organisation, the Company has adopted the eight Corporate Governance Principles and Recommendations.

The table below summarises the eight principles and recommendations (P&R) and those recommendations not adopted by the Company.

	ASX P&R <sup>1</sup>	If not, why not <sup>2</sup>		ASX P&R <sup>1</sup>	If not, why not <sup>2</sup>
Recommendation 1.1	✓		Recommendation 4.3	✓	
Recommendation 1.2	✓		Recommendation 4.4 <sup>3</sup>	n/a	n/a
Recommendation 1.3 <sup>3</sup>	n/a	n/a	Recommendation 5.1	✓	
Recommendation 2.1	See below	✓	Recommendation 5.2 <sup>3</sup>	n/a	n/a
Recommendation 2.2	✓		Recommendation 6.1	✓	
Recommendation 2.3	✓		Recommendation 6.2 <sup>3</sup>	n/a	n/a
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2	✓	
Recommendation 2.6 <sup>3</sup>	n/a	n/a	Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4 <sup>3</sup>	n/a	n/a
Recommendation 3.2	✓		Recommendation 8.1		✓
Recommendation 3.3	✓		Recommendation 8.2	✓	
Recommendation 3.4	✓		Recommendation 8.3 <sup>3</sup>	n/a	n/a
Recommendation 3.5 <sup>3</sup>	n/a	n/a			
Recommendation 4.1	✓				
Recommendation 4.2	✓				



## CORPORATE GOVERNANCE STATEMENT

### Notes

- 1 Indicates where the Company has followed the Principles and Recommendations.
- 2 Indicates where the Company has provided "if not, why not" disclosure.
- 3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

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

**Recommendation 1.1:** Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

**Recommendation 1.2:** Companies should disclose the process for evaluating the performance of senior executives.

#### Disclosure:

The Company's Corporate Governance Statement includes a Board Charter which discloses that the Chairman will review the performance of all Senior Executives on an ongoing basis by way of informal meetings and report his findings to the Board.

**Recommendation 1.3:** Companies should provide the information indicated in the Guide to reporting on Principle 1.

#### Disclosure:

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

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

**Recommendation 2.1:** A majority of the Board should be Independent Directors

#### Notification of Departure:

3 of 5 Directors are classified as independent.

#### Explanation for Departure.

The Company's Constitution requires that the minimum number of Directors is 3. The Company presently has five Directors consisting of four Non-Executive Directors and one Managing Director. Of the Directors, Mr Richard Robinson, a Non-Executive Director and Chairman of the Company, Dr Ila Temu, a Non-Executive Director, and Mr David Vance, a non-executive Director, are considered as independent. Richard Schroder is the Managing Director of the Company, Barry Tan is a Non-Executive Director and a substantial shareholder of the Company. In making the assessment of whether Mr David Vance is considered to be an Independent Director, the Board had to consider his association with a substantial shareholder of the Company. The Board considers that notwithstanding this association, Mr David Vance applies an independent frame of mind in his role of Non-Executive Director and has therefore classified him as independent.

**Recommendation 2.2:** The Chair should be an independent director.

The Company's Chairman, Mr Richard Robinson, is an independent Non-Executive Director.

**Recommendation 2.3** The roles of chair and chief executive officer should not be exercised by the same individual.

These positions are held by separate persons.

**Recommendation 2.4:** The board should establish a nomination committee.

#### Notification of Departure:

The Company has not established a separate Nomination Committee.

#### Explanation for Departure:

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

## CORPORATE GOVERNANCE STATEMENT

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

**Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

**Disclosure:**

The full Board, in its capacity as the Nomination Committee, is responsible for evaluating the performance of the Board, its committees and individual Directors. The Board, committees and individual Directors are evaluated annually by way of informal meetings. If required the Board may also engage the services of independent performance evaluation consultants to assist in the evaluation of all or some of its directors.

**Recommendation 2.6:** Companies should provide the information indicated in the Guide to Reporting on Principle 2.

**Disclosure:**

The independent Directors are Mr Richard Robinson, Dr Ila Temu and Mr David Vance. The Directors are independent as they are non-executive Directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgment. At the time of the Company being admitted to the Official List of the ASX the then Chairman Mr John Prendiville and Dr Temu were not substantial shareholders, and at the date of this report, neither Mr Robinson nor Dr Temu nor Mr Vance were substantial shareholders of the Company. Whilst Mr Vance represents the interests of the company's largest shareholder, the Board consider that he has acted, and will continue to act, in a manner consistent with that of other independent directors.

To assist Directors with independent judgement, it is the Board's policy that the Directors may seek independent professional advice at the Company's expense, subject to prior consultation with the Chair of the Board.

The full Board carries out the role of the Nomination Committee. To assist the Board to fulfil its function as the Nomination Committee, it has adopted Nomination and Remuneration Committee Charter, which is publicly available on the Company's website under the section, marked Corporate Governance.

In determining candidates for the Board, the full Board in its capacity as the Nomination Committee follows a prescribed procedure which is publicly available on the Company's website at [www.kinapetroleum.com](http://www.kinapetroleum.com) under the section marked Corporate Governance.

## CORPORATE GOVERNANCE STATEMENT

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Under the Company's Constitution, if there are 3 or more Directors then one third of the Directors (excluding the Managing Director) must retire at every annual general meeting. Retiring directors are eligible for re-election. Re-appointment of Directors is not automatic.

### Principle 3 – Promote ethical and responsible decision-making

**Recommendation 3.1:** Companies should establish a code of conduct and disclose the code or a summary of the code or a summary the code as to:

- the practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

**Recommendation 3.2:** Companies should establish a policy concerning diversity and has disclosed the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

**Recommendation 3.3:** Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

**Recommendation 3.4:** Companies should disclose in each annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board.

**Recommendation 3.5:** Companies should provide the information indicated in the Guide to reporting on Principle 3.

#### Disclosure:

The Board has adopted a Code of Conduct and a Diversity Policy. The Company's Code of Conduct and Share Trading policy is available on the Company's website at [www.kinapetroleum.com](http://www.kinapetroleum.com) under the section marked Corporate Governance. The Company will provide an explanation of any departure from Principals and Recommendation 3.1, 3.2, 3.3 or 3.4 (if any) in its future annual reports.

### Principle 4 – Safeguard Integrity in financial reporting

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

**Recommendation 4.2:** The Audit Committee should be structured so that it consists of only Non-Executive Directors, consist of a majority of Independent Directors, is chaired by an independent chair, who is not chair of the Board, and has at least three members.

**Recommendation 4.3:** The Audit Committee should have a formal charter.

**Recommendation 4.4:** Companies should provide the information indicated in the Guide to reporting on Principle 4.

#### Disclosure:

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

The Company has an Audit and Risk Management Committee Charter, a copy of which is available on the Company's website at [www.kinapetroleum.com](http://www.kinapetroleum.com) under the section marked Corporate Governance.

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

## CORPORATE GOVERNANCE STATEMENT

### Principle 5 – Make timely and balanced disclosure

**Recommendation 5.1:** Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those.

**Recommendation 5.2:** Companies should provide the information indicated in the Guide to reporting on Principle 5.

#### Disclosure:

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

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

### Principle 6 – Respect the rights of shareholders

**Recommendation 6.1:** Companies should design a communication policy for promoting effective communication with shareholders and encourage their participation at general meetings and disclose their policy or a summary of that policy.

**Recommendation 6.2:** Companies should provide the information indicated in the Guide to reporting on Principle 6.

#### Disclosure:

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

The Company will provide an explanation of any departures from Principles and Recommendations 6.1 (if any) in its annual report.

### Principle 7 – Recognise and manage risk

**Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

**Recommendation 7.2:** The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to effectiveness of the Company's management of its material business risk.

**Recommendation 7.3:** the Board should disclose whether it has received assurance from the chief executive officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting.

**Recommendation 7.4:** Companies should provide the information indicated in the Guide to Reporting on Principle 7.

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

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

The Board seeks written assurance from the Managing Director and CFO that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting.

## CORPORATE GOVERNANCE STATEMENT

### Principle 8 – Remunerate fairly and responsibly

**Recommendation 8.1:** The Board should establish a Remuneration Committee.

**Recommendation 8.2:** The remuneration committee is structured so that it:

- ☐ consists of a majority of independent directors
- ☐ is chaired by an independent chair
- ☐ has at least three members.

#### Notification of Departure:

The Company has not established a separate Remuneration Committee.

#### Explanation for Departure:

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

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

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

**Recommendation 8.3:** Companies should clearly distinguish the structure of Non-Executive Director's remuneration from that of executive Director and senior management.

**Recommendation 8.4:** Companies should provide the information indicated in the Guide to reporting on Principle 8.

#### Disclosure:

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

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

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

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

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	Group 2014	2013	Company 2014	2013
		US\$	US\$	US\$	US\$
Revenue	2	207,290	326,574	206,912	326,263
Gain from farm-in agreements	9	-	800,000	-	800,000
Net administration expense	3	(1,558,512)	(1,218,204)	(1,509,359)	(1,149,041)
Exploration expense	20b	(1,695,653)	(2,315,733)	(1,695,653)	(2,315,733)
Option based payments	15c	(98,800)	(217,485)	(98,800)	(217,485)
Foreign exchange losses, net		(114,143)	(608,899)	(114,143)	(608,899)
<b>Loss before income tax</b>		<b>(3,259,818)</b>	<b>(3,233,747)</b>	<b>(3,211,043)</b>	<b>(3,164,895)</b>
Income tax expense	4	-	-	-	-
<b>Loss after income tax attributable to members of the parent entity</b>		<b>(3,259,818)</b>	<b>(3,233,747)</b>	<b>(3,211,043)</b>	<b>(3,164,895)</b>
<b>Other comprehensive income</b>					
Items that may be subsequently reclassified to profit and loss					
Foreign currency translation difference for the year, net of tax		3,467	(59,453)	-	-
<b>Other comprehensive income (loss) for the year</b>		<b>3,467</b>	<b>(59,453)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the year attributable to members of the Parent Entity</b>		<b>(3,256,351)</b>	<b>(3,293,200)</b>	<b>(3,211,043)</b>	<b>(3,164,895)</b>

### Earnings per share

From continuing operations:

		In US cents			
Basic loss per share	22	(1.28)	(1.45)	-	-
Diluted loss per share	22	(1.28)	(1.45)	-	-

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	Group		Company	
		2014	2013	2014	2013
		US\$	US\$	US\$	US\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	6	15,418,388	6,458,768	15,416,903	6,411,591
Trade and other receivables	7	368,500	2,081,276	364,835	2,078,361
Other current assets	8	29,364	31,885	29,364	31,885
<b>TOTAL CURRENT ASSETS</b>		<b>15,816,252</b>	<b>8,571,929</b>	<b>15,811,102</b>	<b>8,521,837</b>
<b>NON-CURRENT ASSETS</b>					
Exploration and evaluation expenditure	9	20,932,368	21,087,750	20,932,368	21,087,750
Development expenditure	10	3,420,098	1,688,076	3,420,098	1,688,076
Plant and equipment	11	50,618	77,744	42,136	58,032
Investment in subsidiary	23	-	-	765,808	765,808
Other non-current assets	12	264,390	272,160	264,390	272,160
<b>TOTAL NON-CURRENT ASSETS</b>		<b>24,667,474</b>	<b>23,125,730</b>	<b>25,424,800</b>	<b>23,871,826</b>
<b>TOTAL ASSETS</b>		<b>40,483,726</b>	<b>31,697,659</b>	<b>41,235,902</b>	<b>32,393,663</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	1,649,508	4,687,448	1,623,099	4,640,258
Loans payable	14	-	-	511,153	521,070
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,649,508</b>	<b>4,687,448</b>	<b>2,134,252</b>	<b>5,161,328</b>
<b>NET ASSETS</b>		<b>38,834,218</b>	<b>27,010,211</b>	<b>39,101,650</b>	<b>27,232,335</b>
<b>EQUITY</b>					
Issued capital	15	49,389,418	30,359,250	49,389,418	30,359,250
Reserves	26	185,140	4,131,483	223,097	4,172,907
Accumulated losses		(10,740,340)	(7,480,522)	(10,510,865)	(7,299,822)
<b>TOTAL EQUITY</b>		<b>38,834,218</b>	<b>27,010,211</b>	<b>39,101,650</b>	<b>27,232,335</b>

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

For and on behalf of the Board:  
26 March 2015



**Mr Richard Schroder**  
Managing Director



**Mr Richard Robinson**  
Non-Executive Chairman



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Ordinary Issued Capital US\$	Accumulated Losses US\$	Reserves US\$	Total US\$
<b>For the year ended 31 December 2014</b>				
Balance at 31 December 2013	30,359,250	(7,480,522)	4,131,483	27,010,211
Loss for the year	-	(3,259,818)	-	(3,259,818)
Other comprehensive income				
Foreign currency translation difference	-	-	3,467	3,467
Total comprehensive loss for the year	-	(3,259,818)	3,467	(3,256,351)
Transactions with owners in their capacity as owners:				
Shares issued during the year	14,981,558	-	-	14,981,558
Shares issued for 5% of PRL 38	4,048,610	-	(4,048,610)	-
Shares to be issued to Non-Executive Directors	-	-	40,707	40,707
Options issued under Employee Incentive Plan	-	-	58,093	58,093
Total transactions with owners for the year	19,030,168	-	(3,949,810)	15,080,358
<b>Balance at 31 December 2014</b>	<b>49,389,418</b>	<b>(10,740,340)</b>	<b>185,140</b>	<b>38,834,218</b>
<b>For the year ended 31 December 2013</b>				
Balance at 31 December 2012	26,874,291	(4,246,775)	566,245	23,193,761
Loss for the year	-	(3,233,747)	-	(3,233,747)
Other comprehensive income				
Foreign currency translation difference	-	-	(59,453)	(59,453)
Total comprehensive loss for the year	-	(3,233,747)	(59,453)	(3,293,200)
Transactions with owners in their capacity as owners:				
Shares issued during the year	2,843,555	-	-	2,843,555
Shares to be issued for 5% of PRL 38	-	-	4,048,610	4,048,610
Shares to be issued to Non-Executive Directors	-	-	41,953	41,953
Options issued under Employee Incentive Plan	-	-	175,532	175,532
Transfer from Options reserve	641,404	-	(641,404)	-
Total transactions with owners for the year	3,484,959	-	3,624,691	7,109,650
<b>Balance at 31 December 2013</b>	<b>30,359,250</b>	<b>(7,480,522)</b>	<b>4,131,483</b>	<b>27,010,211</b>

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Company	Ordinary Issued Capital US\$	Accumulated Losses US\$	Reserves US\$	Total US\$
<b>For the year ended 31 December 2014</b>				
Balance at 31 December 2013	30,359,250	(7,299,822)	4,172,907	27,232,335
Loss for the year	-	(3,211,043)	-	(3,211,043)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(3,211,043)	-	(3,211,043)
Transactions with owners in their capacity as owners:				
Shares issued during the year	14,981,558	-	-	14,981,558
Shares issued for 5% of PRL 38	4,048,610	-	(4,048,610)	-
Shares to be issued to Non-Executive Directors	-	-	40,707	40,707
Options issued under Employee Incentive Plan	-	-	58,093	58,093
Total transactions with owners for the year	19,030,168	-	(3,949,810)	15,080,358
<b>Balance at 31 December 2014</b>	<b>49,389,418</b>	<b>(10,510,865)</b>	<b>233,097</b>	<b>39,101,650</b>
<b>For the year ended 31 December 2013</b>				
Balance at 31 December 2012	26,874,291	(4,134,927)	548,216	23,287,580
Loss for the year	-	(3,164,895)	-	(3,164,895)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(3,164,895)	-	(3,164,895)
Transactions with owners in their capacity as owners:				
Shares issued during the year	2,843,555	-	-	2,843,555
Shares to be issued for 5% of PRL 38	-	-	4,048,610	4,048,610
Shares to be issued to Non-Executive Directors	-	-	41,953	41,953
Options issued under Employee Incentive Plan	-	-	175,532	175,532
Transfer from Options reserve	641,404	-	(641,404)	-
Total transactions with owners for the year	3,484,959	-	3,624,691	7,109,650
<b>Balance at 31 December 2013</b>	<b>30,359,250</b>	<b>(7,299,822)</b>	<b>4,172,907</b>	<b>27,232,335</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

		Group		Company	
	Note	2014	2013	2014	2013
		US\$	US\$	US\$	US\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Exploration and evaluation expenditure		(1,235,338)	(1,543,272)	(1,235,338)	(1,543,272)
Payments to suppliers and employees		(1,715,143)	(1,111,516)	(1,514,041)	(1,001,687)
Interest received		33,316	169,074	32,937	168,763
Net operator fee income		90,000	36,000	90,000	36,000
<b>Net cash used in operating activities</b>	19	<b>(2,827,165)</b>	<b>(2,449,714)</b>	<b>(2,626,442)</b>	<b>(2,340,197)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Proceeds from farm-in agreement	9	300,000	500,000	300,000	500,000
Exploration and evaluation expenditure		(1,953,329)	(7,995,071)	(1,953,329)	(7,995,071)
Development expenditure		(1,309,247)	(1,664,873)	(1,309,247)	(1,664,873)
Acquisition of plant and equipment		(2,928)	(64,218)	(2,928)	(59,678)
<b>Net cash (used in) investing activities</b>		<b>(2,965,504)</b>	<b>(9,224,162)</b>	<b>(2,965,504)</b>	<b>(9,219,622)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from the issue of shares		15,950,150	2,843,555	15,950,150	2,843,555
Capital raising costs		(968,562)	-	(968,562)	-
Repayments of borrowings		-	-	-	-
<b>Net cash provided by financing activities</b>		<b>14,981,588</b>	<b>2,843,555</b>	<b>14,981,588</b>	<b>2,843,555</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(229,299)</b>	<b>(583,403)</b>	<b>(384,330)</b>	<b>(732,316)</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		<b>8,959,620</b>	<b>(9,413,724)</b>	<b>9,005,312</b>	<b>(9,448,580)</b>
Cash at beginning of year		6,458,768	15,872,492	6,411,591	15,860,171
<b>Cash at end of year</b>	19	<b>15,418,388</b>	<b>6,458,768</b>	<b>15,416,903</b>	<b>6,411,591</b>

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

## **Notes to the consolidated financial statements**

### **Note 1 - Summary of Significant Accounting Policies**

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

#### **Basis of preparation**

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

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

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

#### **Going concern basis of accounting**

Notwithstanding the net loss after income tax for the consolidated group for the financial year ended 31 December 2014 was US\$3,259,818 (2013: US\$3,233,747), the financial statements have been prepared on a going concern basis. The Directors are managing the Group's cash flows carefully to meet its operational commitments.

The Group has US\$15,418,388 in cash and cash equivalents at the end of the year and at the date of this report the Directors are managing the Group's cashflows carefully to meet its operational commitments and expect to have sufficient working capital to carry out its stated objectives for at least 12 months from the date of this report. If the Group undertakes an acquisition of additional project(s) then it may have to raise additional capital to fund the development of these, but no allowance for such circumstances has been made in the financial statements as no such acquisition is contemplated by the Directors at the date of this report. The Directors consider that the going concern basis is appropriate in consideration of these circumstances.

#### **Changes in accounting policies and disclosures**

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

The following standards became effective in the year ended 31 December 2014, however none materially impact the Group.

- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities (effective 1 January 2014) provides an exemption to investment entities from consolidating controlled investees. Instead, they will measure them at fair value through profit and loss. The entity is not an investment entity and will not therefore be affected by these amendments.
- Narrow scope amendments to IAS 36 "Impairment of assets" (effective 1 January 2014) address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The entity has no such impaired assets.
- Amendments to IAS 32, "Financial instrument: Presentation" (effective 1 January 2014). These amendments are to the application guidance in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendments to IAS 32, "Financial instrument: Presentation" (effective 1 January 2014). These amendments are to the application guidance in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet

**(b) Standards, amendment and interpretations issued but not yet effective for the year ended 31 December 2014 or adopted early. Unless otherwise stated, the following standards are not expected to have a significant impact to the Group.**

- Narrow scope amendment to IAS 19 regarding defined benefit plans
- Annual improvements 2012
- Annual improvements 2013
- Amendment to IFRS 11 Joint arrangements on acquisition of an interest in a joint operation
- Amendment to IAS 16 Property, plant and equipment and IAS 41 Agriculture, regarding bearer plants
- Amendment to IAS 16 and IAS 38 on depreciation and amortisation based on revenue
- IFRS 14: Regulatory deferral accounts
- Amendments to IAS 27 Separate financial statements on the equity method
- Amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures
- Annual improvements 2014
- IFRS 15: Revenue from contracts with customers
- IFRS 9: Financial Instruments on the classification and measurement of financial assets and liabilities, hedge accounting and recognition of impairment losses

## **Accounting Policies**

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

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

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 23 to the financial statements.

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

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

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

Interest revenue is recognised using the effective interest method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

These costs are capitalised.

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

Farm-out arrangements relating to unproved reserves are determined based on the consideration received for the value of the work to be performed in the future. The value of the work to be performed is measured by the cash calls required for future exploration or development work. The remaining interest is determined at the

previous cost of the full interest reduced by the consideration received for entering the farm-out agreement. There is no gain recognised on disposal unless the consideration received exceeds the carrying value of the entire asset.

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

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

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

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

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

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

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

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

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

### **Functional and presentation currency**

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

### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within the "Foreign exchange gains (losses), net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

### **Group companies**

The results and financial position of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expense on the statement of total comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and;
- all resulting exchange differences are recognised in other comprehensive income

**(j) Financial assets****Classification**

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

**Loans and receivables**

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

**Recognition and derecognition**

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

**Measurement**

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

Loans and receivables are subsequently carried at amortised using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in note 1h.

**Impairment of financial assets**

For loans and receivables category, the Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

**(k) Financial liabilities**

Non-derivative financial liabilities are initially recognised at fair value, net of transaction costs incurred. They are subsequently recognised at amortised cost using the effective interest method.

**(l) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expenses. Receivables and payables are stated with the amount of GST included.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.



**(m) Employee benefits**

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

**(n) Provisions**

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

**(o) Earnings per share**

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

Diluted loss per share adjusts the figures used in the determination of basic loss per share by taking into account any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

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

**(p) Share based payments**

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

**(q) Segment reporting**

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

**(r) Plant and equipment**

Each class of plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

All repairs and maintenance are charged to the statement of total comprehensive income during the financial period in which they are incurred.

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and equipment	20 - 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of total comprehensive income.

#### **(s) Joint arrangements**

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

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

#### **(t) Critical accounting estimates and judgments**

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

##### *Recoverability and impairment of exploration costs*

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

##### *Share-based payments*

The determination of the fair value of options granted to certain directors and key management personnel of the Company is determined using an option-pricing model which takes into account relevant inputs and assumptions as described in Note 15c.

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
<b>Note 2 – Revenue</b>				
Interest income	<b>33,316</b>	169,074	<b>32,938</b>	168,763
Operator fee income	<b>173,974</b>	157,500	<b>173,974</b>	157,500
	<b>207,290</b>	326,574	<b>206,912</b>	326,263
<b>Note 3 – Net Administration expense</b>				
Salaries and employee benefits	<b>837,251</b>	832,988	<b>293,557</b>	94,187
Professional fees	<b>642,688</b>	561,432	<b>606,907</b>	537,113
Transportation and travel	<b>182,154</b>	161,454	<b>182,158</b>	128,910
Legal and regulatory	<b>235,392</b>	156,436	<b>235,392</b>	156,436
Occupancy and insurance	<b>104,334</b>	125,865	<b>32,680</b>	35,384
Management fees			<b>272,673</b>	323,895
Administration and other costs	<b>374,773</b>	191,046	<b>321,540</b>	149,295
Charged to exploration expense	<b>(818,080)</b>	(811,017)	<b>(435,548)</b>	(424,157)
	<b>1,558,512</b>	1,218,204	<b>1,509,359</b>	1,149,041
<b>Note 4 - Income tax expense</b>				
(a) The components of income tax expense comprise:				
Benefit from deferred tax	<b>958,300</b>	955,601	<b>943,554</b>	934,852
Deferred tax assets not recognised	<b>(958,300)</b>	(955,601)	<b>(943,554)</b>	(934,852)
	-	-	-	-
(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax benefit on the loss from ordinary activities at 30%	<b>(977,945)</b>	(970,124)	<b>(963,313)</b>	(949,468)
Add:				
Tax effect of:				
Expenses not deductible for tax	<b>29,640</b>	65,246	<b>29,640</b>	65,246
Deferred tax assets not recognised	<b>958,300</b>	955,601	<b>943,554</b>	934,852
Less:				
Tax effect of:				
Income not assessable for tax	<b>(9,995)</b>	(50,722)	<b>(9,881)</b>	(50,629)
(Income tax expense)/(benefit)	-	-	-	-
<b>Tax losses</b>				
Unused tax losses for which no tax loss has been recognised as a deferred tax asset adjusted for non-temporary differences at 30%	<b>2,612,030</b>	1,653,730	<b>2,583,445</b>	1,639,891

The taxation benefits will only be obtained if:

- (i) the consolidated group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;
- (ii) the consolidated group continues to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affect the consolidated group in realising the benefits from the deductions for the loss.

Group		Company	
2014	2013	2014	2013
US\$	US\$	US\$	US\$

#### Note 5 - Auditors' remuneration

Remuneration of the auditor of the parent entity for:

- auditing or reviewing the financial reports
- taxation services

<b>54,787</b>	54,774	<b>54,787</b>	54,774
<b>8,161</b>	15,678	<b>8,161</b>	15,678
<b>62,948</b>	70,452	<b>62,948</b>	70,452

#### Note 6 - Cash and cash equivalents

Cash at bank	<b>15,418,388</b>	6,458,768	<b>15,416,903</b>	6,411,591
--------------	-------------------	-----------	-------------------	-----------

#### Note 7 - Trade and other receivables

##### Current

Cash calls in advance	<b>118,661</b>	1,705,403	<b>118,661</b>	1,705,403
Other receivables	<b>249,839</b>	375,873	<b>246,174</b>	372,958
	<b>368,500</b>	2,081,276	<b>364,835</b>	2,078,361

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

#### Note 8 - Other current assets

Other current assets as at 31 December 2014 pertain to security deposits.

Group		Company	
2014	2013	2014	2013
US\$	US\$	US\$	US\$

**Note 9 – Exploration and evaluation expenditure****Non-current**

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

Balance at beginning of the year	<b>21,087,750</b>	8,693,349	<b>21,087,750</b>	8,693,349
Net Expenditures incurred	<b>(155,382)</b>	8,345,791	<b>(155,382)</b>	12,394,401
Acquisition of interest (in PRL 38)	-	4,048,610	-	4,048,610
Carrying amount at end of the year	<b>20,932,368</b>	21,087,750	<b>20,932,368</b>	21,087,750

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

In 2013, the company farmed out its interests in PPLs 337 and 437 to Heritage Oil plc.

Under the terms of the farm-in for PPL 337, Heritage will earn a 70% participating interest in, and operatorship of the licence in return for a cash payment of \$500,000, as a contribution towards prior period costs, and carrying Kina through the drilling and testing of two wells which have been completed during the year.

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

All conditions precedent to complete the transaction was satisfied in 2013 and accordingly, a gain of \$800,000 was recognised for that year. The payment of \$500,000 was received in 2013 while the remaining \$300,000 was received during the year

**Note 10 – Development expenditure****Non-current**

Costs carried forward in respect of areas of interest in the development phase:

Balance at beginning of the year	<b>1,688,076</b>	-	<b>1,688,076</b>	-
Expenditures incurred	<b>1,732,022</b>	1,688,076	<b>1,732,022</b>	1,688,076
Carrying amount at end of the year	<b>3,420,098</b>	1,688,076	<b>3,420,098</b>	1,688,076

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

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
<b>Note 11 – Plant and equipment</b>				
Leasehold improvements, at cost	<b>43,566</b>	46,786	<b>14,657</b>	14,657
Accumulated depreciation	<b>(27,646)</b>	(15,678)	<b>(7,219)</b>	(3,261)
	<b>15,920</b>	31,108	<b>7,438</b>	11,396
Office Equipment, at cost	<b>11,272</b>	11,272	<b>11,272</b>	11,272
Accumulated depreciation	<b>(4,402)</b>	(2,196)	<b>(4,402)</b>	(2,196)
	<b>6,870</b>	9,076	<b>6,870</b>	9,076
Motor Vehicles, at cost	<b>16,635</b>	16,635	<b>16,635</b>	16,635
Accumulated depreciation	<b>(5,185)</b>	(2,490)	<b>(5,185)</b>	(2,490)
	<b>11,450</b>	14,145	<b>11,450</b>	14,145
IT equipment, at cost	<b>34,632</b>	31,704	<b>34,632</b>	31,704
Accumulated depreciation	<b>(18,254)</b>	(8,289)	<b>(18,254)</b>	(8,289)
	<b>16,378</b>	23,415	<b>16,378</b>	23,415
	<b>50,618</b>	77,744	<b>42,136</b>	58,032

**Note 12 – Other Non Current assets**

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

**Note 13 – Trade and other payables**

Trade payables	<b>29,409</b>	287,714	<b>27,417</b>	283,806
Sundry payables and accrued expenses	<b>1,620,099</b>	4,399,734	<b>1,595,682</b>	4,356,452
	<b>1,649,508</b>	4,687,448	<b>1,623,099</b>	4,640,258

**Note 14 – Loans payable**

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

Balance at beginning of reporting year	-	-	<b>521,070</b>	657,194
Loans granted during the year	-	-	-	-
Repayments during the year	-	-	<b>(9,917)</b>	(136,124)
Balance at end of reporting year	-	-	<b>511,153</b>	521,070

**Note 15 – Issued capital**

306,898,921 (2013: 235,519,138) fully paid ordinary shares	<b>49,389,418</b>	30,359,250	<b>49,389,418</b>	30,359,250
--	-------------------	------------	-------------------	------------

	Group		Company	
	No of shares	US\$	No of shares	US\$
<b>(a) Fully paid ordinary shares</b>				
<b>For the period ending 31 December 2014</b>				
Balance at beginning of reporting year	235,519,138	30,359,250	235,519,138	30,359,250
Shares transactions during the year:				
- transfer from reserve for asset acquisition	10,000,000	4,048,610	10,000,000	4,048,610
- issue of shares from private placement	61,379,783	14,981,558	61,379,783	14,981,558
Balance at end of reporting year	306,898,921	49,389,418	306,898,921	49,389,418
<b>For the period ending 31 December 2013</b>				
Balance at beginning of reporting year	220,269,138	26,874,291	220,269,138	26,874,291
Shares transactions during the year:				
- shares issued pursuant to exercise of options issued at time of IPO	15,250,000	2,843,555	15,250,000	2,843,555
- transfer from options reserve	-	641,404	-	641,404
Balance at end of reporting year	235,519,138	30,359,250	235,519,138	30,359,250

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

Ordinary shares have no par value.

	Group		Company	
	2014	2013	2014	2013
	Number of options			
<b>(b) Options over unissued shares</b>				
Balance at beginning of reporting year	2,100,000	16,750,000	2,100,000	16,750,000
Issued during the year	-	600,000	-	600,000
Exercised during the year	-	(15,250,000)	-	(15,250,000)
Lapsed during the year	(600,000)	-	(600,000)	-
Balance at end of reporting year	1,500,000	2,100,000	1,500,000	2,100,000

1,500,000 expiring 16 December 2015

Exercisable at \$ 0.50 each

The remaining 1,500,000 options pertain to options granted to Directors and Key Management Personnel (note 13c).

Each option entitles the holder to one share of the Company. All shares issued upon exercise of options will rank pari passu in any respects with the Company's issued shares.

**(c) Share-based payments**

On 16 December 2012, the Company issued 1,500,000 options to the Chief Financial Officer. The options are divided into 3 equal tranches. Tranche 1 vests after a period of 1 year from being employed with the Company. Tranche 2 vests after a period of 2 years of being employed with the Company and tranche 3 vests after 30 months employment with the Company.

On 3 May 2013, the Company issued 600,000 options to the Chief Geologist. These lapsed in 2014 upon cessation of her employment with the company.

Grant date	Expiry date	Exercise price US\$	Balance at beginning of the year	Lapsed during the year Number of options	Balance at the end of the year	Vested and exercisable at the end of the year
16 Dec 2012	16 December 2015	0.50	1,500,000	-	1,500,000	1,000,000
3 May 2013	3 May 2016	0.20	600,000	(600,000)	-	-

*Fair value of options granted*

The assessed fair value at grant date of options granted during the year ended 31 December 2014 was US\$0.10 per option. There were no options granted during the year. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 31 December 2013 included:

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

The expected price volatility is based on management's best estimate of the fluctuation in market prices following the successful IPO, growth in operations and, adjusted for any expected changes to future volatility due to publicly available information.

*Shares issued as consideration for acquisition of part of licence*

During 2013, the company was awarded an interest in Petroleum Retention Licence ("PRL") 38. In addition to the participating interest already awarded by the government, the company agreed to acquire an additional 5% from co-bidder Wondecla Limited (a subsidiary of Cott Oil and Gas Limited). Consideration for this acquisition was the issue of 10,000,000 shares and whilst the conditions precedent for issue of the shares were satisfied in 2013, the shares were not issued until 2014.

**(d) Capital management**

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

Management adjusts the capital structure to the extent possible to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount



of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated group is not subject to any externally imposed capital requirements, nor does it focus on obtaining debt as a key capital management tool.

#### Note 16 - Interests of key management personnel (KMP)

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

John Prendiville (appointed 31 May 2011, resigned 6 November 2014)	Previous Non-executive Chairman
Richard Robinson (appointed to Board 13 December 2013, and as Chairman on 6 November 2014)	Non-executive Chairman
Richard Schroder (appointed 31 May 2011)	Executive Director
Barry Tan (appointed 1 March 2009)	Non-executive Director
Dr Ila Temu (appointed 31 May 2011)	Non-executive Director
David Vance (appointed 6 November 2014)	Non-executive Director
Alex Mitchell (appointed 1 October 2012)	Chief Financial Officer

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Company's key management personnel for the year ended 31 December 2014.

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

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Short-term employee benefits	675,816	619,298	194,898	124,889
Post-employment benefits	47,826	47,046	-	-
Share and Option-based payments	91,320	211,849	91,320	211,849
	814,962	878,193	286,218	336,738

#### (a) KMP share holdings

The number of ordinary shares in Kina Petroleum Ltd held directly and indirectly by each key management personnel of the Company during the year is as follows:

	Balance at beginning of year or date of appointment	Purchased	Issued on exercise of options	Balance at end of year or date of resignation or cessation
<b>2014</b>				
John Prendiville	18,088,667	-	-	18,088,667
Richard Schroder	15,752,381	-	-	15,752,381
Barry Tan	17,520,001	-	-	17,520,001
Dr Ila Temu	510,000	-	-	510,000
Richard Robinson	-	300,000	-	300,000
David Vance	-	-	-	-
Total	51,871,049	300,000	-	52,171,049

	Balance at beginning of year or date of appointment	Issued on share purchase plan	Issued on exercise of options	Balance at end of year or date of resignation or cessation
<b>2013</b>				
John Prendiville	8,338,667	-	9,750,000	18,088,667
Richard Schroder	10,752,381	-	5,000,000	15,752,381
Barry Tan	18,010,001	-	-	18,010,001
Dr Ila Temu	10,000	-	500,000	510,000
<b>Total</b>	<b>37,111,049</b>	<b>-</b>	<b>15,250,000</b>	<b>52,361,049</b>

**(b) KMP Option holdings**

	Balance at beginning of year or date of appointment	Granted as compensation	Exercise of Options / Other changes	Balance at end of year or date of resignation or cessation
<b>2014</b>				
John Prendiville	-	-	-	-
Richard Schroder	-	-	-	-
Dr Ila Temu	-	-	-	-
Richard Robinson	-	-	-	-
David Vance	-	-	-	-
Alex Mitchell	1,500,000	-	-	1,500,000
<b>Total</b>	<b>1,500,000</b>	<b>-</b>	<b>-</b>	<b>1,500,000</b>
<b>2013</b>				
John Prendiville	9,750,000	-	(9,750,000)	-
Richard Schroder	5,000,000	-	(5,000,000)	-
Dr Ila Temu	500,000	-	(500,000)	-
Alex Mitchell	1,500,000	-	-	1,500,000
<b>Total</b>	<b>16,750,000</b>	<b>-</b>	<b>15,250,000</b>	<b>1,500,000</b>

**Note 17 - Employee benefits****Superannuation**

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

**Note 18 - Related party transactions**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

## Key management personnel

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

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
<b>Note 19 - Notes to statement of cash flows</b>				
<b>(a) Reconciliation of cash</b>				
Cash at bank and on hand	<b>15,418,388</b>	6,458,768	<b>15,416,903</b>	6,411,591
<b>(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities</b>				
Loss from ordinary activities after income tax	<b>(3,259,818)</b>	(3,233,747)	<b>(3,211,043)</b>	(3,164,895)
Add Back				
Non-cash expense – shared based payments	<b>98,800</b>	217,485	<b>98,800</b>	217,485
Non-cash expense – depreciation	<b>29,484</b>	26,968	<b>15,851</b>	15,851
Non-cash income – foreign exchange loss/(gain)	<b>114,143</b>	608,899	<b>114,143</b>	608,899
Non operating item – exploration expense relating to investment activity	<b>380,606</b>	455,623	<b>380,606</b>	455,623
Changes in assets and liabilities relating to operations:				
- (Increase)/decrease in receivables	<b>11,788</b>	(312,234)	<b>12,539</b>	(247,400)
- Increase/(decrease) in trade and other payables	<b>(202,168)</b>	195,241	<b>(37,337)</b>	182,189
Net cash (used in)/provided by operating activities	<b>(2,827,165)</b>	(2,449,714)	<b>(2,626,441)</b>	(2,340,197)

## Note 20 - Segment information

### (a) Identification of reportable segments

The consolidated group has identified its reportable segments based on the location of its exploration assets within Papua New Guinea.

- Petroleum Prospecting License (PPL) 337 – located in the North New Guinea Basin which is a frontier basin that has minimal experienced minimal exploration and has a surface anticline with numerous gas seeps.
- PPLs 338, 339 and 340 – located in the Southern Papuan Basin which is a proven hydrocarbon basin
- PPLs 435, 436 and 437 – located in the Western Papuan Basin, adjacent to PRL 21.
- Petroleum Retention License (PRL) 21 – located in the Western Province of PNG and contains two wet gas discoveries. The Group has a 15% interest in PRL 21 and is covered by a Joint Operating Agreement.
- Petroleum Retention License (PRL) 38 – located in the Gulf of Papua and containing the Pandora Gas fields. The Group has a 25% interest in PRL 38 and at the date of this report is negotiating a Joint Operating Agreement.

**(b) Segment information**

31 Dec 2014	Balance at beginning of the year	Exploration costs incurred	Exploration costs expensed	Development costs incurred	Cost of Acquisition	Balance at year end	% of total expenditure
	US\$	US\$	US\$	US\$	US\$	US\$	%
PPL 337	19,205	170,894	(170,894)	-	-	19,205	0.08
PPL 338	13,767	111,746	(111,746)	-	-	13,767	0.06
PPL 339	25,017	145,961	(145,961)	-	-	25,017	0.10
PPL 340	16,205	240,771	(240,771)	-	-	16,205	0.07
PPL 435	26,611	270,189	(270,189)	-	-	26,611	0.11
PPL 436	24,604	251,472	(251,472)	-	-	24,604	0.09
PPL 437	5,694	124,014	(124,014)	-	-	5,694	0.03
PRL 21	18,596,113	188,513	(380,606)	1,732,022	-	20,136,042	82.69
PRL 38	4,048,610	36,711	-	-	-	4,085,321	16.77
	<b>22,775,826</b>	<b>1,540,271</b>	<b>(1,695,653)</b>	<b>1,732,022</b>	<b>-</b>	<b>24,352,466</b>	<b>100.00</b>

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

**Note 21 - Financial risk management**

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

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

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
<b>Financial assets</b>				
Cash and cash equivalents	15,418,388	6,458,768	15,416,903	6,411,591
Trade and other receivables	368,500	2,081,276	364,835	2,078,361
Other non-current assets	264,390	272,160	264,390	272,160
<b>Total</b>	<b>16,051,278</b>	<b>8,812,204</b>	<b>16,046,128</b>	<b>8,762,112</b>
<b>Financial liabilities</b>				
Trade and other payables	1,649,508	4,687,448	1,623,099	4,620,258
Loans payable	-	-	511,153	521,070
<b>Total</b>	<b>1,649,508</b>	<b>4,687,448</b>	<b>2,134,252</b>	<b>5,161,328</b>

### Specific financial risk exposures and management

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

#### Interest rate risk

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

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Cash in bank	15,418,388	6,458,768	15,416,903	6,411,591
Other non-current assets	264,390	272,160	264,390	272,160
Cash and cash equivalents	15,682,778	6,730,928	15,681,293	6,683,751

The consolidated group's main interest rate risk arises from cash and cash equivalents. Cash maintained in short term deposits earn a floating interest rate of approximately 2.5% (2013: 1.5%). The impact of changes in interest rates on cash flow is not expected to be material due to the short term nature of cash equivalents.

#### Guarantees

Kina Petroleum Limited has not entered into any guarantees in the current or previous financial year in relation to the debts of its subsidiary.

#### Contractual commitments

Kina Petroleum Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment as at 31 December 2014.

#### Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting.

The Group is exposed to foreign exchange risk arising mainly from cash and cash equivalents denominated in foreign currencies. As at end of year, the Group's exposure to foreign currency risk is as follows:

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Cash in bank				
In Papua New Guinea (PNG) Kina	<b>74,227</b>	76,982	<b>74,227</b>	76,982
In Australian dollar	<b>3,171,876</b>	1,838,661	<b>3,170,392</b>	1,791,485
Short-term deposit				
In Australian dollar	-	-	-	-
Other non-current assets				
In PNG Kina	<b>264,390</b>	272,160	<b>264,390</b>	272,160
	<b>3,510,493</b>	2,187,803	<b>3,509,009</b>	2,140,627

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

	Sensitivity rate	Group		Company	
		2014	2013	2014	2013
		US\$	US\$	US\$	US\$
PNG Kina-denominated	1% (2013 – 1%)				
Cash and cash equivalents		<b>3,386</b>	3,550	<b>3,386</b>	3,550
Australian dollar-denominated	2% (2013 – 3%)				
Cash and cash equivalents		<b>63,408</b>	52,527	<b>63,408</b>	51,180
Total increase/decrease in post-tax profit		<b>66,794</b>	56,077	<b>66,794</b>	54,730

**Credit risk**

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

**Liquidity risk**

The consolidated group maintains sufficient liquidity by holding cash in readily accessible accounts. The consolidated group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The consolidated group has no access to borrowing facilities at the reporting date. The consolidated group's financial assets \$16,051,278 (2013: \$8,812,204) and financial liabilities \$1,649,508 (2013: \$4,687,448) have a maturity within 12 months of 31 December 2014.

**Fair value**

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in the Statement of Accounting Policies.

**Note 22 - Earnings per share**

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
Operating loss after income tax used in the calculation of basic and diluted loss per share	3,259,818	3,233,747
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	254,329,790	221,999,275
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted loss per share	255,829,790	224,733,796

**Note 23 - Controlled Entities****Controlled Entities Consolidated**

<b>Subsidiaries of Kina Petroleum Limited</b>	<b>Country of incorporation</b>	<b>Percentage Owned (%)</b>	
		<b>2014</b>	<b>2013</b>
Kina Oil and Gas Limited	Australia	100	100

Kina Oil and Gas Limited was acquired on 24 May 2011 through the issue of 10,035,801 shares at a cost of US\$765,808.

The net assets and liabilities recognised as a result of the acquisition are as follows:

	<b>Fair value</b>
	<b>US\$</b>
Cash and cash equivalents	624,219
Receivables	178,220
Trade and other payables	(36,631)
Net identifiable assets acquired	<u>765,808</u>

The net assets of the subsidiary as at 31 December 2014 was US\$426,070, and contributed revenues of \$378 and net loss of \$48,775 to the Group for the year ended 31 December 2014.

#### **Note 24 - Joint operations**

The Company has entered into a joint operations agreement for PRL 21, and PPLs 337 & 435 - 437 in relation to the exploration, appraisal development, product and disposition of petroleum covered by those licences. The Company has a 15% participating interest in PRL 21, a 50% interest in PPLs 435 & 436, and an 87.5% interest in PPL 437 (subject to farm-in by Heritage Oil plc) and accounts for its assets owned, liabilities incurred and share in exploration expenditures. The Group's assets in the joint operations are shown on the table below:

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
<b>Current assets</b>		
Trade and other receivables	<b>131,736</b>	1,709,338
<b>Non current assets</b>		
Exploration and evaluation expenditure	<b>22,027,001</b>	19,293,136
<b>Total assets employed in the joint operations</b>	<b>22,158,737</b>	21,002,474
<b>Non current liabilities</b>		
Trade and other payables	<b>1,257,600</b>	4,294,410
<b>Total net assets (liability) employed in the operations</b>	<b>20,901,137</b>	16,708,064

#### **Note 25 - Events occurring after the reporting period**

There were no material events occurring post balance date.

The financial report was authorised for issue on 25 March 2015 by the Board of Directors.

#### **Note 26 - Reserves**

The foreign currency valuation reserve pertains to translation adjustment arising from the consolidation of the subsidiary's balances. The translation adjustment credited to reserves during the year amounted to US\$3,468 (2013: debit of \$US 59,453).

Reserves also include:

- movement in recognised fair value of options granted to directors and key management personnel. Total movement recognised in respect of directors and key management personnel share options during the year amounted to US\$98,800 (2013: US\$217,485); and
- an amount of \$nil (2013: \$US 4,048,610) attributable to the acquisition of an interest in the PRL 38 licence. The 2013 amount reflected the fair value of shares (measured at the licence grant date) issued in early calendar year 2014 issued in consideration for the acquisition.



Group		Company	
2014	2013	2014	2013
US\$	US\$	US\$	US\$

**Note 27 – Capital and leasing commitments****(a) Operating lease commitments**

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

Within one year	<b>70,940</b>	76,085	-
Later than one year but not later than 2 years	<b>5,355</b>	74,178	-
Later than 2 years	-	56,698	-

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

**(b) Expenditure commitments**

Minimum work commitments due in less than one year comprise:

- 4 wells in 3 licences;
- Completion of Seismic Re-processing in 2 licences
- Seismic Acquisition and a well, contingent upon results of Aerogravity evaluation.

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

- The drilling of 4 wells
- Completion of 2 seismic surveys

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

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

**Note 28 - Company Details****AUSTRALIAN REGISTERED OFFICE**

Suite 3, Level 6  
9 – 13 Young St  
Sydney NSW 2000

**PAPUA NEW GUINEA REGISTERED OFFICE**

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

**PRINCIPAL PLACE OF BUSINESS****Australia**

Suite 3, Level 6  
9 – 13 Young St  
Sydney NSW 2000

**PAPUA NEW GUINEA**

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

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

1. the attached financial statements and notes thereto of the Company and the consolidated entity, as set out on pages 21 to 48, are in accordance with the Papua New Guinea Companies Act 1997 and:
  - (a) comply with International Financial Reporting Standards (IFRS);
  - (b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2014 and of the performance for the year ended on that date; and
  - (c) the attached financial statements and notes thereto comply with the reporting requirements of the Australian Securities Exchange Listing rules and the Port Moresby Stock Exchange Listing rules
2. the Managing Director and Chief Financial Officer have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with the Papua New Guinea Companies Act 1997;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year comply and give a true and fair view.
3. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Dated this 26th day of March 2015



Mr Richard Schroder  
Managing Director

**Supplementary Information****Additional disclosures for PNG Investors**

In accordance with Accounting Standards Board Directive 2 (ASBD 2) and the Investment Promotion Authority, the Company has prepared US dollar financial statements, being their measurement and presentation currency. The following supplementary information is however required and is expressed in PNG Kina terms:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>Kina</b>	<b>Kina</b>	<b>Kina</b>	<b>Kina</b>
Revenue	<b>545,500</b>	760,713	<b>544,505</b>	759,988
Net loss	<b>(8,578,468)</b>	(7,516,758)	<b>(8,450,113)</b>	(7,356,375)
Total assets	<b>107,184,872</b>	81,526,901	<b>109,176,336</b>	83,317,034
Total liabilities	<b>4,367,243</b>	12,038,696	<b>5,650,654</b>	13,257,523
Net assets	<b>102,817,629</b>	69,488,205	<b>103,525,682</b>	70,059,511



***Independent Auditor's Report***  
to the shareholders of Kina Petroleum Limited

***Report on the financial statements***

We have audited the accompanying financial statements of Kina Petroleum Limited (the Company), which comprise the statement of financial position as at 31 December 2014, the statement of total comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2014 or from time to time during the financial year.

***Directors' responsibility for the financial statements***

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the accompanying financial statements:

1. comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2014, and their financial performance and cash flows for the year then ended.



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

The Companies Act 1997 requires in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2014:

1. we have obtained all the information and explanations that we have required;
2. in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records; and
3. we have no relationship with, or interests in, the Company or any of its subsidiaries other than in our capacities as auditor and tax advisor. These services have not impaired our independence as auditor of the Company and the Group.

***Restriction on distribution or use***

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

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

PricewaterhouseCoopers

A stylized, handwritten signature in blue ink, likely belonging to Jonathan Seeto.

Jonathan Seeto  
Partner

Registered under the Accountants Registration Act 1996

Port Moresby  
26 March 2015

## ADDITIONAL INFORMATION

Additional Australian Securities Exchange information as at 24 March 2015.

### Number of holders of equity securities

#### Fully Paid Ordinary Shares

306,898,921 fully paid ordinary shares are held by 962 individual shareholders (10,000,000 subject to ASX escrow).

All issued ordinary shares carry one vote per share.

#### Options

1,500,000 unlisted options (\$0.50 exercise price, 16 December 2015 expiry) held by one executive .

Distribution of holders of equity securities.

Category (size of holdings)	Number of Holders	Number of Securities
1 - 1,000	43	3,266
1,001 - 5,000	148	439,709
5,001 - 10,000	130	1,062,673
10,001 - 100,000	458	16,657,425
100,001 and over	183	288,735,848
<b>TOTAL</b>	<b>962</b>	<b>306,898,921</b>
Holding less than a marketable parcel	-	-

#### Substantial shareholders

The names of the substantial shareholders listed in the Kina Petroleum Limited register as at 24 March 2015 were:

Holders	Fully paid ordinary shares	
	Number	Percentage
Citicorp Nominees Pty Limited	69,473,054	22.64%
National Nominees Limited	18,004,837	5.87%
Barry James Tan	17,520,001	5.71%
	<b>104,997,892</b>	<b>34.22%</b>

## ADDITIONAL INFORMATION

### Top 20 Holders – Quoted Fully Paid Ordinary Shares as at 24 March 2015

Rank	Name	Units	% of Units
1	CITICORP NOMINEES PTY LIMITED	69,473,054	22.64%
2	NATIONAL NOMINEES LIMITED	18,004,837	5.87%
3	BARRY JAMES TAN	17,520,001	5.71%
4	DB MANAGEMENT PTY LTD	12,767,004	4.16%
5	JSC INVESTMENTS LTD	12,330,000	4.02%
6	MR RICHARD JOHN SCHRODER & MRS JENNIFER MARY SCHRODER	10,042,857	3.27%
7	PEWOVE PTY LIMITED	10,000,000	3.26%
8	PROFESSIONAL NOMINEES PTY LTD	9,537,000	3.11%
9	MACQUARIE BANK LIMITED	9,216,089	3.00%
10	LUAGA PTY LTD	8,338,667	2.72%
11	POINT CAPITAL PTY LTD	7,150,000	2.33%
12	LIN XIAO LANG	6,854,168	2.23%
13	EQUITAS NOMINEES PTY LIMITED	5,500,000	1.79%
14	KUMUL ENERGY RESOURCES LTD	5,000,000	1.63%
14	MR RICHARD SCHRODER	5,000,000	1.63%
14	BOWERBIRD CONSOLIDATED PTY LIMITED	5,000,000	1.63%
15	JADE RABBIT HOLDINGS LIMITED	4,500,000	1.47%
16	MACQUARIE BANK LIMITED	3,428,571	1.12%
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,110,833	1.01%
18	EQUITAS NOMINEES PTY LIMITED	2,367,086	0.77%
19	GENTILLY HOLDINGS PTY LTD	2,042,857	0.67%
20	KMPC INVESTMENTS	1,709,809	0.83%
<b>TOTAL</b>		228,892,833	74.58%
<b>Balance of Register</b>		78,006,088	25.42%
<b>Grand TOTAL</b>		<b>306,898,921</b>	<b>100.00%</b>

## ADDITIONAL INFORMATION

### DIRECTORS

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

### COMPANY SECRETARY

Mr Peter Impey

### AUDITORS

Pricewaterhouse Coopers  
6<sup>th</sup> Floor Credit House  
PO Box 484 Port Moresby  
Papua New Guinea

### SHARE REGISTRY

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

### REGISTERED OFFICE - Australia

Suite 3, Level 6,  
9 – 13 Young St  
Sydney NSW 2000

### LAWYERS - Australia

HWL Ebsworth  
Level 14, Australia Square  
264-278 George Street  
Sydney NSW 2000

### REGISTERED OFFICE – Papua New Guinea

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

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

### PRINCIPAL PLACE OF BUSINESS – Australia

Suite 3, Level 6  
9 – 13 Young St  
Sydney NSW 2000

### LAWYERS – Papua New Guinea

Gadens Lawyers  
Pacific Place  
Cnr Musgrave Street and Champion Parade  
Port Moresby  
Papua New Guinea

### PRINCIPAL PLACE OF BUSINESS – Papua New Guinea

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