



PETROLEUM RESOURCES KUTUBU LIMITED AND ITS SUBSIDIARY

Annual Report
for the financial year ended 31 December 2015



Annual report for the financial year ended 31 December 2015

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Directors' report

The directors of Petroleum Resources Kutubu Limited submit herewith the annual financial report of the company for the financial year ended 31 December 2015. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

Directors

Name	Executive/Non-executive director
Abraham Murepe	Non-executive (Chairman) (Appointed, Feb 2015)
Rendle Rimua	Non-executive (resigned, March 2016)
John Kapi Natto	Non-executive
Augustine Mano	Executive
Gov. Havila Kavo	Non-executive
Gov. Anderson Agiru	Non-executive (Deceased, April 2016)
John Yawari	Non-executive
Mark Sakai	Non-executive (Appointed, August 2015)
Gov. William Powi	Non-executive

Company Secretary

The acting company secretary is Richard Aupae.

Principal activities

The principal activity of the Group is the investment in exploration, development and production of oil and gas deposits, as participant in the Kutubu Joint Venture in Papua New Guinea. The investment is on behalf of and as trustee of the Petroleum Resources Trusts.

Review of operations

The Group made a total profit, including other comprehensive income, of K157,315,130 (2014: K105,617,472) after charging tax expense of K1,149,854 (2014: K28,287,604).

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

Independent audit report

The financial statements have been audited and should be read in conjunction with the independent audit report on pages 3-4.

Changes in accounting policies

No changes in accounting policies occurred during the current year.

Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

Entries in the interest register

No entries were made in the current year.

Donations

Donations made during the current year by the Group amounted to K1.29 million (2014: K0.83 million).

Further disclosures

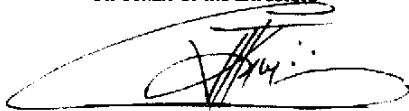
The Company has no employees or former employees, not being a director, receiving remuneration and any other benefits in their capacity as employees exceeded K100,000 per annum.

The directors declare that:

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

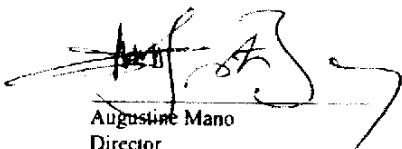
Signed in accordance with a resolution of the directors.

On behalf of the Directors



John Kapi Natto
Director

Port Moresby, 11th November 2016



Augustine Mano
Director

Port Moresby, 11th November 2016



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Independent Auditor's Report to the members of Petroleum Resources Kutubu Limited

Report in the Financial Statement

We have audited the accompanying financial statements of Petroleum Resources Kutubu Limited which comprises the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes in order to express an opinion on them to the members of the company.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and the Companies Act 1997, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Deloitte

Basis for Adverse Opinion

Non-Compliance with Generally Accepted Accounting Practice

Petroleum Resources Kutubu Limited is a corporate trustee as declared by resolution of Mineral Resources Development Company Limited. Included in the financial statements of Petroleum Resources Kutubu Limited are assets, liabilities, revenue and expenses which are held in trust for Kutubu Participation Interest Trust, Kutubu Future Generation Trust and Kutubu Community Investment Trust (the Kutubu Trusts).

Under Generally Accepted Accounting Practice, the assets, liabilities, revenue and expenses held in trust by the trustee should not be included in the financial statements of the trustee and therefore the trustee's financial statements have not been prepared in accordance with Generally Accepted Accounting Practice.

Investment in un-quoted equity investments

Reported in the statement of financial position is an amount of K113,384,729 being the Kutubu Trusts' investments in un-quoted equity investments. Investments in shares are classified as available for sale financial instruments.

As outlined in note 14(i) to the financial statements, the investments held in un-quoted investments are held at cost. Due to the nature and purpose of these investments, cost is considered an appropriate fair value approximate of these investments. As at 31 December 2015 the fair value of un-quoted shares has not been assessed by the company. As a result, we are unable to determine whether any adjustments might have been required had such an assessment been performed.

Non-consolidation of subsidiary

In 2013, the company purchased Queental Limited which is a wholly owned subsidiary. However, this subsidiary was not consolidated. This is not in accordance with International Accounting Standard 27. Consolidated and Separate Financial Statements, which requires that wholly owned subsidiaries should be consolidated. Had Queental Limited been consolidated, many elements in the accompanying financial statements would have been materially affected.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not give a true and fair view of the statement of financial position of Petroleum Resources Kutubu Limited and its subsidiary as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.


DELOITTE TOUCHE TOHMATSU



Benjamin Lee

Registered under the Accountants Act 1996
Partner, Chartered Accountants

Port Moresby, 11th of November 2016

PETROLEUM RESOURCES KUTUBU AND ITS SUBSIDIARY**Consolidated Statement of profit or loss and other comprehensive income
For the year ended 31 December 2015**

		Consolidated		Parent	
		2015	2014	2015	2014
		K	K	K	K
Revenue	5	216,074,766	231,795,644	83,434,232	138,775,108
Cost of sales	6	(99,893,930)	(73,874,277)	(53,756,655)	(39,859,618)
Gross profit		116,180,836	157,921,367	29,677,577	98,915,490
Other income and expenses					
Other income	7	65,741,980	31,564,133	65,471,934	51,549,991
Other gain/(losses)	7	2,273,753	5,043,056	1,736,520	5,187,117
Management fees	20	(6,250,000)	(6,250,000)	(3,000,000)	(3,250,000)
Finance costs		(76,591)	(103,296)	(76,103)	(102,346)
Other operating expense	8	(36,020,377)	(17,490,060)	(32,099,743)	(16,888,160)
Total other income and expenses		25,668,765	12,763,833	32,032,608	36,496,602
INCOME BEFORE INCOME TAX		141,849,601	170,685,200	61,710,185	135,412,092
INCOME TAX EXPENSE	9	(1,149,854)	(28,287,604)	(5,423,853)	(11,769,676)
INCOME FOR THE YEAR		140,699,747	142,397,596	56,286,332	123,642,416
OTHER COMPREHENSIVE LOSS	14	16,615,383	(36,780,124)	16,615,383	(36,780,124)
TOTAL COMPREHENSIVE INCOME		157,315,130	105,617,472	72,901,715	86,862,292

Notes to the financial statements are included on pages 9 to 36

PETROLEUM RESOURCES KUTUBU AND ITS SUBSIDIARY

Consolidated Statement of Financial Position

For the year ended 31 December 2015

	Note	Consolidated K		Parent K	
		2015	2014	2015	2014
Assets					
Current assets					
Cash & cash equivalents	10	28,267,874	2,046,675	17,959,421	2,038,651
Trade & other receivables	11	178,955,708	203,442,553	175,369,562	132,077,501
Inventories	12	13,391,620	19,180,673	13,391,620	19,180,673
Other	13	969,573	1,826,120	969,573	1,826,120
Total current assets		221,584,775	226,496,021	207,690,176	155,122,945
Non-current assets					
Other financial assets	14	459,538,529	402,067,066	459,538,529	402,067,066
Other investments	15	64,711,712	57,436,305	64,711,714	57,436,305
Oil and gas assets	16	904,515,453	786,385,576	367,454,680	449,483,455
Deferred tax assets	9	26,593,252	32,309,653	26,593,252	32,309,653
Other		1,798,612	1,842,242	1,798,612	1,842,242
Total non-current assets		1,457,157,558	1,280,040,842	920,096,787	943,138,721
Total Assets		1,678,742,333	1,506,536,863	1,127,786,963	1,098,261,666
Liabilities					
Current liabilities					
Trade and other payables	17	47,409,788	68,435,202	32,680,261	51,870,549
Current tax liabilities		84,996,554	91,792,702	84,996,554	91,792,702
Total current liabilities		132,406,342	160,227,904	117,676,815	143,663,251
Non-current liabilities					
Long term borrowings	20	464,147,117	393,844,260	-	-
Deferred tax liabilities	9	767,646	10,968,623	-	-
Deferred restoration costs	18	59,879,700	45,840,749	59,879,700	45,840,753
Total non-current liabilities		524,794,463	450,653,632	59,879,700	45,840,753
Total liabilities		657,200,805	610,881,536	177,556,515	189,504,004
Net Assets		1,021,541,528	895,655,327	950,230,448	908,757,662
Equity					
Issued capital	19	10,000	10,000	10,000	10,000
Reserves		396,374,005	379,758,622	396,374,005	379,758,622
Retained earnings		625,157,523	515,886,705	553,846,443	528,989,040
		1,021,541,528	895,655,327	950,230,448	908,757,662

Notes to the financial statements are included on pages 9 to 36

PETROLEUM RESOURCES KUTUBU AND ITS SUBSIDIARY

**Consolidated Statement of Changes in Equity
For the year ended 31 December 2015**

CONSOLIDATED

	Issued Capital K	Reserves K	Retained earnings K	Total K
Balance at 1 January 2014	10,000	416,538,746	445,322,528	861,871,274
Profit or (loss) for the year	-	-	142,397,596	142,397,596
Other comprehensive income	-	(36,780,124)	-	(36,780,124)
Payment of dividends	-	-	(71,833,419)	(71,833,419)
Balance at 31 December 2014	10,000	379,758,622	515,886,705	895,655,327
Profit or (loss) for the year	-	-	140,699,747	140,699,747
Other comprehensive income	-	16,615,383	-	16,615,383
Payment of dividends	-	-	(31,428,929)	(31,428,929)
Balance at 31 December 2015	10,000	396,374,005	625,157,523	1,021,541,528

PARENT

	Issued Capital K	Reserves K	Retained earnings K	Total K
Balance at 1 January 2014	10,000	416,536,746	477,180,043	893,728,789
Profit or (loss) for the year	-	-	123,642,416	123,642,416
Other comprehensive income	-	(36,780,124)	-	(36,780,124)
Payment of dividends	-	-	(71,833,419)	(71,833,419)
Balance at 31 December 2014	10,000	379,756,622	528,989,040	908,757,662
Profit or (loss) for the year	-	-	56,286,332	56,286,332
Other comprehensive income	-	16,615,383	-	16,615,383
Payment of dividends	-	-	(31,428,929)	(31,428,929)
Balance at 31 December 2015	10,000	396,372,005	553,846,443	950,230,448

Notes to the financial statements are included on pages 9-36

PETROLEUM RESOURCES KUTUBU AND ITS SUBSIDIARY

Consolidated Statement of Cash Flow

For the year ended 31 December 2015

	Consolidated		Parent	
	2015	2014	2015	2014
	K	K	K	K
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before income tax	141,849,601	170,685,200	61,710,185	135,412,092
Adjustments for:				
Dividend income	(65,307,684)	(31,105,500)	(65,307,684)	(51,105,501)
Site restoration expense	14,038,946	—	14,038,946	—
Amortization of oil and gas assets	7,047,458	7,047,468	7,047,458	7,047,468
Operating income before changes in working capital	97,628,321	146,627,168	17,488,905	91,354,059
Decrease (increase) in:				
Trade and other receivables	24,486,845	(89,472,446)	(43,292,058)	(19,521,131)
Inventories	5,789,053	1,726,571	5,789,053	1,726,571
Other	900,177	126,605	900,177	126,605
Increase (decrease) in:				
Trade and other payables	(47,692,540)	16,319,110	(44,790,290)	(206,537)
Current tax liabilities	494,257	10,718,348	269,484	(5,799,580)
Provision for restoration	—	—	—	—
Net cash generated from (used in) operations	81,606,113	86,045,356	(63,634,729)	67,679,987
Dividends received	65,307,684	30,748,894	65,307,684	51,105,501
Income taxes paid	(12,924,835)	(28,287,604)	(6,773,084)	(11,769,676)
Net cash provided by (used in) operating activities	133,988,962	88,506,646	(5,100,129)	107,015,812
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition (disposal) of:				
Other financial assets	(40,856,080)	(16,558,429)	(40,856,080)	(16,558,429)
Other investments	(7,275,407)	(33,577,116)	(7,275,409)	(33,577,116)
Oil and gas assets	(124,110,205)	(83,237,351)	74,981,317	(53,073,172)
Cash used in investing activities	(172,241,692)	(133,372,896)	26,849,828	(103,208,717)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings	70,302,858	46,020,097	—	—
Dividend payments	(5,828,929)	(14,756,648)	(5,828,929)	(14,756,648)
	64,473,929	31,263,449	(5,828,929)	(14,756,648)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,221,199	(13,602,801)	15,920,770	(10,949,553)
CASH AND CASH EQUIVALENTS AT Beg Year	2,046,675	15,649,476	2,038,651	12,988,204
CASH AND CASH EQUIVALENTS AT End Year	28,267,874	2,046,675	17,959,421	2,038,651

Notes to the financial statements are included on pages 10-36

PETROLEUM RESOURCES KUTUBU

NOTES TO FINANCIAL STATEMENTS

1. General Information

Petroleum Resources Kutubu Limited (the Group) is a private company, incorporated and operating in Papua New Guinea. The Group is a wholly owned subsidiary of Mineral Resources Development Company Limited (MRDC). MRDC holds the shares in trust for the landowners of the Southern Highlands Province. The Group is managed by MRDC as provided in the management agreement. The Group owns an interest in various petroleum projects (Note 16).

Registered office

Level 1, First Heritage Center
Waigani Drive
P.O. Box 1076, Port Moresby

The Group's principal activities are the exploration of oil and gas deposits and the development and production of such deposits.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standard Board (IASB) that are mandatory effective for an accounting period that begins on or after 1 January 2015.

Annual Improvements to IFRSs 2010 -2012 Cycle and 2011 -2013 Cycle

The Company has applied the amendments to IFRS included in the Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle for the first time in current year. The application of the amendments has had no impact on the disclosures or amounts recognised in the Company's financial statements.

New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRS 9	Financial Instruments (a)
IFRS 15	Revenue from Contracts with Customers (b)
Amendments to IFRS 11	Accounting for Acquisitions of interest in Joint Operations (c)
Amendments to IAS 1	Disclosure Initiative (c)
Amendments to IAS 16 and ISA 38	Clarifications of Acceptable Methods of Depreciation And Amortisation (c)
Amendments IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (c)
Amendments IFRS 10, IFRS 12, and IAS 28	Investment Entities: Applying the Consolidation Exception (c)
Amendments IFRSs	Annual improvements IFRSs 2012-2014 Cycle (c)

- (a) Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- (b) Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- (c) Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key requirements for IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit and loss;
- With regards to the measurement of financial liabilities designated as fair value through profit and loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to the financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit loss and changes in those expected credit losses at each reporting date to reflect change in credit risk since initial recognition. In other words it is no longer necessary for a credit event to have occurred before credit losses are recognised; and
- The new general hedge accounting requirements retain the three types of hedge accounting mechanism currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced requirements about an entity's risk management activities have also been introduced.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes single comprehensive models for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract (s) with the customer
- Step 2: identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods and services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the Company anticipate the application of IFRS 15 in the future may have material impact on the amount reported and disclosures made in Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on the accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Asset regarding impairment testing of cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirement should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participated in the joint operation.

A joint operator is also required to disclose the relevant information require IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute business as defined in IFRS 3 occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 11 may have an impact on the Company's financial statements in future periods should such transactions arise.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give guidance on how to apply the concept of materiality in practice.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to IAS 1 will have a material impact on the Company's financial statements.

Amendments to IAS 16 and IAS 38 Clarifications of Acceptable Methods of Depreciation and Amortisation

The amendment to IAS 16 prohibits entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a reputable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following tow limited circumstances;

1. When the intangible asset is expressed as a measure of revenue; or
2. When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible asset respectively. The directors of the Company believes that the straight-line methods is the most appropriate method to reflect the consumption of economic benefit inherit in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The amendments to IFRS 10 and IAS 28 deal with situation where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of subsidiary that does not contain a business in a transaction with an associate or joint venture that is accounted for using the equity method, are recognised in the parent profit or loss only to the extent of unrelated investments retain in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investor's interests in the new associate or joint venture.

The amendments should be applied prospectively to transaction occurring in annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Company's financial statements in the future periods should such traction arise.

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

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The directors of the Company do not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Company's financial statements as the Company is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle

The annual improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRS, which are summarised below;

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirement set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rates used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period of high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

3. Significant accounting policies

3.1 Statement of compliance

The financial statements of Petroleum Resources Kutubu Limited ("the Group") have been prepared in accordance with International Financial Reporting Standards and the requirements of the Papua New Guinea Companies Act 1997.

3.2 Basis of preparation

The financial report has been prepared on the basis of historical cost, except for investment in available for sale (AFS) and investment property that have been measured at fair value. All amounts are presented in Papua New Guinea Kina, unless otherwise noted.

The principal accounting policies are set out below.

Basis of consolidation

The Consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 31 December 2015. Subsidiaries are all entities over which the Group has control.

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

Non-controlling interests in the equity and results of subsidiaries are shown as a separate item in the Consolidated Financial Statements.

3.3 Revenue and Cost Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sales of Goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Other income

Other income includes:

- Dividend income is recognised when the Group's right to receive the payment is established.
- Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Cost of sales and operating expenses

Cost of sales and general and administrative expenses constitute costs of goods sold, operating and administering the business and are expensed as incurred. These arise in the ordinary course of operations of the Group. These

usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventories and property and equipment.

Management fees

Management fees are recognized when the related services are rendered by MRDC.

Finance cost

Finance cost is recognized as it accrues based on the effective interest rate method.

3.4 Cash and cash equivalents

Cash comprises cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

For the purpose of statement cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdraft.

3.5 Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date. The Group's financial assets and financial liabilities are of the nature of loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value

The fair value for financial instruments traded in active markets at the financial reporting date is based on the quoted market prices or dealer price quotations (bid prices for long positions and ask prices for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. This accounting policy relates to the statement of financial position captions "Cash and cash equivalent" and "trade and other receivables".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

Loans and receivables are included in current assets if maturity is within 12 months from the financial reporting date.

The Group has no financial assets designated as FVPL and HTM investments as of 31 December 2015 and 2014.

AFS financial assets

Listed shares held by the Group that are traded in an active market are classified as being AFS financial assets and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets and stated at cost less impairment and approximate fair value cannot be measured reliably due to the unpredictable nature of cash flows and lack of suitable methods of arriving at a reliable fair value.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and equity in net unrealized gain (loss) on AFS financial assets with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized equity in net unrealized gain (loss) on AFS financial assets is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Other financial liabilities

Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy relates to the statement of financial position captions "Trade and other payables".

Derecognition of Financial Instruments

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Instruments

Financial Assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit and loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

AFS financial assets

In case of quoted equity investment classified as "AFS investment", this would include a significant or prolonged decline in the fair value of the investment below its cost. Where 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 the financial asset previously recognized in the statement of Comprehensive income – is removed from statement of comprehensive income and recognized in profit or loss. Impairment losses on equity investment are not reversed are not reversed through profit or loss. Increase in fair value after impairment is recognized directly in the statement of comprehensive income.

In case of unquoted investment classified as “AFS financial assets”, the amount of the impairment is measured as the difference between the carrying amounts of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial asset. Such impairment losses shall not be reversed.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.6 Inventories

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

- i. materials, which include drilling and maintenance stocks, are valued at the cost of acquisition;
- ii. petroleum products, comprising extracted crude oil and condensate stored in tanks and pipeline systems, are valued using the full absorption cost method; and
- iii. Inventories and material stocks are accounted for on a FIFO basis.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3.7 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation is measured initially at its cost, including transaction costs.

3.8 Joint venture arrangements

Jointly controlled operations

The Group has an interest in a joint venture which is a jointly controlled operations, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group.

Adjustments are made in the Group's financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

3.9 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost/their revalued amounts. Revalued amounts are the fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3.10 Capitalized gas cost

Costs in relation to producing areas are amortised on a production output basis. In relation to the Kutubu fields, exploration and development costs, along with any future expenditure necessary to develop the assumed reserves, are amortised over the remaining estimated economic life of the fields.

3.11 Foreign currency

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

3.12 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- iv. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- v. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

3.13 Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

3.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration, development and production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites/wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

3.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the lease asset and recognised over the lease term on the same basis as rental income.

3.16 Investment in associates

An entity, in which the Group has significant influence, is accounted for using the cost method. After initial recognition, investment in associate is measured at cost less any accumulated impairment losses. The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36, Impairment of assets, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. Management's Judgments and Use of Estimates

The preparation of the financial statements in compliance with IFRS requires the Group's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under circumstances.

4.1 Estimates and assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which 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.

4.1.1 Revaluation of investment properties

The Group carries its investment properties at cost. The management decided to use cost model as allowed by IAS 40, Investment Property. Management believes that its fair value (investment properties) will not be reliably measurable on a continuing basis. In such cases, the standard requires the Group to measure that investment property using the cost model in IAS 16, Property, plant and equipment, until disposal of the investment property. The carrying value of investment in properties amounted to K 8,923,025 (2104: K7,805,374).

4.1.2 Estimating allowance for impairment losses

The Group maintains allowance for impairment losses based on the results of the individual and collective assessment under IAS 39. Under the individual assessment, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (past-due status and term) of the counterparties. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

4.1.3 Estimating impairment for nonfinancial assets

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements. The nonfinancial assets of the Group include investments in investment property. As of December 31, 2014 and 2013, the Group determined that there are no indications that its investment may be impaired.

4.1.4 Estimating restoration and rehabilitation costs

Significant estimates and assumptions are made in determining the provision for restoration and site rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. An increase in decommissioning and site rehabilitation costs would increase the production cost and increase noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the restoration and site rehabilitation costs are reviewed and updated annually.

4.1.5 Recognition of deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences can be utilized. Significant management estimate is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

4.1.6 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. See Note 20 for the related balances.

5. Revenue

This account consists of:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Revenue from Oil sales (Note 16)	83,434,232	138,775,108	83,434,232	138,775,108
LNG Sales	132,640,534	93,020,536	–	–
	216,074,766	231,795,644	83,434,232	138,775,108

In 2014, the PNG LNG project started its commercial operations. The Group recognized LNG Sales in respect to its shares in the project.

6. Cost of Sales

This account consists of:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Joint operating expenses – producing assets (i)	31,149,799	29,374,136	31,149,799	29,374,136
Amortisation of oil and gas assets	7,047,458	7,047,468	7,047,458	7,047,468
Development levy and royalties	2,235,440	3,682,272	2,235,440	3,682,272
Amortisation of site restoration	14,038,946	–	14,038,946	–
LNG expenses (ii)	46,137,275	34,014,659	–	–
Stock movement	(714,988)	(244,258)	(714,988)	(244,258)
	99,893,930	73,874,277	53,756,655	39,859,618

(i) Joint operating expenses – producing assets pertain to shares in joint venture operating expenses which includes field controllable, pipeline tariff, well work, major expenses jobs and other common cost. On a monthly basis, the Company receives joint venture billings from Oil Search Limited for its proportionate shares as per joint venture agreement for cost of oil field operations

(ii) LNG expenses consist of LNG operating expenses, development levy, royalty, agency fee, LNG amortization and other expenses, LNG interest expenses and other expenses related to the operation of LNG PNG as provided by the joint venture operator.

7. Other income, gains and losses

This account consists of:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Other income				
Dividend income	65,307,684	31,105,500	65,307,684	31,105,501
Interest income	–	14,143	–	–
Share of other income from investment in MRDC Australia	–	207,240	–	207,240
Rental income	434,296	237,250	164,250	237,250
	65,741,980	31,564,133	65,471,934	51,549,991
Other gains and losses				
Net foreign exchange gains	2,273,753	5,043,056	1,736,520	5,187,117

Dividend income relates to dividends received from various investments in quoted and unquoted shares. In 2014, Gas Resources Kutubu Limited, a subsidiary, declared dividend amounting to K20 million.

Interest income is earned from investment in BSP notes and cash in banks.

Rental income relates to income received from leasing property in Moro area.

8. Other operating expenses

This account consists of:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Public relations	17,513,525	5,868,167	17,513,525	5,868,167
Directors fees	7,728,517	1,123,554	5,988,866	1,123,554
Board meeting expenses	663,991	3,817,163	663,991	3,305,288
Professional fees	624,946	475,999	617,885	475,999
Share of operating expenses from				
Investment in MRDC Australia	-	125,939	-	125,939
Others operating expenses	9,489,398	6,079,238	7,315,476	5,989,213
	<u>36,020,377</u>	<u>17,490,060</u>	<u>32,099,743</u>	<u>16,888,160</u>

Other operating expenses include building related expenses, director's expenses, director's retirement benefits donations and impairment losses on receivable.

9. Income tax expense (Parent)

Income tax expense/ (benefits) account consists of:

	2015	2014
	K	K
Current tax expense in respect to the current year	21,248,768	36,237,201
Deferred tax expense relating to the origination and reversal of temporary differences	(156,067)	(15,242,857)
Dividend rebate	(15,668,848)	-
Current tax expense in respect to the prior year	-	(9,224,668)
	<u>5,423,853</u>	<u>11,769,676</u>

The reconciliation of the provision for income tax computed at the statutory income tax to the provision for income tax shown in the statement of comprehensive income follows:

	2015	2014
	K	K
Statutory income tax	18,513,056	57,171,003
Adjustments for:		
Income subjected to different tax rate	2,735,712	(15,374,447)
Non taxable income	(15,668,848)	(21,674,923)
Current tax expense in respect to prior year	(156,067)	(8,351,957)
	<u>5,423,853</u>	<u>11,769,676</u>

The significant components of deferred tax assets and liabilities represent the deferred tax effects of the following:

	Consolidated		Parent Company	
	2015 K	2014 K	2015 K	2014 K
Deferred tax assets				
Provision for rehabilitation	13,752,226	22,920,376	13,752,226	22,920,376
Provision for retirement benefits	527,625	438,750	527,625	438,750
Share of deferred tax from investment in MRDC Australia	–	292,565	–	292,565
Differences in tax base and carrying values of property, plant and equipment	12,581,271	9,479,077	12,581,271	9,479,077
Unrealized foreign exchange loss	–	255,937	–	255,937
	<u>26,861,122</u>	<u>33,386,705</u>	<u>26,861,122</u>	<u>33,386,705</u>
Deferred tax liabilities				
Unrealized foreign exchange loss	(256,778)	(1,063,256)	(256,778)	(1,063,256)
Prepaid insurance	(11,092)	(13,796)	(11,092)	(13,796)
	<u>(267,870)</u>	<u>(1,077,052)</u>	<u>(267,870)</u>	<u>(1,077,052)</u>
Net deferred tax assets (liabilities)	<u>26,593,252</u>	<u>32,309,653</u>	<u>26,593,252</u>	<u>32,309,653</u>

Deferred tax liabilities recognized in the book of the subsidiary amounted to K0.76 million in 2015 and K10.9 million in 2014.

10. Cash and cash equivalents

This account consists of

	Consolidated		Parent Company	
	2015 K	2014 K	2015 K	2014 K
Cash on hand and in banks	28,960,227	2,555,934	18,651,774	2,547,910
Share of cash from investment in MRDC Australia	–	183,094	–	183,094
Share in joint venture (Note 16)	(692,353)	(692,353)	(692,353)	(692,353)
	<u>28,267,874</u>	<u>2,046,675</u>	<u>17,959,421</u>	<u>2,038,651</u>

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents includes short term placements made in varying periods between one day and three months depending on immediate cash requirements and earn interest at the prevailing interest rate

11. Trade and other receivables

This account consists of:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Trade receivables (i)	63,239,285	58,216,850	63,239,285	58,216,850
Gloco Receivable, net (iv)	21,180,404	91,365,052	—	—
	84,419,689	149,581,902	63,239,285	58,216,850
Other receivables:				
GST recoverable	2,046,738	1,666,954	2,046,738	1,666,956
Withholding tax (ii)	35,454,878	29,295,647	35,454,878	29,295,648
Share of other receivable from investment in MRDC Australia	—	141,754	—	141,754
Loans to related party (v)	25,429,650	20,241,200	23,023,908	20,241,200
Dividend receivable	29,076,919	—	49,076,919	20,000,000
Infrastructure tax credit (iii)	2,383,756	2,383,756	2,383,756	2,383,756
Others	144,078	131,340	144,078	131,337
	94,536,019	53,860,651	112,130,277	73,860,651
	178,955,708	203,442,553	175,369,562	132,077,501

- (i) The average credit period on sales of oil is 30 days. No allowance has been made as all trade receivables are recoverable based on past experience.
- (ii) Withholding tax is deducted from certain types of payments made to Company including interest, dividends and royalties.
- (iii) A tax credit is available to agricultural, mining, petroleum, gas, and certain tourism companies that incur expenditure on a prescribed infrastructure development. In the case of taxpayers engaged in mining, petroleum, and gas operations, the credit is limited to 0.75% of the assessable income or the amount of tax payable for the year (in respect of that mining, petroleum, or gas project), whichever is less.
- (iv) Gloco Receivable relates to net collectible from the Group's interest/share in the LNG PNG for the sales of liquefied products.
- (v) Loan to related party relates to advances made to Hevilift amounting to K23 million.

12. Inventories

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Joint venture inventories (Note 16)	11,991,073	18,495,115	11,991,073	18,495,115
Oil stock	1,400,547	685,558	1,400,547	685,558
	13,391,620	19,180,673	13,391,620	19,180,673

Joint venture inventories pertain to Group's interest/share in various Petroleum projects in the Southern Highlands Province of PNG see (Note 16).

13. Other

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Share in joint venture (Note 16)	932,602	1,762,352	932,602	1,762,352
Share of other assets from				
Investment in MRDC Australia	-	19,386	-	19,386
Other	36,971	44,382	36,971	44,382
	969,573	1,826,120	969,573	1,826,120

14. Investment in available for sale

This account consists of:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Unquoted equity shares (i)				
Pacific Place Trust	27,819,592	27,819,592	27,819,592	27,819,592
Hevilift	31,874,950	31,761,066	31,874,950	31,761,066
Pacific International Hospital	7,496,996	7,496,996	7,496,996	7,496,996
Star Mountain Plaza	43,843,191	-	43,843,191	-
Pacific Balance Fund	2,350,000	2,350,000	2,350,000	2,350,000
	113,384,729	69,427,654	113,384,729	69,427,654
Quoted equity shares (ii)				
New Britain Palm Oil Limited	-	3,100,994	-	3,100,994
BSP Shares	346,153,800	329,538,418	346,153,800	329,538,418
	346,153,800	332,639,412	346,153,800	332,639,412
	459,538,529	402,067,066	459,538,529	402,067,066

- (i) The Company held several investments accounted at cost, due to the nature and purpose of these investments; cost is considered an appropriate fair value approximate to these investments. Below is the summary of movements in the investments:

	2015	Movements	2014
	K		K
Unquoted equity shares (i)			
Pacific Place Trust	27,819,592	-	27,819,592
Hevilift	31,874,950	113,884	31,761,066
Pacific International Hospital	7,496,996	-	7,496,996
Star Mountain Plaza	43,843,191	43,843,191	-
Pacific Balance Fund	2,350,000	-	2,350,000
	113,384,729	43,957,075	69,427,654

In 2015, the Company invested K43 million in Star mountain Plaza. The Star Mountain Plaza is a joint venture between the Company, Mineral Resources Ok Tedi (MROT) and Mineral Resources Star Mountain (MRSMT) to construct a Convention Centre, a Hotel and mixed use tower in Hohola, Port Moresby. The initial investment by the Company is part of its equity contribution.

- (ii) The company has investments in listed equity securities. The fair value of the quoted equity shares is determined by reference to published price quotations in an active market.

Reconciliation of movement in quoted equity shares

	2015 K	2014 K
Balance at 1 January	332,639,412	370,096,678
Net increase/(decrease) in market value	16,615,383	(37,457,266)
Disposal of investments	(3,100,995)	-
Balance at 31 December	346,153,800	332,639,412

The quoted equity shares are valued at the last selling market price on the Port Moresby Stock exchange trading report as at 31 December 2015 and 2014. The gain or loss has been realized through the investment revaluation reserve account in the balance sheet in the financial statements.

The number of shares held and the published fair value of quoted equity shares as at year-end follows:

	2015		2014	
	No. of shares	K/share	No. of shares	K/share
Bank of South Pacific (ii)	46,153,840	7.50	46,153,840	7.14
New Britain Palm Oil	-	-	119,269	25

15. Other investments

	Consolidated		Parent	
	2015 K	2014 K	2015 K	2014 K
Investment in associates (i)	22,148,915	12,059,210	22,148,915	12,059,210
Investment in subsidiary (ii)	33,639,772	33,580,772	33,639,774	33,580,772
Share of investment properties from investment in MRDC Australia (iii)	-	3,990,949	-	3,990,949
Investment properties (iii)	8,923,025	7,805,374	8,923,025	7,805,374
	64,711,712	57,436,305	64,711,714	57,436,305

(i) Investment in associates

	2015 K	2014 K
Balance at beginning of financial year	12,059,210	12,059,210
Shares in net income	-	-
Shares in other comprehensive income	-	-
Additional purchase of associates	10,089,705	-
	22,148,915	12,059,210

In 2015, the Group invested further for K10 million as part of its equity contribution in the South Pacific Pearl Resort & Golf Course along with MROT and MRDC. The total Group investment amounted to K18 million.

(ii) Investment in subsidiary

In 27 July 2009, the Group incorporated its wholly owned subsidiary, Gas Resources Kutubu (GRK) to manage landowners' shares in the PNG LNG project. Total investment cost amounted to K1.00.

The Group, in its regular conduct of its business, has entered into transactions with its related parties principally consisting of cash advances, reimbursement of expenses, and cash call payments on behalf of GRK. The total advances as of 31 December 2015 and 2014 amounted to K104.7 million and K204.5 million, respectively. The amounts are fully eliminated at consolidated level.

In 2013, the Group purchased 5,050 shares of Quental. The Group paid partially in 2013 amounting to K15 million and additional payments of K18.58 million in 2014. Quental is a dormant Company with no operation. Quental owns piece of land valued at K15 million. The intention of the Group is to transfer the title of the land from Quental and for future development under the Group's name. This is not consolidated as the Quental has no operation yet.

In 2014, the Group invested in Pacific International Hospital amounting to K7.5 million.

(iii) Investment properties – at cost

31 December 2015

	Land K	Improvements K	Work in Progress K	Total cost K
Balance at beginning of financial year	200,000	1,800,000	5,805,374	7,805,374
Additions	–	–	1,117,651	1,117,651
Depreciation during the period	–	–	–	–
Ending balance	200,000	1,800,000	6,923,025	8,923,025

31 December 2014

	Land K	Improvements K	Work in Progress K	Total cost K
Balance at beginning of financial year	200,000	1,800,000	6,923,025	6,856,360
Additions	–	–	–	–
Depreciation during the period	–	–	949,014	949,014
Ending balance	200,000	1,800,000	7,872,039	7,805,374

MRDC Australia financial information is translated to kina as presentation currency. Any difference is accounted under other comprehensive income and translation reserve. In 2015, the Group recognized Knil (2014: K0.67 million) of other comprehensive income related to MRDC Australia. In 2015, MRDC Australia was not available for consolidation and this is immaterial to the Group.

16. Interest in Joint Venture

The Group participates in various petroleum projects in the Southern Highlands Province of PNG. The principal activity of the joint ventures is the exploration and production of hydrocarbons. The Group's interests are as follows:

	2015	2014
Petroleum Development License 2 – Kutubu	6.75%	6.75%
Petroleum Development License 2 – Moran	6.75%	6.75%
Petroleum Development License 2 – SEM	7.89%	7.89%
Petroleum Development License 4/5 – SEM	2.97%	2.97%
Pipeline License 2 – Kutubu	6.75%	6.75%

The Group's share of assets and liabilities as at 31 December 2015 and 2014 and income and expenses of the jointly controlled operations for the years ended, which are proportionally consolidated in the financial statements, are as follows:

	2015 K	Consolidated 2014 K	Parent Company 2015 K	2014 K
Current assets				
Cash (Note 10)	(692,353)	(692,353)	(692,353)	(692,353)
Inventories (Note 12)	11,991,073	18,495,114	11,991,073	18,495,114
Other debtors and prepayments	932,602	1,762,352	932,602	1,762,352
	12,231,322	19,565,113	12,231,322	19,565,113
Non-current assets				
Property, plant and equipment	262,729,731	244,599,795	262,729,731	244,599,795
Advances to related party	–	–	104,724,949	204,883,660
Capitalised cost	641,785,722	541,785,781	–	–
Total noncurrent assets	904,515,453	786,385,576	367,454,680	449,483,455
Share of assets employed in the joint ventures	916,746,775	805,950,689	379,686,002	469,048,568
Total liability relating to the Group's interest in the joint venture				
Trade creditors (Note 17)	(2,884,038)	(8,801,352)	(2,884,038)	(8,042,204)
Net assets	913,862,737	797,149,337	376,801,964	461,006,364

Shares of the joint venture's revenue and expenses:

	2015 K	Consolidated 2014 K	Parent Company 2015 K	2014 K
Sales (Note 5)	83,434,232	138,775,108	83,434,232	138,775,108
LNG Sales (Note 5)	132,640,534	93,020,536	–	–
Cost of sales (Note 6)	(99,893,930)	(73,874,277)	(53,756,655)	(39,859,618)
	116,180,836	157,921,367	29,677,577	98,915,490

The joint venture has no contingent liabilities or capital commitments as at 31 December 2015 and 2014.

17. Trade and other payables

This account consists of:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Group tax payable	7,520	106	7,520	106
Dividend payable	25,600,000	40,000,000	25,600,000	40,000,000
Sundry creditors	2,634,980	2,229,978	2,634,980	1,314,998
Accruals	8,723	8,723	8,723	8,723
LNG trade payables	14,729,527	15,649,673	-	-
Share of trade and other payables from investment in MRDC Australia	-	1,042,018	-	1,042,018
Directors retirement	1,545,000	1,462,500	1,545,000	1,462,500
Share in joint venture (Note 16)	2,884,038	8,042,204	2,884,038	8,042,204
	47,409,788	68,435,202	32,680,261	51,870,549

Dividend payable pertains to unpaid dividend to landowners. This amount is held by the Group due to some pending litigations issues. This amount will be paid upon clearance of all pending issues.

Provision for retirement benefits represents accrued retirement benefits of Directors.

18. Deferred Restoration cost

The charge during the year is calculated on the basis of total crude oil production for the year (in barrels) to the total estimated oil reserves (barrels) in the production license area.

Rehabilitation provision represents the estimated cost of restoring the petroleum project areas to their original state at the conclusion of the project. The joint venture operator, Oil Search Limited, provides estimates of abandonment costs to each joint venture partner. Re-measurement of the liability was made to 31 December 2015 and consequently no unwinding of the interest has occurred.

The provision is not expected to be utilised within the next 12 months. The total restoration cost recognized by the Group amounted to K60 million.

19. Issued capital

	2014 K	2013 K
10,000 fully paid ordinary share (2014: 10,000)	10,000	10,000

20. Related party transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its stockholders.

Transactions with Related Parties

The following are the significant transactions and account balances with related parties:

a) Amount receivable from related parties

	Consolidated		Parent Company	
	2015 K	2014 K	2015 K	2014 K
Petroleum Resources Gobe	11,606,768	3,511,351	11,606,768	3,511,351
Petroleum Resources Moran	6,382,777	6,196,514	6,382,777	6,196,514
Mineral Resources Star Mountain	2,979,438	2,989,528	2,979,438	2,989,528
Mineral Resources Ok Tedi	16,963,957	16,943,084	16,963,957	16,943,084
Oil Search Limited (JV Operator)	6,700,684	11,579,016	6,700,684	11,579,016
MRDC – PNG	7,487,782	5,297,619	5,082,041	5,297,619
The South Pacific Pearl Hotel and Golf Course	–	7,273,693	–	7,273,693
Gas Resources Kutubu	–	–	104,724,949	204,883,660
	52,121,406	53,790,805	154,440,614	258,674,465

The Group, in its regular conduct of its business, has entered into transactions with its related parties principally consisting of cash advances, reimbursement of expenses, and cash call payments on behalf of Gas Resources Kutubu.

b. During the year, the Group paid MRDC management fee for the management services rendered by MRDC which amounted to K6.25 million (2014: K6.25 million).

The Agreement is automatically renewed and continued every three years unless either party gives to the other party a written notice to terminate the Agreement.

Key management personnel

The Group does not have employees of its own and all of its affairs are managed by MRDC. The MRDC key management is therefore Group's key management. During the period the MRDC key management received compensation amounted to K3.2 million (2013: K3.2 million).

Directors remuneration

Details of key management personnel compensation are disclosed below:

	2015	2014
	K	K
Chairman John Kapi Natto	158,740	158,740
Director Abraham Murepe	130,740	130,740
Director Sese Vege	130,740	130,740
	<u>420,220</u>	<u>420,220</u>

Long term loan

In order for participants to finance their share of the cash calls in the Papua New Guinea Liquefied Natural Gas Project (PNG LNG project), external debt was obtained. All participants including the Group are a partner to an external debt financing arrangement solely made for the purpose of financing all participants' interest in the PNG LNG project. The Papua New Guinea Liquefied Natural Gas Global Company LDC (GloCo) was set up to facilitate the borrowings process. GloCo is the borrowing entity on behalf of all the project participants. GloCo is being managed by Exxon Mobil on behalf of all the participants. The external debt is financed by a syndicate of banks termed as loan facility lenders. The loan agreement was signed and took effect on 15 December 2009. The Australia and New Zealand Banks (ANZ Bank) was appointed as the Intercreditor Agent for Loan Facility lenders.

First loan draw down of the loan by GloCo through Intercreditor Agent was done in March 2010. The proceeds from the loan is used entirely to fund 70% of all cash calls made in respect of the PNG LNG project construction costs. The ratio for debt and equity financing for all participants with respect to the PNG LNG project is 70% debt and 30% equity. As of 31 December 2015, the Group has total long term borrowing as shares in the participation in PNG LNG project amounting to K464 million (2014:K394 million).

21. Financial Instruments

The following table summarizes the fair value of those financial assets and financial liabilities in the Group's statement of financial position:

Categories of financial instruments

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Financial assets				
Loans and receivable				
Cash and cash equivalents	28,267,874	2,046,675	17,959,421	2,038,651
Trade and other receivables	84,419,689	149,581,902	63,239,285	58,216,850
Available-for-sale investments				
Unquoted shares	113,384,729	69,427,654	113,384,729	69,427,654
Quoted shares	346,153,800	332,639,412	346,153,800	332,639,412
Total financial assets	572,226,092	553,695,643	540,737,235	462,322,567
Financial liabilities				
Trade and other payables	47,409,788	68,435,202	32,680,261	51,870,549
Loan borrowings	464,147,117	393,844,260	—	—
Total other financial liabilities	511,556,905	462,279,462	32,680,261	51,870,549

The carrying amounts for cash and cash equivalents, trade and other receivables, trade and other payables and bank loans approximate their fair values due to their short-term maturity.

AFS unquoted financial assets – these are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

The Group uses various methods in estimating the fair value of financial assets and financial liabilities.

The carrying amount of financial assets and liabilities measured at fair value is principally calculated with reference to quoted prices in active markets for identical assets and liabilities. Where no price information is available from a quoted market source, alternative market mechanism or recent comparable transactions, fair value is estimated based on the Group's view on relevant future prices, net of valuation allowance to accommodate liquidity, modelling, and other risks implicit in such estimates. Movements in the fair value of financial assets and liabilities may be recognised through the income statements or in other comprehensive income. In summary, 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 quoted prices included in level 1 that are observable for the asset or liability; and

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

Financial risk management objectives

The Group's principal financial instruments comprise cash and cash equivalents, receivables, available for sale – AFS, trade and other payables and bank loans.

Exposure to credit, liquidity and foreign currency risks, interest rate arises in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate risks; and
- to provide a degree of certainty about costs

The use of financial derivative instruments (if any) is solely for management of the Group's financial risk exposure. It is the Group's policy not to enter into derivative transactions for speculative purposes.

MRDC provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Group.

Credit risk

The Group's credit risks are primarily attributable to its financial assets. To manage credit risks, the Group maintains defined credit policies and monitors on a continuous basis its exposure to credit risks. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

Financial assets comprised cash and cash equivalents, trade and other receivables, and available for sale financial assets. The Group adheres to fixed limits and guidelines in its dealing with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of internal rating systems that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings.

In respect to trade and other receivables, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis.

The table below shows the maximum exposure to credit risks for the components of the Group's statement of financial position:

	Consolidated		Parent Company	
	2015	2014	2015	2014
	K	K	K	K
Financial assets				
Cash and cash equivalents	28,267,874	2,046,675	17,959,421	2,038,651
Trade and other receivables	84,419,689	149,581,902	63,239,285	58,216,850
Available-for-sale investments	346,153,800	431,805,389	346,153,800	332,639,412
	458,841,363	583,433,966	427,352,506	392,894,913

The Group's financial assets are all high grades and not impaired.

Liquidity risk

The Group monitors its cash flows position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effect of fluctuations in cash flows. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Overall, the Group's funding arrangement are designed to keep an appropriate balance between equity and debt, to give financing flexibility while continuously enhancing the Group's business.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans.

The Group does not hold any derivative financial instruments (2014: nil).

Foreign exchange risk

Foreign currency risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign exchange risk results primarily from movements of the PNG KINA (K) against the United States Dollar (US\$). Majority of revenues are generated in US\$ and substantially all capital expenditures in joint venture.

The Group does not have any foreign currency hedging arrangements.

The Group does not hold any derivative financial instruments (2014: nil).

22. Contingencies

Various claims for damages, occurring through the ordinary course of business, existed at balance sheet date. Legal advice indicates it is unlikely that any significant liabilities will arise from these outstanding claims.

MRDC will provide necessary financial support to ensure that the Group will pay their debts as and when they fall due.

23. Remuneration of auditors

	2015 K	2014 K
Audit of the financial report	95,000	95,000

Deloitte Tohmatsu Touche is the auditor.