

2016

ANNUAL REPORT



CORPORATE DIRECTORY

Directors

William Bloking
Non-Executive Chairman

Michael Fischer
Managing Director

Andrew Edwards
Non-Executive Director

Chaiwat Kovavisarach
Non-Executive Director

Krairit Nilkuha
Non-Executive Director

Vichien Usanachote
Non-Executive Director

Company Secretary

John Newman

Officers

Kris Thirakaosal
Commercial Manager

Stuart Nichol
Production Manager

Jani Surjan
Financial Controller

Registered and Principal Office

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Auditors

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Securities Exchange Listing

The Company's securities are listed on the official list of ASX Limited.

ASX Code

Shares: NDO

2016

ANNUAL REPORT

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2016 SUMMARY

Production and Development

- 1,873,149 bbls gross (1,046,707 bbls net to Nido) were produced from the Galoc oil field.
- Production uptime at Galoc averaged 99.77% during the year.
- The Nido and Matinloc oil fields continued to produce oil on a cyclical basis with total production of 126,388 bbls gross (32,637 bbls net to Nido).
- Revenue from crude oil sales totalled \$42.601 million for the year.

Exploration and Appraisal

- The Galoc Joint Venture approved the Galoc-7/7ST appraisal well in order to confirm the commerciality of a potential Phase III development project.
- The Company continued to review new venture opportunities throughout the year as part of its longer term strategy of expansion.
- The Department of Energy approved the Company's request for a moratorium and an amendment to the Sub-Phase 3 Work Program for SC 63.

Health, Safety, Security and Environment (HSSE)

The Company achieved excellent HSSE performance across all assets and activities during 2016 with a Total Recordable Injury Frequency Rate (TRIFR) for 2016 of zero compared with the Australian National Offshore Petroleum Safety and Environment Management Authority (NOPSEMA) benchmark of 5.3.

Corporate and Financial

- Cash on hand at year end was \$31.974 million and debt drawn under the revolving term loan facility was \$78.200 million at year end.
- The Company raised a total of \$19.778 million (before costs) from a pro-rata entitlement offer to fund the Company's participating interest share of the Galoc-7/7ST appraisal well.
- Gross loss for the 2016 year was \$5.538 million and net loss after tax was \$17.255 million.
- Nido successfully completed a restructure of its Facility Agreement with the Bangchak Petroleum Public Company Limited on 11 March 2016. Under the terms of the restructure, principal and interest payments are deferred until March 2018 and the facility interest no longer increases by 2% per year but is capped at 6% plus LIBOR for the term of the loan.



CHAIRMAN'S LETTER

Dear Shareholder,

I am pleased to present to you the Company's 2016 Annual Report.

2016 was a very challenging year for the oil and gas industry as the oil price collapse, which commenced in 2015, continued with prices falling below US\$40/bbl during the first quarter. This fall in prices created a very difficult environment for all E&P Companies, requiring a focus on costs to maintain profitability and risk management to ensure long-term viability.

In this context the Company aggressively reduced costs across the business in response to the external environment, minimising any non-commitment expenditure. The Management team, the staff and the Board implemented a voluntary reduction in remuneration during the first half of 2016 to demonstrate their collective commitment to the sustainability of the Company.

One of the key challenges facing the Company are the ongoing repayment obligations associated with the debt facility with our majority shareholder, The Bangchak Petroleum Public Company Limited ("BCP"). The Management team worked constructively with BCP during the first half of the year to re-negotiate the facility resulting in a deferral of further principal and interest payments until March 2018 and providing the Company with the flexibility to manage its cashflow requirements and meet its financial commitments in 2016 and 2017.

The Company continued to prioritise the management of health, safety and the environment and in August 2016 the Galoc Joint Venture celebrated the achievement of four years of operations at the Galoc oil field without a Lost Time Injury. This has been an excellent performance and I would like to take this opportunity to thank everyone involved in the operation, together with the FPSO Operator Rubicon Offshore International Pte Ltd, for their commitment in achieving this major milestone.

Despite the difficult external environment, the Company remained focussed on delivering value to shareholders. The fall in oil price has resulted in a decrease in demand for oilfield services, such as drilling rigs, with a consequent significant reduction in day-rates. The Company, on

behalf of the Galoc Joint Venture, has taken advantage of this opportunity to commit to drilling of the Galoc-7/7ST appraisal well. This well will assess the potential of a currently untested area of the Galoc Field and, if successful, will add considerably to the proven reserves at, and production from, the Field. As the year ended, Nido, on behalf of the Galoc Joint Venture, was actively planning and procuring the necessary services and equipment for the well. The drilling campaign is scheduled to commence in the first quarter of 2017.

In order to fund the Company's share of the Galoc-7/7ST well, a renounceable entitlement offering was launched on 21 October 2016 raising \$19.778 million (before costs) with BCPE taking up its full pro-rata entitlement. BCPE has increased its holding in Nido to 96.97% and BCPE are now considering its options in relation to the potential compulsory acquisition of the remaining shares in the Company.

The Company continued to consider business development opportunities in the South-East Asia region. The emphasis has been on producing assets in order to improve the Company's cash-flow position and we have considered both oil and gas production in order to build a balanced portfolio. A large number of opportunities have been screened by the Company but, to date, none have achieved the deal metrics we believe are appropriate in the current environment. The Company will therefore continue to seek to secure a second producing asset but will maintain a disciplined approach to this process.

Finally, I would like to thank our Leadership Team and Staff for their continued commitment to the Company and to the shareholders of Nido for their ongoing support.

Yours sincerely



William Bloking
Chairman
Nido Petroleum Limited

“In this context the Company aggressively reduced costs across the business in response to the external environment, minimising any non-commitment expenditure. The Management team, the staff and the Board implemented a voluntary reduction in remuneration during the first half of 2016 to demonstrate their collective commitment to the sustainability of the Company.”

ANNUAL RESERVES STATEMENT

ANNUAL RESERVES STATEMENT

The Company's Audit and Risk Management Committee is tasked with the responsibility of overseeing and reviewing on an annual basis the Company's compliance with the relevant standards applicable for reserves and resources reporting including oversight of the Company's Annual Reserves Statement.

Gaffney, Cline & Associates (GCA) has completed its Independent Reserves Assessment of the Galoc oil field in accordance with the SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE PRMS) Definitions and Guidelines and the ASX Listing Rules including Listing Rules 5.25 - 5.44 where applicable.

The revisions to reserves volumes have been assessed after taking into consideration the recent field performance and the current oil price environment.

The Company has not obtained an independent assessment of Contingent Resources volumes for the Galoc oil field as at 31 December 2016 given that the Galoc-7/7ST appraisal well will be drilled in the first quarter of 2017. Further contingent resource and reserves analysis will be undertaken following the drilling of Galoc-7/7ST and associated post-drilling technical studies.

The tables below summarise the Company's Reserves position for the Galoc oil field as at 31 December 2016 and compared with 31 December 2015 where applicable.

SC 14C1: Galoc Oil Field	Net Oil Reserves as at 31 December 2015 (MMstb)	Oil Production and Revisions(MMstb)	Net Oil Reserves as at 31 December 2016 (MMstb)
DEVELOPED RESERVES			
Proved (1P)	2.65	(1.11)	1.54
Proved plus Probable (2P)	4.14	(1.54)	2.60
Proved plus Probable plus Possible (3P)	5.91	(1.69)	4.22
UN-DEVELOPED RESERVES			
Proved (1P)	-	-	-
Proved plus Probable (2P)	-	-	-
Proved plus Probable plus Possible (3P)	-	-	-
TOTAL RESERVES			
Proved (1P)	2.65	(1.11)	1.54
Proved plus Probable (2P)	4.14	(1.54)	2.60
Proved plus Probable plus Possible (3P)	5.91	(1.69)	4.22

1. In accordance with ASX Listing Rule 5.44, the Company confirms that the hydrocarbon reserves information contained in this document in relation to the Galoc oil field is based on, and fairly represents, information and supporting documentation prepared by Gaffney, Cline & Associates under the supervision of Mr Stephen M. Lane. Mr Lane holds a B.Sc. (Hons.) degree in Geology, is a Technical Director of Gaffney Cline & Associates, is a member of the Society of Petroleum Engineers and has over thirty-five years' experience in the sector. Mr Lane is not an employee of the Company and consented in writing to the inclusion of the hydrocarbon reserves information in the form and context in which it appears in this Annual Report.
2. The hydrocarbon Reserves information outlined above complies with the SPE PRMS and with ASX Listing Rules for the disclosure of oil and gas reserves and resources.

3. Oil volumes are quoted in millions of stock tank barrels (MMstb). No oil produced from the Galoc field is used as fuel.
4. Oil Reserves estimates for the Galoc field are provided on the basis of Nido's Net Entitlement Share after the subtraction of the Government's entitlement.

Oil Reserves assessments for the Nido and Matinloc oil fields have not been undertaken as Nido's net entitlement share of these reserves is negligible.

The Company has not obtained an independent assessment of Contingent Resources volumes for the West Linapacan oil field as at 31 December 2016 given that no further technical work was conducted during 2016.

PETROLEUM PERMIT INTEREST SCHEDULE

The following table summarises the Company's equity interests in its permits as at 31 December 2016:

Philippines

Permit	Basin	Nido Interest (%)	Approx. Area (sq. km.)	Operator
SC 14 Block A	North West Palawan	22.49	24	Philodrill ⁽¹⁾
SC 14 Block B	North West Palawan	28.28	155	Philodrill ⁽¹⁾
SC 14 Block C-1 ⁽²⁾	North West Palawan	55.88 ⁽⁸⁾	164	GPC ⁽³⁾
SC 14 Block C-2 ⁽⁴⁾	North West Palawan	22.28	178	Philodrill ⁽¹⁾
SC 14 Block D	North West Palawan	31.42	173	Philodrill ⁽¹⁾
SC 6B	North West Palawan	7.81	537	Philodrill ⁽¹⁾
SC 54A	North West Palawan	42.40	399	Nido
SC 54B	North West Palawan	60.00	624.5	Nido
SC 58	North West Palawan	50.00 ⁽⁵⁾	13,487	Nido ⁽⁶⁾
SC 63	North West Palawan	20.00	10,666	PNOC ⁽⁷⁾

⁽¹⁾ The Philodrill Corporation

⁽²⁾ Galoc Block

⁽³⁾ Galoc Production Company W.L.L.

⁽⁴⁾ West Linapacan Block

⁽⁵⁾ Subject to Nido completing its obligation under its Farm-in Agreement with PNOC Exploration Corporation

⁽⁶⁾ SC 58 operatorship reverts to PNOC Exploration Corporation upon completion of Nido's farm-in obligations

⁽⁷⁾ PNOC Exploration Corporation

⁽⁸⁾ Nido's working interest increased from 22.88% to 55.88% on 17 February 2015 with the completion of the Galoc Production Company W.L.L. acquisition

Indonesia

Permit	Basin	Nido Interest (%)	Approx. Area (sq. km.)	Operator
Baronang PSC	West Natuna Basin	10.00 ^{(4), (5)}	2,825	Lundin Petroleum ^{(1), (5)}
Cakalang PSC	West Natuna Basin	10.00 ⁽⁵⁾	3,339	Lundin Petroleum ^{(2), (5)}
Gurita PSC	Penyu Sub-Basin	10.00 ⁽⁵⁾	7,938	Lundin Petroleum ^{(3), (5)}

⁽¹⁾ Lundin Baronang BV

⁽²⁾ Lundin Cakalang BV

⁽³⁾ Lundin Gurita BV

⁽⁴⁾ Nido exercised its right to acquire an additional 5% working interest but this transfer of interest is yet to receive regulatory approval

⁽⁵⁾ Nido is in the process of withdrawing from this PSC

OPERATIONS REVIEW

PRODUCTION AND DEVELOPMENT - PHILIPPINES

2016 PRODUCTION SUMMARY

Field	Gross Oil Production		Net Production to Nido	
	Year Total bbls	Average Daily bopd	Year Total bbls	Average Daily bopd
Galoc	1,873,149	5,118	1,046,707	2,860
Nido & Matinloc	126,388	346	32,637	89
TOTAL	1,999,537	5,464	1,079,344	2,949

GALOC – SC 14 BLOCK C1, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company currently retains a combined 55.879% interest in Service Contract 14C1 which contains the Galoc oil field development. The Company's interest in the field is held by its wholly owned subsidiaries, Nido Production (Galoc) Pty Ltd and Galoc Production Company W.L.L. ('GPC') which hold a 22.879% interest and 33% interest in Service Contract SC 14C1 respectively. GPC is the Operator of the project.

Five cargoes were lifted during the year, with two cargoes being sold to SK Energy in South Korea, one cargo being sold to Singapore Petroleum Company in Singapore, one cargo being sold to Thai Oil Public Co. Ltd in Thailand and one cargo being sold to Chevron USA Inc. in Singapore.

During the year the Galoc Joint Venture approved the drilling of an appraisal well in the mid-Galoc area of the field to confirm the commerciality of a potential Phase III development project. In this context the Company launched a A\$31.9 million pro-rata renounceable entitlement offer on 21 October 2016 to raise funds for Nido's participating interest share of the drilling of the Galoc-7/7ST appraisal well.

The Company raised a total of \$19.8 million (before costs) from the pro-rata entitlement offer to fund the Company's participating interest share of the Galoc-7/7ST appraisal well and is now actively progressing its preparations for the drilling campaign which is scheduled to commence in the first quarter of 2017.

PRODUCTION ACTIVITIES

The average production uptime for the year was 99.77% and the gross average daily production was 5,118 bopd, with total oil produced of 1,873,149 bbls gross (1,046,707 bbls net to Nido). Cumulative production from the initial start-up in 2008 to the end of the year was 18.7 mmbbls gross.

Revenue from crude oil sales relating to the Galoc oil field totalled \$41.6 million for the year (2015: \$67.1 million).

NIDO AND MATINLOC – SC 14 BLOCKS A & B, NORTH WEST PALAWAN BASIN, PHILIPPINES

During 2016, both fields produced a combined total of 126,388 bbls gross (32,637 net to Nido), averaging 346 bopd (approximately 89 bopd net to Nido). Revenue from crude oil sales relating to the Nido and Matinloc fields totalled \$1.0 million for the year (2015: \$1.3 million).

EXPLORATION & APPRAISAL - PHILIPPINES

SC 14 BLOCK C2 – WEST LINAPACAN, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company's wholly owned subsidiary Nido Production (Galoc) Pty Ltd holds a 22.279% working interest in the West Linapacan block.

During the year, The Philodrill Corporation ('Philodrill') as Operator of the Joint Venture continued to carry out a review and status audit of the Joint Venture activities following the removal of RMA West Linapacan Pte Ltd from the Service Contract.

Prior to year-end the Joint Venture approved the 2017 work program and budget which includes the reprocessing of approximately 480 sq km of full fold seismic data. It is anticipated that this reprocessing will assist in better modelling the West Linapacan structure. It may also serve as a basis to update well design and drilling/development plans.

SC 54 BLOCK A AND SC 54 BLOCK B, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company's wholly owned subsidiary Nido Petroleum Philippines Pty Ltd holds a 42.4% working interest in Block A of SC 54 and a 60% working interest in Block B of SC 54.

Service Contract 54 is in a period of moratorium from 5 August 2014 to 5 August 2017. The moratorium provides both the Block A and Block B ventures sufficient time to study the presently sub-commercial areas and other areas of interest within the contract area.

The Company continues to consider low cost development opportunities and other alternatives to maximise value from this asset.

SC 58, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company's wholly owned subsidiary, Nido Petroleum Philippines Pty Ltd, holds a 50% working interest in the SC 58 block.

Nido's working interest is dependent upon the completion of its obligations under the Farm-in Agreement with PNOC Exploration Corporation ('PNOC-EC') dated 17 July 2006 (which includes payment of 100% of the cost of drilling an exploration well in Sub-Phase 3).

During 2016 the Permanent Court of Arbitration in the Hague ruled in favour of the Philippines over the Peoples Republic of China ('China') regarding ownership of the West Philippine Sea in which SC 58 is located. China did not participate in the arbitration and the Service Contract remains in a period of suspension as China has issued statements rejecting the Court's ruling and noting it will therefore not abide by it. The Company continues to monitor the situation closely and its potential impact on SC 58.

SC 63, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company's wholly owned subsidiary Nido Petroleum Philippines Pty Ltd currently holds a 20% working interest in SC 63.

During 2015, PNOC-EC requested a moratorium, an amendment to the Sub-Phase 3 Work Program and a relinquishment of 50% of the initial contract area.

During the year the DOE granted a three year moratorium and an amendment to the Sub-Phase 3 Work Program. The revised Work Program for the moratorium and Sub-Phase 3 is as follows:

Sub-Phase		Work Program and Budget
Moratorium (24 Nov 2015 to 24 Nov 2018) (3 years)	Year 1 (24 Nov 2015 to 24 Nov 2016)	1) Technical/Commercial Studies = US\$ 50,000 2) Geological and Geophysical Assessment (GG&A) = US\$ 30,000
	Year 2 (24 Nov 2016 to 24 Nov 2017)	1) Technical/Commercial Studies = US\$ 50,000 2) GG&A = US\$ 30,000
	Year 3 (24 Nov 2017 to 24 Nov 2018)	1) Technical/Commercial Studies = US\$ 50,000 2) GG&A = US\$ 30,000
SP3 (24 Nov 2018 to 24 Nov 2019) (1 Year)		1) Drill one (1) firm well = US\$ 6,000,000 and/or 2) Drill one (1) contingent well = US\$ 6,000,000

A review of the remaining prospectivity of the block is currently ongoing.

Dragon Oil is in the process of withdrawing from this Service Contract and PNOC-EC and Nido have executed an assignment agreement with Dragon Oil. Upon approval of the assignment by the DOE, PNOC-EC and Nido will each hold a 50% participating interest in the Service Contract.

SC 6 BLOCK B - BONITA, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company's wholly owned subsidiary Nido Petroleum Philippines Pty Ltd holds a 7.81% working interest in Block B of SC 6.

The Joint Venture has recently focused on maturing leads in the northern part of the block and the East Cadlao structure located to the east of the Cadlao oil field in SC 6. Reprocessing of approximately 402 sq km of the existing TQ3D seismic survey was completed in 2016 and is still under review by the Operator.

EXPLORATION & APPRAISAL - INDONESIA

BARONANG PRODUCTION SHARING CONTRACT

The Company's wholly owned subsidiary Nido Petroleum Indonesia (Baronang) Pty Ltd holds a 10% working interest in the Baronang PSC. There was no activity undertaken in the Baronang PSC during the year as the Joint Venture is awaiting approval from the regulator SKKMigas to relinquish the PSC. Nido is in the process of withdrawing from this Production Sharing Contract.

CAKALANG PRODUCTION SHARING CONTRACT

The Company's wholly owned subsidiary Nido Petroleum Indonesia (Cakalang) Pty Ltd holds a 10% working interest in the Cakalang PSC. There was no activity undertaken in Cakalang PSC during the year as the Joint Venture is awaiting approval from the regulator SKKMigas to relinquish the PSC. Nido is in the process of withdrawing from this Production Sharing Contract.

GURITA PRODUCTION SHARING CONTRACT

The Company's wholly owned subsidiary Nido Petroleum Indonesia (Gurita) Pty Ltd holds a 10% working interest in the Gurita PSC.

The Operator Lundin Gurita BV ('Lundin') advised the Company in November 2015 that subject to the receipt of any necessary regulatory approvals it intended to withdraw from the PSC. There was therefore no material exploration activity during the 2016 year.

Subsequent to year-end the Company elected to withdraw from the Gurita PSC along with the Operator, Lundin.

EXPLORATION & APPRAISAL & NEW BUSINESS

The Company continued to review new venture opportunities throughout the year as part of its longer term strategy to replenish and grow its portfolio with quality assets primarily in the SE Asia region.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT (HSSE)

HSSE performance for 2016 based on 177,207 man hours resulted in zero fatalities, zero Lost Time Injuries and a Total Recordable Injury Frequency Rate ('TRIFR') of zero.

DIRECTORS' REPORT

Directors

The Directors of Nido Petroleum Limited are pleased to present the Annual Financial Report for the year ended 31 December 2016. The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.



William Bloking FAICD

Bachelor of Science, Mechanical Engineering (Summa cum Laude) (University of South Carolina)

Chairman, Independent (Appointed 15 May 2009, previously Non-Executive Director appointed 6 February 2008)

Member and Chairman, Remuneration and Nomination Committee (Appointed as Chairman on 20 November 2014)

Member, Audit & Risk Management Committee (Appointed 6 September 2010)

Bill has over 40 years of experience in the energy sector, 33 of those with ExxonMobil and the BHP Billiton Group, holding senior executive positions in Australia, Asia, South America and the United States. Until his retirement in January 2007, Bill was President of Australia/Asia Gas at BHP Billiton Petroleum, where he had overall strategic, commercial and corporate accountability for BHP Billiton's international LNG business and its domestic gas business in Australia.

Bill is currently Executive Chairman and President of KAL Energy, Inc. (appointed 26 June 2007) and a Non-Executive Chairman of Torrens Mining Limited (appointed 25 January 2016). He is a Non-Executive Director of Challenger Energy Limited (appointed 27 February 2014) and Sun Resources NL (appointed 25 October 2016). Bill is also a Fellow of the Australian Institute of Company Directors.

Bill was formerly a Non-Executive Director of Strandline Resources Limited (appointed as Managing Director on 1 August 2013, resigned as Managing Director on 23 October 2014 and continuing on the Board as a Non-Executive Director until 1 March 2015). Bill was also the Managing Director of Eureka Energy Limited (appointed 22 February 2012, resigned 20 June 2012), a Non-Executive Director of the Lions Eye Institute (appointed 1 October 2003 and resigned 17 April 2013), Chairman of Transerv Energy Limited (appointed 14 March 2011 and resigned 19 November 2013) and he was a Non-Executive Director of the West Australian Symphony Orchestra (appointed 19 August 2005, resigned 28 April 2014).

He was formerly a Non-Executive Director of the John Holland Group (appointed 1 January 2007, resigned 7 November 2012) and Miclyn Express Offshore Limited (appointed 19 February 2010, resigned 29 October 2012).



Dr Michael Fischer GAICD

BSc Hons. University of Leeds

PhD. University of Wales

Managing Director, Non-Independent (Appointed 26 August 2015)

Mike started his career as an Exploration Geologist with BP in Aberdeen and progressed into senior technical roles working on BP's PNG and Chinese portfolios. He then joined Woodside Energy Limited in Perth, where he served in a number of roles including Chief Geoscientist, responsible for technical assurance, and a variety of exploration leadership roles, including the Northwest Shelf. Mike was part of the team responsible for the development of Woodside's international portfolio and subsequently led the team that was responsible for Woodside's success in West Africa.

Following a brief period with OMV, where he held the position of Senior Vice President of Exploration, Operations and Projects and oversaw 340,000 barrels of oil equivalent production per day as well as a global exploration portfolio and significant capital projects, Dr Fischer joined Ophir Energy. In Mike's nine years with Ophir, he moved progressively through roles of increasing executive responsibility, including GM of Exploration, Director of Operations, Chief Operating Officer, Senior Vice President, and finally Director, Africa Business Unit with full responsibility for Ophir's highly successful African operations.

Mike joined Nido on 26 August 2015 in the role of Managing Director. He is a member of the Australian Institute of Company Directors.



Andrew Edwards FAICD

B.Com (University of Western Australia)

Non-Executive Director, Independent (Appointed 11 December 2009)

Member and Chair, Audit and Risk Management Committee (Appointed 11 December 2009)

Member Remuneration and Nomination Committee (Appointed 20 November 2014)

Andrew is a former Managing Partner of PriceWaterhouseCoopers, Perth Office (PWC), past National Vice President of the (then) Securities Institute of Australia (now the Financial Services Institute of Australasia) and past President of the Western Australian division of that Institute, past State Chairman of the (then) Institute of Chartered Accountants (now the Chartered Accountants Australia and New Zealand) local Education Committee and a past member of its National Education Committee.

Andrew is a current Board member of MMA Offshore Limited (appointed 18 December 2009), the President of Activ Foundation Inc (appointed to the Board on 27 October 2008) and Chairman of MACA Limited (appointed 1 October 2010). He is a former Director of Aspire Mining Limited (appointed 1 July 2011, resigned 7 May 2014). He is also a Fellow of the Australian Institute of Company Directors.



Vichien Usanachote

BS (Engineering) (Chulalongkorn University, Thailand)

Master of Engineering (Ohio State University)

Advanced Diploma in Public Law and Management (King Prajadhipok's Institute)

Diploma, Senior Executive Program (Sasin Graduate Institute of Business Administration of Chulalongkorn University)

Director Certification Program (Thai Institute of Directors)

Non-Executive Director, Independent (Appointed 1 October 2014)

Member Audit and Risk Management Committee (Appointed 20 November 2014)

Vichien has over 35 years' experience in the downstream oil and gas sector. Vichien retired from the role of President at The Bangchak Petroleum Public Company Ltd, Thailand ('Bangchak'), on 1 January 2015. Vichien had worked at Bangchak since 1993 where he held various senior executive positions until his retirement.

Vichien was Chairman of Bangchak Biofuel Company Limited (a subsidiary of Bangchak) between 2013 and 2014 and Chairman of Ubon Bio Ethanol Company Limited between 2013 and January 2015.

DIRECTORS' REPORT



Chaiwat Kovavisarach

M. Eng (Asian Institute of Technology)

M.B.A. (Thammasat University, Thailand)

B.Eng (Honor) (King Mongkut's Institute of Technology Ladkrabang)

Investment Banking (Kellogg Business School, Northwestern University)

Director Certification Program (Thai Institute of Directors)

National Defence Course (The National Defence College Association of Thailand)

Non-Executive Director, Non-Independent (Appointed 1 October 2014)

Member Remuneration and Nomination Committee (Appointed 20 November 2014)

Chaiwat has over 25 years' experience in engineering, investment banking and senior executive management. He commenced his career in 1987 with The Siam Cement Public Company Ltd in Thailand as a project engineer and then subsequently as a production engineer.

He subsequently moved into investment banking in 1993 working for Asset Plus Company Limited in Thailand as an investment banker before taking on a role as a director with SG Crosby (Thailand) / SG Securities (Singapore) Pte Ltd between 1996-2002. He was a fellow director of the Association of Thai Securities Companies in 2000.

In 2002 Chaiwat founded TURNAROUND Company Ltd, a boutique financial advisory / investment banking company in Thailand, holding his managing director position until 2007 before becoming an advisor for Avantgarde Capital Company Limited in Thailand until 2014.

Chaiwat is currently the President and CEO of The Bangchak Petroleum Public Company in Thailand (appointed 1 January 2015) and a director of Asia Insurance Company Limited, Government of Thailand's Pension Fund and various subsidiaries of Bangchak.



Krairit Nilkuha

BSc Mechanical Engineering (Kasetsart University)

MSc Petroleum Engineering (New Mexico Institute of Mining and Technology)

Non-Executive Director, Non-Independent (Appointed 21 August 2015)

Krairit has more than 30 years of experience in the oil and gas industry across the private sector and Government, both as a senior executive and as a Non-Executive Director. Krairit is currently the Chairman of the Board of Directors for the Technical Petroleum Training Institute of Thailand.

Krairit was formerly a Non-Executive Director of the Bangchak Petroleum Public Company Ltd and served as the Chairman of Bangchak's Risk Management Committee. He was also a former Non-Executive Director of the PTT Public Company Limited and a Deputy Permanent Secretary of the Ministry of Energy in Thailand.



COMPANY SECRETARY

John Newman MAICD

BEC, LLB (Monash University)

(Appointed 4 November 2009)

John is a lawyer with over 24 years of experience, 14 of which have been in the energy and resources sector. John manages the Company group's commercial, legal, insurance, compliance and company secretarial affairs. John's previous experience includes senior positions with the Timor Sea Designated Authority, the Northern Territory Government and Cridlands Lawyers.

John also worked for the Northern Land Council where he represented traditional Aboriginal owners in relation to resource development projects. Prior to working in a resources context John was the principal solicitor of the Refugee and Immigration Legal Centre in Melbourne.

John is currently a member of the Law Society of Western Australia, Australian Institute of Company Directors (AICD) and the Association of International Petroleum Negotiators (AIPN).



DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY

As at the date of this Report, the interests of the Directors in the shares, options, performance rights and retention rights of Nido Petroleum Limited were:

Director	Ordinary Shares	Options Over Ordinary Shares	Unissued Ordinary Share Rights (Retention Rights)	Performance Rights
W Bloking	Nil	Nil	Nil	Nil
M Fischer	131,250	Nil	218,750	Nil
A Edwards	Nil	Nil	Nil	Nil
V Usanachote	Nil	Nil	Nil	Nil
C Kovavisarach	Nil	Nil	Nil	Nil
K Nilkuha	Nil	Nil	Nil	Nil

DIRECTORS' AND COMMITTEE MEETINGS

The following table details the number of Directors' and Committee meetings held during the financial year and the number of meetings attended by each Director.

Board of Directors Meetings 2016		
Directors	Held ⁽¹⁾	Attended
W Bloking	5	4
M Fischer	5	5
A Edwards	5	5
V Usanachote	5	5
C Kovavisarach	5	5
K Nilkuha	5	5

Audit & Risk Management Committee Meetings 2016		
Directors	Held ⁽¹⁾	Attended
W Bloking	3	3
A Edwards	3	3
V Usanachote	3	3

Remuneration & Nomination Committee Meetings 2016		
Directors	Held ⁽¹⁾	Attended
W Bloking	2	2
A Edwards	2	2
C Kovavisarach	2	2

Related Party and Conflicts Committee Meetings 2016

Directors	Held ⁽¹⁾	Attended
W Bloking	3	2
A Edwards	3	3
C Kovavisarach	3	3

⁽¹⁾ Number of meetings held during term of office.

SHARE AND OPTION SCHEMES

Unissued shares

As at the date of this Report there were no performance rights or options on issue (2015: nil). There were 218,750 Managing Director retention rights on issue (2015: nil). Refer to Note 23 of the Financial Statements for further details.

Shares issued as a result of the exercise of options and performance rights

During the financial year and up to the date of this Report, there were neither any performance rights outstanding nor any performance rights issued or exercised by employees and directors (2015: nil).

Shares issued as a result of the vesting of retention rights

During 2016 there were 350,000 retention rights granted to Dr. Fischer pursuant to the terms of his employment contract following shareholder approval at the Company's Annual General Meeting held on 6 May 2016. 87,500 shares were issued to Dr Fischer upon the vesting of the first 2 tranches of retention rights in 2016 (2015:nil).

CORPORATE GOVERNANCE

Recognising the need for the highest standards of corporate behaviour and accountability to shareholders, the Directors of the Company support the Principles of Corporate Governance which are detailed in the Company's Corporate Governance Statement.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year, which occurred primarily in the Philippines, included:

- Production and sale of oil;
- Development of its oil assets; and
- Exploration for oil and gas.

There were no significant changes in the nature of the principal activities during the year.

OPERATING AND FINANCIAL REVIEW

A full review of operations of the consolidated entity during the year ended 31 December 2016 is included in the section entitled "Operations Review" preceding this Directors' Report.

SUMMARY OF FINANCIAL PERFORMANCE

A summary of key financial indicators for the Company, with prior year comparison, is set out in the following table:

	Consolidated 2016 US\$'000	Consolidated 2015 US\$'000
Revenue from sale of crude oil	42,601	68,374
Gross (loss)	(5,538)	(3,964)
Net (loss) for the year after tax	(17,255)	(31,128)
Basic (loss) per share (cents) from continuing operations	(24.16)	(71.12)
Net cash from operating activities	8,023	8,534
Net cash (used in) investing activities	(2,822)	(76,778)
Net cash from financing activities	8,933	76,972

The net loss of the Group for the year ended 31 December 2016 of \$17.255 million (2015: loss of \$31.128 million), was impacted by the following significant items:

- Oil revenue totalled \$42.601 million, of which revenue from the Galoc oil field for the year was \$41.607 million (2015: \$67.052 million) arising from five liftings during the year. Revenue from the Nido and Matinloc oil fields for the year was \$0.994 million (2015: \$1.322 million);
- Cost of sales for the year decreased by \$24.204 million to \$48.144 million (2015: \$72.348 million) primarily related to operational savings in renegotiating the FPSO contract, reduced amortisation charges from the natural decline in crude oil production, and deferral of inventory-related opex costs as a result of larger Galoc physical inventory balances at year end;
- Total financing costs of \$6.747 million (2015: \$8.089 million) primarily related to the Bangchak term loan facilities. The decrease in financing costs of

\$1.342 million was mainly due to the full repayment of the Credit Suisse finance facility in 2015 and the renegotiation of the interest rate on the Bangchak term loan facility in March 2016;

- Income tax benefit of \$1.636 million (2015: Income tax benefit of \$3.238 million) primarily related to the unwinding of the deferred tax liabilities associated with the different tax and accounting treatments of the Galoc Oil and Gas Property assets;
- There were no impairments of Oil and Gas Properties in 2016 (2015: impairment of \$19.457 million). The prior year impairment in the Galoc oil field asset was the result of the significant fall in oil prices in 2015 and also a lower reserves position based on the 2015 reserves statement prepared by GCA;
- Total administrative and other expenses (net of impairment costs) of \$6.763 million (2015: \$9.521 million), primarily resulted from the following:
 - Employee benefits expense (inclusive of share based payments expense) of \$5.705 million (2015: \$5.033 million);
 - Exploration expense of \$1.700 million (2015: \$2.142 million);
 - Office and other expenses / (revenue), net of timewriting recoveries of \$(0.642) million (2015: expense \$2.342 million).
- Net foreign currency gain of \$0.285 million (2015: \$4.706 million) was mainly the result of small favourable movements in the Australian dollar against the US dollar across the year. The significantly larger prior year gain resulted from the favourable impact of the weaker Australian dollar over the first quarter of 2015 (prior to the change of functional currency on 1 April 2015), which had a positive impact on net US dollar balances.

SUMMARY OF FINANCIAL POSITION

The Company's cash reserves at the end of 2016 totalled \$31.974 million compared to \$17.531 million as at 31 December 2015.

The increase in cash reserves of \$14.443 million over the year was due primarily to:

- Net proceeds from oil production of \$17.909 million;
- Net proceeds of \$0.593 million from crude oil derivative gains on settlement;
- Net proceeds of \$19.236 million from completion of the Company's renounceable entitlement offering;

offset by:

- Exploration expenditure of \$3.149 million primarily comprising increased spend on new venture activities and pre-drill support of the Galoc-7/7ST appraisal well;
- Debt principal repayments of \$10.000 million and interest expense of \$4.373 million relating to the Bangchak revolving debt facilities. Other financing costs totalled \$0.303 million and were associated with evaluation of other reserves base lending options; and
- Overheads and other expenditures including foreign exchange movements of \$5.470 million.

DIRECTORS' REPORT

PRODUCTION AND DEVELOPMENT ACTIVITIES

In 2016, the following key production development milestones occurred:

- 18.7 mmbbls gross (5.5 mmbbls net to Nido) were produced from the Galoc oil field;
- Production uptime at Galoc averaged 99.77% during the year; and
- The Nido and Matinloc oil fields continued to produce oil on a cyclical basis. Oil production from these fields in the year totalled 126,388 bbls gross (32,637 bbls net to Nido).

EXPLORATION & APPRAISAL ACTIVITIES

- The Galoc Joint Venture approved the Galoc-7/7ST appraisal well in order to confirm the commerciality of a potential Phase III development project.
- The Company continued to review new venture opportunities throughout the year as part of its longer term strategy of expansion.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT

- The Company achieved excellent HSSE performance across all assets and activities during 2016 with a Total Recordable Injury Frequency Rate (TRIFR) of zero and a Lost Time Injury Frequency Rate (LTIFR) for 2016 of zero.

CORPORATE

- Cash on hand at year end was \$31.974 million and debt drawn under the revolving term loan facility with Bangchak was \$78.200 million at year end;
- The Company raised a total of \$19.778 million (before costs) from a pro-rata entitlement offer to fund the Company's participating interest share of the Galoc-7/7ST appraisal well.
- Gross loss from continuing operations for the 2016 year was \$5.538 million and net loss after tax was \$17.255 million;
- Nido successfully completed a restructure of its Facility Agreement with the Bangchak Petroleum Public Company Limited on 11 March 2016. Under the terms of the restructure, principal and interest payments are deferred until March 2018 and the facility interest no longer increases by 2% per year but is capped at 6% plus LIBOR for the term of the loan.

ANNUAL GENERAL MEETING

- The Company's Annual General Meeting was held on 6 May 2016 at the Company's offices at Level 3, 1 Preston Street, Como, WA 6152;
- Shareholders approved:
 - the re-election of Mr William Bloking and the election of Mr Krairit Nilkuha as Directors of the Company;
 - the adoption of the remuneration report; and
 - the issue of 350,000 Retention Rights to Dr Michael Fischer, Managing Director.

DIVIDENDS

No dividends were paid or declared by the consolidated entity during the financial year.

CORPORATE STRUCTURE

The Company is limited by shares and is incorporated and domiciled in Australia.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year are detailed in the financial and activities review in this Report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company continues to pursue strategic opportunities with respect to its assets and is in discussions with a number of potential partners concerning possible farm-out transactions.

CORPORATE SOCIAL RESPONSIBILITY

Nido is committed to enhancing shareholder value by conducting international oil and gas exploration, development and production in a manner that, through its Corporate Social Responsibility Programs, shares part of the benefits of this activity with the communities in which it operates.

Nido has adopted a two pronged approach to its Corporate Social Responsibility Programs. This involves the Nido Petroleum Foundation, Inc. ('Nido Foundation') in the Philippines and the Company's Charitable Donations Committee, which actively encourages and supports staff as they work in a range of community organisations in Australia and the Philippines.

Our community sponsorship program provides opportunities for our company and employees to become involved and support initiatives that can make a positive difference in the community.

Further details on the Company's Corporate Social Responsibility activities can be accessed from the Company's website.

HEALTH, SAFETY, SECURITY AND THE ENVIRONMENT (HSSE)

The safety of the Company's people and our interaction with the environment are accorded the highest priority throughout the organisation. Since commencing offshore seismic and drilling operational activity in 2007 the Company has maintained an excellent safety record of zero fatalities, zero Lost Time Injuries (LTIs). The Total Recordable Injury Frequency Rate (TRIFR) and Lost Time Injury Frequency Rate (LTIFR) for 2016 was zero.

The Company recognises that while it is a small exploration and production company, it should strive to attain the highest levels of HSSE standards and practices in every facet of its current operational activities and business culture. In this context, the Company has established a HSSE System comprising 16 Standards which provide comprehensive guidelines for managing all HSSE aspects of the Company's business activities.

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. The Directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

REMUNERATION REPORT (Audited)

A. INTRODUCTION

For the purposes of this report the term "Executive" includes those Key Management Personnel who are not Directors of the parent company or did not act in that capacity during the reporting period. The Company's Key Management Personnel are persons having authority and responsibility for planning, directing and influencing the Group's strategic direction and performance through their actions, either collectively (in the case of the Board) or as individuals acting under delegated authorities (in the case of the Executives). The names and positions of the individuals who were Key Management Personnel during 2016 are set out below.

DETAILS OF KEY MANAGEMENT PERSONNEL

(i) Directors	
W Bloking	Chairman (Non-Executive)
M Fischer	Managing Director
A Edwards	Director (Non-Executive)
V Usanachote	Director (Non-Executive)
C Kovavisarach	Director (Non-Executive)
K Nilkuha	Director (Non-Executive)

(ii) Executives

J Pattillo	Head of Exploration ceased employment with the Company on 30 December 2016
J Newman	General Counsel and Company Secretary
K Thirakaosal	Commercial Manager
S Nichol	Production Manager
J Surjan	Financial Controller (KMP effective from 17 April 2016)
A Gilbert	Chief Financial Officer ceased employment with the Company on 16 April 2016

B. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION AND SERVICE AGREEMENTS

REMUNERATION POLICY AND PRINCIPLES

The Company has adopted the following principles in its remuneration framework:

Non-Executive Directors

- The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre whilst incurring a cost which is acceptable to shareholders.

Managing Director & Executives

- Providing fair, consistent and competitive compensation and rewards to attract and retain high calibre employees;
- Ensuring that total remuneration is competitive by market standards;
- Incorporating in the remuneration framework both short and long term incentives linked to the strategic goals and performance of the Company and total shareholder return;
- Demonstrating a clear relationship between individual performance and remuneration; and
- Motivating employees to pursue and achieve the long term growth and success of the Company.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

COMPANY PERFORMANCE & REMUNERATION

The Company share price and earnings per share (EPS), shown in the table below, reflect Company performance during the previous four financial years and for the current year ended 31 December 2016.

	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
EPS (USD cents) ⁽¹⁾	(24.16)	(71.12)	(15.19)	48.29	31.10
Share price AUD ⁽²⁾	0.07	0.25	1.40	1.80	1.35

⁽¹⁾ Prior year EPS comparatives have been restated to reflect the change in functional currency to US dollars on 1 April 2015, and the 1:50 share consolidation on 29 May 2015

⁽²⁾ Prior year share price comparatives have been restated to reflect the 1:50 share consolidation on 29 May 2015

REMUNERATION STRUCTURE

In accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles and Recommendations) the structure of the Company's Non-Executive and Executive remuneration is clearly distinguished.

NON-EXECUTIVE REMUNERATION STRUCTURE

The Company's Constitution and the ASX Listing Rules specify that the aggregate fees to be paid to Non-Executive Directors are to be approved by shareholders at a General Meeting. The latest determination was made at the Company's Annual General Meeting held on 9 May 2008 where shareholders approved an aggregate amount of A\$450,000 per year (all inclusive).

The fee structure for Non-Executive Directors is reviewed annually which includes analysis of the fees paid to Non-Executive Directors of comparable companies, when undertaking the annual review process, and may include the use of external consultants. The Company has taken the position that independent external advice will generally be sought every second year.

In 2015 the Board received advice from an independent remuneration consultant, Gerard Daniels, in relation to the remuneration of Non-Executive Directors and Executives. Following the recommendations of Gerard Daniels, the Board resolved in 2015 to change the Non-Executive Director fee structure such that Each Director is paid a fee of A\$85,000 per year inclusive of their membership of any Board Committees apart from the Chairman of the Board who receives a fee of A\$130,000.

For the 2016 year based on internal analysis of fees paid to Non-Executive Directors of comparable sized ASX listed companies, the Board resolved to retain fees for Non-Executive Directors at 2015 levels. However as a result of the low oil price environment and in order to reduce general and administrative expenditure the Non-Executive Directors voluntarily agreed to accept a 10% reduction in their respective fees during the period from 1 February 2016 to 30 June 2016.

Non-Executive Directors are not entitled to retirement benefits and are not entitled to the grant of options or performance rights in accordance with the Company's policy prohibiting such grants.

Apart from their duties as Directors, some Non-Executive Directors from time to time undertake work for the Company on a consultancy basis pursuant to the terms of consultancy services agreements.

The nature of consultancy work varies depending on the expertise of the relevant Non-Executive Director. Under the terms of these consultancy agreements, Non-Executive Directors receive a daily rate for the work performed and such rate is comparable to market rates that they would otherwise receive for their consultancy services in the open market.

Before any consultancy is entered into the Company carries out a rigorous arm's length assessment process to ensure the arm's length nature of the relevant consultancy services agreement. This arm's length assessment is conducted each time a request for services is initiated by the Managing Director, which is then required to be approved by the Chairman of the Audit and Risk Management Committee if the fees for the relevant services are A\$20,000 or less. If the fees are in excess of A\$20,000 then the Board must endorse the request.

The remuneration of Non-Executive Directors for the years ended 31 December 2016 and 31 December 2015 is detailed further in this Remuneration Report.

ALTERNATE DIRECTORS

No separate remuneration is offered to or received by Alternate Directors for the performance of their roles as Alternate Directors. At present the Company does not have any Alternate Directors.

MANAGING DIRECTOR AND EXECUTIVE REMUNERATION STRUCTURE

The Company maintained its performance management procedure for Executives and staff and as part of such procedure each Executive undertakes an annual performance appraisal with the Managing Director. The Managing Director's performance is in turn reviewed by the Board.

Executive Remuneration consists of the following key elements:

- Fixed remuneration; and
- Variable remuneration, comprising Short Term Incentives (STI) and Long Term Incentives (LTI).

The proportion of fixed remuneration and variable remuneration is established for each Executive by the Remuneration and Nomination Committee and approved by the Board in accordance with the Remuneration Policy and the STI and LTI Plans having regard to the Company and individual performance, and relevant comparable remuneration in the oil and gas industry.

During the 2016 year, however, the Company chose not to allocate an award of Long Term Incentives as the Board decided that the existing Employee Performance Rights Plan was no longer appropriate in the circumstances of the Company. The form of Long Term Incentive continues to remain under review by the Board.

REMUNERATION REPORT (Audited)

SIGN-ON AND RETENTION BONUS

During 2015 the Company provided a Sign-on and Retention Bonus of 350,000 retention rights to Dr Fischer as part of his remuneration package and subject to shareholder approval. The rationale for this particular benefit was to provide a retention incentive for Dr Fischer. The Sign-on and Retention Bonus was approved by shareholders at the Company's AGM on 6 May 2016. 350,000 retention rights were issued to Dr. Fischer following the AGM held on 6 May 2016 of which a total of 87,500 ordinary shares were issued to Dr Fischer during the 2016 year in two equal tranches of 43,750 ordinary shares.

FIXED REMUNERATION

Executives receive their fixed remuneration in the form of cash and various fringe benefits. For the 2016 year executive remuneration was benchmarked internally using market data with respect to remuneration paid to Executives of comparable ASX listed companies. In this context the Board resolved to retain fixed remuneration for Executives for the 2016 year at 2015 levels.

However due to the low oil price environment in the first half of 2016 Executives voluntarily accepted a 10% reduction in hours and correspondingly in wages between 1 February 2016 and 30 June 2016 to reduce general and administrative expenditure.

The specific amount of fixed remuneration for each Executive is detailed further in this Report.

VARIABLE REMUNERATION – SHORT TERM INCENTIVE

Under the Company's STI Plan, STI payments are granted annually to staff and Executives depending on the Company's annual performance goals and individual performance targets over the preceding year. The Remuneration and Nomination Committee retains the discretion to adjust individual bonuses to reward outstanding individual performance.

In determining the amount of the STI pool each year, the Company generally sets a number of performance criteria at the beginning of the year and assigns a weighting to each criterion. As against each criterion there are three levels of performance which can attract an award to the pool: threshold, target and stretch.

If the Company achieves the threshold level of performance, the Company awards 80% of the target pool for that criterion. If the Company achieves the target level of performance the Company awards 100% of the target pool for that criterion and if the Company achieves the stretch level of performance, the Company awards 120% of the target pool for that criterion.

To the extent that the Company achieves less than the threshold level there is no award for this criterion and the pool is reduced accordingly.

The overall target STI pool available is 15% of the gross base salary of the Company's staff. The Board, however, retains discretion to withhold the award of any payments depending on the Company's closing cash position and its

ability to comply with its commitments for the following year after bonuses are paid.

Key performance indicators (KPI's) under the STI Plan are chosen from financial metrics in terms of budgetary performance, share price performance, operational metrics in terms of project progress, exploration activities and production activities, health and safety metrics as well as professional service metrics for the timeliness and accuracy of advice and support provided to the technical and operational parts of the business. These KPIs are chosen because they align individual performance with the achievement of Nido's strategic plan.

Subject to the overall pool that the Company has available for distribution, which is dependent on the Company's performance against the Company targets, if an individual achieves target on all of the relevant KPIs, the bonus such individual receives is dependent on their position within the Company as follows:

Staff are eligible to receive 15% of base (gross) salary;

Executives apart from the Managing Director are eligible to receive 25% of base (gross) salary; and

The Managing Director is eligible to receive 32% of base (gross) salary.

Prior to the 2016 year all staff including Executives were eligible to receive 15% for at target performance only. The Board resolved to change the STI framework for Executives in 2016 such that the Managing Director would be eligible for an 'at target' 32% award of his base salary as a STI and the balance of the Executives would be eligible for an 'at target' 25% award of their respective base salaries as a STI.

2015 Targets – STI Payment Awarded in March 2016

In relation to the 2015 STI program and given the transition in leadership of the Company, the Board did not formally set any targets under the STI Plan at the commencement of the year. The Board instead determined that it would review Executive performance against the activities undertaken by the Company over the course of the year.

In this context the Board noted that the Company had performed well with respect to HSSE related matters, performed well against budget and that the Company had also significantly reduced operating costs within the Galoc Joint Venture following the assumption of the role of Operator of the Joint Venture.

Given these circumstances the Board resolved to award a pool of funds for allocation to staff and Executives equivalent to a threshold level of performance of 12% of base Executive and staff remuneration as a STI payment for performance for the 2015 year (with the Managing Director to receive a 12% award pro-rated based on his tenure during the 2015 year).

Notwithstanding this position and as a result of the deteriorating oil price environment in the latter part of the 2015 year, the Company revised its position with respect to the STI award and in March 2016 resolved to allocate a 5% STI award to the Company's staff and Executives as well as an additional five annual leave days to the respective leave balances of each staff member and Executives with respect to performance against the 2015 targets.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

2016 Targets – No STI Payment

In relation to the 2016 STI program the Board set targets under the STI Plan at the commencement of the year. The specific targets chosen were performance with respect to production, budget, HSSE, strategy, portfolio management and human resources. These KPIs were chosen in order to align individual performance with the Company's objectives.

In addition the Board made any STI award under the 2016 STI program subject to a positive EBITDA threshold criteria such that a failure to meet the criteria would prevent the award of any STI payments for this year.

Due to the Company's failure to meet the EBITDA threshold criteria there were no payments made under the formal STI program for performance against the 2016 targets.

2016 Discretionary Bonus

Notwithstanding the Company's failure to meet the relevant threshold STI criteria for 2016 the Board considered it was appropriate to allocate a pool of money for award as a discretionary bonus to Executives and staff. The Board considered this was appropriate in the circumstances given that Executives had voluntarily assumed a 10% reduction in hours and wages during the first half of 2016 and given that the Company had not awarded any Long Term Incentives to Executives and staff since 2014.

In these circumstances, on 22 November 2016 the Board approved a bonus pool of \$180,000 for allocation at the discretion of the Chairman and the Managing Director to persons who in their view had performed exceptionally over the course of the year. In this context Dr Fischer was awarded a bonus of \$49,631, Mr Newman was awarded a bonus of \$49,006 and Mr Surjan was awarded a bonus of \$31,025.

Variable Remuneration – Long Term Incentive

The Company's Employee Performance Rights Plan (Plan) and Long Term Incentive policy are currently under review by the Board. There was therefore no allocation of performance rights during 2015 or 2016 to Executives of the Company.

Managing Director and Executive Employment Contracts

Managing Director

A summary of the key terms of Dr Michael Fischer's employment contract is as follows:

- Base Salary - A\$500,000 per annum;
- Superannuation 12% - A\$60,000 per annum;
- Short term incentive – Dr Fischer will participate in the Company's performance based Short Term Incentive Scheme;
- Long term incentive – Dr Fischer will participate in Nido's Employee Performance Rights Plan (subject to shareholder approval);
- A Sign on and Retention Bonus was granted of 350,000 fully paid ordinary shares in total issued in eight (8) equal tranches at six (6) month intervals commencing six (6) months after the commencement of employment and approved by the Company's shareholders at the AGM on 6 May 2016; and
- Termination - In the event of termination of the Employment Contract by the Company the Company is required to pay a sum equivalent to 6 months of his base salary and issue up to a maximum of 43,750 ordinary shares in the company in respect of any yet-to-be-awarded Sign on and Retention Bonus, subject to any limitations outlined in the Corporations Act 2001.



REMUNERATION REPORT (Audited)

The table below sets out the Sign on and Retention Bonus granted to Dr Fischer as part of his employment contract. The retention rights were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company subject to certain conditions.

Terms and Conditions of Each Grant

	Number of Rights Granted	Number of Shares Vesting in the Year	Percentage of Cumulative Shares Vested (%)	Service Commencement Date ¹	Grant Date ¹	Value at Grant Date A\$ ¹	Number of Shares Cancelled	Percentage of Shares Cancelled (%)	Exercise Price
2016									
Director									
M Fischer	350,000	87,500	25%	26/8/15	6/5/16	0.175	-	-	Nil
Total	350,000	87,500	25%						
2015									
Director									
M Fischer	-	-	-	26/8/15	31/12/15	0.25	-	-	Nil
Total	-	-	-						

¹ In regards to retention rights issued pursuant to Dr Fischer's Sign-on and Retention Bonus, the service period commenced in the 2015 year with \$14,921 expensed to 31 December 2015. For accounting purposes under AASB 2 "Share Based Payments" where grant date occurs after year end, the estimated value of the grant date is the end of the reporting period 31 December 2015. The actual grant date has now been established as 6 May 2016 (the date of Shareholder approval at the Annual General Meeting), and the estimated fair value was revised in 2016 to use the fair value of the retention rights on the actual grant date. A total of \$15,221 has been expensed in the year ended 31 December 2016.

Termination Clauses

The contracts with Key Management Personnel ('KMP') (other than the Managing Director whose termination benefit is described above under the summary of his key terms and conditions) specified under the Remuneration of Directors and Executives table have no termination date and under the terms of the contracts:

- The Executive may resign from his or her position and thus terminate his or her contract by giving one month's written notice; and
- In the event that the Company wishes to terminate an Executive's employment, except in circumstances of misconduct or material breaches of their contract and, with the exception of Mr Nichol and Mr Thirakaosal, the Company will pay the Executive a sum equivalent to 12 months of his or her fixed remuneration package. Mr Thirakaosal's (Business Development Manager) and Mr Nichol's (Production Manager) employment contracts provide for a termination benefit equivalent to 6 months of their respective fixed remuneration packages.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

C. REMUNERATION OF KEY MANAGEMENT PERSONNEL

REMUNERATION OF KEY MANAGEMENT PERSONNEL – DIRECTORS

	Short Term		Post Employment	Long-term Benefits	Share Based Payments (LTI)						
	Salary & Fees	Cash Bonus (STI)(*)	Other(†)	Super-annuation	Long Service Leave	Performance Rights*	Shares*	Termination, Severance & Redundancy Payments	% Comprising Share and Performance Rights**	Total	% Performance Related
W Bloking ⁽¹⁾											
• 2016	64,969	-	-	27,814	-	-	-	-	-	92,783	-
• 2015	188,548	-	-	13,583	-	-	-	-	-	202,131	-
M Fischer ⁽²⁾											
• 2016	357,376	49,631	18,222	48,862	1,801	-	15,221	-	3.1%	491,113	10.1%
• 2015	124,750	7,620	52,543	15,702	659	-	14,921	-	6.9%	216,195	3.5%
A Edwards											
• 2016	55,402	-	-	5,263	-	-	-	-	-	60,665	-
• 2015	58,359	-	-	5,544	-	-	-	-	-	63,903	-
V Usanachote											
• 2016	55,402	-	-	5,263	-	-	-	-	-	60,665	-
• 2015	58,359	-	-	5,544	-	-	-	-	-	63,903	-
C Kovavisarach											
• 2016	55,402	-	-	5,263	-	-	-	-	-	60,665	-
• 2015	58,359	-	-	5,544	-	-	-	-	-	63,903	-
K Nilkuha ⁽²⁾											
• 2016	55,402	-	-	5,263	-	-	-	-	-	60,665	-
• 2015	20,247	-	-	1,923	-	-	-	-	-	22,170	-
P Byrne ⁽³⁾											
• 2016	-	-	-	-	-	-	-	-	-	-	-
• 2015	159,719	-	9,915	9,962	(18,129)	-	-	-	-	161,467	-
Total Remuneration: Directors											
• 2016	643,953	49,631	18,222	97,728	1,801	-	15,221	-	1.8%	826,556	6.0%
• 2015	668,341	7,620	62,458	57,802	(17,470)	-	14,921	-	1.9%	793,672	1.0%

REMUNERATION REPORT (Audited)

REMUNERATION OF KEY MANAGEMENT PERSONNEL – EXECUTIVES

	Short Term			Post Employment	Long-term Benefits	Share Based Payments (LTI)					
	Salary & Fees	Cash Bonus (STI)(*)	Other(#)	Super-annuation	Long Service Leave	Performance Rights*	Shares*	Termination, Severance & Redundancy Payments	Total	% Comprising Share and Performance Rights**	% Performance Related
J Pattillo ⁽⁴⁾											
• 2016	438,550	-	9,633	36,441	(79,429)	-	-	457,747	862,942	0%	0.0%
• 2015	341,118	20,116	8,697	40,705	8,992	-	-	-	419,628	0%	4.8%
A Gilbert ⁽⁵⁾											
• 2016	112,526	-	3,492	5,413	(25,469)	-	-	274,548	370,510	0%	0.0%
• 2015	254,680	14,790	8,148	24,674	6,586	-	-	-	308,878	0%	4.8%
J Newman											
• 2016	209,786	49,006	7,375	22,307	5,903	-	-	-	294,377	0%	16.6%
• 2015	228,162	13,375	6,485	24,544	7,750	-	-	-	280,316	0%	4.8%
K Thirakaosal											
• 2016	401,095	-	44,595	22,307	1,535	-	-	-	469,532	0%	0.0%
• 2015	466,374	17,409	91,209	29,037	5,691	-	-	-	609,720	0%	2.9%
S Nichol											
• 2016	257,344	-	7,124	22,294	1,249	-	-	-	288,011	0%	0.0%
• 2015	187,270	17,008	4,807	16,339	924	-	-	-	226,348	0%	7.5%
J Surjan ⁽⁶⁾											
• 2016	126,326	31,025	7,498	10,454	4,982	-	-	-	180,285	0%	17.2%
Total Remuneration: Executives											
• 2016	1,545,627	80,031	79,717	119,216	(91,229)	-	-	732,295	2,465,657	-	3.2%
• 2015	1,477,604	82,698	119,346	135,299	29,943	-	-	-	1,844,890	-	4.5%

The amounts disclosed above do not include insurance premiums paid in relation to directors' and officers' liability insurance as the terms of the insurance policy preclude disclosure of these amounts.

Includes non-cash benefits paid.

¹ During the period between P Byrne's resignation and M Fischer's appointment, W Bloking acted as Interim CEO and Executive Chairman of the Company on a short term consultancy basis provided by a related entity. Fees paid to the related entity of \$135,430 have been included in the table above.² M Fischer appointed 26 August 2015, and K Nilkuha appointed 21 August 2015.³ P Byrne resigned 30 April 2015.⁴ J Pattillo ceased employment with the Company on 30 December 2016.⁵ A Gilbert ceased employment with the Company on 16 April 2016.⁶ J Surjan appointed KMP effective 17 April 2016.

* The amount included as remuneration relating to performance rights is not related to or indicative of the benefit (if any) that the individual may ultimately realise. The fair value of these instruments as at their date of grant was determined in accordance with AASB 2 "Share Based Payments" applying valuation models. Details of the assumptions underlying the valuations are set out in Note 23 to the Financial Statements.

** The details for cash bonuses paid are set out in the table below.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

REMUNERATION OF KEY MANAGEMENT PERSONNEL - NOTES

Details of cash bonuses paid and included in the remuneration tables preceding this table:

Key Management Personnel	Vesting Date	Date Paid	Amount Paid US\$	Nature	Max. Potential Entitlement*	Percentage Granted*	Percentage Forfeited*
2016 (2016 performance year)							
M Fischer	N/A	7/12/2016	\$49,631	Cash	N/A	N/A	N/A
J Pattillo	N/A	N/A	N/A	N/A	N/A	N/A	N/A
A Gilbert	N/A	N/A	N/A	N/A	N/A	N/A	N/A
J Newman	N/A	7/12/2016	\$49,006	Cash	N/A	N/A	N/A
S Nichol	N/A	N/A	N/A	N/A	N/A	N/A	N/A
K Thirakaosal	N/A	N/A	N/A	N/A	N/A	N/A	N/A
J Surjan	N/A	7/12/2016	\$31,025	Cash	N/A	N/A	N/A

2015 (2015 performance year)**

P Byrne	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M Fischer	N/A	16/12/2015	7,620	Cash	6%	2.1%	64.4%
J Pattillo	N/A	16/12/2015	20,116	Cash	18%	6.4%	64.4%
A Gilbert	N/A	16/12/2015	14,790	Cash	18%	6.4%	64.4%
J Newman	N/A	16/12/2015	13,375	Cash	18%	6.4%	64.4%
S Nichol	N/A	16/12/2015	17,008	Cash	18%	6.4%	64.4%
K Thirakaosal	N/A	16/12/2015	17,409	Cash	18%	6.4%	64.4%

* Under the Company's STI Policy, the maximum potential entitlement for the 2016 year was 25% of an Executive's base salary with the Managing Director entitled to 32%. Prior to 2016 the maximum award was 15%. For the 2016 performance year there was no award under the formal STI program. Bonuses were granted by the Board on a discretionary basis. Refer to page 18 for further details.

** The Company did not award Key Management Personnel any STI payments in 2015 in respect of their performance against 2014 targets (refer to section B in this report, sub-heading 'Variable Remuneration – Short-term Incentives' for commentary).

D. SHARE-BASED COMPENSATION

COMPENSATION PERFORMANCE RIGHTS TO DIRECTORS – GRANTED AND VESTED DURING THE YEAR

There were no performance rights granted during the 2015 and 2016 years to Directors. The Company's LTI policy remains under review by the Board.

COMPENSATION PERFORMANCE RIGHTS TO EXECUTIVES – GRANTED AND VESTED DURING THE YEAR

There were no performance rights granted during the 2015 and 2016 years to Executives. The Company's LTI policy remains under review by the Board.

There were no options granted as part of remuneration to Directors or Executives in 2016 or 2015.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

E. EQUITY HOLDINGS AND MOVEMENTS DURING THE YEAR

(a) Rights Holdings of Key Management Personnel

	Balance at 1 January	Granted as remuneration	Rights exercised *	Cancelled/ Forfeited / Expired	Change due to appointment / (resignation)	Balance at 31 December	Vested	Non Vested
2016								
Directors								
M Fischer	-	350,000	87,500	-	-	262,500	-	262,500
Executives								
J Pattillo	-	-	-	-	-	-	-	-
J Newman	-	-	-	-	-	-	-	-
A Gilbert	-	-	-	-	-	-	-	-
K Thirakaosal	-	-	-	-	-	-	-	-
S Nichol	-	-	-	-	-	-	-	-
J Surjan	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
2015								
Directors								
P Byrne	-	-	-	-	-	-	-	-
M Fischer	-	-	-	-	-	-	-	-
Executives								
J Pattillo	-	-	-	-	-	-	-	-
J Newman	-	-	-	-	-	-	-	-
A Gilbert	-	-	-	-	-	-	-	-
K Thirakaosal	-	-	-	-	-	-	-	-
S Nichol	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

* The rights vested relate to Dr Fischer's sign-on and retention bonus. Per the terms of the Sign-on and Retention Bonus under Dr Fischer's employment contract 350,000 retention rights were approved by Shareholders at the Company's AGM on 6 May 2016.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

(b) Shareholdings of Key Management Personnel

	Balance at 1 January	On exercise of share rights (retention rights) / performance rights	Change due to appointment / (resignation)	Net change other	Balance at 31 December
2016					
Directors					
W Bloking	-	-	-	-	-
M Fischer	-	87,500	-	-	87,500
A Edwards	-	-	-	-	-
V Usanachote	-	-	-	-	-
C Kovavisarach	-	-	-	-	-
K Nilkuha	-	-	-	-	-
Executives					
A Gilbert	-	-	-	-	-
J Pattillo	-	-	-	-	-
J Newman	-	-	-	-	-
K Thirakaosal	-	-	-	-	-
S Nichol	-	-	-	-	-
J Surjan	-	-	-	-	-
	-	87,500	-	-	87,500

2015

Directors					
W Bloking	-	-	-	-	-
M Fischer	-	-	-	-	-
A Edwards	-	-	-	-	-
V Usanachote	-	-	-	-	-
C Kovavisarach	-	-	-	-	-
K Nilkuha	-	-	-	-	-
P Byrne	-	-	-	-	-
Executives					
A Gilbert	-	-	-	-	-
J Pattillo	-	-	-	-	-
J Newman	-	-	-	-	-
K Thirakaosal	-	-	-	-	-
S Nichol	-	-	-	-	-
	-	-	-	-	-

* All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options and performance rights have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's-length.



DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

F. OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

There were no related party transactions with Key Management Personnel during the 2016 year.

No loans or advances to/from Key Management Personnel were outstanding at year end.

G. USE OF REMUNERATION CONSULTANTS

No remuneration consultants were engaged by Nido during the 2016 year.

End of Remuneration Report.

DIRECTORS' REPORT

INDEMNIFICATION OF DIRECTORS, OFFICERS AND AUDITORS

During the year the Company paid premiums in respect of a contract insuring all Directors and Officers of the Company and its controlled entities against liabilities incurred while performing duties as Directors or Officers to the extent permitted by the *Corporations Act 2001*. Due to a confidentiality clause in the contract, the amount of the premium has not been disclosed.

The Company has agreed to indemnify its auditors, KPMG, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify KPMG during or since the financial year.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's environmental obligations are regulated under the laws of the countries in which Nido has operations. It is the Company's policy to comply with its environmental performance obligations and, where possible, adhere to higher standards than what is required.

As set out in the Company's Health, Safety, Security and Environment Policy, the Company is committed to enhancing shareholder value through international oil and gas exploration, development and production activities in a manner that protects health, safety, security and the environment. The Company is committed to conducting its business in a manner that minimises the adverse impact on employees, contractors, the community and the environment that may be affected by its work activities.

To achieve this, the Company:

- Demonstrates a strong commitment to health, safety, security and environmental care through its behaviour;
- Complies with health, safety, security and environmental obligations and regulations of the country of operations whilst striving for higher standards;
- Commits to the continuous improvement of its health and safety behaviour and environmental culture;
- Respects local culture and is proactive in recognising its responsibility to meet and exceed community expectations; and
- Designs local solutions for local issues, creating positive change.

The Company believes that no task is so urgent that it cannot be done safely and that health, safety, security and the environment are of paramount concern in planning and carrying out every task. The Company is committed to caring for the people and the environment connected with its work.

The Company has also adopted an emergency response plan and health, safety, security and environmental procedures which have been the subject of information dissemination and training to staff and contractors. Environmental liability risks are also managed through contract terms and insurance policies. The above

measures represent prudent risk management controls designed to minimise the risk of negative environmental impacts.

No environmental breaches have been notified by any applicable government agency as at the date of this Report.

Details in relation to the abandonment and restoration obligations of the Company in the Philippines associated with its existing operations and facilities are set out in Note 17 of the Notes to the Financial Statements.

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. The Directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

The Company regularly reviews changes to environmental regulations that may affect or pose a risk to the Company's business activities and where appropriate, amends such policies and procedures as necessary.

SUBSEQUENT EVENTS

The Company has identified the following as events occurring after year end:

1. On 25 January 2017 GPC entered into a drilling rig contract with Golden Close Maritime Corp. Ltd for the drillship "Deepsea Metro I" to drill the Galoc-7/7ST appraisal well on behalf of the Galoc Joint Venture.
2. On 24 February 2017 the Company's wholly owned subsidiary Nido Petroleum Indonesia (Gurita) Pty Ltd advised the Operator of the Gurita PSC, Lundin Gurita B.V. ('Lundin'), of its intention to join Lundin in withdrawing from this PSC, subject to the receipt of any necessary regulatory approvals. The carrying value of capitalised expenditure relating to the Gurita PSC was \$3.176M at 31 December 2016 and all remaining capitalised expenditure at the date of relinquishment will be fully impaired in the first quarter of 2017.

ROUNDING

The amounts contained in this Report and in the Financial Statements have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Class Order applies.

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration is included in the next page of this report.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, KPMG. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. KPMG received, or are due to receive, the following amounts for the provision of non-audit services:

	2016 US\$	2015 US\$
Tax compliance and advice services	7,492	4,421

Signed in accordance with a Resolution of the Directors.



WILLIAM BLOKING FAICD
CHAIRMAN

21 March 2017

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF NIDO PETROLEUM LIMITED



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Nido Petroleum Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

G-H-77

Graham Hogg
Partner

Perth

21 March 2017

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Profession Standards Legislation.

DIRECTORS' DECLARATION

In accordance with a resolution of Directors of Nido Petroleum Limited, in the opinion of the Directors, I state that:

- (a) the Financial Statements, Notes and additional disclosures included in the Directors' Report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the Financial Statements and Notes also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2016.

For and on behalf of the Board



William Bloking FAICD
Chairman
21 March 2017

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

		Consolidated	
	Notes	2016 US\$'000	2015 US\$'000
Revenue from sale of crude oil		42,601	68,374
Other revenue	2(a)	5	10
Total revenue		42,606	68,384
Cost of sales	3(a)	(48,144)	(72,348)
Gross (loss)		(5,538)	(3,964)
Other income	2(b)	(128)	1,959
Administrative and other expenses	3(b)	(6,763)	(9,521)
Impairment write down of oil and gas properties	10	-	(19,457)
Foreign currency gains/(losses)		285	4,706
Finance costs	3(c)	(6,747)	(8,089)
(Loss) before income tax from continuing operations		(18,891)	(34,366)
Income tax benefit / (expense)	4	1,636	3,238
Net (Loss) for the year from continuing operations		(17,255)	(31,128)
Other comprehensive income / (loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations, net of income tax		138	(5,136)
Other comprehensive income /(loss) for the year, net of tax		138	(5,136)
Total comprehensive (loss) for the year		(17,117)	(36,264)
		US Cents	US Cents
Earnings / (loss) per share attributable to the ordinary equity holders of the Company:			
Basic (loss) per share	20	(24.16)	(71.12)
Diluted (loss) per share	20	(24.16)	(71.12)

BALANCE SHEET AS AT 31 DECEMBER 2016

		Consolidated	
	Notes	2016 US\$'000	2015 US\$'000
ASSETS			
Current Assets			
Cash and cash equivalents	5	31,974	17,531
Trade and other receivables	6	5,071	13,930
Inventories	7	8,325	5,086
Current tax asset	4	911	1,388
Other financial assets	8	56	51
Total Current Assets		46,337	37,986
Non-Current Assets			
Plant and equipment	9	169	236
Oil and gas properties	10	35,777	57,918
Exploration and evaluation expenditure	11	72,577	71,023
Other financial assets	8	18,357	17,998
Total Non-Current Assets		126,880	147,175
Total Assets		173,217	185,161
LIABILITIES			
Current Liabilities			
Trade and other payables	14	17,813	20,553
Income tax payable		428	299
Provisions	16	409	517
Financial liabilities	15	-	2,663
Total Current Liabilities		18,650	24,032
Non-Current Liabilities			
Provisions	17	24,209	24,320
Deferred tax liabilities	4	3,018	6,609
Financial liabilities	15	83,156	88,200
Total Non-Current Liabilities		110,383	119,129
Total Liabilities		129,033	143,161
Net Assets		44,184	42,000
EQUITY			
Contributed equity	18	170,853	151,567
Other reserves	19	469	316
Accumulated losses		(127,138)	(109,883)
Total Equity		44,184	42,000

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

Consolidated

	Notes	2016 US\$'000	2015 US\$'000
Cash Flows From Operating Activities			
Receipts from customers		50,160	57,272
Payments to suppliers and employees		(37,109)	(41,250)
Interest received		5	17
Interest paid		(4,373)	(4,772)
Income tax paid		(1,253)	(3,919)
Put option and oil swap derivative gain		593	1,186
Net cash from operating activities	25(a)	8,023	8,534
Cash Flows From Investing Activities			
Refund of oil and gas properties		379	-
Expenditure on exploration and evaluation assets		(3,149)	(3,681)
Payments for plant and equipment		(52)	(56)
Acquisition of subsidiary, net of cash acquired		-	(73,041)
Net cash used in investing activities		(2,822)	(76,778)
Cash Flows From Financing Activities			
Proceeds from borrowings		-	108,000
Payments for financing costs		(303)	(687)
Repayment of borrowings		(10,000)	(30,341)
Proceeds from issue of equity securities		19,778	-
Payment for equity issue costs		(542)	-
Net cash from financing activities		8,933	76,972
Net increase in cash and cash equivalents		14,134	8,728
Effect of foreign exchange rates		309	(108)
Cash and cash equivalents at beginning of year		17,531	8,911
Cash and cash equivalents at end of year	5	31,974	17,531

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Contributed Equity US\$'000	Share Based Payment Reserve US\$'000	Foreign Currency Translation Reserve US\$'000	Accumulated Losses US\$'000	Total Equity US\$'000
Consolidated					
At 1 January 2015	151,567	10,111	(4,674)	(78,755)	78,249
Profit / (loss) for the year	-	-	-	(31,128)	(31,128)
Other comprehensive income / (loss)	-	-	(5,136)	-	(5,136)
Total comprehensive loss for the period, net of tax	-	-	(5,136)	(31,128)	(36,264)
Transactions with owners in their capacity as owners:					
Share based payments	-	15	-	-	15
	-	15	-	-	15
As at 31 December 2015	151,567	10,126	(9,810)	(109,883)	42,000
At 1 January 2016	151,567	10,126	(9,810)	(109,883)	42,000
Profit / (loss) for the year	-	-	-	(17,255)	(17,255)
Other comprehensive income / (loss)	-	-	138	-	138
Total comprehensive loss for the period, net of tax	-	-	138	(17,255)	(17,117)
Transactions with owners in their capacity as owners:					
Issue of share capital	19,778	-	-	-	19,778
Cost of issue of share capital	(492)	-	-	-	(492)
Share based payments	-	15	-	-	15
	19,286	15	-	-	19,301
As at 31 December 2016	170,853	10,141	(9,672)	(127,138)	44,184

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

This financial report of Nido Petroleum Limited for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors on 17 March 2017.

Nido Petroleum Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange and the entity is a for profit entity.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

(a) BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, with the exception of derivative financial instruments and non-current assets held for sale which have been measured at fair value.

The financial report is presented in United States dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

Except as noted below and in note 1(d), the accounting policies set out below have been consistently applied to all periods presented in the financial report.

The Group has adopted all new and amended Australian Accounting Standards and AASB Interpretations issued by the AASB that are relevant to operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations have not had a material impact on the Group for the year ended 31 December 2016.

(b) GOING CONCERN

The financial statements have been prepared adopting the going concern assumption which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group has incurred a net loss for the year from continuing operations of \$17.255 million. Cash inflows from operating activities were \$8.023 million and cash outflows from investing activities were \$2.822 million. As at 31 December 2016, the Group's current assets exceeded current liabilities by \$27.687 million and

the Group had cash and cash equivalents of \$31.974 million. The Group raised \$19.778 million (before costs) in November 2016 from a pro-rata entitlement offer to fund the Company's participating interest share of the Galoc-7/7ST appraisal well which is to be drilled in March 2017.

The Group successfully completed a restructure of its Facility Agreement with its ultimate parent company The Bangchak Petroleum Public Company Limited ("Bangchak") on 11 March 2016. Under the terms of the restructure, principal and interest payments were deferred and \$20.8 million is due in March 2018. The Group is investigating a variety of options relating to the repayment or renegotiation of principal and interest under the restructured Facility Agreement with Bangchak as current cash flow forecasts do not support an ability to meet this repayment on schedule.

Bangchak has confirmed its intention to rearrange the repayment schedule under the restructured Facility Agreement so as to enable the Group to continue as a going concern for the 12 months following the signing of the 31 December 2016 financial report. If the Group is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial statements.

(c) STATEMENT OF COMPLIANCE

The Financial Report complies with Australian Accounting Standard as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2016.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p>	1 January 2018	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9 - continued	Financial Instruments	<p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> - The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and - The remaining change is presented in profit or loss. <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 & 2010-10.</p> <p>The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes:</p> <ol style="list-style-type: none"> 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and 3. The mandatory effective date moved to 1 January 2018. 	1 January 2018	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 15	Revenue from Contracts with Customers	<p>The core principle of this standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer</p> <p>(b) Step 2: Identify the performance obligations in the contract</p> <p>(c) Step 3: Determine the transaction price</p> <p>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</p> <p>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p>	1 January 2018	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2018
AASB 16	Leases	<p>IFRS 16 removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense from most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.</p>	1 January 2019	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE - continued

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12.
- Disclosure initiative – Amendments to IAS7.
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale of Contribution of Assets between an Investor and its Associate or Joint Venture.
- AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128.
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle.

(e) BASIS OF CONSOLIDATION

The consolidated Financial Statements comprise the Financial Statements of Nido Petroleum Limited and its subsidiaries as at 31 December each year (the Group or Consolidated Entity).

The Financial Statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions have been eliminated in full.

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions

between members of the Group are eliminated in full on consolidation.

Where there is a loss of control of a subsidiary, the consolidated Financial Statements include the results of the part of the reporting period during which Nido Petroleum Limited has had control.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

(f) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

SIGNIFICANT ACCOUNTING JUDGMENTS

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Statements.

(i) *Exploration and evaluation assets and oil and gas properties*

The Group's accounting policy for exploration and evaluation expenditure and oil and gas properties is set out at Note 1(n) and Note 1(m) respectively. The application of this policy 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 capitalised 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 through profit or loss.

(ii) *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences where management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set-off current income tax assets against current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(f) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - continued

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) *Impairment of assets*

In determining the recoverable amount of assets, estimations are made regarding the present value of future cash flows using asset-specific discount rates and a "fair value less cost of disposal" discounting cash flow methodology. Additional disclosures are provided about the discount rate and any other significant assumptions in the Notes. For Oil and Gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

(ii) *Restoration obligations*

Where a restoration obligation exists, the Group estimates the future removal costs of offshore oil and gas platforms, production facilities, wells and pipelines at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgmental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of the provision for restoration refer to Note 1(s).

(iii) *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined using a Black Scholes model, and the fair value of performance rights is determined using a Monte Carlo simulation model.

(iv) *Estimates of reserves quantities*

The estimated quantities of Proved plus Probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessment of possible impairment of assets. Estimated reserve quantities are based upon interpretation of geological and geo-physical models and assessments of technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserve estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

(v) *Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(g) FOREIGN CURRENCY TRANSLATION

Both the functional and presentation currency of Nido Petroleum Limited and its subsidiaries are United States Dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the rate of exchange prevailing at the Balance Sheet date.

As at the reporting date, the assets and liabilities of the subsidiaries operating overseas are translated into the presentation currency of Nido Petroleum Limited at the rate of exchange prevailing at the balance sheet date and the items of income or expenditure are translated at the average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(h) INTERESTS IN JOINT OPERATIONS

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of the arrangement which exists only when decisions about relevant activities require unanimous consent of the parties sharing control.

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interest in joint operations, the Group recognises:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

(i) CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand, short-term deposits with an original maturity of three months or less and money market investments readily convertible to cash within two working days.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) TRADE AND OTHER RECEIVABLES

Trade receivables are carried at the amounts due. Specific allowance is made for any amounts when collection is considered doubtful. Bad debts are written off when identified.

Receivables from related parties are recognised and carried at amortised cost.

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of impairment loss is the receivable carrying amount compared to the present value of estimated cash flow, discounted at the original effective interest rate.

(k) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is determined as follows:

- (i) Materials, which include drilling and maintenance stocks, are valued at the cost of acquisition which includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition; and
- ii) Petroleum products, comprising extracted crude oil stored in FPSO tanks, are valued using the full cost absorption method.

Inventories and material stocks are accounted for on a FIFO (first in, first out) basis.

(l) PLANT AND EQUIPMENT

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of plant and equipment is calculated on a straight line basis over the expected useful life to estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation

- Plant and Equipment 2 – 3 years

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(l) PLANT AND EQUIPMENT - continued

Disposal

Any item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(m) OIL AND GAS PROPERTIES

Assets in Development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditures, surface plant and equipment, and any associated land and buildings.

Producing assets

The costs of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

Depletion charges are calculated using a unit of production method which will amortise the cost of carried forward exploration, evaluation and development expenditure over the life of the estimated Proved reserves (1P), in a cash generating unit.

Provisions for future restoration are made where there is a present obligation as a result of development and are capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in full at Note 1(s).

(n) EXPLORATION AND EVALUATION EXPENDITURE

Deferred Expenditure

Costs related to the acquisition of properties that contain resources are allocated separately to specific areas of interest. These costs are capitalised until the viability of the area of interest is determined.

Exploration and evaluation expenditure is stated at cost and is accumulated in respect of each identifiable area of interest.

Such costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest (or alternatively by its sale), or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off through profit or loss in the period in which the decision to abandon the area is made.

The Directors review the carrying value of each area of interest as at the balance date and any exploration expenditure which no longer satisfies the above policy is written off.

Once an area of interest enters the development phase, all capitalised acquisition, exploration and evaluation expenditures are transferred to oil and gas properties.

Farm-outs

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalised.

(o) IMPAIRMENT OF NON-FINANCIAL ASSETS

On each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(p) INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and financial assets within the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

When financial assets are recognised initially, they are measured at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and De-recognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred.

(q) TRADE AND OTHER PAYABLES

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(r) BORROWINGS

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(s) PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be

required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognised through profit or loss net of any reimbursement.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Restoration Provisions

The Group recognises any legal or constructive restoration obligation as a liability at its present value at the time a legal liability or constructive obligation exists and when a reliable estimate of the amount of the obligation can be made. The carrying amount of the long lived assets to which the obligation relates is increased by the asset retirement obligation costs and amortised over the producing life of the asset. Restoration provisions are based on the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of the asset retirement obligations are based on current technology, legal requirements and future costs, which have been discounted to their present value. In determining the asset retirement obligations, the Company has assumed no significant changes will occur in the relevant legislation in relation to restoration of sites in the future.

Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date.

Over time, the liability is accreted to its present value each period based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded within finance costs. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

(t) SHARE BASED PAYMENT TRANSACTIONS

The Group provides benefits to employees (and Executive Directors) of the Group in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(t) SHARE BASED PAYMENT TRANSACTIONS - continued

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) The grant date fair value of the award;
- (ii) The extent to which the vesting period has expired; and
- (iii) The number of awards that, in the opinion of the Directors of the Group, will ultimately vest taking into account such factors as the likelihood of non-market performance conditions being met.

This opinion is formed based on the best available information at balance date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. The dilutive effect, if any, of outstanding awards is reflected as additional share dilution in the computation of earnings per share.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Equity settled awards granted by the Parent to employees of Subsidiaries are recognised in the Parent's separate Financial Statements. The expense recognised by the Group is the total expense associated with such award.

Performance Rights

Performance rights are issued under the Employee Performance Rights Plan approved by Shareholders. Subject to Shareholder approval, Executive Directors may be issued performance rights under the same terms and conditions as the plan.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Monte Carlo simulation model.

Managing Director Sign on and Retention Bonus

As part of the employment contract entered into between Nido Petroleum Limited and Managing Director, Dr Michael Fischer*, Nido issued rights to fully paid ordinary shares as a Sign-on and Retention Bonus, subject to shareholder approval.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. See Note 23(b)(ii) for further information.

*Dr Fischer was appointed Managing Director effective from 26 August 2015.

(u) EMPLOYEE BENEFITS

(i) *Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. These are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) *Long service leave*

A liability for long service leave is recognised and measured as the present value of the estimated future cash outflow to be made in respect of employees' services up to the reporting date. The obligation is calculated using expected future increases in wage and salary rates, experience of employee departures and periods of service. Expected future payments are discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating the terms of the Group's obligations.

(iii) *Defined contribution plan*

Contributions to employee superannuation funds, being defined contribution plans of choice, are expensed as incurred.

(iv) *Defined benefits plan*

Nido Petroleum Limited operates a defined benefit retirement plan in the Philippines, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit valuation method.

The scheme is funded to the extent that a 'minimum funding amount' has been set aside in fund assets. Re-measurements are recognised immediately in the balance sheet with a corresponding debit or credit to Other Comprehensive Income. Re-measurements are not reclassified to profit or loss in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(v) LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(w) REVENUE

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sale of crude oil

Sales revenue is recognised on the basis of the Group's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship loading. Revenue earned under a service contract ("SC") is recognised on a net entitlements basis according to the terms of the SC and the farm-in agreements.

Interest

Revenue is recognised as interest accrues using the effective interest method.

(x) BORROWING COSTS

Borrowing costs are expensed in the period in which they are incurred except borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use or sale. In this case, borrowing costs are capitalised as part of the cost of such a qualifying asset.

(y) INCOME TAX

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- When the taxable temporary differences are associated with investments in subsidiaries, associates and interests in Joint Operations, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses, can be utilised except:

- When the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- When the deductible temporary differences are associated with investments in subsidiaries, associates and interests in Joint Operations, in which case deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amounts of deferred income tax assets are reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(y) INCOME TAX - continued

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(z) OTHER TAXES

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of each cash flow arising from investing activities which are recoverable from or payable to the taxation authority are classed as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(aa) CONTRIBUTED EQUITY

Contributed equity is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

(bb) EARNINGS PER SHARE

Basic EPS is calculated as net profit / (loss) attributable to members, adjusted to include costs of servicing equity other than dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit / (loss) attributable to members, adjusted for:

- (i) Costs of servicing equity (other than dividends);
- (ii) The after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- (iii) Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(cc) FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs arising on the issue of equity instruments, net of associated tax, are recognised directly in equity as a reduction of the proceeds of the equity instrument to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(dd) DERIVATIVE FINANCIAL INSTRUMENTS

The Group may use derivative financial instruments, such as forward commodity contracts, to manage its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ee) OPERATING SEGMENTS

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services, and if applicable; and
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the Financial Statements.

(ff) FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, any fair values of financial instruments measured at amortised cost are disclosed.

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

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

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

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

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

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

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

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

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

The Group's management determine the policies and procedures for both recurring fair value measurement and for non-recurring measurement, such as assets held for distribution in discontinued operation.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation with regard to contracts and other relevant documents. Comparison is made of each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ff) FAIR VALUE MEASUREMENT - continued

Management present the valuation results to the audit

committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

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

		Consolidated	
		2016 US\$'000	2015 US\$'000
2.	Revenues		
(a)	Other Revenue		
	Interest revenue – other parties	5	10
(b)	Other Income		
	Gain / (loss) on settlement of crude oil put options and swaps	(128)	1,907
	Other	-	52
	Total Other Income	(128)	1,959



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

		Consolidated	
		2016 US\$'000	2015 US\$'000
3.	Expenses		
(a)	Cost of Sales		
	Amortisation of oil and gas properties	21,452	25,526
	Production costs net of inventory movement	26,692	46,822
	Total cost of sales	48,144	72,348
Production costs expense includes SC 14C1 Galoc oil field payments for the FPSO of \$21,403,000 (2015: \$22,995,000). It is impracticable to split non-lease components from the operating lease payments.			
(b)	Administrative and Other Expenses		
	(i) Administrative expenses		
	Employee Benefits		
	Wages and salaries	5,028	4,356
	Defined contribution superannuation expense	331	279
	Share based payments expense	15	15
	Other employee benefits	331	383
	Total employee benefits	5,705	5,033
	Office and other expenses		
	Office and other expenses, net of timewriting recoveries	(1,157)	1,783
	Depreciation, amortisation and impairment expenses		
	Depreciation of plant and equipment	117	96
	Amortisation of oil and gas properties	21,452	25,526
	Impairment write-down of inventory (note 7)	-	337
	Impairment write-down/(write-back) of exploration assets	-	(335)
	Total depreciation, amortisation and impairment	21,569	25,624
	Less: amortisation included in cost of sales	(21,452)	(25,526)
	Total depreciation, amortisation and impairment included in other expenses	117	98
	Lease payments		
	Operating lease rental	398	465
	Total Administrative Expenses	5,063	7,379
	(ii) Other		
	Exploration and evaluation expenditure expensed	1,700	2,142
	Total other	1,700	2,142
	Total Administrative and Other Expenses	6,763	9,521
(c)	Finance Costs		
	(i) RBL facility finance costs		
	Interest expense	-	1,860
	(ii) BCP Revolving term loan facility costs		
	Interest expense	6,530	5,916
	(iii) Other finance costs		
	Unwind of the effect of discounting on provisions	217	313
	Total finance costs	6,747	8,089

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

		Consolidated	
		2016 US\$'000	2015 US\$'000
4.	Income Tax		
(a)	Income tax (benefit)		
	The major components of income tax expense are:		
	Current income tax		
	Current income tax charge	1,955	2,600
	Prior year under provision	-	-
	Deferred income tax		
	Temporary differences originating and reversing	(3,591)	(6,040)
	Prior year under / (over) provision	-	202
	Income tax (benefit) reported in income statement	(1,636)	(3,238)
	There is no income tax (benefit) in relation to items charged or credited directly to equity.		
(b)	Numerical reconciliation between aggregate tax (benefit) recognised in the income statement and tax (benefit) calculated per the statutory income tax rate		
	Loss before income tax	(18,891)	(34,366)
	At the Group's statutory income tax rate Australia 30%, Philippines 30% (2015: Australia 30%, Philippines 30%)	(5,667)	(10,310)
	Adjustments in respect of current year income tax		
	Non-deductible expenses	737	5,100
	Non-assessable income	(1,348)	(1,438)
	Prior year under-provision	-	202
	Difference between standard deductions and OSD	(448)	(893)
	Deferred tax liabilities not recognised due to use of OSD	1,245	2,949
	Deferred tax assets not recognised	3,999	1,156
	Effect of foreign exchange differences	(124)	(4)
	Other	(30)	-
	Income tax (benefit) for the year	(1,636)	(3,238)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. Income Tax - continued

	Balance Sheet	Balance Sheet	Profit or Loss	Profit or Loss
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
(c) Deferred tax assets and liabilities				
CONSOLIDATED				
(i) Deferred tax liabilities				
Oil and gas assets	-	473	473	(7,723)
Restoration assets	2,505	2,849	210	380
Financial liabilities	-	-	-	(23)
Unrealised foreign exchange movement	(3)	(82)	(79)	(6,864)
Set-off of deferred tax assets	516	3,369	2,987	14,230
	3,018	6,609	3,591	-
(ii) Deferred tax assets				
Provisions	-	-	-	243
Oil and gas assets	3,477	-	(3,477)	-
Other	(469)	(469)	-	726
Rehabilitation	5,317	5,070	(381)	(969)
Exploration assets	4,586	4,687	101	(1,575)
Revenue tax losses	-	871	871	16,717
Unrecognised deferred tax asset	(13,427)	(13,528)	(101)	(6,952)
Set-off against deferred tax liabilities	516	3,369	2,987	(14,230)
	-	-	-	(6,040)

The benefit of tax losses not brought to account for the 2016 year will only be obtained if:

- (i) Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) The conditions for deductibility imposed by the tax legislation continue to be complied with; and
- (iii) The companies are able to meet the continuity of ownership and/or continuity of business tests.

Australian revenue tax losses of \$53.006 million (2015: \$53.879 million) are available indefinitely for offsetting against future Australian taxable profits subject to continuing to meet relevant statutory tests.

Revenue tax losses due to operations in the Philippines of \$9.419 million (2015: \$16.101 million) are available for offset against future Philippine taxable profits subject to continuing to meet relevant statutory tests.

(d) CURRENT TAX ASSET

The Current Tax Asset includes income tax credits of \$0.911 million to be offset against future taxable profits of Nido Production (Galoc) Pty Ltd Branch (2015: \$1.388 million).

(e) NO TAX CONSOLIDATED GROUP

As at the reporting date, a consolidated group for tax purposes has not been formed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	Consolidated	
	2016 US\$'000	2015 US\$'000
5. Cash and Cash Equivalents		
Cash at bank and in hand	31,968	17,490
Short term deposits	6	41
	<u>31,974</u>	<u>17,531</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates.

6. Receivables

Trade and Other Receivables – Current		
Crude oil receivables	87	5,529
Deposits held by Joint Operations	3,962	4,455
GST receivables	34	94
Prepayments	507	1,378
Other	481	2,474
	<u>5,071</u>	<u>13,930</u>

Fair Value and Risk Exposures

- (i) Due to the short term nature of these receivables, their carrying value approximates their fair value;
- (ii) The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security;
- (iii) Details regarding foreign exchange and interest rate risk exposure are disclosed in note 31; and
- (iv) Other receivables generally have repayments between 0 and 30 days.

Ageing analysis of current receivables:	Total	0-30 days	31-60 days
2016	5,071	5,071	-
2015	13,930	13,930	-

There were no current receivables past due as at 31 December 2016. No impairment of receivables was required as at 31 December 2016 (2015: Nil).

7. Inventories

Casing, pipe and drilling inventory – at net realisable value ¹	2,135	2,227
Oil in storage – at cost	6,190	2,859
Total inventories	<u>8,325</u>	<u>5,086</u>

No inventories were impaired or written down to net realisable value during the year (2015: \$336,962).

¹ During the year \$nil (2015: \$450,783) was reclassified from oil and gas properties to inventory.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

		Consolidated	
		2016 US\$'000	2015 US\$'000
8.	Other Financial Assets		
	<i>Current:</i>		
	Receivables - security deposits	56	51
	<i>Non-Current:</i>		
	Receivables - security deposits	11,447	11,398
	Receivables – decommissioning escrow fund	6,910	6,600
		18,357	17,998

Fair Value and Risk Exposures

- (i) The maximum exposure to credit risk is limited to the carrying amount of the security deposits, which approximates the fair value;
- (ii) Details regarding foreign exchange and interest rate risk exposure are disclosed in Note 31.

9.	Plant and Equipment		
	Plant and equipment, at cost	2,215	2,163
	Accumulated depreciation	(2,046)	(1,927)
		169	236
	Reconciliation		
	As at 1 January	236	187
	Additions	52	155
	Disposals	(1)	-
	Depreciation expense	(117)	(96)
	Currency translation differences	(1)	(10)
	Net carrying value	169	236

10.	Oil and Gas Properties		
	Production phase, at cost	186,533	187,222
	Accumulated amortisation and impairment losses	(150,756)	(129,304)
		35,777	57,918
	Reconciliations		
	<i>Production phase – net</i>		
	As at 1 January	57,918	33,095
	Additions including restoration asset	-	5,058
	Acquisition of subsidiary (including transaction costs*) – refer note 13	-	65,198
	Refund of expenditure	(689)	-
	Other reclass to inventory	-	(450)
	Impairment ¹	-	(19,457)
	Amortisation of oil and gas properties	(21,452)	(25,526)
	Net carrying value	35,777	57,918

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. Oil and Gas Properties - continued

Oil and gas properties capitalised in the production phase as at 31 December 2016 comprised only of the SC 14C1 Galoc oil field. This is the Group's primary Cash Generating Unit ('CGU').

* Includes allocation of Galoc Production Company WLL transaction costs of US\$1.585 million (net of transaction costs US\$63.613 million).

¹ With the reduction in global oil prices towards the end of the 2015 financial year and downward revised reserves, the carrying value of the SC 14C1 Galoc oil field was reviewed as at 31 December 2015. It was determined that the carrying value of the SC 14C1 Galoc oil field was \$19.457 million in excess of its recoverable amount and therefore the asset value was impaired accordingly.

Impairment

In accordance with the Group's accounting policies and processes, the Group performs its impairment testing annually at 31 December. Non-financial assets are reviewed at each reporting period to determine where there is an indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made.

2016

Nido reviewed its oil and gas properties as at 31 December 2016 and assessed that there was no indication that an asset may be impaired. There were no external or internal indicators that reflected material changes in status and assumptions, including oil price curve assumptions.

2015

The significant reduction in the crude oil prices in the last quarter of 2015 represented a possible indicator of impairment as at 31 December 2015. As a result, the Group assessed the recoverable amounts of each of the Oil and Gas Properties in the asset portfolio. Accordingly the SC 14C1 Galoc oil field was tested for impairment as at 31 December 2015.

Unless otherwise identified, the following discussion of (a) impairment testing and (b) sensitivity analysis is applicable to the assessment of the recoverable amount of all of the Group's Oil and Gas Property assets.

a) Impairment testing - 2015

i) Methodology

Impairment is recognised when the carrying value exceeds the recoverable amount. The recoverable amount of each Oil and Gas Property has been estimated using its fair value less costs of disposal.

Fair value less costs of disposal is estimated based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date, less the costs of disposal.

Estimates of quantities of recoverable oil reserves, production levels and operating costs are sourced from the Joint Operation's life of well modelling, budgets and forecasted outlook. The 2015 Joint Operation budget and forecast were developed in the context of the current oil price environment and outlook, and the Group's continued focus of maximising free cash flow.

Significant judgements and assumptions are required in making estimates of fair value less costs of disposal. This is particularly so in the assessment of long life assets. It should be noted that fair value less costs of disposal calculations are subject to variability in key assumptions including, but not limited to, long-term oil prices, discount rates, production profiles and operating costs. An adverse change in one or more of the assumptions used to estimate fair value less costs of disposal could result in a reduction in an Oil and Gas Property asset's recoverable amount.

ii) Key assumptions

The table below summarises the key assumptions used in the 2015 end of year carrying value assessments:

	2015	
	2016-2021	Long Term (2022+)
Oil price (US\$ per bbl)	\$43-\$79	\$81-\$84
Reserves	2P	2P
Discount rate (%)	9.5%	9.5%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. Oil and Gas Properties - continued

Oil Prices

Oil prices are estimated with reference to nominal external market price forecasts. The sizeable reduction in quoted oil prices throughout the financial year has resulted in significantly lower short-term and long-term oil price assumptions applied to the impairment reviews at 31 December 2015. The primary impact of this change was a reduction in the recoverable amount of the Galoc Oil and Gas Asset from both reduced oil revenues and shortening field economic life.

Discount Rate

In determining the fair value less cost of disposal for Oil and Gas assets, the future cash flows were discounted using nominal rates based on pre-tax discount rates adjusted for risks specific to the CGU. The discount rates that applied to individual Oil and Gas Property assets that recognised impairments were:

Oil and Gas Property - 2015	Functional Currency	2015
Galoc oil field	USD	9.5%

For the Galoc oil field asset, production activity is assumed to decline until the end of the well life in a manner consistent with depletion to date.

Production activity and operating costs

Production activity and operating costs assumptions are based on the Group's latest life of well models, budgets and forecasts. Where projects are operated by a joint operation which is not within the Group, information is sought from the operator at regular intervals and the most recent modelling from the operator is used as the basis for production activity and operating costs used in the fair value less cost of disposal calculations.

iii) Impacts

After conducting the impairment analysis, the Group has recognised an impairment loss on assets within the CGU as follows:

Oil and Gas Property Assets - 2015	Impairment – Other Assets \$'000
Galoc oil fields	19,457

The key driver of the impairment for the Galoc oil field asset was the reduced oil price and revised production profile for 2016-2021. Other cost assumptions remained relatively static for the remaining well life.

The recoverable amount of the CGU is US\$44,946,798.

b) Sensitivity Analysis - 2015

Any variation in the key assumptions used to determine fair value less cost of disposal would result in a change of the estimated recoverable amount. If the variation in assumption had a negative impact on recoverable amount it could indicate a requirement for additional impairment to non-current assets.

It is estimated that changes in the key assumptions would have the following approximate impact on the recoverable amount of the Galoc oil field asset in its functional currency.

Oil and Gas Property Assets - 2015	Galoc Oil Field US\$'000
\$10 change per barrel oil price	17,543
0.25% increase/decrease in the discount rate	238
5% increase/decrease in the assumed operating costs	2,892

It must be noted that each of the sensitivities above assumes that the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions may accompany a change in another assumption which may have an offsetting impact. Action is also usually taken to respond to adverse changes in economic assumptions that may mitigate the impact of any such change.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	Consolidated	
	2016 US\$'000	2015 US\$'000
11. Exploration and Evaluation Expenditure		
Exploration and evaluation expenditure, at cost	72,577	71,023
Reconciliation		
As at 1 January	71,023	43,236
Additions	1,554	1,381
Acquisition of subsidiary (including transaction costs*) – refer note 13	-	26,406
Net carrying value	72,577	71,023

* Includes allocation of Galoc Production Company WLL transaction costs of \$0.642 million (net of transaction costs \$25.764 million).

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective oil and gas permits.

12. Information Relating to Nido Petroleum Limited (Parent Entity)

	Parent Company	
	2016 US\$'000	2015 US\$'000
Current assets	2,359	5,869
Non-current assets	125,667	128,064
Current liabilities	(667)	(1,058)
Non-current liabilities	(83,175)	(90,875)
Net assets	44,184	42,000
Contributed equity	170,853	151,567
Share based payments reserve	10,140	10,126
Foreign currency translation reserve	(9,818)	(9,818)
Accumulated losses	(126,991)	(109,875)
Total equity	44,184	42,000
Loss of the parent entity for the year	(17,116)	(29,306)
Total comprehensive loss of the parent entity	(17,116)	(34,566)

Nido Petroleum Limited has provided a letter of undertaking dated 14 November 2006 to the Department of Energy in the Philippines to provide technical and financial support to Nido Petroleum Philippines Pty Ltd in relation to work obligations in the SC 58 Farm In Agreement executed between PNOC Exploration Corporation and Nido Petroleum Philippines Pty Ltd on 17 July 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. Acquisition of Galoc Production Company WLL

(a) Acquisition Summary and Consideration - 2015

On 17 February 2015, the Group acquired 100% of the shares in Galoc Production Company WLL ('GPC') for cash consideration of \$87.423 million. GPC holds 33% interest in the Galoc oil field, located in Service Contract 14C1 in the Philippines. The Group now holds 55.88% working interest in the Galoc oil field and has Operatorship of the project. The acquisition was accounted for as an asset acquisition.

Nido funded the cash acquisition through a combination of cash reserves and debt. The net cost of the acquisition of the subsidiary is as follows:

	US\$'000
Initial consideration offered (as at 1 July 2014)	108,000
Final price paid on settlement after closing adjustments (17 February 2015)	87,423
Add: Transaction related costs	2,227
Total consideration	89,650

* \$10.800 million was paid in December 2014 as a deposit, with \$76.623 million paid in February 2015.

(b) Assets Acquired and Liabilities Assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition (including costs of acquisition of \$ 2.227 million):

	US\$'000
<u>Current assets:</u>	
Cash and cash equivalents	6,206
Trade and other receivables	5,016
Inventories	6,899
Other financial assets	581
<u>Non-current assets:</u>	
Oil and gas properties	65,198
Exploration and evaluation expenditure	26,406
Other financial assets	6,600
<u>Current liabilities:</u>	
Trade and other payables	(8,354)
Provisions	(1,746)
<u>Non-current liabilities:</u>	
Provisions	(9,018)
Other liabilities	(8,138)
Total net assets acquired	89,650

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. Acquisition of Galoc Production Company WLL – continued

(c) Measurement of Fair Values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Asset Acquired	Valuation Technique
Inventories	The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.
Oil & gas properties and exploration & evaluation assets	The fair value is determined by considering discounted cash flows and market comparison techniques and applying judgement in relation to what market participants would apply. Discounted cash flows consider the present value of the net cash flows expected to be generated by the project, applying a risk-adjusted discount rate. Market comparison techniques consider the value of identified hydrocarbon reserves and resources associated with the project.

For all other assets and liabilities, the fair value is equal to their carrying amounts.

	Consolidated	
	2016 US\$'000	2015 US\$'000
14. Trade and Other Payables		
Trade creditors	5,647	8,531
Other creditors	12,166	12,022
	17,813	20,553

Fair Value and Risk Exposures

- (i) Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.
- (ii) Details regarding foreign exchange, interest rate risk exposure and liquidity risk are disclosed in Note 31.
- (iii) Trade and other payables are unsecured and usually paid within 60 days of recognition.

15. Financial liabilities

Current		
Accrued interest	-	2,663
	-	2,663
Non-Current		
Financial liability measured at amortised cost	78,200	88,200
Accrued interest	4,956	-
	83,156	88,200

The debt component of the debt facility is recorded at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

15. Financial liabilities - continued

(a) Nature and Fair Value

Bangchak Petroleum Public Company Limited Facility

On 12 December 2014, Nido Petroleum Limited (Nido) entered into a revolving debt loan facility for up to US\$120 million with the Bangchak Petroleum Public Company Limited ('Bangchak'). The primary purpose of the facility was to fund the acquisition of oil and gas assets approved by Bangchak. Nido has previously used the facility to acquire Otto Energy Ltd's (OEL) shares in Galoc Production Company WLL ('GPC'). In the first quarter of 2016 Nido and Bangchak agreed to restructure the facility with effect from 11 March 2016.

The key terms of the restructured Facility Agreement were as follows:

- Nido provided an advanced principal payment of US\$10 million, as well as a payment of US\$0.890 million of interest accrued to 15 March 2016, leaving a residual balance of \$US78.2 million of principal outstanding under the Facility Agreement;
- repayment of all other principal payments was deferred effective from February 2016 and scheduled to recommence in March 2018;
- the interest rate on the Facility was capped at 6% + LIBOR for the remainder of the term (previously interest increased by 2 percent per annum);
- interest on the outstanding loan balance accrues until the re-commencement of principal payments in March 2018;
- Bangchak agreed to provide additional financial support to ensure Nido will have sufficient funds to meet contractual obligations, up to a cumulative cap of \$US4 million subject to certain conditions being met;
- if the oil price recovered such that the realised price for a single cargo exceeded US\$45/barrel, Nido and Bangchak agreed to discuss whether Nido has at that point any ability to accelerate the repayment of deferred interest on the existing loan; and
- Nido provided a negative pledge with respect to the creation of any new security over Nido group assets (save for securities created in the ordinary course of business).

(b) Risk exposures

Details regarding foreign exchange, interest rate risk exposure and liquidity risk are disclosed in Note 31.

	Consolidated	
	2016 US\$'000	2015 US\$'000
16. Current Provisions		
Employee benefits – Annual Leave and Long Service Leave	409	517
17. Non-Current Provisions		
Employee benefits – Long Service Leave	19	12
Employee benefits – Defined Benefit Plan Philippines ⁽¹⁾	754	814
Restoration ⁽²⁾	23,436	23,494
	24,209	24,320

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. Non-Current Provisions – continued

⁽¹⁾ Defined Benefit Plan – Philippines

The Group has a defined benefit retirement plan in the Philippines. The plan is a final salary plan for employees in the Philippines where contributions are required to be made to a separately administered fund.

The level of benefits provided depends on the member's length of service and salary at retirement age. The fund is governed by retirement committee appointed by the Group and is responsible to ensure the administration of and contributions made on behalf of the members of the fund.

The retirement plan is exposed to the Philippines inflation, interest rate risks and changes in the life expectancy of the recipients.

⁽²⁾ Restoration

	Consolidated 2016 US\$'000	2015 US\$'000
Movements in non-current restoration provision		
As at 1 January	23,494	13,350
Acquisition of subsidiary – refer note 13	-	8,778
Arising during the year	-	1,053
Discount rate adjustment	(275)	-
Unwinding of the effect of discounting on provisions	217	313
Net carrying value	23,436	23,494

Nature and timing of the restoration provision:

The Group has recognised a provision for restoration related to the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed. The provision includes abandonment of producing wells in Service Contract 14, in particular for the Galoc oil field in SC14 Block C-1 (currently estimated to be abandoned around 2019), Nido and Matinloc oil fields in SC 14A and SC 14B (currently estimated to be abandoned around 2018) and recognised a provision for restoration relating to the existing non-producing wells and infrastructure in SC14 Block C-2 (West Linapacan). The estimated costs relating to the abandonment of West Linapacan have been capitalised as the restoration obligation is recognised during the evaluation stage, with abandonment of the field to be completed before the expiration of the Service Contract term in 2025.

These provisions have been created based on field Operator estimates. These estimates are reviewed regularly to take into account any material changes to the assumptions. However actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil prices, which are inherently uncertain. These estimates of restoration are subject to significant estimates and assumptions; refer Note 1(s).

18. Contributed Equity

Issued and fully paid ordinary shares	170,853	151,567
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The Company's shares have no par value and there is no limit to the amount of authorised capital. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(a) Movement of shares on issue

	2016		2015	
	Number of Shares	US\$'000	Number of Shares	US\$'000
Beginning of the year	43,765,712	151,567	2,188,266,468	151,567
Consolidation of capital (1 for 50):	-	-	(2,144,500,756)	-
Issued during the year:				
• issues of new shares ⁽ⁱ⁾	404,357,996	19,778	-	-
• issue of new shares under employment contract ⁽ⁱⁱ⁾	87,500	-	-	-
• less transaction costs	-	(492)	-	-
End of the year	448,211,208	170,853	43,765,712	151,567

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

18. Contributed Equity - continued

On 29 May 2015, Nido consolidated the Company's share capital, on the basis of 1 share for every 50 existing shares, as approved by shareholders at the Annual General Meeting on 22 May 2015.

(i) New shares issued

2016

On 6 December 2016, 404,357,996 ordinary shares were issued as part of a pro-rata renounceable entitlement offer of 11.2 ordinary shares for every share held.

2015

No new shares issued.

(ii) Shares issued under employment contract

2016

On 11 May 2016, 43,750 ordinary shares (Tranche 1) and on 26 August 2016, 43,750 ordinary shares (Tranche 2) were issued to Dr Fischer, Managing Director, pursuant to a Sign-on and Retention Bonus which forms part of the employment contract entered into between Nido Petroleum Limited and Dr Fischer.

2015

None.

(b) Performance rights on issue

The total number of performance rights on issue as at 31 December 2016 is nil (2015: nil). Refer to Note 23 for further details including information on the Sign On and Retention Bonus share entitlement.

(c) Capital Management

When managing capital, management's objective is to ensure the entity 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 entity.

Management may in the future adjust the capital structure to take advantage of favourable costs of capital and issue further shares in the market. Management has no current plans to issue further shares. There are no plans to distribute dividends in the next year.

The Group is not subject to any externally imposed capital requirements.

The gearing ratios based on operations at 31 December 2016 and 2015 were as follows:

	Consolidated	
	2016 US\$'000	2015 US\$'000
Total payables and borrowings*	101,723	112,231
Less cash and cash equivalents	(31,974)	(17,531)
Net debt	69,749	94,700
Total equity	44,184	42,000
Total capital	113,933	136,700
Gearing ratio **	61%	69%

* Includes interest bearing loans and borrowings and trade and other payables. Trade and other payables for the group as at 31 December 2016 is \$17,813,000 (2015: \$20,553,000).

** Gearing excluding trade and other payables for the group is 54% (2015: 64%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	Consolidated	
	2016 US\$'000	2015 US\$'000
19. Reserves		
Share-based payment reserve	10,141	10,126
Foreign currency translation reserve	(9,672)	(9,810)
	469	316

Nature and purpose of reserves:

Share-based payment reserve

The share-based payment reserve is used to record the value of share based payments provided to employees, including Key Management Personnel, as part of their remuneration. Refer to Note 23 for further details of employee share based remuneration plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statement of foreign subsidiaries.

Movement in Share-based payment reserve:		
As at 1 January	10,126	10,111
Share based payments	15	15
	10,141	10,126
Movement in Foreign currency translation reserve:		
As at 1 January	(9,810)	(4,674)
Translation of foreign subsidiaries	138	(5,136)
	(9,672)	(9,810)

20. Earnings Per Share

The following reflects the income and share data used in the calculations of basic and diluted earnings per share. Details of performance rights are set out in Note 23.

(a) Earnings used in calculating earnings per share

	Consolidated	
	2016 US\$'000	2015 US\$'000
Profit/(loss) attributable to ordinary equity holders of the Company used in calculating:		
- basic profit/(loss)	(17,255)	(31,128)
- diluted profit/(loss)	(17,255)	(31,128)

(b) Weighted average number of shares

	2016 #	2015 #
Weighted average number of ordinary shares used in the calculation of the basic earnings per share.	71,428,946	43,765,712
Adjustment for calculation of diluted earnings per share		
- options and rights	n/a	n/a
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	71,428,946	43,765,712

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

20. Earnings Per Share - continued

There was no adjustment for 2016 or 2015 to the weighted average number of shares for calculation of the diluted EPS as this would be antidilutive.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these Financial Statements.

(c) Information on the classification of securities

Performance rights granted to employees (including Key Management Personnel) as described in Note 23 are considered to be contingently issuable potential ordinary shares. Accordingly, performance rights, if any, are excluded in the determination of diluted earnings per share.

21. Dividends paid and proposed

No dividend has been paid or declared during the 2016 and 2015 financial years.

22. Operating Segments

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and his management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the phase of operation within the oil and gas industry. Discrete financial information about each of these operating businesses is reported to the Managing Director and his management team on at least a monthly basis.

The reportable segments are based on operating segments determined by the similarity of activity type and phase of operations, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Reportable Operating Segments Identified

For management purposes, the Group has organised its operating segments into two reportable segments as follows:

- Production & Development Assets Segment: This segment includes oil producing assets and assets and activities that are in the development phase but have not yet achieved first oil and/or gas production.
- Exploration and Evaluation Assets Segment: This segment includes assets and activities that are associated with the determination and assessment of the existence of commercial economic reserves.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs, finance income and foreign exchange movements) are managed on a group basis and are not allocated to operating segments.

Accounting Policies

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts.

Income tax expense is allocated to the appropriate segments based on the taxable profits generated by each segment.

There have been no inter-segment transactions.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following items are not allocated to segments as they are not considered part of core operations of any segment

Net gains on disposal of available for sale assets

- Net gains on disposal of available for sale assets
- Finance costs and revenues
- Interest revenue
- Foreign currency gains / (losses)
- Corporate costs

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

22. Operating Segments - continued

The following table presents revenue and profit information for reportable segments for the years ended 31 December 2016 and 31 December 2015.

Operating Segments			
	Production and Development US\$'000	Exploration and Evaluation US\$'000	Total Operations US\$'000
Year ended 31 December 2016			
Revenue			
Revenue from sale of crude oil – external customers	42,601	-	42,601
Total segment revenue			42,601
Other revenue			5
Total revenue			42,606
Result			
Total segment result	(3,782)	(669)	(4,451)
Segment result includes:			
Amortisation	(21,452)	-	(21,452)
Income tax benefit	1,636	-	1,636
Reconciliation of segment result after tax to net profit after tax			
Finance costs			(6,747)
Foreign currency gains			285
Corporate costs			(6,220)
Other revenue and income			(122)
Net (loss) after tax			(17,255)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

22. Operating Segments - continued

Operating Segments			
	Production and Development US\$'000	Exploration and Evaluation US\$'000	Total Operations US\$'000
Year ended 31 December 2015			
Revenue			
Revenue from sale of crude oil – external customers	68,374	-	68,374
Total segment revenue			68,374
Other revenue			10
Total revenue			68,384
Result			
Total segment result	(20,176)	(2,474)	(22,650)
Segment result includes:			
Amortisation	(25,526)	-	(25,526)
Impairment of inventory	-	(337)	(337)
Impairment of oil and gas assets	(19,457)	-	(19,457)
Impairment/(write-back) of exploration and evaluation expenditure	-	335	335
Income tax benefit/(expense)	3,238	-	3,238
Reconciliation of segment result after tax to net profit after tax			
Finance costs			(7,776)
Foreign currency gains			4,706
Corporate costs			(7,377)
Other revenue and income			1,969
Net (loss) after tax			(31,128)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

22. Operating Segments - continued

Major Customers and Geographical Areas

Revenue received from the sale of crude oil, which is attributable solely to the Production and Development Operating Segment, was comprised of five different buyers in 2016.

Customer	2016 Revenue received from Sale of Crude Oil US\$'000	2015 Revenue received from Sale of Crude Oil US\$'000
# 1	14,622	24,883
# 2	9,266	23,150
# 3	8,947	19,020
# 4	8,772	1,321
# 5	994	-
Total	42,601	68,374

The principal activities of the consolidated entity during the financial year, which occurred primarily in the Philippines, included:

- Exploration for oil and gas; and
- Production and sale of oil.

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic locations based on the location of customers. The company does not have external revenues from external customers that are attributable to any other foreign country other than as shown.

Country	2016 Revenue received from Sale of Crude Oil US\$'000	2015 Revenue received from Sale of Crude Oil US\$'000
Singapore	17,719	19,020
South Korea	14,622	24,883
Thailand	9,266	23,150
Philippines	994	1,321
Total Revenue	42,601	68,374

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

22. Operating Segments - continued

2016

Segment assets, liabilities and capital expenditure were as follows:

Operating Segments			
	Production and Development US\$'000	Exploration and Evaluation US\$'000	Total Operations US\$'000
Segment Operating Assets			
Cash and cash equivalents	30,568	-	
Trade and other receivables	3,761	-	
Inventories	7,444	881	
Oil and gas properties	35,777	-	
Exploration and evaluation assets	-	72,577	
Current tax assets	911	-	
Other current financial assets	56	-	
Other non-current financial assets	18,212	-	
	96,729	73,458	170,187
Reconciliation of segment assets to total assets			
Unallocated assets:			
Cash and cash equivalents			1,406
Trade and other receivables			1,310
Plant and equipment			169
Other non-current financial assets			145
Total Assets			173,217
Segment Operating Liabilities			
31 December 2016	(42,680)	(216)	(42,896)
Reconciliation of segment liabilities to total liabilities			
Unallocated liabilities – other			(86,137)
Total Liabilities			(129,033)
Segment Capital Expenditure			
31 December 2016	-	1,554	1,554
Reconciliation of capital expenditure to total capital expenditure			
Unallocated additions			-
Total Capital Expenditure			1,554

The percentage of the location of non-current assets other than financial instruments for the year ended 31 December 2016 is 96% within the Philippines, and 4% within Indonesia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

22. Operating Segments - continued

2015

Segment assets, liabilities and capital expenditure were as follows:

Operating Segments			
	Production and Development US\$'000	Exploration and Evaluation US\$'000	Total Operations US\$'000
Segment Operating Assets			
Cash and cash equivalents	16,576	39	
Trade and other receivables	12,729	-	
Inventories	3,754	1,332	
Oil and gas properties	57,918	-	
Exploration and evaluation assets	-	71,023	
Current tax assets	1,388	-	
Other current financial assets	51	-	
Other non-current financial assets	17,851	-	
	110,267	72,394	182,661
Reconciliation of segment assets to total assets			
Unallocated assets:			
Cash and cash equivalents			916
Trade and other receivables			1,201
Plant and equipment			236
Other non-current financial assets			147
Total Assets			185,161
Segment Operating Liabilities			
31 December 2015	(54,462)	(204)	(54,666)
Reconciliation of segment liabilities to total liabilities			
Unallocated liabilities – other			(88,495)
Total Liabilities			(143,161)
Segment Capital Expenditure			
31 December 2015	5,058	1,381	6,439
Reconciliation of capital expenditure to total capital expenditure			
Unallocated additions			-
Total Capital Expenditure			6,439

The percentage of the location of non-current assets other than financial instruments for the year ended 31 December 2015 is 96% within the Philippines and 4% within Indonesia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. Share-based Payments

(a) Recognised Share Based Payments Expenses

The expenses recognised for employee services received during the year are as follows:

	Consolidated	
	2016 US\$'000	2015 US\$'000
Share based payments expensed	15	15

(b) Share-based Plans

(i) Performance Rights Plan

There were no performance rights issued to Employees or Directors under Nido's Performance Rights Plan in 2016 (2015: nil). There was also no expense recognised in relation to the Performance Rights Plan in the 2016 financial year (2015: nil).

(ii) Managing Director Performance Rights

Dr Michael Fischer

As a condition of Dr Fischer's employment contract, the Company is required to issue 350,000 fully paid ordinary shares to Dr Fischer as a sign-on and retention bonus subject to Shareholder approval. These shares are to be issued in eight (8) equal tranches of 43,750 shares at six (6) month intervals commencing six (6) months after the commencement of employment on 26 August 2015. For accounting purposes, the grant date of the rights to issue future shares was 6 May 2016, when shareholder approval was obtained at the Company's Annual General Meeting. The service period commenced when Dr Fischer joined the company, with a resulting \$14,920 expensed in the prior financial year for the pro-rata period of total expense. The estimated fair value was revised in 2016 to use the fair value of the retention rights on the actual grant date, resulting in a total of \$15,221 having been expensed in the year ended 31 December 2016.

(c) Sign-on and Retention Bonus

As noted in (b)(ii) as part of the employment contract entered into between Nido Petroleum Limited and Dr Mike Fischer, Nido is required to issue future grants of fully paid Ordinary Shares as a Sign-on and Retention Bonus.

The estimated fair value of these shares was originally determined in the 2015 Annual Report based on market prices prevailing on 31 December 2015. The full fair value of the shares was A\$87,500 being 350,000 at A25c per share at grant date. Note that where the grant date occurs after year end, the estimated value of the grant date is determined at the end of the reporting period being 31 December 2015.

In this context an amount of US\$14,920 (A\$20,592) share based payments expense was recognised for the year ended 31 December 2015 in accordance with Accounting Standard AASB 2 Share Based Payments as the service period had commenced.

Given that the actual grant date was established upon Shareholder approval on 6 May 2016, the fair value of the share based payment has been revised to reflect the fair value of the shares on 6 May 2016. The full fair value of the shares was revised to A\$61,250 being 350,000 at A17.5c per share at actual grant date.

In this context an amount of US\$15,221 (A\$19,849) share based payment expense was recognised for the year ended 31 December 2016 in accordance with Accounting Standard AASB 2 Share Based Payments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24. Auditor's Remuneration

	Consolidated	
	2016 US\$	2015 US\$
The auditor of Nido Petroleum Limited is KPMG.		
Amounts received or due and receivable by KPMG for:		
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	145,790	136,646
• Other services in relation to the entity and any other entity in the consolidated entity (tax and related services)	7,492	4,421
	153,282	141,067

(a) Reconciliation of profit / (loss) from ordinary activities:

	Consolidated	
	2016 US\$'000	2015 US\$'000
Profit / (loss) from ordinary activities after income tax	(17,255)	(31,128)
<i>Adjustments for:</i>		
Depreciation of plant and equipment	117	96
Amortisation of oil and gas properties	21,452	25,526
Impairment of inventory	-	337
Impairment of oil and gas assets	-	19,457
Impairment of exploration assets	-	(335)
Accretion expense	217	313
Net exchange (gains)/losses	(275)	(4,765)
Share based payments	15	15
Exploration expenditure expensed	1,700	2,142
Financing costs	2,157	3,004
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in receivables	9,353	(8,171)
(Increase) / decrease in inventories	(3,239)	6,741
(Increase) / decrease in other assets	466	290
Increase / (decrease) in payables	(2,520)	(221)
Increase / (decrease) in other liabilities	2,293	2,661
Increase / (decrease) in provisions	(6,458)	(7,428)
Net cash from operating activities	8,023	8,534

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

26. Related Parties

(a) Compensation of Key Management Personnel

	Consolidated	
	2016 US\$	2015 US\$
Short-term employment benefits	3,149,476	2,418,067
Post-employment benefits	216,944	193,101
Long-term	(89,428)	12,473
Share based payment	15,221	14,921
	3,292,213	2,638,562

(b) Loans from Related Parties

	Consolidated	
	2016 US\$	2015 US\$
Total Loan Facility with Bangchak Petroleum Public Company Ltd	120,000	120,000
Drawn amount	78,200	88,200
Undrawn amount	41,800	31,800

On 12 December 2014, Nido Petroleum Limited (Nido) entered into a revolving term loan facility for up to US\$120 million with the Bangchak Petroleum Public Company Limited ('Bangchak').

The primary purpose of the debt facility is to fund the acquisition of oil and gas assets approved by Bangchak. Nido has used the facility to acquire Otto Energy Ltd's ('OEL') shares in the Galoc Production Company W.L.L. ('GPC').

The key terms of the debt facility are as follows:

- Facility size: US\$120 million;
- Interest payable is initially 6% per annum plus LIBOR increasing annually by 2% to a maximum rate of 12% plus LIBOR; and
- Maturity date: December 2020 amortising on a semi-annual basis in accordance with the facility available amount.

Nido's Related Party Transactions and Conflicts Committee assessed the arms-length-nature of the loan terms offered by Bangchak. The Committee reviewed the proposed loan terms against the Company's existing debt facility arrangements and other market based terms. In this context the Committee formed the view that the loan terms proposed by Bangchak were at least as favourable to Nido as arm's length terms.

On 15 March 2016 Nido made a principal repayment of \$10 million of the debt facility with Bangchak as part of the restructure of the revolving term loan facility and revised the agreement. Refer to Note 15.

(c) Other transactions

Transactions between related parties included:

- On 31 May 2016 Nido signed a Dubai Fateh crude oil put option contract with Bangchak for 90,000 barrels of crude oil at a strike price of \$47.00 per barrel. The premium paid to Bangchak for the option was \$162,000. The average June 2016 Dubai Fateh oil price was \$46.256 per barrel. Nido exercised the put option and received proceeds of \$66,960 from Bangchak.
- On 9 September 2016 Nido signed a commodity price swap with Bangchak for 90,000 barrels of crude oil at fixed swap price of \$46.20 per barrel. There was no premium paid to Bangchak. The average November 2016 Dubai Fateh oil price was \$43.865 per barrel. Nido exercised the price swap and received proceeds of \$210,150.
- On 6 December 2016 Nido signed a commodity price swap with Bangchak for 80,000 barrels of crude oil at a fixed swap price of \$50.50 per barrel. There was no premium paid to Bangchak. The average January 2017 Dubai Fateh oil price was \$53.717 per barrel. Net proceeds of \$257,360 were paid to Bangchak on 14 February 2017.

There were no transactions with other related parties during the 2016 year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

27. Expenditure Commitments

(a) Exploration Commitments

In order to maintain current rights of tenure to exploration permits, the consolidated entity has certain obligations to perform minimum exploration work and expend minimum amounts of money. These commitments may be varied as a result of renegotiations, relinquishments, farm-outs, sales or carrying out work in excess of the permit obligations. The following exploration expenditure requirements have not been provided for in the financial report and are payable:

	Consolidated	
	2016 US\$'000	2015 US\$'000
Within one year	18,702	61
More than one year but not later than five years	6,000	6,000
	24,702	6,061

(b) Joint Operations Commitments

All of the consolidated entity's commitments arise from its interest in Joint Operations. The consolidated entity's share of expenditures contracted for at the balance date for which no amounts have been provided for in the Financial Statements are payable:

Within one year	4,817	5,079
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(c) Non-cancellable Operating Lease Commitments

The consolidated entity has entered into non-cancellable operating leases for office premises and its Galoc operations FPSO. Commitments are as follows:

Within one year	44,714	44,975
More than one year but not later than five years	8,706	54,284
	53,420	99,259

28. Interests in Joint Arrangements

(a) Joint Operations

Permit	Country	Principal Activity	Average Interest
SC 14 Block C-1	Philippines	Oil production & exploration	55.88%
SC 54A	Philippines	Oil and gas exploration	42.40%
SC 54B	Philippines	Oil and gas exploration	60.00%
SC 58	Philippines	Oil and gas exploration	50.00% ¹

¹ Nido's participating interest in SC 58 is dependent upon the completion of its farm-in obligations under its Farm-in Agreement with PNOC-EC dated 17 July 2006. Nido's obligations include a well commitment in Sub-Phase 3.

The consolidated entity has classified these as joint operations under the terms of the agreements, the consolidated entity has joint control in the arrangement, by virtue of the voting threshold of the Joint Operating Agreement specific to the Service Contract or Production Sharing Contract, which the entity is a party to, being the affirmative vote of two or more parties owning an aggregate of at least 70% for SC 54A and SC 54B, and 75% for SC58. The consolidated entity has determined that it did not have joint control for the other Service Contracts and Production Sharing Contracts not outlined in the above table for which it holds a participating interest in. The Group has accounted for its undivided interest in these arrangements.

The consolidated entity recognises its partners share in all the assets employed in the joint arrangement and are liable for all the liabilities of the joint arrangement, according to their participating share.

(b) Commitments relating to Joint Operations

Capital expenditure commitments and contingent liabilities in respect of the Joint Operations are disclosed in Notes 27 and 30, respectively where applicable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

29. Information relating to Subsidiaries

The consolidated Financial Statements include the Financial Statements of Nido Petroleum Limited and the subsidiaries listed in the following table. The following were controlled entities during the financial year, and have been included in the consolidated Financial Statements. The financial years of all controlled entities are the same as that of the parent entity.

			% of Shares Held	
	Place of Incorporation and Operation	Principal Activities	2016 %	2015 %
Parent Entity:				
Nido Petroleum Limited	Australia			
Subsidiaries:				
Nido Petroleum Philippines Pty Ltd	Australia	Oil and gas exploration	100	100
Nido Petroleum (China) Pty Ltd	Australia	Investment	100	100
Nido Management Pty Ltd	Australia	Investment	100	100
Nido Petroleum Indonesia (Holding) Pty Ltd	British Virgin Islands	Investment	100	100
Nido Petroleum Indonesia (Gurita) Pty Ltd ¹	British Virgin Islands	Oil and gas exploration	100	100
Nido Petroleum Indonesia (Baronang) Pty Ltd	British Virgin Islands	Oil and gas exploration	100	100
Nido Petroleum Indonesia (Cakalang) Pty Ltd	British Virgin Islands	Oil and gas exploration	100	100
Nido Production (Galoc) Pty Ltd ²	British Virgin Islands	Oil production and exploration	100	100
Nido Production (Holding) Pty Ltd ³	British Virgin Islands	Investment	100	100
Galoc Production Company W.L.L. ⁴	Bahrain	Oil production and exploration	100	100
Nido Production (GPC) Pty Ltd	British Virgin Islands	Investment	100	100

¹ Control is via Nido Petroleum Indonesia (Holding) Pty Ltd

² Control is via Nido Production (Holding) Pty Ltd

³ Control is via Nido Petroleum Philippines Pty Ltd

⁴ Refer note 13

Subsidiaries

The only transaction between the parent entity and its subsidiaries was the provision of loan funds during the financial year. There are no restrictions on access to assets and liabilities of the subsidiaries.

30. Contingent Liabilities

(a) Guarantees

Nido Petroleum Limited has provided a letter of undertaking dated 14 November 2006 to the Department of Energy in the Philippines to provide technical and financial support to Nido Petroleum Philippines Pty Ltd in relation to work obligations in the SC 58 Farm In Agreement executed between PNOC Exploration Corporation and Nido Petroleum Philippines Pty Ltd on 17 July 2006.

Nido Petroleum Philippines Pty Ltd has secured a US\$3 million bond in favour of PNOC Exploration Corporation in respect of SC 58. This bond lapsed on 6 August 2016 but Nido Petroleum Philippines Pty Ltd is in the process of renewing it.

Nido Petroleum Philippines Pty Ltd is due to secure a US\$260,000 bond in favour of the Department of Energy to guarantee its moratorium work commitment for SC 54.

Nido Petroleum Limited has provided a parent company guarantee to the Department of Energy in respect of the obligations of Nido Production (Holding) Pty Ltd and Nido Production (Galoc) Pty Ltd.

Nido Petroleum Philippines Pty Ltd has also provided a letter of undertaking to the Joint Operation partners of SC 14 to guarantee the work obligations of Nido Production (Galoc) Pty Ltd under SC 14.

Nido Petroleum Limited has provided Rubicon Offshore International Pte Ltd with a parent company guarantee in the sum of US\$3.75 million guaranteeing the Galoc Production Company WLL's obligations under the FPSO Lease in respect of the Galoc Joint Venture.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30. Contingent Liabilities - continued

(b) Employment Contracts – Change of Control

In the event of a Change of Control, employees, other than officers, who entered into employment contracts prior to 2009 have the option to terminate their employment, in which case the employee will be paid a portion of their remuneration package varying between six months and one year.

As at 31 December 2016, the total amount that would be payable was US\$311,847 (2015: US\$311,188).

31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash, short-term deposits and interest-bearing loans.

The main purpose of these financial instruments is to provide working capital for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency, commodity risk and credit risk. The Board reviews and agrees on policies for managing each of these risks.

Interest Rate Risk

At balance date, the Group's exposure to market risk for changes in interest rates relates primarily to the Company's short-term cash deposits and long term debt obligations with an interest rate which is based on a variable US Libor plus fixed margin interest rate.

The Group constantly analyses its exposure to interest rates, with consideration given to potential renewal of existing positions, the mix of fixed and variable interest rates and the period to which deposits may be fixed. At balance date, the Group had the following cash flow risks arising from financial assets exposed to variable interest rates that are not designated in cash flow hedges:

	Consolidated	
	2016 US\$'000	2015 US\$'000
<i>Financial Assets:</i>		
Cash and cash equivalents	31,974	17,531
Trade and other receivables	4,883	4,601
<i>Financial Liabilities:</i>		
Financial liabilities	78,200	88,200
Net exposure	(41,343)	(66,068)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. The sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical RBA (\$AUD) interest rates and US London Inter-Bank Offer Rate (LIBOR) over the last year. Financial assets which are denominated in AUD include cash and cash equivalents (\$0.3 million) and trade and other receivables (\$0.2 million) while USD denominated balance include cash and cash equivalents (\$31.4 million), trade and other receivables (\$4.7 million) and financial liabilities (\$78.2 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31. Financial Risk Management Objectives and Policies - continued

Interest Rate Risk - continued

At 31 December 2016, if Australian interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity relating to financial assets of the Group would have been affected as follows:

Judgements of reasonably possible movements:

	Consolidated	
	2016 US\$'000	2015 US\$'000
<i>Post tax profit - higher / (lower)</i>		
+ 1.0% (2015: +1.0%)	152	212
- 1.0% (2015: - 1.0%)	(152)	(212)
<i>Equity - higher / (lower)</i>		
+ 1.0% (2015: +1.0%)	-	-
- 1.0% (2015: - 1.0%)	-	-

The 1.0% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical London Inter-Bank Offer Rate (LIBOR) (\$US) movements over the last year. At 31 December 2016, if the interest rate (US Libor plus fixed margin interest rate) applied to the long term borrowings had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity of the Group would have been affected as follows:

Judgements of reasonably possible movements:

	Consolidated	
	2016 US\$'000	2015 US\$'000
<i>Post tax profit - higher / (lower)</i>		
+ 1.0% (2015: +1.0%)	(906)	(1,286)
- 1.0% (2015: - 1.0%)	906	1,286
<i>Equity - higher / (lower)</i>		
+ 1.0% (2015: +1.0%)	-	-
- 1.0% (2015: - 1.0%)	-	-

Foreign Currency Risk

As a result of Nido Petroleum Limited's functional and presentation currency to United States Dollars ("USD") (refer note 1(c)), the Group's balance sheet is no longer affected significantly by movements in the US\$/A\$ exchange rates. The Company does not hedge its balance sheet foreign currency exposure.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The Group manages its foreign exchange risk by constantly reviewing its exposure to commitments payable in foreign currency and ensuring that appropriate cash balances are maintained in both Philippine Peso and Australian Dollars, to meet current operational commitments.

Commodity Price Risk

The Group is exposed to commodity price fluctuations through the sale of crude oil denominated in US dollars. The Group may enter into commodity crude price oil swap and option contracts to manage its commodity price risk.

As at 31 December 2016, the Group had one open oil price swap with Bangchak (2015: nil). Details of the open oil price swap are disclosed in Note 26 (c)(iii).

The company had no option contracts open as at 31 December 2016 (2015: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31. Financial Risk Management Objectives and Policies - continued

Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and other financial assets and guarantees and undertakings. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group trades only with recognised, creditworthy third parties and has adopted a policy of dealing with creditworthy counterparts and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

Cash balances for the Group are held by three major financial institutions who have credit ratings of AA or greater.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Specific concentration of credit risk exists primarily within trade debtors in respect of the sale of oil, as well as cash held by non-operator Joint Operation partners as well as receivables due from Joint Operation partners.

As at 31 December 2016, 100% (2015: 100%) of the consolidated entity's crude oil receivable was owed by Philipinas Shell Petroleum Corporation to the Joint Operation operated by The Philodrill Corporation ("Philodrill") with respect to the purchase of oil derived from the Nido and Matinloc Oil Fields. Philodrill also held cash balances due to the Group and other Joint Operation participants as at 31 December 2016. Given that Philodrill has no history of credit default with the Group no impairment allowance is considered necessary.

Other than the concentration of credit risk described above, the consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the Financial Statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its cash and funding requirements.

The table below reflects all contractually fixed pay-offs for settlement, repayment and interest resulting from recognised liabilities as of 31 December 2016. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 31 December 2016.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated	
	2016	2015
	US\$'000	US\$'000
6 months or less	18,241	23,515
6-12 months	-	-
1-5 years	83,156	88,200
	101,397	111,715

The Group manages its liquidity risk by monitoring on a monthly basis expected cash inflows and outflows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

32. Fair Value Measurements

The following table sets out the group's assets and liabilities that are measured and recognised at fair value:

			Quoted prices in active markets (Level 1) US\$'000	Significant observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000
2016	Date of valuation	Total US\$'000			
Non-recurring					
Assets measured at fair values:					
None	-	-	-	-	-
Recurring					
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings	31-12-2016	78,200	-	78,200	-
2015					
Non-recurring					
Assets measured at fair values:					
None	-	-	-	-	-
Recurring					
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings	31-12-2015	88,200	-	88,200	-

Transfer between categories

There were no transfers between Level 1 and Level 2 during the year (2015: none).

Measurement Techniques

Interest bearing loan and borrowings are measured by discounting cash flows at the market rate of interest.

33. Subsequent Events

The Company has identified the following as events occurring after year end:

1. On 25 January 2017 GPC entered into a drilling rig contract with Golden Close Maritime Corp. Ltd for the drillship "Deepsea Metro I" to drill the Galoc-7/7ST appraisal well on behalf of the Galoc Joint Venture.
2. On 24 February 2017 the Company's wholly owned subsidiary Nido Petroleum Indonesia (Gurita) Pty Ltd advised the Operator of the Gurita PSC, Lundin Gurita B.V. ('Lundin'), of its intention to join Lundin in withdrawing from this PSC, subject to the receipt of any necessary regulatory approvals. The carrying value of capitalised expenditure relating to the Gurita PSC was \$3.176M at 31 December 2016 and all remaining capitalised expenditure at the date of relinquishment will be fully impaired in the first quarter of 2017.

INDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report

To the shareholders of Nido Petroleum Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of the Nido Petroleum Limited.

In our opinion, the accompanying **Financial Report** of Nido Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Consolidated balance sheet as at 31 December 2016
- Consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of Nido Petroleum Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Profession Standards Legislation.

INDEPENDENT AUDITOR'S REPORT



Valuation of capitalised exploration and evaluation ("E&E") expenditure US \$72,577 thousand

Refer to Note 11 to the financial report

The key audit matter	How the matter was addressed in our audit
<p>Assessing the presence of impairment indicators for the capitalised E&E expenditure asset was a key audit matter for us.</p> <p>Capitalised E&E expenditure is a significant asset recorded in relation to the Group's total assets (42%) and relates to activities associated with licenses/permits in The Philippines and Indonesia. The presence of impairment indicators would necessitate a detailed analysis by management of the value of E&E expenditure under relevant accounting standards. Therefore, given the criticality of determining the presence of impairment indicators to the scope and depth of our work, we involved senior team members to challenge management's determination that no impairment indicators existed.</p> <p>The key indicators we focused on were those that may draw into question the commercial continuation of exploration and evaluation activities (activities) for certain licenses/permits (areas) where significant capitalised E&E exists. This involved assessing:</p> <ul style="list-style-type: none"> • The ability of the Group to fund the continuation of activities in the specific areas • Group strategy and intentions for continuation in the specific areas, including assessing the impact of oil price movements to the commercial decision to continue activities in certain areas • Impacts of restriction events or termination events on the continuation of activities, including assessing the specific drilling moratoriums in certain areas, adopted by the Philippines Government. <p>We also assessed whether this impacted the commercial decision to continue to explore the area</p> <ul style="list-style-type: none"> • Management's internal assessments of potential commercial value on certain areas if the licenses/permit were developed or sold, as evidence supporting management's intention to continue activities or as indication of impairment to capitalised E&E expenditure balances. 	<p>For this key audit matter our audit procedures were influenced by the requirements of the specific accounting standard on exploration and evaluation and included:</p> <ul style="list-style-type: none"> • Obtaining corporate and specific area budgets which we compared for consistency to areas with capitalised exploration and evaluation expenditure, for evidence of the ability to fund continued activities • Evaluating Group documents for consistency with management's stated intentions of continuing activities in certain areas. We also corroborated this through interviews with key operational and finance personnel. The documents included: <ul style="list-style-type: none"> • internal management plans • minutes of board and internal management meetings • reports lodged with the relevant government authorities • announcements made by the Group to the ASX • Assessing the impact of oil price movements to management modelling underlying their decision for commercial continuation of activities. We compared this modelling for consistency to our understanding of the Group, derived from our remaining procedures on the audit. We also looked for consistency in the application of the forecast oil prices to a range of published external analysts' sources • Assessing the impact of the drilling moratoriums to the Group's planned activities. We read correspondence with the Philippines Government to understand the impact, and used this knowledge to assess the Group's decision to continue to carry capitalised E&E on these areas, and the consistency of the decision for commercial continuation of activities • Using available external industry information and competitor performance to identify inconsistencies with the Group's commercial intentions. In particular we were looking for indications of carrying amounts not recoverable given our industry knowledge of certain licenses/permits.

INDEPENDENT AUDITOR'S REPORT



Other Information

Other Information is financial and non-financial information in Nido Petroleum Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the 2016 Summary, Chairman's Letter, Operations Review and Directors Report. The remaining other information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

INDEPENDENT AUDITOR'S REPORT



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Nido Petroleum Limited for the year ended 31 December 2016, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 21 to 32 of the Directors' report for the year ended 31 December 2016.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

G-H-77

Graham Hogg
Partner

Perth

21 March 2017

ADDITIONAL SECURITIES EXCHANGE INFORMATION

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is shown below. The information is current as at 17 March 2017.

1. Substantial Shareholders

The names of the substantial shareholders and the number of shares to which they are entitled are, pursuant to notices issued by those entities to ASX Limited:

Name	Number of Shares	Percentage
BCP Energy International Pte Ltd	434,686,685	96.97

2. Distribution of Equity Security Holders

(a) Analysis of equity holders by size of holding.

Size of Holding	Number of Shareholders	Number of Fully Paid Shares
1 – 1,000	219	34,105
1,001 – 5,000	389	1,317,801
5,001 – 10,000	405	3,358,515
10,001 – 100,000	1,430	57,306,323
100,001 and over	476	2,126,249,724
Total	2,919	2,188,266,468

(b) The number of shareholders with less than a marketable parcel is 1,264.

(c) Each ordinary share entitles the holder to one vote.

ADDITIONAL SECURITIES EXCHANGE INFORMATION

Twenty Largest Shareholders as at 17 March 2017

	NAME	TOTAL UNITS	% ISSUED CAPITAL
1.	BCP ENERGY INTERNATIONAL PTE LTD	298,334,604	66.55
2.	BCP ENERGY INTERNATIONAL PTE LTD	113,777,432	25.38
3.	BCP ENERGY INTERNATIONAL PTE LTD	22,574,649	5.04
4.	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	3,574,951	0.80
5.	CITICORP NOMINEES PTY LIMITED	789,581	0.18
6.	TOLTEC HOLDINGS PTY LTD	475,000	0.11
7.	MS PAMELA ANN SMITHAM	431,250	0.10
8.	BONOS PTY LTD	300,000	0.07
9.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	299,870	0.07
10.	MR GEORGE MANIOS	251,500	0.06
11.	TRE PTY LTD <TIME ROAD SUPERANNUATION A/C>	244,000	0.05
12.	J P MORGAN NOMINEES AUSTRALIA LIMITED	221,484	0.05
13.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	167,323	0.04
14.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C>	162,400	0.04
15.	FLITTON PTY LTD	160,369	0.04
16.	LILYFIELD HOLDINGS PTY LTD <LILYFIELD SUPER FUND A/C>	150,000	0.03
17.	DR MICHAEL WILLIAM FISCHER	131,250	0.03
18.	DEAUVILLE INVESTMENTS PTY LIMITED ACN 000 665 378	129,000	0.03
19.	MISS DEBORAH ANNIE MARTIN	120,000	0.03
20.	MRS YINGCHUN WEN	118,022	0.03
	Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)	442,412,685	98.70
	Total Remaining Holders Balance	5,842,273	1.30

3. Retention Rights

As at 17 March 2017, there was one retention rights holder holding 218,750 unlisted retention rights.

GLOSSARY OF TERMS


Bangchak	The Bangchak Petroleum Public Company Limited
Bbl	Barrels
BCPE	BCP Energy International Pte Ltd
Bopd	Barrels of oil per day
Credit Suisse	Credit Suisse AG
DOE	Department of Energy
Dragon Oil	Dragon Oil plc
FPSO	Floating Production Storage and Offtake vessel
FEED	Front-end engineering and design
GCA	Gaffney, Cline and Associates
GPC	Galoc Production Company WLL
Km	Kilometre
KMP	Key Management Personnel
LTI	Long term incentive
Lundin Petroleum	Lundin Petroleum B.V.
M	Millions
MDT	Modular dynamic testing
Merrill Lynch	Merrill Lynch International (Australia) Limited
mmscfd	Million standard cubic feet of gas per day
mmbbl	Million barrels
mmstb	Million stock-tank barrels
Nido	Nido Petroleum Limited
Otto	Otto Energy Limited
Philippines	The Republic of the Philippines
Philodrill	The Philodrill Corporation
Plan	Employee Performance Rights Plan
PNOC	PNOC Exploration Corporation
Proved Reserves ⁽¹⁾	Those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
Probable Reserves ⁽¹⁾	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Possible Reserves ⁽¹⁾	Those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Reserves ⁽¹⁾	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production status.
Raiffeisen Bank	Raiffeisen Bank International AG
RMA	RMA (West Linapacan) Pte Ltd
SC 6B	Service Contract 6B dated 19 September 1973, as amended
SC 14	Service Contract 14 dated 17 December 1975, as amended
SC 54	Service Contract 54 dated 5 August 2005, as amended
SC 58	Service Contract 58 dated 12 January 2006, as amended
SC 63	Service Contract 63 dated 24 November 2006
sq. km.	Square kilometre
stb	Stock-tank barrels
Standard Bank	Standard Bank Plc
STI	Short Term Incentive
STOIIP	Stock –tank oil initially in place
TD	Total depth
TRIFR	Total Recordable Injury Frequency Rate in incidents per million man hours

⁽¹⁾ From Petroleum Resources Management System sponsored by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, Society of Petroleum Evaluation.







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