



# Pan Pacific Petroleum

Results for Announcement to the Market:  
Appendix 4E, Operating and Financial Review, Directors' Report and  
Annual Financial Report

For the year ended 30 June 2017

Pan Pacific Petroleum NL  
ACN 000 749 799  
ABN 69 000 749 799

**PAN PACIFIC PETROLEUM NL**  
**ABN: 69 000 749 799**

**APPENDIX 4E**

**FINANCIAL YEAR ENDED 30 JUNE 2017**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

		<b>June 2017</b>	<b>June 2016</b>	<b>Change</b>		
		<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>		
<b>2.1</b>	<b>Revenue from ordinary activities</b>	4,037	7,222	3,185	down by	44.1%
<b>2.2</b>	<b>Loss after tax attributable to members</b>	(3,266)	(15,076)	11,810	up by	78.3%
<b>2.3</b>	<b>Loss for the period attributable to members</b>	(3,266)	(15,076)	11,810	up by	78.3%

<b>Dividends (distribution)</b>		<b>Amount per security</b>	<b>Australian franked amount per security</b>
<b>2.4</b>	<b>Dividends</b>	-	-
<b>2.5</b>	<b>Record date for determining entitlements to the dividend – N/A</b>		

<b>2.6</b>	<b>Explanation of items 2.1 – 2.3</b>
<b>2.1</b>	<p>Production from the Tui Area Oil Fields contributed to sales revenue recorded of US\$4.0 million during the year. Revenue was lower than in the previous corresponding year due to the sale of W M Petroleum Limited (WMP) with effect from 1 January 2017.</p>
<b>2.2 &amp; 2.3</b>	<p>Loss for the year was US\$3.2 million. Made up of other income of US\$6.3 million in relation to the sale of two subsidiaries from the group (please see paragraph below), additional restoration provisions made in December of US\$2.6 million, and impairment of US\$1.0 million, exploration costs during the period of US\$0.2 million were written-off. Income and royalty taxes expense of US\$3.1 million, the Company's share of Tui operating costs of US\$4.5 million and administration, finance and other costs of US\$2.1 million were also incurred during the period. Cash held at 30 June 2017 was US\$16.4 million equivalent including US\$0.3 million held in the accounts of various joint ventures.</p> <p>The Consolidated entity's operating loss after tax for the year amounted to US\$3.2 million (2016: loss US\$15.0 million). The lower loss recorded was primarily due to a lower impairment of US\$7.2 million in this period compared to 2016, and less exploration expenditure being written off on a successful efforts method between the two periods of US\$0.8 million. In addition, other income of US\$6.3 million was received during the period from the sale of two subsidiaries. A gain of US\$13.1 million was made on the sale of WMP and a loss of US\$6.8 million was incurred on the sale of Pan Pacific Petroleum Vietnam Pty Limited. Production costs were US\$6.2 million lower due to lower amortisation charges as a result of impairment of the asset in 2016 and the reduced time in owning the operation. Administrative and other expenses were US\$0.3 million more than 2016. Volatility of foreign exchange rates between reporting dates resulted in movement of US\$1.4 million compared to the 2016 year. This was offset by less Income from Tui oil sales of US\$4.0 million due to the sale of WMP effective 1 January and an increase in the restoration provision at December of US\$2.6 million. A lower tax expense of US\$0.4 million occurred between the periods as a result of the reversal of deferred tax in connection with the sale of the company's subsidiary WMP.</p>

<b>3</b>	<b>NTA Backing</b>	<b>2017</b>	<b>2016</b>
	Net tangible asset backing per ordinary security	\$0.03	\$0.02

## APPENDIX 4E continued

<b>4</b>	<b>Details of controlled entities</b>	
<b>4.1</b>	<b>Control gained over entities having material market effect</b>	N/A
<b>4.2</b>	<b>Control lost over entities having material market effect</b>	W M Petroleum Limited Pan Pacific Petroleum (Vietnam) Pty Limited
<b>5.</b>	<b>Details of dividends</b>	N/A
<b>6.</b>	<b>Details of dividend reinvestment plans</b>	N/A
<b>7.</b>	<b>Details of associates and joint operation entities</b>	Refer to note 14 relating to joint operations
<b>8.</b>	<b>Foreign entities</b>	Refer to note 31 consolidated entities.
<b>9.</b>	<b>Details of audit status, dispute or audit qualifications</b>	This report is based on financial statements and notes which have been audited refer to unqualified audit opinion on page 50 to 53.

This report should be read in conjunction with the 30 June 2017 Annual Financial Report and ASX announcements.

## **OPERATING AND FINANCIAL REVIEW**

### **Summary of Financial Position**

Cash held at 30 June 2017 was US\$16.4 million equivalent including a small portion of funds held in the accounts of various joint ventures. During the 2017 financial year the Company invested a US\$1.9 million in available for sale investments. As at 30 June 2017 these had a value of US\$2.3 million. A non cash impairment of US\$1.0million in relation to VAT receivable was impaired as the Company exited Joint Venture operations in that country. The sale of two subsidiaries from the group eliminated all exploration costs capitalised and oil and gas assets held. Deferred tax balances and restoration provisions in connection with the sale of WMP were also eliminated.

### **Summary of Financial Performance**

The Consolidated entity's operating loss after tax for the year amounted to US\$3.2 million (2016: loss US\$15.0 million). The lower loss recorded was primarily due to a lower impairment of US\$7.2 million in this period compared to 2016, and less exploration expenditure being written off on a successful efforts method between the two periods of US\$0.8 million. In addition, other income of US\$6.3 million was received during the period from the sale of two subsidiaries. A gain of US\$13.1 million was made on the sale of WMP and a loss of US\$6.8 was incurred on the sale of Pan Pacific Petroleum Vietnam Pty Limited. Production costs were US\$6.2 million lower due to lower amortisation charges as a result of impairment of the asset in 2016 and the reduced time in owning the operation. Administrative and other expenses were US\$0.3 million more than 2016. Volatility of foreign exchange rates between reporting dates resulted in movement of US\$1.4 million compared to the 2016 year. This was offset by less Income from Tui oil sales of US\$4.0 million due to the sale of WMP effective 1 January and an increase in the restoration provision at December of US\$2.6 million. A lower tax expense of US\$0.4 million occurred between the periods as a result of the reversal of deferred tax in connection with the sale of the company's subsidiary WMP.

On 13 June 2017 PPP announced it had entered into a Scheme Implementation Agreement with Zeta Resources Limited (ASX:ZER "Zeta") under which Zeta (or its nominee) will acquire all of the issued share capital of PPP that it does not already own by way of a recommended court approved scheme of arrangement.

### **Review of Operations**

#### **New Zealand PMP 38158**

##### **Tui Area Oil Project**

The Tui Area Oil Fields comprise three accumulations, the Tui, Amokura and Pateke Fields which are processed by the Umuroa, a permanently moored Floating Production Storage and Offloading vessel ("FPSO").

Production from the Tui Area Fields for the first half of the 2017 financial year, excluding fuel oil, was 527,766 barrels (PPP share 79,165 barrels gross of fuel oil), the equivalent of 2,868 barrels per day (bpd) for the period compared with 3,797 bpd averaged throughout 2016. This decline was consistent with ageing oil fields. Cumulative gross production to the end of December 2016 was 39.4 million barrels (gross of fuel oil).

The Company completed the sale of its Tui equity interests on 13 March 2017 with an effective date of 1 January 2017 via the sale of shares of its subsidiary W M Petroleum Limited. PPP made a net payment of US\$5.45 million at the time and PPP's restoration provision of US\$15.5 million was subsequently reversed as the Company was released from the environmental, decommissioning, and abandonment obligations.

## **Vietnam**

### **Block 07/03**

Following the successful further appraisal of CRD (Cá Rồng Đỏ) oil and gas discovery by the drilling of CRD-3X and sidetrack in financial year 2013-14, activities during the current year focused on assessing the commercial viability of the discovery and preparing a Field Development Plan (FDP).

Prior to the transition into field development, PPP evaluated the potential benefits, risks, and costs of this opportunity and considered options to fund the Company's 5% share of the US\$1.1 billion required over the next four years to drill development wells and build infrastructure, targeting first oil and gas production in the second half of 2019.

The Company chose to sell its interests in this marginal project. The Company completed the sale of its Block 07/03 equity interests on 16 June 2017 with an effective date of 1 April 2017. PPP sold all the shares of its subsidiary, Pan Pacific Petroleum (Vietnam) Pty Ltd (PPPV) for US\$5 million. The alternative was for PPP to raise more than four times its market capitalisation and invest its entire capital into a single project where the Company has minimal influence and will be dependent on others to ensure project budgets and schedules are adhered to in order to receive first revenues near the turn of the decade.

### **Block 121**

Following the unsuccessful drilling of the Whale prospect (121-CV-1X) and the inability to secure a farm-in partner to share the costs and risk of drilling an additional well in the licence the Block 121 Joint Venture parties agreed to withdraw from the block. The licence was surrendered on 24 December 2015 with all commitments either fulfilled or exceeded. Throughout the year the Operator has focused on recovering the VAT from the Vietnamese authorities.

## **Joint Petroleum Development Area (Timor-Leste and Australia)**

### **JPDA 06-103**

In 2013 Oilex the operator of JPDA06-103 on behalf of the JV submitted a request to the designated authority, the Autoridade Nacional do Petróleo ("ANP"), to terminate the PSC by mutual agreement in accordance with its terms and without penalty or claim due to concerns associated with uncertainty of the PSC tenure.

The ANP responded to the JV indicating that the request had been rejected and that the PSC would be terminated on 15 July 2015 and a monetary claim sought for payment of the estimated cost of exploration activities not carried out in 2013 and certain local content obligations set out in the PSC. The ANP has subsequently provided notice of termination effective 15 July 2015 with a demand for payment of approximately US\$17m, net US\$2.6m to PPP. The JV has disputed the financial claim and the parties continue to discuss the financial liability of the JV with the aim of reaching an amicable settlement for a lesser amount.

### **Joint Operation Interests**

<b>Permit Reference</b>	<b>Petroleum Basin</b>	<b>PPP Interest %</b>
PMP38158	Taranaki	15.0*
Block 07/03	Nam Con Son	5.0**

\*On 13 March 2017 PPP completed the sale of its interests, effective 1 January 2017

\*\*On 15 June 2017 PPP completed the sale of its interests, effective 1 April 2017

### **Shareholder Note**

As this report confirms significant risk factors exist in the oil and gas business. These factors, largely beyond the control of PPP or the Operator of the drilling operations can affect PPP's underlying business resulting in significant increases in capital costs of drilling oil

wells incurred because of delays due to weather conditions and operational problems during drilling programs. Other influences on the company's business may be exposure to volatility in oil prices, and exchange rates should operational events change. These changes could cause actual results to differ materially than those anticipated.

## DIRECTORS REPORT

The directors present their report together with the financial statements of the Group comprising of Pan Pacific Petroleum NL ("the Company" or "PPP") and its subsidiaries, for the year ended 30 June 2017 and the auditor's report thereon.

### 1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Names, qualifications and independence status	Experience, special responsibilities and other directorships
<p><b>P Sullivan</b> BE, MBA Chairman Non-Executive Director Non-independent</p>	<p><b>Joined the Board on 26 September 2014.</b></p> <p><b>Background:</b> Mr Sullivan is an engineer and has been involved in the management of resource companies for over 20 years. He has specialised in providing strategic corporate, financial and investment advice to companies principally in the resource sector. He has served as a Director for numerous listed and unlisted companies and been closely involved with their development.</p> <p><b>Other Listed Company Directorships held in the last three years:</b> Chairman of Zeta Resources Limited (listed on ASX in 2013), Bligh Resources (appointed July 2017), Panoramic Resources Limited (appointed 2015), Non-executive director of Resolute Mining Limited (appointed 1999), Non-executive director of GME Resources Limited (appointed 1996).</p>
<p><b>G Worner</b> B.E. (Chemical, 1st Class Honours), MBA, GAICD Executive Director Non-independent</p>	<p><b>Joined the Board on 22 June 2015</b></p> <p><b>Background:</b> Mr Worner has more than 25 years' experience in the Oil and Gas industry with more than 22 years working for BP in 3 continents and the last 10 years operating at executive level for BP, New Guinea Energy, and his own specialist management consultancy firm.</p> <p>Mr Worner has led teams and businesses in exploration, trading, refining, and marketing in Europe, the US, Papua New Guinea, New Zealand and Australia. His skills have been developed across technical and commercial disciplines and he has a well-established network in the investment community and the oil and gas industry and is a Graduate of the Australian Institute of Company Directors.</p> <p><b>Other Listed Company Directorships held in the last three years:</b> New Guinea Energy Limited (since 15th July 2015). Cue Energy Limited (since 4th March 2016 and Executive Chairman from 29th March 2016)</p>
<p><b>P Burke</b> <b>LLB</b> Non-Executive Director Independent</p>	<p><b>Joined the Board 22 November 2016</b></p> <p><b>Background:</b> Mr Burke holds a Bachelor of Law degree from the University of Western Australia. He has over 20 years of legal and corporate advisory experience, and has acted as a director and consultant to a large number of ASX small to midcap resources and oil &amp; gas companies over the past 10 years. His legal expertise is in corporate commercial and securities law with an emphasis on capital raisings and mergers and acquisitions. His corporate advisory experience includes identification and assessment of acquisition targets, strategic advice, structuring and pricing, negotiation, funding, due diligence and management of process.</p> <p><b>Other Listed Company Directorships held in the last three years:</b> Mr Burke is currently a director of ASX listed Triton Minerals Limited, ATC Alloys Limited, Bligh Resources Limited, and dual NASDAQ and ASX listed Westwater Resources Inc. In the past three years, Mr Burke has held directorships with Shareroot Ltd (resigned 12 January 2016), Anatolia Energy Limited (resigned 10 November 2016), xTV Networks Limited (resigned 2 February 2015) and Emergent Resources Limited (resigned 31 May 2014).</p>
<p><b>A W Tattersfield</b> M.Com (Auckland) Non-Executive Director Independent</p>	<p><b>Joined the Board on 22 February 2005. Retired from the Board on 22 November 2016</b></p> <p><b>Background:</b> Mr Tattersfield has over 30 years' experience operating retail and construction companies, plus the financing and negotiation of exploration joint venture deals.</p> <p><b>Other Listed Company Directorships held in the last three years:</b> Nil</p>
<p><b>D Morrison</b> MInstD (NZ), BCA(Hons) Non-Executive Director Non-independent</p>	<p><b>Joined the Board on 22 June 2015. Retired from the Board on 22 November 2016</b></p> <p><b>Background:</b> Mr Morrison, based in Wellington, is the General Manager for ICM NZ Limited a subsidiary of ICM Limited, advisor to Zeta Resources Limited. He has extensive investment analysis experience, having worked in stockbroking, investment banking and investment management firms in New Zealand, the United Kingdom, and the United States since 1987. Mr Morrison, is a director of a number of companies and a member of the New Zealand Institute of Directors.</p> <p><b>Other Listed Company Directorships held in the last three years:</b> Nil</p>

## DIRECTORS REPORT continued

### 2. Key Management Personnel (KMP):

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#### Company Secretary as at 30 June 2017.

**Ms K M Ware**

B.Com, CPA, LLB.

Ms Ware joined the Company in 2001 and has held senior financial accounting positions over a variety of different industries including credit reporting and telecommunications. Ms Ware will be made redundant on 25 August 2017.



## DIRECTORS REPORT continued

### 3. Directors' meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year were:

Director	Board Meeting	
	A	B
Mr P Sullivan	11	11
Mr G Worner	11	11
Mr P Burke	7	7
Mr A W Tattersfield	4	4
Mr D Morrison	4	4

A – Number of meetings attended.                      B – Number of meetings held during the time the Director held office during the year

### 4. Remuneration Report - audited

This remuneration report forms part of the Directors' Report. This report:

- describes the Board's policies for determining the remuneration of its directors and Key management personnel;
- discusses the relationship between these policies and the Company's performance; and
- sets out remuneration details for each director and senior executive.

#### 4.1 Directors' remuneration

##### **Remuneration Policy**

The remuneration of non-executive directors for the 2017 year was within the aggregate annual limit of AU\$400,000 (US\$307,102) approved by shareholders at the 2009 Annual General Meeting. The remuneration consists of directors' fees, and superannuation contributions to meet the Company's statutory superannuation obligations. The fees paid to non-executive directors are determined using the following guidelines.

Fees are:

- not incentive or performance based but are fixed amounts;
- determined by reference to the nature of the role, responsibility and time commitment required for the performance of the role; and
- driven by a need to attract a well-balanced Board of individuals with relevant experience and knowledge.
- in accordance with Section 308(3c) of the Corporations Act 2001 (Cth) (Corporations Act)

Directors who perform extra services for the Company or make any special exertions on behalf of the Company may be remunerated for those services in addition to the usual directors' fees.

Non-executive directors are also entitled to be paid their reasonable expenses incurred in the performance of their duties.

##### **Remuneration**

Details of the fees payable (inclusive of superannuation where applicable) to non-executive directors for the financial year and the previous financial year are detailed below.

	Board Chairman AU\$	Member AU\$	Board Chairman US\$	Member US\$
Fees for 2017	65,000	45,000	49,904	34,549
Fees for 2016	65,000	45,000	47,616	32,965

Fees were previously determined in AUD and have not been updated. The fees were converted for USD for reporting purposes at the reporting rate for the year. This may differ to the exchange rate applied at each payment date.

## DIRECTORS REPORT continued

Directors' remuneration for the 2016 and 2017 financial years				
	Year	Directors Fees/Benefits US\$	Super Contribution US\$	Total US\$
<b>Non-Executive Directors</b>				
Mr P Sullivan	2017	49,037	-	49,037
	2016	47,273	-	47,273
Mr P Burke <sup>2</sup>	2017	20,767	-	20,767
	2016	-	-	-
Mr A R Radford <sup>1</sup>	2017	-	-	-
	2016	10,959	1,041	12,000
Mr A W Tattersfield <sup>1</sup>	2017	13,182	-	13,182
	2016	32,727	-	32,727
Mr D Morrison <sup>1</sup>	2017	13,284	-	13,284
	2016	32,727	-	32,727
<b>Executive Director</b>				
Mr G A Worner <sup>3</sup>	2017	31,753	2,196	33,949
	2016	29,888	2,839	32,727
Total	2017	128,023	2,196	130,219
	2016	153,574	3,880	157,454

### Notes:

1. Directors fees for the 2016 and 2017 financial years were apportioned for the period in office for Mr Tattersfield and Mr Morrison who retired 22<sup>nd</sup> November 2016 and Mr Radford retired 12<sup>th</sup> November 2015. For the dates of tenure please see page 7.

2. Mr Burke was also paid additional fees for additional services performed during the year of US\$7,677.

3. Mr Worner is also the principal of wOrner Pty Limited who provides services in order to represent the Company in all Joint Venture matters. The contract between the Company and wOrner Pty Limited is based on normal commercial terms and fees were also reviewed during the year ended 30 June 2017. wOrner Pty Limited was paid a total of US\$241,019 (2016: US\$176,681).

## 4.2 Key management personnel

### Remuneration Policy

The Company aims to attract, motivate and retain a skilled senior executive team of a size and nature commensurate with its current and anticipated activities focused on contributing to PPP's financial, corporate and operating objectives. To do this, the Board;

- offers competitive remuneration packages to attract, motivate and retain skilled personnel;
- where appropriate, links reward through discretionary at-risk performance based short term incentive plans that encourage the alignment of executive performance and shareholder interests; and
- ensures that remuneration reflects the respective roles and responsibilities and performance of its senior executive team.

The Board approves the remuneration package of KMP.

The proportion of fixed and performance based elements of the remuneration of executives is a reflection of individual roles, levels of seniority and degree of responsibility that key personnel have in PPP and market factors.

### Fixed Remuneration

Key management personnel are entitled to a fixed remuneration amount inclusive of the guaranteed superannuation contribution, set out later in the report. This amount is not based upon performance and is determined by the Board and takes account of the role and responsibility of each KMP and relevant industry benchmark data.

## DIRECTORS REPORT continued

### Performance Based Remuneration

#### Short Term Incentive

The CEO's contract was terminated due to cost rationalisation on the 24<sup>th</sup> August 2015 and therefore there was no STI awarded to the CEO in FY 2016.

General discretionary bonuses based on the performance of the Company and of individuals' performance may also be paid to executives other than the CEO from time to time. However, the Company does not usually reward employees by providing discretionary bonuses. During the review period, no key management personnel received a discretionary bonus.

#### 4.3 Employment Agreements – CEO and Key management personnel

Remuneration and other terms of employment for the CEO and Key management personnel are formalised in employment agreements.

The provisions relating to duration of employment, notice periods and termination payments of Key management personnel are as follows:

##### Duration of Employment Contract, Notice Periods and Termination Payments:

- The Company may terminate Key management personnel appointments for cause (for example, for breach of contract) without notice. The Company must pay any amount owing but unpaid to the employee whose services have been terminated at the date of termination, such as accrued leave entitlements.
- Ms Kim Ware, Company Secretary had a 12 week notice period and the Company commenced notice on 26th May 2017. Ms Ware was paid her normal salary and benefits up to her departure date of 25th August 2017 and will receive 12 weeks redundancy pay on top of any outstanding benefits upon cessation of employment.
- All key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The movement during the reporting period in the number of ordinary shares in Pan Pacific Petroleum NL held, directly, indirectly or beneficially, by each key management person, including their related parties as at the date of this report, is as follows:

	Held at 1 July 2016	Purchases	Disposals	Held at 30 June 2017/upon cessation of office
P Sullivan	-	-	-	-
D Morrison	-	-	-	-
G Worner	-	-	-	-
A W Tattersfield*	44,727,327	-	-	44,727,327

	Held at 1 July 2015	Purchases	Disposals	Held at 30 June 2016/ upon cessation of office
P Sullivan	-	-	-	-
D Morrison	-	-	-	-
G Worner	-	-	-	-
A R Radford**	8,442,511	-	-	8,442,511
A W Tattersfield	44,727,327	-	-	44,727,327

\*These shares were held up to 22<sup>nd</sup> November 2016 on cessation of office

\*\*These shares were held up to 12<sup>th</sup> November 2015 on cessation of office

## DIRECTORS REPORT continued

### 4.4 Remuneration of Key Management Personnel of the consolidated entity and the Company.

		Salary & fees US\$	Post-employment superannuation contributions US\$	Long term benefits/ Long service leave	Redundancy entitlements US\$	Total US\$	Proportion of remuneration performance related US\$	Value of options as a proportion of remuneration US\$
Mr T Prudence (CEO) <sup>(1)</sup>	<b>2017</b> 2016	- 50,099	- 4,759	- 820	- -	- 55,678	- -	- -
Ms K M Ware <sup>(2)</sup> (Company Secretary)	<b>2017</b> 2016	<b>193,476</b> 186,727	<b>14,788</b> 14,042	<b>3,224</b> 3,115	<b>45,526</b> -	<b>257,014</b> 203,884	- -	- -
Total	<b>2017</b> 2016	<b>193,476</b> 236,826	<b>14,788</b> 18,801	<b>3,224</b> 3,935	<b>45,526</b> -	<b>257,014</b> 259,562	- -	- -

(1) Salaries paid on a pro-rata basis from 1 July 2015 until the date of cessation of employment on 24th August 2015. Salaries and fees include an annual leave accrual for the period for which Mr Prudence was in office. Annual leave and long service leave entitlements were paid out on cessation of employment.

(2) Salaries and fees include an annual leave and long service leave accrued during the year. Annual leave, long service leave and redundancy entitlements will be paid upon cessation of employment.

## DIRECTORS REPORT continued

### 5. Principal activities

The principal activities of the consolidated entity during the course of the financial year included:

- exploration and appraisal of oil and gas deposits; and
- production and sale of oil.
- divestment of assets.

During 2017 there were two significant changes to the activities of the Company. The Company sold its Tui equity interests on 13 March 2017 with an effective date of 1 January 2017 via the sale of shares of its subsidiary W M Petroleum Limited. PPP made a net payment of US\$5.45 million at the time and PPP's restoration provision of US\$15.5 million was subsequently reversed as the Company was released from the environmental, decommissioning, and abandonment obligations. The Company also sold its interests in Block 07/03. The Company completed the sale 16 June 2017 with an effective date of 1 April 2017. PPP sold all the shares of its subsidiary, Pan Pacific Petroleum (Vietnam) Pty Ltd (PPPV) for US\$5 million.

### 6. Operating and financial review

The consolidated operating loss after tax for the year amounted to US\$3,266,000 (2016: loss US\$15,076,000). Refer to pages 4 to 6 for further details of the Operating and Financial review.

### 7. Objectives and likely developments

On 13 June 2017 the Company announced that they had entered into a Scheme of arrangement with Zeta Resources Limited under which Zeta will acquire all the issued share capital in the Company that it does not already own by way of a recommended court approved scheme of arrangement. The Company during the 2017-2018 financial year the Company will focus on implementing the Scheme.

### 8. Environmental regulations

Based upon the results of the monitoring programme over the past year at the Tui Oil Field, directors are not aware of any significant breaches.

### 9. Events subsequent to reporting date

Other than as disclosed in this report there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

### 10. Directors interests

#### Directors' Interests

The relevant interest of each director in the ordinary share capital of the Company and other related body corporate as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) and 300 (11) of the Corporations Act 2001, at the date of this report is as follows:

Mr P Sullivan	-
Mr P Burke	-
Mr G Worner	-

### 11. Indemnification and insurance of officers

The Company has agreed to indemnify the current directors and officers of the consolidated entity against all liabilities that may arise from their position as directors or officers, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During or since the end of the financial year the Company paid a premium for an insurance policy to protect the directors and officers. This insurance policy prohibits the disclosure of the nature and extent of the liability insured against and the amount of the premium.

## DIRECTORS REPORT continued

Amounts disclosed for remuneration exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance. The premium paid has not been allocated to the individuals covered by the insurance policy as, based on all available information; the directors believe that no reasonable basis for such allocation exists.

### 12. Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

### 13. Non-audit services

During the year Ernst & Young, the Company's auditor, has performed certain other services in addition to its statutory duties. The Board has considered the non-audit services provided during the year by the auditor and, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	2017 US \$
- Tax compliance services	17,238
	<u>17,238</u>

### 14. Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 49 and forms part of the Directors' report for the year ended 30 June 2017.

### 15. Significant changes in state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated financial report.

### 16. Rounding

The Company is of a kind referred to in ASIC Class Order 2016/191 dated 24<sup>th</sup> March 2016 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.



P Sullivan  
25 August 2017

Pan Pacific Petroleum NL and its controlled entities  
**Consolidated Statement of comprehensive income for the year ended 30 June 2017**

	Note	Consolidated	
		2017 US\$'000	2016 (Restated) US\$'000
<b>Continuing operations</b>			
Revenue		-	-
Production and other costs		-	(44)
<b>Gross loss</b>		-	(44)
Other income		384	-
Exploration and evaluation assets expensed/impaired		(33)	(418)
Impairment of receivable		(951)	-
Other expenses		(450)	(305)
Administrative expenses		(1,541)	(907)
<b>Results from operating activities</b>		(2,591)	(1,674)
Financial income		11	249
Financial expenses		(173)	-
<b>Net financing (expense)/income</b>	6	(162)	249
<b>Loss before income tax from continuing operations</b>		(2,753)	(1,425)
NZ royalty benefit	7	-	-
Income tax (expense)/benefit	7	-	(449)
<b>Total tax (expense)/benefit</b>		-	(449)
<b>Loss for the period from continuing operations</b>		(2,753)	(1,874)
<b>Discontinued operations</b>			
Loss before tax for the year from discontinued operations	25	(3,777)	(10,891)
Income tax expense from discontinued operation		(2,982)	(2,311)
Loss after tax for the year from discontinued operations		(6,759)	(13,202)
Post tax gain on disposal of discontinued operation		6,246	-
Loss attributable to members of the Company		(3,266)	(15,076)
<b>Other comprehensive income</b>			
<i>Items that may be re-classified subsequently to profit or loss</i>			
Foreign currency translation of foreign operations		69	(13)
Net (loss)/gain on Available For Sale financial assets		(428)	(354)
<b>Other comprehensive income for the period, net of income tax</b>		(359)	(367)
<b>Total comprehensive loss for the period</b>		(3,625)	(15,443)
<b>Earnings per share from continuing and discontinued operation:</b>			
Basic loss per share - Ordinary share (cents)	19	(0.56)	(2.57)
Diluted loss per share - Ordinary share (cents):	19	(0.56)	(2.57)
<b>Earnings per share from continuing operations</b>			
Basic loss per share - Ordinary share (cents)	19	(0.47)	(0.32)
Diluted loss per share - Ordinary share (cents):	19	(0.47)	(0.32)

The statement of comprehensive income is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 47.

Pan Pacific Petroleum NL and its controlled entities  
**Consolidated Statement of financial position as at 30 June 2017**

	Note	Consolidated	
		2017 US\$'000	2016 (Restated) US\$'000
<b>Assets</b>			
Cash and cash equivalents	17	16,419	18,819
Trade and other receivables	16	275	418
Inventories	15	-	1,787
Available for sale (AFS) investments	13	2,351	841
<b>Total current assets</b>		<b>19,045</b>	<b>21,865</b>
Trade and other receivables	16	-	972
Plant and equipment	10	-	23
Exploration and evaluation assets	11	-	11,331
Oil & gas assets – production	12	-	-
Deferred tax asset	9	-	2,702
<b>Total non-current assets</b>		<b>-</b>	<b>15,028</b>
<b>Total assets</b>		<b>19,045</b>	<b>36,893</b>
<b>Liabilities</b>			
Trade and other payables	23	286	1,259
Employee benefits	21	85	39
Current tax provision – Royalty tax	8	-	133
Provisions	22	900	1,100
<b>Total current liabilities</b>		<b>1,271</b>	<b>2,531</b>
Provisions	22	-	12,963
<b>Total non-current liabilities</b>		<b>-</b>	<b>12,963</b>
<b>Total liabilities</b>		<b>1,271</b>	<b>15,494</b>
<b>Net assets</b>		<b>17,774</b>	<b>21,399</b>
<b>Equity</b>			
Issued capital	18	31,458	31,458
Reserves		4,201	4,560
Retained earnings		(17,885)	(14,619)
<b>Total equity</b>		<b>17,774</b>	<b>21,399</b>

The statement of financial position is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 47.



Pan Pacific Petroleum NL and its controlled entities  
**Consolidated Statement of cash flows for the year ended 30 June 2017**

	Note	Consolidated	
		2017 US\$'000	2016 (Restated) US\$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		4,037	12,711
Cash paid to suppliers and employees		(2,998)	(8,628)
Cash from operations		1,039	4,083
Payments for Exploration and evaluation expenditure		(726)	(2,717)
Interest received		44	111
Restoration expenditure		(78)	-
Tax refunded/(paid) (including NZ royalty tax paid)		(343)	554
<b>Net cash flows (used in)/from operating activities</b>	17	(64)	2,031
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		1	(12)
Development asset refund/(expenditure)		-	525
Redemption from cash collateralisation		-	856
Proceeds from the sale of Subsidiaries	25	5,000	-
Payment on the sale of Subsidiary	25	(5,455)	-
Cash from sale and purchase of AFS investment		(1,900)	933
<b>Net cash flows from/(used in) investing activities</b>		(2,354)	2,302
<b>Cash flows from financing activities</b>			
Share buy back		-	(163)
Dividend income		42	-
<b>Net cash flows from/(used in) financing activities</b>		42	(163)
<b>Net increase/(decrease) in cash and cash equivalents</b>		(2,376)	4,170
<b>Cash and cash equivalents at 1 July</b>		18,819	14,549
Effect of exchange rate fluctuations on cash held		(24)	100
<b>Cash and cash equivalents at 30 June</b>	17	16,419	18,819

The statement of cash flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 47.

Pan Pacific Petroleum NL and its controlled entities  
**Consolidated Statements of changes in equity for the year ended 30 June 2017**

	Issued Capital US\$'000	Retained Earnings US\$'000	Currency Translation Reserve US\$'000	AFS Revaluation Reserve US\$'000	Employee Compensation Reserve US\$'000	Total Equity US\$'000
<b>Consolidated</b>						
Balance at 1 July 2015	31,621	457	4,447	140	340	37,005
<b>Total Comprehensive income for the period</b>						
Loss for the year	-	(15,076)	-	-	-	(15,076)
<b>Other comprehensive income</b>						
<i>Items that may be re-classified subsequently to profit or loss</i>						
Foreign currency translation differences	-	-	(13)	-	-	(13)
Revaluation on available for sale investments	-	-	-	(354)	-	(354)
<b>Total other comprehensive income</b>	-	-	(13)	(354)	-	(367)
<b>Total Comprehensive income for the period</b>	-	(15,076)	(13)	(354)	-	(15,443)
<b>Transactions with owners, recorded directly in equity</b>						
<i>Share buy-back</i>	(163)	-	-	-	-	(163)
<b>Total transactions with owners</b>	(163)	-	-	-	-	(163)
<b>Balance at 30 June 2016</b>	31,458	(14,619)	4,434	(214)	340	21,399
Balance at 1 July 2016	31,458	(14,619)	4,434	(214)	340	21,399
<b>Total Comprehensive income for the period</b>						
Loss for the year	-	(3,266)	-	-	-	(3,266)
<b>Other comprehensive income</b>						
<i>Items that may be re-classified subsequently to profit or loss</i>						
Foreign currency translation differences	-	-	69	-	-	69
Revaluation on available for sale investments	-	-	-	(428)	-	(428)
<b>Total other comprehensive income</b>	-	-	69	(428)	-	(359)
<b>Total Comprehensive income for the period</b>	-	(3,266)	69	(428)	-	(3,625)
<b>Transactions with owners, recorded directly in equity</b>						
<i>Share buy-back</i>	-	-	-	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	-	-
<b>Balance at 30 June 2017</b>	31,458	(17,885)	4,503	(642)	340	17,774

The statement of changes in equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 47.

# Pan Pacific Petroleum NL and its controlled entities

## Notes to the Financial Statements

### 1. Reporting entity

Pan Pacific Petroleum NL (the "Company") is a company domiciled and incorporated in Australia. The Company is a for profit entity for the purposes of preparing financial statements. The address of the Company's registered office is Level 9, 45 Clarence St, Sydney, NSW, 2000. The consolidated financial report of the year ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in joint operations. Prior to the sale of the Company's subsidiary W M Petroleum Limited the entity which held license PMP38158 effective 1 January 2017 and the sale of subsidiary Pan Pacific Petroleum (Vietnam) Pty Limited the entity which held Block 07/03 Vietnam effective 1 April 2017, the Group primarily was involved in petroleum exploration, appraisal and production (see note 11 and 12).

### 2. Basis of preparation

#### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with International Financial Reporting Standards (IFRS's) and interpretations as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the board of directors on 24 August 2017.

#### (b) Basis of measurement

The financial report is prepared on a historical cost basis except for available assets for sale financial assets that have been measured at fair value.

#### (c) Functional and presentation currency

These financial statements are presented in United States dollars, which is the Company's functional currency. See note 3(a) for details of change in functional and presentational currency.

The Company is of a kind referred to in ASIC Class Order 2016/191 dated 24<sup>th</sup> March 2016 and in accordance with that Class Order, all financial information presented in United States dollars has been rounded to the nearest thousand unless otherwise stated.

#### (d) Use of estimates, judgements and assumptions

The preparation of a financial report in conformity with AASB's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates, judgements and assumptions.

Estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Information about critical estimates, judgements and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

#### Note 12 - recoverability of Oil and Gas assets – production and development

The assumptions required to be made in order to assess the recoverability of Oil and Gas assets – development and production, include the future price of oil, future costs of production, an estimated discount rate, rehabilitation of restoration estimates and estimates of oil reserves. Refer to note 12 for assumptions used.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Impairment considerations are performed in accordance with note 3(h).

#### Note 11 – recoverability of Exploration and evaluation assets

The Group's policy for exploration and evaluation expenditure is discussed in note 3(u). The application of this policy requires estimates and assumptions as to future events and circumstances, particularly in relation to 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 exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off in the Statement of comprehensive income.

# Pan Pacific Petroleum NL and its controlled entities

## Notes to the Financial Statements

### 2. Basis of preparation (continued)

#### Note 22 - provision for restoration and rehabilitation obligations

In determining the fair value of the provision, assumptions and estimates are made. We have estimated that the timing of the restoration provision will occur between 1 and 3 years as such we have used a discount rate reflective of that time period. The Company deems that the Government bond rate is an appropriate rate to use in this provision calculation.

#### Note 9 - recoverability of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the 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 the future taxable profits together with future tax planning strategies.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### Note 18 - Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the calculation of depreciation and amortisation charged to the income statement.

### 3. Significant accounting policies

#### (a) Change in Functional and Presentational Currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates. Pan Pacific Petroleum NL adopted the functional currency of its ultimate holding company who reports in US dollar. As a result of the Boards review of costs and downsizing to conserve funds the accounting function has been moved to South Africa to a related party of the ultimate holding company effective 1 July 2016, with all transactions being recorded in US dollars. As a result, Pan Pacific Petroleum NL has determined that the US dollar is the functional currency of the group. The change in functional currency has been applied with effect from 1 July 2016 in accordance with the requirements of the accounting standards.

Following the change in functional currency, Pan Pacific Petroleum NL has elected to change its presentational currency from Australian dollars to US dollars. The Directors believe that changing the presentational currency to US dollars will enhance comparability with its industry peer groups, a majority of which reports in US dollars. The change in presentational currency represents a voluntary change in accounting policy, which has been applied retrospectively.

To give effect to the change in the functional and presentational currency, the assets and liabilities of entities with an Australian dollar functional currency at 30 June 2016 were converted into US dollars at a fixed exchange rate on 1 July 2016 of US\$1:A\$1.3466 and the contributed equity, reserves and retained earnings were converted at applicable historical rates. In order to derive US dollar comparatives, the Australian dollar functional currency assets and liabilities at 30 June 2016 were converted at the spot rate of US\$1:A\$1.3466 on the reporting date, revenue and expenses for the year ended 30 June 2016 were converted at the exchange rates ruling at the rate of the transaction to the extent practicable or the average exchange rates of US\$1:A\$1.3751 for the reporting period, and equity balances were converted at applicable historical rates.

The above stated procedures resulted in the recognition of a foreign currency translation reserve of US\$4.4 million on 1 July 2015. Earnings per share for 30 June 2016 has also been restated in US dollars to reflect the change in the presentational currency.

#### (b) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statement from the date that control commences until the date that control ceases being the effective date.

##### (ii) Joint operations

The Group's interests in unincorporated joint operations are those entities over whose activities the Group has the right to a share of the assets and liabilities of the Joint arrangement. The Groups interest in the unincorporated joint operations are brought to account by including its share of joint operation assets, liabilities and expenses and the groups revenue from the sale of its share of output on a line by line basis, from the date the joint operation commences to the date joint operation ceases.

##### (iii) Transactions eliminated on consolidation

The balances and effects of transactions, between controlled entities in the consolidated financial statements are eliminated in preparing the consolidated financial statements.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 3. Significant accounting policies (continued)

##### (c) Foreign currency

###### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of each controlled entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on retranslation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

##### (d) Financial Instruments

###### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and deposits at call. Cash also includes the Group's share of cash held as participant of joint operations.

Accounting for finance income and expense is discussed in note 3(m).

###### (ii) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

##### (e) Plant and equipment

###### (i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see accounting policy 3(h)).

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other expenses" or "other income" in statement of comprehensive income.

###### (ii) Depreciation

Depreciation is recognised in statement of comprehensive income on a straight line basis over the estimated useful lives of each part of an item of plant and equipment.

	2017	2016
Plant and equipment	18-37.5%	18-37.5%
Fixtures and fittings	18-37.5%	18-37.5%

Depreciation methods, useful lives and residual values are reviewed annually for appropriateness. When changes in estimates are made, adjustments are reflected prospectively in current and future periods only.

###### Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

##### (f) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's Statement of Financial Position.

##### (g) Inventories

Oil and consumables are carried at the lower of cost or net realisable value. Oil inventory costs are allocated on an average basis and include direct production expenses, amortisation and other fixed and variable overhead costs based on normal operating capacity directly related to production activities.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 3. Significant accounting policies (continued)

##### (h) Impairment

###### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, except exploration and evaluation expenditure (see note 3(u)) and tax deferred assets (see note 3(n)), are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Individual assets are grouped for impairment purposes at the lowest level for which there are separately identifiable cash flows. Generally, this results in the Group evaluating its oil and gas assets on a field-by-field basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### (i) Employee benefits

###### *Wages, salaries, annual leave*

Liabilities for employee benefits for wages, salaries, and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided up to the reporting date and, are calculated as undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at reporting date including related on-costs.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

###### *Long service leave*

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the Australian corporate bond rate (2016: Australian corporate bond rate) at balance date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

###### *Superannuation*

The Company contributes to defined contribution superannuation plans. Contributions are recognised as an expense in the Statement of comprehensive income as they are due.

###### *Share-based payment transactions*

The grant date fair value of share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity over the vesting period.

##### (j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

###### *Restoration and Rehabilitation*

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas.

The unwinding of the discount is recorded as an interest charge within finance costs.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 3. Significant accounting policies (continued)

##### (k) Revenue

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST).

##### *Sale of goods*

Sales comprise revenue earned from the provision of petroleum products. Revenue is recognised when title transfers and the risks and rewards of ownership pass to the customer.

##### (l) Lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense and spread over the lease term.

##### (m) Finance income and expenses

Finance income comprises interest income, foreign exchange gains and losses on a net basis. Interest income is recognised as it accrues in the statement of comprehensive income, using the effective interest method.

Finance expenses comprise unwinding of discount on restoration provisions (see accounting policy 3(j)).

##### (n) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

##### *Royalties*

Government royalties are treated as taxation arrangements when they are imposed under Government authority and when the calculation of the amount payable falls within the definition of "taxable profit" for the purposes of AASB 112 – Income taxes. Current and deferred tax is then provided on the same basis as described above. Royalty arrangements that do not meet the criteria for treatment as a tax are recognised on an accruals basis.

##### (o) Goods and services tax

Revenue, expense, assets and liabilities are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO) or the Inland Revenue Department (IRD) (NZ). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO or IRD is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO or IRD are classified as operating cash flows.

##### (p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to an employee.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 3. Significant accounting policies (continued)

##### (q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

##### (r) Investments

###### *Controlled Entities*

Investments in controlled entities are measured in the Company's accounts at cost less any accumulated impairment losses (see note 3(h)).

##### (s) Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method less any impairment.

##### (t) Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest rate method. Trade accounts payable are normally settled within 30-60 days. Initial measurement is at fair value.

##### (u) Exploration and evaluation asset

Exploration and evaluation expenditure costs capitalised represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

- (i) Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- (ii) Exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation expenditure are impaired in the Statement of comprehensive income under the successful efforts method of accounting, during the period that exploration work demonstrates that an area of interest, or any part thereof, is no longer prospective for the economically recoverable reserves or when the decision to abandon an area of interest is made. An area of interest is defined by the Group, as being a permit area, where rights of tenure are current.

Upon technical feasibility and commercial viability of an area of interest, Exploration and evaluation assets for the area of interest is transferred from exploration and evaluation assets to Oil and Gas assets – development.

The recoverability of Exploration and evaluation assets is contingent upon successful development and commercial exploitation, sale of the area of interest, the results of further exploration, agreements entered into with other parties, and also upon meeting commitments under the terms of permits granted and joint operations agreements.



## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 3. Significant accounting policies (continued)

##### (v) Oil and gas assets

###### *Development*

Oil and gas assets development include construction, installation and completion of infrastructure facilities such as pipelines and the cost of development wells.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of comprehensive income during the financial period, in which they are incurred.

No amortisation is provided, in respect of developing assets, until they are reclassified as oil and gas assets – production.

###### *Production*

Production assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced. Expenditure on production areas of interest and any future expenditure necessary to develop proven and probable reserves to meet current commitment under sales contracts, are amortised, as stated below using the production output method, or on a basis consistent with the recognition of revenue. The carrying value is assessed for impairment in accordance with 3(h).

###### *Amortisation*

Once production commences, oil and gas assets are amortised over the life of the proved and probable reserves on a units of production basis. Thus, the economic life of such equipment is dependent on future production and remaining reserves, and therefore varies from project to project.

##### (w) Capitalised borrowing costs

Borrowing costs relating to oil and gas assets under development up to the date of that substantially all activities necessary to prepare the oil and gas asset under development for intended use are complete, are capitalised as a cost of development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate.

##### (x) Share capital

###### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effect. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

##### (y) Financial Assets – Initial recognition and subsequent measurement

###### **Available for sale (AFS) financial investments**

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

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised as Other Comprehensive Income (OCI) and credited in the AFS reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other operating income or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. The Company has implemented trade date accounting for those AFS financial assets that are purchased or sold prior to balance date but settled after balance date.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 3. Significant accounting policies (continued)

##### (z) Impairment of financial assets

###### Available for sale (AFS) financial investments

For AFS financial investments, the Group assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised directly in OCI.

##### (aa) Discontinued operations

The Company will classify a segment or operation as discontinued if it has been disposed of and it represents a major line of business or a geographical area or operation, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in Note 2. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

##### (ab) New and Amended standards and interpretations

The Group applied for the first time standards and amendments which are effective for annual periods on or after 1 July 2016. They did not have a material impact on the annual consolidated financial statements.

A number of new standards, amendments of standards and interpretations have recently been issued but are not yet effective and have not been adopted by the Group as at the financial reporting date.

The group has reviewed these standards and interpretations, and with the exception of the items listed below for which the final impact is yet to be determined, none of the new or amended standards will significantly affect the Group's accounting policies, financial position or performance.

Title	Application date of standard	Summary
AASB 15 Revenue from Contracts with Customers	Periods beginning on or after 1 January 2018	AASB provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures regarding revenue are also introduced.  Effective 1 January 2017, the Group divested W M Petroleum Limited, the entity that held the only revenue stream of the Group, therefore it is expected that there will be no material impact of the above standard to the Group.
AASB 9 Financial Instruments	Periods beginning on or after 1 January 2018	AASB 9 replaces AASB 139 and includes a model for classification and measurement, a single 'expected loss' impairment model and a substantially redesigned approach to hedge accounting.  On adoption of AASB 9, there are no expected material changes in the classification of financial assets and liabilities. Fair value changes resulting from credit risk are not expected to have a significant impact on future results. The introduction of the expected loss impairment model for determining credit provisions is not expected to have a material impact.

## 4. Financial risk management

### Overview

The Group have exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

### Risk Management Framework

The Board is responsible for the identification and management of financial and other business risks in accordance with the Company's risk management policy, while the Board of directors has overall responsibility for approving the Company's risk management strategy and framework, and monitoring its effectiveness. There is no separate risk management committee.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The forecast financial position of the Group is continually monitored and derivative financial instruments can be used to hedge exposure to fluctuations in commodity prices. The Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, available for sale financial assets, derivative instruments and joint operations.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represent the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained. At 30 June 2017 the Group has recognised US\$951k impairment losses for trade receivables (2016: nil).

The Group does not hold any credit derivatives to offset its credit exposure.

#### Joint operations

Credit risk also arises from the financial performance of the joint operation participants with which the Group is involved. If a participant to a joint operation defaults and fails to contribute its share of joint operation obligations, the remaining joint operation participants are liable to meet the obligations of the defaulting participant. In this event the interest in the tenement of the defaulting participant may be redistributed to the remaining participants.

### Liquidity risk

Liquidity risk is the risk that the Group and companies within the Group will not be able to meet their financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of directors. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities through the monitoring of future rolling cash flow forecasts, including those from Joint Operations. These reflect management's expectations of the settlement of financial assets and liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. This is covered by Group's business interruption insurance. Refer to note 24 for maturity analysis.

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Currency risk

The Group is exposed to currency risk on corporate costs. Corporate costs are denominated in a currency that is the functional currency within a subsidiary within the Group, primarily the Australian Dollar (AUD). There is currency risk exposure on the Australian Dollar (AUD) corporate costs and

## Pan Pacific Petroleum NL and its controlled entities

### *Notes to the Financial Statements*

statutory obligations occurring in entities with an AUD functional currency.

#### **4. Financial risk management (continued)**

The following measures are taken to reduce the Group's foreign currency exposure:

- surplus funds are held in a mixture of both United States and Australian Dollars;
- to meet other foreign currency obligations, the Group purchases foreign currency as the obligations accrue.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term requirements.

#### Commodity prices

The Group is exposed to movements in commodity prices, primarily movements in the oil price. From time to time the Group enters into put options to provide downside protection against any substantial fall in oil prices. From time to time the Group offsets the cost of put options by selling call options. The call option contracts are cash settled where an obligation arises.

#### Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash holdings (refer note 17).

Please refer to note 24 for further information about Financial Instruments.

#### **Capital Management**

Capital includes issued capital attributable to the equity holders of the Company of US\$31,458,000 - 581,842,846 shares (2016: US\$31,458,000 - 581,842,846 shares). Please refer to note 18 for further information.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of directors monitors the balance sheet, the statement of comprehensive income, cash flows and cash forecasts on a regular basis.

There were no changes in the Group's approach to capital management during the year.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 5. Operating Segments

The chief operating decision maker considers the business from both a product and a geographic perspective and on this basis has identified four reportable segments. For each reportable segment, the chief operating decision maker reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the consolidated entity's reportable segments:

- Australia - parent entity;
- New Zealand – exploration, production and sale of petroleum products in New Zealand
- Vietnam – exploration of petroleum products in Vietnam
- Joint Production Development Area (“JPDA”) – exploration of petroleum products in JPDA

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit after income tax and exploration expenditure as included in the internal management reports that are reviewed by the Group's CEO. The above criteria is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Comparative segment information has been represented in conformity with the requirement of AASB 8 *Operating Segments*.

	Australia <sup>(2)</sup>		Vietnam <sup>(3)</sup>		JPDA		Total continuing operations		New Zealand – Discontinued <sup>(1)</sup>		Vietnam - Discontinued <sup>(2)</sup>		Total operations	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	US	US	US	US	US	US	US	US	US	US	US	US	US	US
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
External revenue	-	-	-	-	-	-	-	-	4,037	7,222	-	-	4,037	7,222
Other Income	31	-	-	-	353	-	384	-	-	749	-	-	384	749
Segment revenue	31	-	-	-	353	-	384	-	4,037	7,971	-	-	4,421	7,971
Operating result	(1,483)	(835)	(989)	(408)	(119)	(432)	(2,591)	(1,675)	(3,361)	(3,313)	(620)	(682)	(6,572)	(5,670)
Gain/loss before financing costs	(1,483)	(835)	(989)	(408)	(119)	(432)	(2,591)	(1,675)	(3,361)	(3,313)	(620)	(682)	(6,572)	(5,670)
Financial Income	11	237	-	-	-	13	11	250	202	1,430	-	4	213	1,684
Financial Expense	(154)	-	(2)	-	(17)	-	(173)	-	10	(188)	(8)	-	(171)	(188)
Segment profit before tax	(1,626)	(598)	(991)	(408)	(136)	(419)	(2,753)	(1,425)	(3,149)	(2,071)	(628)	(678)	(6,530)	(4,174)
NZ Royalty Tax	-	-	-	-	-	-	-	-	(339)	4,240	-	-	(339)	4,240
Income Tax expense	-	(449)	-	-	-	-	-	(449)	(2,643)	(6,551)	-	-	(2,643)	(7,000)
Segment result	(1,626)	(1,047)	(991)	(408)	(136)	(419)	(2,753)	(1,874)	(6,131)	(4,382)	(628)	(678)	(9,512)	(6,934)
Impairment of Oil and	-	-	-	-	-	-	-	-	-	(8,142)	-	-	-	(8,142)

Pan Pacific Petroleum NL and its controlled entities  
**Notes to the Financial Statements**

Gas asset														
Gain/loss on disposal of assets	-	-	-	-	-	-	-	-	13,071	-	(6,825)	-	6,246	-
Loss attributable to members of the Company	(1,626)	(1,047)	(991)	(408)	(136)	(419)	(2,753)	(1,874)	(6,131)	(12,524)	(7,453)	(678)	(3,266)	(15,076)
Segment assets – current	18,767	2,505	1	955	8	(343)	18,776	3,117	6	19,532	244	169	19,026	22,818
Non current	19	42	-	-	-	-	19	42	-	2,708	-	11,325	19	14,075
Total assets	18,786	2,547	1	955	8	(343)	18,795	3,159	6	22,240	244	11,494	19,045	36,893
Segment liabilities – current	57,190	55,719	(16,213)	(16,175)	(21,492)	(21,004)	19,485	18,540	-	(1,519)	(20,756)	(19,552)	(1,271)	(2,531)
Non current	-	-	-	-	-	-	-	-	-	(12,963)	-	-	-	(12,963)
Total liabilities	57,190	55,719	(16,213)	(16,175)	(21,492)	(21,004)	19,485	18,540	-	(14,482)	(20,756)	(19,552)	(1,271)	(15,494)

- (1) The divestment of subsidiary W M Petroleum Limited, which represented the entire NZ segment effective 1 January 2017 and is disclosed as a discontinued operation in note 25.
- (2) The loss on sale of divestment of Pan Pacific Petroleum Vietnam Pty Limited is disclosed entirely in the Australian Segment
- (3) The post-tax gain on divestment of both subsidiaries of \$6,256,000 is disclosed on the face on the consolidated income statement. Please refer to note 25 for more detail. Includes cost relating to discontinued operation, refer note 25.

Pan Pacific Petroleum NL and its controlled entities  
**Notes to the Financial Statements**

**6. Financial income / (expense)**

	Consolidated	
	2017	2016
	US\$'000	(Restated) US\$'000
<b>Recognised in statement of comprehensive income</b>		
Interest income		
- external	44	110
Net realised and unrealised foreign exchange gain	179	1,575
<b>Financial income</b>	<b>223</b>	<b>1,685</b>
Finance fees	(10)	(1)
Unwinding of discount	-	(187)
Net realised and unrealised foreign exchange loss	(171)	-
<b>Financial expenses</b>	<b>(181)</b>	<b>(188)</b>
<b>Net financing income</b>	<b>42</b>	<b>1,497</b>

**7. Income tax expense**

	Consolidated	
	2017	2016
	US\$'000	(Restated) US\$'000
<b>(a) NZ royalty expense</b>		
Royalty payable	(339)	(376)
Origination and reversal of royalty temporary differences	(2,643)	4,617
Total NZ royalty tax benefit/(expense)	(2,982)	4,241
<b>(b) Income tax expense</b>		
Recognised in the Statement of comprehensive income		
<b>Current tax expense</b>		
Current year	-	-
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	-	(7,000)
Total income tax benefit in statement of comprehensive income	-	(7,000)
<b>Numerical reconciliation between tax expense and pre-tax net loss</b>		
Loss before income tax	(284)	(12,317)
Income tax benefit using the domestic corporation tax rate of 30% (2016: 30%)	85	3,695
(Increase)/decrease in income expense due to:		
Effect of change in tax rate in foreign jurisdiction	(198)	(204)
Foreign currency translation	112	638
Unrecognised deferred tax	88	(3,121)
Other	349	290
Royalty tax deductible	95	159
Effect of tax losses not previously brought to account - Revenue	(529)	(3,950)
Deferred balances derecognised	-	(4,475)
Income assessable on capital account	(2)	(32)
Income tax under provided in prior year	-	-
<b>Income tax expense</b>	<b>-</b>	<b>(7,000)</b>
<b>Comprising:</b>		
<b>Continuing operations:</b>		
Tax expense	-	(449)
<b>Discontinuing operation</b>		
Tax expense	(2,982)	(2,311)

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**Notes to the Financial Statements**

**8. Current tax provision**

	Consolidated	
	2017 US\$'000	2016 (Restated) US\$'000
Balance at 1 July	(133)	862
Tax expense during the period recognised in other comprehensive income	(339)	(377)
net payments	472	627
Tax refund	-	(1,180)
Less foreign exchange movement	-	(65)
Balance at 30 June	-	(133)
Income tax receivable	-	-
Royalty tax payable	-	(133)
Balance at 30 June	-	(133)

**9. Deferred tax assets and liabilities**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
	2017 US\$'000	2016 (Restated) US\$'000	2017 US\$'000	2016 (Restated) US\$'000	2017 US\$'000	2016 (Restated) US\$'000
Royalty tax (liability)/asset	-	2,702	-	-	-	2,702
Employee benefits	-	-	-	-	-	-
Sundry items	-	-	-	-	-	-
<b>Tax assets / (liabilities)</b>	-	2,702	-	-	-	2,702
Set off of tax	-	-	-	-	-	-
<b>Net tax assets</b>	-	2,702	-	-	-	2,702

2016: deferred tax asset \$2,702,000, relates to New Zealand tax royalty.

	Consolidated	
	2017 \$'000	2016 \$'000
<b>Unrecognised deferred tax assets</b>		
Deferred tax assets have not been recognised in respect of the following items:		
Tax losses – Australia (i)	7,306	6,927
Tax losses – Vietnam (Block 07/03) (ii)	-	5,371
Tax losses - New Zealand (iii)	-	4,725

- (i) These items are not recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits and there is certain criteria which is required to be met for their future utilisation. These losses are in AUD.
- (ii) These losses are no longer recorded as Block 0703 Vietnam was sold effective 1 April 2017. These losses are in USD.
- (iii) These losses are no longer recorded as W M Petroleum Limited was sold effective 1 January 2017 see note 25 for further information. These losses are in NZD

In addition the Australian tax consolidated group has capital losses of \$1,106,000 (2015:\$1,109,000 (tax effected)) which have not been brought to account as a deferred tax asset as certain criteria are required to be met for their future utilisation.



## 10. Plant and Equipment

	Consolidated US\$'000
<b>At cost</b>	
Balance at 1 July 2015	340
Additions	1
Disposals	-
Balance at 30 June 2016	341
Balance at 1 July 2016	341
Additions	-
Disposals	(341)
Balance at 30 June 2017	-
<b>Accumulated depreciation</b>	
Balance at 1 July 2015	299
Depreciation charge for the year	19
Disposals	-
Balance at 30 June 2016	318
Balance at 1 July 2016	318
Depreciation for the year	23
Disposals	(341)
Balance at 30 June 2017	-
<b>Carrying amount</b>	
Balance at 1 July 2015	41
Balance at 30 June 2016	23
Balance at 1 July 2016	23
Balance at 30 June 2017	-

## 11. Exploration and evaluation assets

	Consolidated 2017 US\$'000	2016 (Restated) US\$'000
Balance at the beginning of the year	11,331	9,958
Expenditure incurred during the period	726	2,362
Discontinued operations sold	(11,831)	-
Expensed during the year	(226)	(989)
Balance at the end of the year	-	11,331

During the year \$226,000 was expensed in respect of ongoing operations, (2016:\$989,000) was expensed in respect to exploration and evaluation assets with low likelihood of future development and commercial exploitation. Please refer to note 25 discontinued operations.

Effective 1 April 2017 the Group completed the sale of its subsidiary, Pan Pacific Petroleum (Vietnam) Pty Limited (PPPV), the Company that held a 5% interest in Block 07/03 located in the Nam Con Son Basin in the South China Sea to Repsol Exploration S.A for \$5,000,000. Following the reversal of net assets \$11,825,000 the net loss on sale was \$6,825,000

## 12. Oil and gas assets – production

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Balance at the beginning of the period	-	13,078
Expenditure refund	-	(523)
Additional restoration provision	-	336
Amortisation	-	(4,749)
Impairment	-	(8,142)
Balance at the end of the year	-	-

Effective 1 January 2017 the Group sold WM Petroleum Limited the entity that held the oil and gas production asset. Please refer to note 25.

### Impairment - 2016

The observable inputs for 30 June 2016 include:

- The Brent oil price (real) adjusted for a premium the range used is \$US42.5/bbl to \$US46.50/bbl and long term price of US\$58/bbl over the remaining life of the field.
- The foreign exchange rate used was \$AUD: USD 1.3466.
- Proved and probable (2P) reserves - the cash flow projections are based on the remaining life of field expected production profile. Life of field production used in impairment analysis is that same as that used by the board in key business planning.
- Inflation 2.5%

## 13. Available for sale (AFS) investments

	Consolidated	
	2017	2016
	US\$'000	(Restated) US\$'000
Investment - Listed entities	2,351	841

### Note

There was US\$428,000 (2016:US\$354,000) recognised in OCI in respect of the AFS and US\$31,000 (2016:US\$51,000) recognised through the Comprehensive income statement.

The Company invests in listed investments to take advantage of undervalued companies in the market, during the period the Company acquired and disposed of listed investments.

### Fair value

The Company has three methods available to it for estimating the fair value of financial instruments. The methods comprise:

Level 1 - the fair value is calculated using quoted prices in active markets.

Level 2 - the fair value is estimated using inputs other than quotes prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the listed investments was calculated using the level 1 method. The carrying values of financial assets and financial liabilities recorded in the financial statements approximates their respective net fair values, determined in accordance with the accounting policies disclosed in note 2 to the annual financial statements.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

#### 14. Interest in joint operations

The Group has interests in unincorporated joint operations established to explore, develop and produce petroleum products, as follows:

Joint Operations	Note	Percentage Interest	
		2017 Consolidated %	2016 Consolidated %
PMP38158 New Zealand	(i)	-	15.0
Block 07/03 Vietnam	(ii)	-	5.0
JPDA 06-103 Timor Leste	(iii)	-	-

The joint operations are not separate legal entities. They are contractual arrangements between the participants for the sharing of costs and output and do not in themselves generate revenue or profit.

#### Notes:

- (i) The Company sold its subsidiary W M Petroleum Limited the entity which held license PMP38158 effective 1 January 2017. Please refer to note 25.
- (ii) The Company sold its subsidiary Pan Pacific Petroleum (Vietnam) Pty Limited the entity which held Block 07/03 Vietnam effective 1 April 2017. Please refer to note 25.
- (iii) The Autoridade Nacional do Petróleo of Timor-Leste ("ANP"), the Designated Authority terminated the JPDA 06-103 PSC on 15 July 2015. Please refer to note 29 for further information about contingencies.

#### 15. Inventories

	Consolidated 2017 US\$'000	2016 (Restated) US\$'000
Oil inventory at cost	-	1,787

#### 16. Trade and other receivables

	Consolidated 2017 US\$'000	2016 (Restated) US\$'000
<b>Current</b>		
Receivables	-	-
Security deposit	19	-
Other debtors	256	418
	<b>275</b>	<b>418</b>
<b>Non-current</b>		
Security deposit	-	20
Receivables	951	952
Impairment of receivable	(951)	-
	<b>-</b>	<b>972</b>

#### Notes:

- (i) Following the unsuccessful drilling of the Whale prospect (121-CV-1X) the licence was surrendered on 24 December 2015. The Operator focused on recovering the VAT from the Vietnamese authorities during the year but given the uncertainties around recovery, the receivable has been impaired.

Pan Pacific Petroleum NL and its controlled entities  
**Notes to the Financial Statements**

**17. Cash and cash equivalents**

	Consolidated 2017 US\$'000	2016 (Restated) US\$'000
Cash - at bank	16,411	18,583
- held by joint operations	8	236
Cash and cash equivalents in the statement of cash flows	<u>16,419</u>	<u>18,819</u>

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	Consolidated 2017 US\$'000	2016 (Restated) US\$'000
<b>Reconciliation of cash flows from operating activities</b>		
<b>Cash flows from operating activities</b>		
Loss for the period	(3,266)	(15,706)
<i>Adjustments for:</i>		
Depreciation	23	19
Amortisation	-	5,297
Unrealised exchange (loss)/gain	35	(933)
Impairment of exploration expenditure	1,177	989
Impairment of assets	-	8,142
Dividends received	(42)	-
Payment on sale of WMP	5,455	-
Loss on sale of shares sold	30	-
Loss on sale of Subsidiary - PPPV	6,825	-
<b>Operating profit before changes in working capital and provisions</b>	<b><u>10,237</u></b>	<b><u>(2,192)</u></b>
Movement in receivables	164	5,640
Movement in assets held for sale	(731)	51
Movement in payables	(973)	(1,717)
Movement in inventory	1,787	(467)
Movement in tax provisions	(133)	1,181
Movement in deferred tax	2,702	2,137
Movement in restoration provision	(13,112)	186
Movement in provisions, other than restoration	(51)	300
Movement in oil & gas asset	-	(2,938)
Employee benefits	46	(150)
<b>Net cash flow from operating activities</b>	<b><u>(64)</u></b>	<b><u>2,031</u></b>

Note:

Working capital balances are subject to foreign exchange revaluations; this non cash movement has been included from the reconciliation above.

## 18. Capital and reserves

	Company	
	2017	2016 (Restated)
	US\$'000	US\$'000
581,942,846 (2016: 581,942,846) ordinary shares, fully paid	31,458	31,458

### Issued Capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During 2016 the Company bought back 6,669,264 shares under an on-market share buyback for \$163,000. On 22<sup>nd</sup> December 2015 pursuant to the buyback these shares were cancelled.

As at the date of this report, there were no unissued ordinary shares under option.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation of the reporting currency.

### Equity compensation reserve

The equity compensation reserve represents the fair value of options issued under contract of employment; the reserve will be transferred to paid up capital upon the exercise of share options.

### Dividends

There were no dividends issued during the year.

There are no further dividends proposed by the directors for 2017 (2016: Nil)

### Dividend franking account

The Company has no Australian dividend franking credits.

The Group has no NZ imputation credits.

### Available for sale revaluation reserve

The investment revaluation reserve records the unrealised gain or loss on the fair value of the investment at each reporting period. The reserve will be reversed once the investment is sold.

## 19. Loss per share

	Consolidated	
	2017	2016
	US\$'000	(Restated) US\$'000
<b>Earnings used in calculating earnings per share</b>		
Basic and diluted loss – from continuing operations	(2,753)	(1,874)
Basic and diluted loss – from continuing and discontinuing operations	(3,266)	(15,076)
Loss for the year does not differ for the calculation of basic or diluted earnings per share.		
<b>Weighted average number of ordinary shares used as the denominator</b>		
Issued ordinary shares at 1 July	581,942	581,942
Weighted average number of ordinary shares at 30 June - basic	581,942	581,942
Weighted average number of ordinary shares at 30 June - dilutive	581,942	581,942
Basic loss per share (cents) from continuing and discontinuing operations	(0.56)	(2.57)
Dilutive loss per share (cents) from continuing and discontinuing operations	(0.56)	(2.57)
Basic loss per share (cents) from continuing operations	(0.47)	(0.32)
Dilutive loss per share (cents) from continuing operations	(0.47)	(0.32)

There were no options on issue at the end of the period. (2016: Options on issue did not have a dilutive effect).

## 20. Loans and borrowings

The group currently has no loans and borrowings or line of credit facilities (2016: nil). For more information about the Group's exposure to interest rate and foreign currency risk, see note 24.

## 21. Employee benefits

	Consolidated	
	2017	2016
	US\$'000	(Restated) US\$'000
<b>Current</b>		
Liability for annual leave	30	37
Liability for long service leave	9	2
Liability for redundancy payments	46	-
Total employee benefits current	85	39

**Note:**

The Group makes contributions to various third party defined contribution superannuation schemes. The amount recognised as an expense was US\$16,454 for the year ended 30 June 2017 (2016: US\$29,091).

## 22. Provisions

	<b>Consolidated 2017 US\$'000</b>
<b>Consolidated</b>	
Balance at 1 July 2016	14,063
Provisions made during the year	2,924
Unwind of discount	(167)
Expenditure incurred	78
Provisions de-recognised	(15,998)
Balance at 30 June 2017	900
<b>Current</b>	<b>900</b>

### Restoration and Rehabilitation

The restoration and rehabilitation provision was de-recognised during the year as part of the Sale of one of the Groups subsidiaries W M Petroleum Limited. Please see note 25.

## 23. Trade and other payables

	<b>Consolidated 2017 US\$'000</b>	<b>2016 (Restated) US\$'000</b>
<b>Current</b>		
Trade creditors	286	1,259
	286	1,259

## 24. Financial instruments

### Credit Risk

#### Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	<b>Consolidated Carrying amount 2017 US\$'000</b>	<b>2016 (Restated) US\$'000</b>
Other receivables	275	1,388
Cash and cash equivalents	16,419	18,819
Investments	2,351	841
<b>Total</b>	<b>19,045</b>	<b>21,048</b>

The Group manages its credit risk on trade receivables by dealing with only large, reputable customers. At balance date credit risk is concentrated to a single customer. The Group does not consider there to be any impairment indicators held with this customer. The Group's credit risk is limited to the carrying value of its financial assets. None of the Group's receivables are past due (2016: is consistent with 2017).

As at 30 June 2017 there was no material exposure to credit risk in relation to cash held by banks as \$1,949,534 was held with Australian Financial Institutions rated AA- with the remaining balances held in New Zealand of \$16,632,784 with institutions rated AA-. \$235,983 was held in the accounts of joint operations.

#### Impairment losses

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due (2017: No impairment was required).

Pan Pacific Petroleum NL and its controlled entities  
**Notes to the Financial Statements**

## 24. Financial instruments (continued)

### Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments.

30 June 2017

	Total UUS\$'000	Payables ageing analysis between				
		6 mths or less UUS\$'000	6-12 mths UUS\$'000	1-2 years UUS\$'000	2-5 years UUS\$'000	5 years or more UUS\$'000
<b>Consolidated</b>						
Trade and other payables	286	286	-	-	-	-
Total payables	286	286	-	-	-	-

	Total UUS\$'000	Payables ageing analysis between				
		6 mths or less UUS\$'000	6-12 mths UUS\$'000	1-2 years UUS\$'000	2-5 years UUS\$'000	5 years or more UUS\$'000
<b>Consolidated</b>						
Trade and other payables	1,259	1,259	-	-	-	-
Total payables	1,259	1,259	-	-	-	-

### Currency risk

#### Exposure to currency risk

The Group's exposure to foreign exchange risk at balance date was as follows, based on notional amounts:

#### Amounts in AUD

	Consolidated	
	2017 AUDUS\$'000	2016 AUDUS\$'000
<b>Financial Assets</b>		
Cash and cash equivalents	548	179
Trade receivables	-	-
Other receivables	39	750
<b>Financial Liabilities</b>		
Payables	(283)	(296)
Provisions	(68)	(139)
	236	494

#### Amounts in NZD

	Consolidated	
	2017 NZUS\$'000	2016 NZUS\$'000
<b>Financial Assets</b>		
Cash and cash equivalents	-	2,619
Other receivables	-	669
<b>Financial Liabilities</b>		
Payables	-	(78)
	-	3,210

The following exchange rates applied during the year:

	Average rate		Reporting rate	
	2017	2016 (Restated)	2017	2016 (Restated)
USD:AUD	1.3265	1.3751	1.3025	1.3466
USD:NZD	1.4038	1.4963	1.3651	1.4124



## 24. Financial instruments (continued)

### Sensitivity analysis

The following table summarises the sensitivity of financial instruments held at balance date to movement in the exchange rate of the United States dollar to the AU, and NZ dollar, with all other variables held constant.

		Impact on Profit and Loss Consolidated	
		2017 US\$'000	2016 US\$'000
USD/AUD +5%		10	5
USD/AUD -5%		(10)	(5)

		Impact on Equity Consolidated	
		2017 US\$'000	2016 US\$'000
USD/AUD +5%		(100)	(13)
USD/AUD -5%		100	13

		Impact on Profit and loss Consolidated	
		2017 US\$'000	2016 US\$'000
USD/NZD +5%		17	90
USD/NZD -5%		(17)	(90)

### Commodity price risk

The Group's revenues are exposed to commodity price fluctuations, in particular oil prices. There are no financial assets or liabilities impacted by commodity price risk.

### Interest rate risk

The financial instruments exposed to interest rate risk are as follows:

	Consolidated	
	2017 US\$'000	2016 US\$'000
<b>Financial Assets</b>		
Cash and cash equivalents	16,419	18,819
	<u>16,419</u>	<u>18,819</u>

### Sensitivity analysis

The estimated impact of a change of 100 basis points in interest rates would have increased or decreased the Groups profit or loss by \$176,000 (2016:\$ 178,000).

Pan Pacific Petroleum NL and its controlled entities  
**Notes to the Financial Statements**

## 24. Financial instruments (continued)

### Fair values of financial assets and liabilities

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Consolidated			
	2017		2016	
	Carrying amount US\$'000	Fair Value US\$'000	Carrying amount US\$'000	Fair Value US\$'000
Other receivables	275	275	1,370	1,370
Cash equivalents	16,419	16,419	18,819	18,819
Available for sale investments	2,351	2,351	841	841
Trade and other payables	(286)	(286)	(1,259)	(1,259)
	<b>18,759</b>	<b>18,759</b>	<b>19,771</b>	<b>19,771</b>

The carrying values of all other financial assets and liabilities are estimated to approximate fair value because of their short maturity.

## 25. Discontinued Operations

Effective 1 January 2017, the Group sold its subsidiary W M Petroleum Limited (WMP), the Company that owns 15 percent interest in the Tui area oil fields off Taranaki, New Zealand and Tamarind Classic Resources Limited (Tamarind) of Kuala Lumpur, Malaysia. Consideration paid of US\$5,454,000 was made, following the write back of net liabilities (US\$18,483,000) a net gain on sale was US\$13,071,000. The business of WMP represented the entirety of the Group's New Zealand Operating Segment until 13 March 2017; W M Petroleum Limited is classified as a discontinued operation.

Effective 1 April 2017 the Group completed the sale of its subsidiary, Pan Pacific Petroleum (Vietnam) Pty Limited (PPPV), the Company that held a 5% interest in Block 07/03 located in the Nam Con Son Basin in the South China Sea to Repsol Exploracion S.A for \$5,000,000. Following the reversal of net assets US\$11,825,000 the net loss on sale was US\$6,825,000. The business of PPPV represents the Group's Vietnam Operating Segment until 15 June 2017, PPPV is classified as a discontinued operation.

The results of WMP and PPPV for the year are presented below:

### Discontinued Operations.

	Consolidated			
	2017		2016 (Restated)	
	New Zealand US\$'000	Vietnam US\$'000	New Zealand US\$'000	Vietnam US\$'000
<b>Discontinued operations</b>				
Revenue	4,037	-	7,222	-
Production and other costs	(4,690)	-	(10,773)	-
<b>Gross loss</b>	<b>(653)</b>	<b>-</b>	<b>(3,551)</b>	<b>-</b>
Other income	42	-	749	-
Oil and Gas Asset Impairment	-	-	(8,142)	-
Restoration provisions	(2,629)	-	-	-
Exploration and evaluation assets expensed/impaired	(14)	(533)	-	(572)
Administrative expenses	(107)	(87)	(510)	(110)
<b>Results from discontinued activities</b>	<b>(3,361)</b>	<b>(620)</b>	<b>(11,454)</b>	<b>(690)</b>
Financial income	202	-	1,430	4
Financial expenses	10	(8)	(188)	-
<b>Net financing income</b>	<b>212</b>	<b>(8)</b>	<b>1,242</b>	<b>4</b>
<b>Loss before income tax from discontinued operations</b>	<b>(3,149)</b>	<b>(628)</b>	<b>(10,213)</b>	<b>(678)</b>
NZ Royalty Tax	(339)	-	4,240	-
Income tax expense - deferred	(2,643)	-	(6,551)	-
<b>Total tax expense</b>	<b>(2,982)</b>	<b>-</b>	<b>(2,311)</b>	<b>-</b>
<b>Loss for the period from discontinued operations</b>	<b>(6,131)</b>	<b>(628)</b>	<b>(12,524)</b>	<b>(678)</b>
<b>Pre-tax gain/(loss) on sale of discontinued operation</b>	<b>13,071</b>	<b>(6,825)</b>	-	-
Income tax benefit	-	-	-	-
<b>Gain/(loss) on sale of discontinued operation</b>	<b>13,071</b>	<b>(6,825)</b>	-	-

Pan Pacific Petroleum NL and its controlled entities  
**Notes to the Financial Statements**

**25. Discontinued Operations (continued)**

	Consolidated			
	2017		2016 (Restated)	
	New Zealand US\$'000	Vietnam US\$'000	New Zealand US\$'000	Vietnam US\$'000
<b>Cash flows from / (used in) discontinued operation</b>				
Cash flow from operations	1,995	(59)	5,937	(2,261)
Cash flow from investing activities	(6,745)	(5,000)	1,363	1,882
Cash flow from financing activities	42	-	(3,500)	-
Net cash outflow	(4,708)	(5,059)	3,800	(379)
			<b>2017</b>	<b>2016</b>
<b>Earnings per share</b>			<b>Cents</b>	<b>Cents</b>
Basic, profit for the year from discontinued operation			(0.09)	(2.25)
Diluted, profit for the year from discontinued operation			(0.09)	(2.25)

**26. Time charter**

	Consolidated	
	2017 US\$'000	2016 (Restated) US\$'000
Floating Production and Storage Offtake vessel (FPSO) time charter contracted but not provided for in the financial statements, payable:		
- Within one year	-	4,585
- One year or later and no later than five years	-	2,292
	-	6,877

The Time Charter related to the Groups percentage share in the FPSO in the Tui development area. The fixed term of the Time Charter ended on 31 December 2015. During 2016 the PMP38158 Joint Venture agreed to a one year extension from 1 January 2017 to 31 December 2017. The Group sold its interest in the Tui project effective 1 January 2017 please refer to note 25.

**27. Operating leases**

	Consolidated	
	2017 US\$'000	2016 (Restated) US\$'000
Leases as lessee		
Non-cancellable operating lease rentals are payable as follows:		
- Within one year	-	49
	-	49

The Group no longer leases office space under an operating lease.

During the financial year ended 30 June 2017, US\$64,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2016: US\$93,000).

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

## 28. Capital and other commitments

In order to maintain the various permits in which the Group and its respective joint operation partners are involved, and/or to meet contractual obligations, the Group has ongoing commitments as part of its normal operations to meet various operational expenditures. The actual costs will be dependent on a number of factors such as joint operation decisions including final scope of work and timing of operations.

	Consolidated	
	2017	2016
Exploration commitments	US\$'000	(Restated) US\$'000
<i>Exploration commitments of the Group to the joint operation</i>		
- Within one year	-	694
	-	694

## 29. Contingencies

### Contingent Liabilities

On 15 July 2015 The Autoridade Nacional do Petróleo of Timor-Leste ("ANP"), the Designated Authority terminated the JPDA 06-103 Profit Sharing Contract ("PSC") and requested a payment of US\$17,018,000 (PPP Group share of US\$2,552,000) in respect of the foregone work program in the Joint Production Development Area. However, the Joint Venture Parties ("JVP") have disputed the above amount with the ANP under the dispute clauses of the PSC. The JVP have submitted a counter offer the amount of which has been provided for in these financial statements net to PPP. Due to the uncertainty of the outcome of this dispute the remaining portion is a contingent liability at the date of these accounts. The parties continue to discuss the financial liability of the contractor upon termination. It is the Company's intention to settle on mutually acceptable terms with the ANP.

## 30. Related parties

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

### Non-executive directors

Mr P Sullivan (Chairman)	
Mr P Burke	Appointed - 22 <sup>nd</sup> November 2016
Mr A Tattersfield	Retired - 22 <sup>nd</sup> November 2016
Mr D Morrison	Retired - 22 <sup>nd</sup> November 2016

### Executive Director

Mr G Worner

### Executives

Kim M Ware	(Company Secretary)	Made redundant 25 <sup>th</sup> August 2017
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### Key management personnel compensation

	Consolidated	
	2017	2016
	US\$	(Restated) US\$
Short-term employee benefits	367,025	390,361
Post-employment benefits	16,984	22,679
Long term benefits	3,224	3,935
	387,233	416,975

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

## Pan Pacific Petroleum NL and its controlled entities

### Notes to the Financial Statements

### 30. Related parties (continued)

#### Non-key management personnel disclosure

##### Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 30), joint operation (see note 14), its key management personnel (part of this note) and its substantial shareholder Zeta Energy Pte Limited. Other than as disclosed in note 29 and the Remuneration Report in respect of Mr P Sullivan (who is a director of Zeta Resource the parent entity of Zeta Energy Pte Limited), there were no transactions during the period with Zeta Energy Pte Limited.

The Company renewed its contract with wOrner Pty Limited during the period. The principal of wOrner Pty Limited is Mr Worner a Director of the Company. wOrner Pty limited provides services in order to represent the Company in all Joint Venture matters. The contract between the Company and wOrner Pty Limited is based on normal commercial terms and fees were also reviewed during the year ended 30 June 2016. wOrner Pty Limited was paid a total of \$241,019 (2016: \$176,664).

During the period the Company paid Mr Burke fees in addition to his Directors fees for extra services performed of \$7,677.

During the period corporate accounting services to the value of AU\$34,219 were provided to the company by ICM Corporate Services Pty Limited ('ICMCS'). ICMCS is a subsidiary of ICM Limited who is investment manager of Zeta Energy Pte Limited and who as investment manager has control of the voting of the Zeta Energy shares.

### 31. Consolidated entities

#### Particulars in relation to controlled entities

	Note	2017 %	2016 %
<b>Parent entity</b>			
Pan Pacific Petroleum NL			
<b>Subsidiaries</b>			
Pan Pacific Petroleum (South Aust) Pty Ltd	(a)	100	100
Pan Pacific Petroleum (Vietnam) Pty Ltd	(b)	-	100
Pan Pacific Petroleum (JPDA 06-103) Pty Ltd		100	100
Pan Pacific Petroleum Vietnam (121) Pty Ltd		100	100
WM Holdings Limited	(c)	100	100
WM Petroleum Limited	(d)	-	100

- (a) Pan Pacific Petroleum (South Aust) Pty Ltd was deregistered effective 8 August 2017. Refer to note 34.  
 (b) The Group sold Pan Pacific Petroleum (Vietnam) Pty Ltd effective 1 April 2017. Please refer to note 25.  
 (c) WM Holdings Limited is incorporated in New Zealand.  
 (d) WM Petroleum Limited is incorporated in New Zealand. The Group sold the entity effective 1 January 2017. Please refer to note 25.  
 (e) All other controlled entities are incorporated in Australia.  
 (f) All controlled entities have a balance date of 30 June.

### 32. Auditors remuneration

The auditor of Pan Pacific Petroleum NL is Ernst & Young.

	Consolidated	
	2017	2016
	US\$	(Restated) US\$
<i>Amounts received or due and receivable by Ernst &amp; Young for:</i>		
Audit and review of financial report	48,556	64,357
	48,556	64,357
Other services in relation to the entity and any other entity in the consolidated group		
Tax compliance services	17,238	21,683
	17,238	21,683

Pan Pacific Petroleum NL and its controlled entities  
**Notes to the Financial Statements**

**33. Parent entity disclosures**

	<b>2017</b>	<b>2016</b> <b>(Restated)</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Result of parent entity</b>		
Profit/ (loss) for the period	11,679	6
Total comprehensive profit/(loss) for the period	11,679	6
<b>Financial position of parent entity at year end</b>		
Current assets	18,787	2,453
Non-current assets	19	1,010
Total assets	18,806	3,463
Current liabilities	(4,670)	(270)
Total liabilities	(4,670)	(270)
<b>Total equity of the parent entity comprising of:</b>		
Share capital	31,458	31,458
Employee equity reserve	340	340
Asset available for sale investment revaluation reserve	(642)	5
Foreign currency translation reserve	4,986	5,075
Retained earnings	(22,006)	(33,685)
<b>Total Equity</b>	<b>14,136</b>	<b>3,193</b>

**Contingent Liabilities**

The Company has entered into indemnity deeds to indemnify executives of the Company against all liabilities incurred in the course of or arising out of their employment with the Company and its controlled entities, except where the liability results wholly or in part from serious and wilful misconduct by the executive.

The Company has entered into various parent company guarantees refer note 4. The Company has assessed that the likelihood that these guarantees will be called is low, and accordingly no fair value liability is recognised (2016: Nil).

Guarantees

Parent Company Guarantees are extended on a case by case basis.

On 25 September 2010, a guarantee was provided by the Parent Company on behalf of a wholly owned subsidiary to each of Bharat PetroResources JPDA Ltd, GSPC (JPDA) Ltd and Global Energy Inc, to guarantee the subsidiary's performance and payment obligations pursuant to the Production Sharing Contract 06-103 dated 15 November 2006 between the Contractor parties and the Designated Authority and the corresponding Joint Operating Agreement dated 5 January 2007.

On 16 October 2010, a guarantee was provided by the Parent Company on behalf of a wholly owned subsidiary to the Timor Sea Designated Authority to guarantee the subsidiaries obligations under the JPDA 06-103 Production Sharing Contract from 19 February 2011.

On 18 December 2010, a guarantee was provided by the Parent Company on behalf of a wholly owned subsidiary to ensure the performance of the subsidiaries obligations pursuant to Block 07/03 Production Sharing Contract in the Socialist Republic of Vietnam. The Guarantee took effect from 7 August 2011.

No additional parent company guarantees were entered into during the 2016 or 2017 financial years.

### **34. Events subsequent to reporting date**

As part of the Company's Available for Sale investments PPP holds shares in New Zealand Oil and Gas Limited. On 10 August 2017, Zeta announced its intentions to make a partial takeover offer to acquire not less than 41.955% of all the shares of New Zealand Oil & Gas Limited that it does not already hold or control for NZD\$0.72 per fully paid ordinary share in New Zealand Oil & Gas Limited. PPP and Zeta have entered into a lock-up agreement under which PPP has agreed not to dispose of, or assign its rights to, any shares owned or controlled by PPP in New Zealand Oil and Gas Limited. In addition, PPP has undertaken to accept the partial takeover offer, on the same terms as announced by Zeta on 10 August 2017.

Other than as disclosed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

## DIRECTORS DECLARATION

For the year ended 30 June 2017

In the opinion of the directors of Pan Pacific Petroleum NL ("the Company"):

- 1 (a) the consolidated financial statements and notes set out on pages 19 to 47 and the remuneration report in the directors' report, set out on page 9 to 12, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Company Secretary (CFO equivalent) for the financial year ended 30 June 2017.
- 3 The directors draw attention to Note 2(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to be 'P. Sullivan', written in a cursive style.

P Sullivan  
25 August 2017

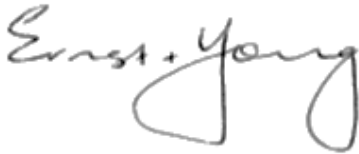


## Auditor's Independence Declaration to the Directors of Pan Pacific Petroleum NL

As lead auditor for the audit of Pan Pacific Petroleum NL for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, that there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pan Pacific Petroleum NL and the entities it controlled during the financial year.



Ernst & Young



Trent van Veen  
Partner  
25 August 2017

# Independent Auditor's Report to the Members of Pan Pacific Petroleum NL

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Pan Pacific Petroleum NL (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

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

### 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 year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## Change in Functional and Presentational Currency

### Why significant

The functional currency of the Group changed to US dollars effective 1 July 2016 following a change of control and assessment of the majority of costs being denominated in that currency.

A change in functional currency is treated prospectively under AASB 121, with translation procedures applicable to the new functional currency applied from the date of the change.

The Directors have also elected to concurrently change the presentation currency of the Group to US dollars in accordance with the choice available under AASB 121. A change in presentation currency is accounted for retrospectively. Due to the magnitude of this change, we consider this a key audit matter.

The accounting for this change gave rise to a foreign currency translation reserve of \$4.4 million at 30 June 2017 as a result differences in the retrospective and prospective accounting treatments of the changes in presentation and functional currency respectively. Refer to note 3(a).

### How our audit addressed the key audit matter

We have considered the basis for the Group's assessment of the change in functional currency.

We assessed the calculations used to determine the impact of the change in functional and presentation currency on the prior periods and the current period. Our procedures included the following:

- ▶ Addressed the translation of historical balance sheets and income statements, including the exchange rates applied
- ▶ Consideration of the impact of the changes on the equity balances of the Group, specifically:
  - ▶ assessed the translation of all Issued Capital transactions and amounts recorded in reserves
  - ▶ assessed the roll-forward of retained earnings and translation of relevant transactions; and
  - ▶ assessed the appropriateness of the Foreign Currency Translation Reserve.

We have also considered the impact of the disposal of operating assets on the determination of functional currency.

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Audit of the Remuneration Report

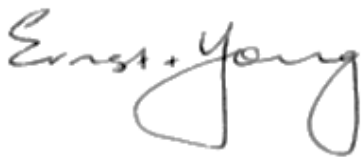
### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Pan Pacific Petroleum NL for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

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



Ernst & Young



Trent van Veen  
Partner  
Sydney  
25 August 2017