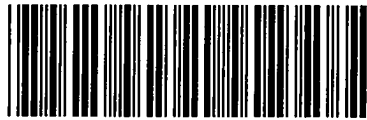


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**KEA PETROLEUM PLC**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2014**

Company No 7023751

# **KEA PETROLEUM PLC**

## **FINANCIAL STATEMENTS**

For the year ended 31 May 2014

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<b>INDEX</b>	<b>PAGE</b>
Directors and advisors	2
Strategic Report	3
- Chairman's Statement	4
- Operational Review	7
- Financial Review	9
- Health, Safety and the Environment	10
- Principal risks and uncertainties	11
- Statement of directors' responsibilities	14
Report of the Directors	15
Corporate Governance	
- Chairman's Governance Report	17
- Boards and Committees	17
- Remuneration report	20
Independent auditor's report	22
Principal accounting policies	24
Consolidated statement of comprehensive income	33
Consolidated statement of financial position	34
Consolidated statement of changes in equity	35
Consolidated statement of cash flows	36
Notes to the financial statements	37
Independent auditor's report on the Company financial statements	48
Company balance sheet	50
Notes to the Company financial statements	51

# **KEA PETROLEUM PLC**

## **DIRECTORS AND ADVISORS**

<b>Company Registration Number</b>	7023751
<b>Registered Office</b>	5-8 The Sanctuary London SW1P 3JS
<b>Directors</b>	Ian Gowrie-Smith (Chairman) David Lees (Executive Director) Peter Wright (Finance Director) Peter Mikkelsen (Non-Executive Director) John Bentley (Non-Executive Director)
<b>Secretary</b>	David Smith
<b>Nominated Advisor and Broker</b>	WH Ireland Limited 24 Martin Lane London EC4R 0DR
<b>Solicitors</b>	Fasken Martineau LLP 17 Hanover Square London W1S 1HU
<b>Auditors</b>	Grant Thornton UK LLP The Explorer Building Fleming Way Manor Royal Crawley West Sussex RH10 9GT
<b>Bankers</b>	Coutts & Co 440 Strand London WC2R 0QS
<b>Registrars</b>	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

# KEA PETROLEUM PLC

## STRATEGIC REPORT

The Directors of the Company and its subsidiary undertakings (which together comprise “the Group”) present their Strategic report for the year ended 31 May 2014.

The Strategic Report is a new requirement of the Companies Act for the year ended 31 May 2014 which is intended to provide a fair review of the Company, its performance and the challenges it faces.

The review of the business and operations, including key factors likely to affect future development are included in the Chairman’s Statement and Operational Review. The financial review includes analysis of the business of the Company during the financial year and the position of the Company at year end.

The Strategic Report, as set out on pages 3 to 14, has been approved by the Board.

### Principal activity

The Company's principal activity is to act as a holding Company for the Group's activities in oil and gas exploration and production.

### Strategic Vision

The strategic vision is to increase reserves and production from our existing discovery, while continuing to explore the potential of our current portfolio.

### Drill and discover

- Drill as many material wells per year as possible
- Spread risk and cost optimally
- Partner with strong aligned companies

### Monetise assets

1. Exploit drilling success

### Generate revenue and create value for stakeholders

- Fund wells from cash flow
- Achieve tax efficiency

### Key Performance Indicators (“KPI’s”)

Production - Barrels of oil per day (“bopd”)

2014 – 89

2013 - 37

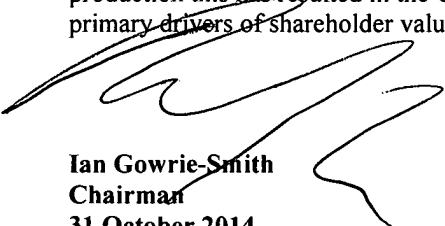
### Exploration activities

Wells Drilled

2014 - 0

2013 - 2

With the continued production from the Puka field and the move from exploration to exploration and production this has resulted in the Group identifying the daily production and drilling of further wells as the primary drivers of shareholder value.



**Ian Gowrie-Smith**  
Chairman  
31 October 2014

# KEA PETROLEUM PLC

## STRATEGIC REPORT

### CHAIRMAN'S STATEMENT

Dear Shareholders,

In the February Chairman's Statement I said that it had been challenging times and that has certainly continued to be the case. The recent failure of Puka-3 to be a commercial discovery was a great blow to the company and I know to all shareholders. It was particularly frustrating in view of the progress the company had made in all other respects in the intervening period. Production problems were fixed and production subsequently has been at a stable level; management had been streamlined; a farm-out partner for Puka, MEO New Zealand Limited ("MEO") was found on favourable terms and funding obtained to enable the drilling of Puka-3 and all operations to continue.

#### **Puka**

Unfortunately, the discovery that the oil /water contact at the Puka field was 30 metres higher than expected has likely reduced the total potential reserves significantly and we are currently reviewing the remaining Mt Messenger prospects within the permit. It would be fair to say that the experience of all the current players in the Taranaki Basin, who are endeavouring to make commercial sense out of Mt Messenger plays, has been a struggle. However there is a silver lining to all this.

As a result of all the drilling and 2D and 3D seismic we have carried out on the permit and particularly the Douglas well, together with the 3D, MEO and ourselves have become excited about the prospect of a newly mapped structure, called Shannon, directly underneath the Puka field. The Shannon structure is not a sand reservoir like the Mt Messenger in Puka. Instead it is limestone and is the same as in the Waihapa oil field immediately west of Puka, that has produced 23.6 million barrels of oil ("MMbbl") to date. Fractured limestone reservoirs such as Waihapa have the characteristics of very high flow rates. Wells brought into production at Waihapa have had initial flow rates from between 1,000 barrels of oil per day ("bopd") to 10,000bopd. Current analysis indicates that the Shannon structure is approximately half the size of Waihapa and has a  $P_{50}$  of 10MMbbl, far greater than expectations of the Mt Messenger reservoir.

Kea drilled the Douglas well some two years ago into the limestone, but never completed testing it. Douglas intersected oil shows in the top 15 metres of the limestone, which may indicate a potential oil column just before it punctured a huge volume of underlying water. Recent structural interpretation suggests the limestone intersected there is some 350 metres low, compared to the crest of the structure under the Puka production site.

As previously advised, Kea was particularly pleased to have entered into a farm-out agreement with MEO. This farm-out agreement has meant a great deal to the company, as it incorporated not only the drilling of Puka-3 but also work over of Puka-2 well and installation of permanent pipework at the well site. Additionally, we have found access to MEO's pool of talent useful in helping to define both the Puka Mt Messenger field as well as the Shannon prospect.

#### **Mauku**

On 10 October 2014, New Zealand Petroleum & Minerals (NZP&M), the government oil and gas regulatory agency, approved a new committed stage of the work programme in respect of Petroleum Exploration Permit 381204. The permit is located part on shore and part off shore in North Taranaki.

Kea drilled Mauku-1 on PEP381204 during Q2 2013. Mauku-1 intersected good quality Mangahewa "C" sands (161m net thickness) in a sub-thrust target. However, the sands were water wet.

Remapping of the seismic data, using 123km of new pre-stack depth migration 2D post Mauku-1, shows the well was drilled significantly down-dip of a 20 km<sup>2</sup> structural closure at Mangahewa level and shows a larger closure at mid-Cretaceous Taniwha formation level. The new work programme, comprising 15km of 2D land-based seismic reflection data, will extend the data coverage over the 20 km<sup>2</sup> structural closure at Mangahewa level. This will help to define a better well location. Kea is in discussion with potential industry partners to farm-out the Mauku prospect.

We are pleased to have come to an agreement with NZP&M that eliminates the need to commit to, and finance, the drilling of Mauku-2 during the coming 12 months and replaces it with a relatively inexpensive seismic

# KEA PETROLEUM PLC

## STRATEGIC REPORT

programme.

### **Mercury**

The Company continues to have discussion with NZP&M regarding the ongoing commitments and work programme on this permit.

### **Management**

During the year Richard Parkes left the company after working out his 6 months' notice.

We were very fortunate that Ian Brown, former Chief Operating Officer of New Zealand Energy Corp. ("NZEC"), a New Zealand resident, was able to pick up the role of MD and the transition has gone smoothly. NZEC is Kea's immediate neighbour to the Puka permit and Ian's experience, as well as local connections, in dealing with the challenges of Mt Messenger deposits and Puka in particular, has proved invaluable.

Our Finance Director, Peter Wright, has agreed to extend his initial two year stay in New Zealand in order to ensure that the Company has continuity at managerial level.

### **Funding**

Despite the stock market's negative initial reaction to the financial funding arrangements that we have with Darwin, the company has been well served by them. Funding through the traditional placings and rights issues remains closed, essentially for the whole sector. Ironically, the comfort that Kea is funded from this relationship with Darwin, despite its dilutive downside, appears to be a bigger positive than the fear of how companies such as ours might otherwise get funding in the future.

### **The Past and the Future**

Undoubtedly being an investor in oil and gas exploration and production is risky and challenging. The recent failure of Puka-3 was a bitter and unexpected blow, to the company, our farm-in partner, to myself and the larger shareholders and in particular, to the legions of shareholders and share traders who risked alongside us hoping and expecting success.

However, the philosophy and strategy of Kea has been to balance our exploration portfolio between cheaper lower risk, lower reward wells and the high risk, high reward plays. It is only in targeted, high reward success that shareholders can hope to get the kind of return they deserve for the risks associated with owning small, speculative oil and gas explorers. Since listing in 2010, Kea has been involved in the drilling of 9 wells (8 as operator), has acquired 146km of onshore 2D seismic data, 100km<sup>2</sup> of offshore 3D seismic data, 50km<sup>2</sup> of onshore 3D seismic data, reprocessed over 1,800km of old 2D seismic data and constructed a production station on the Puka site capable of handling up to 800 bopd.

Our goal is to try and maximise the return to our shareholders by mitigating risks through farm-ins and farm-outs, as well as bringing the best possible talent on board to assess opportunities and to manage our operations. I feel Kea has succeeded in doing both and has been consistent in pursuit of its strategy.

Looking back, Kea has been involved in the farm-out of three of our wells covering both high and lower reward prospects.

- Beluga-1 exploration well, with a target of 500 billion cubic feet ("Bcf") of gas and 20MMbbl of condensate, in which Kea retained 100% interest in the permit and offloaded 100% of the cost;
- Mauku-1 exploration well with target of 485Bcf gas and 27MMbbl of condensate, in which Kea retained 100% interest in the permit and offloaded 50% of the cost;
- Puka-3 appraisal well, targeting thicker Mt Messenger sands, in which Kea retained a 70% interest in the permit and offloaded 80% of the cost.

Although the above wells were unfortunately unsuccessful, we have to be careful in defining the words "failure" and "unsuccessful", because each well teaches us an enormous amount about the prospectivity of further drilling. In the case of Beluga, it downgraded the future potential of that licence and area. In the case of Mauku, it has been the opposite in that it has provided us with a sign post to where we are more likely to make a discovery. In the case of Puka-3, whilst it has diminished the reserve potential of the Puka field, it has also highlighted the remaining Mt Messenger targets. Finally, in the case of Douglas-1, along with the 3D seismic,

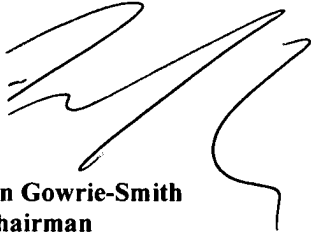
## **KEA PETROLEUM PLC**

### **STRATEGIC REPORT**

we now have a sign post to a whole new, potentially large deposit, the Shannon prospect, derisked from a pure exploration play.

In terms of management skills in identifying probable locations for hydrocarbon accumulations, I can't fault the talent we have and my special thanks to the current and past team.

As to the future, we can't afford not to drill the new Shannon structure: it's too exciting and too prospective, and MEO and ourselves are finalising drill target and funding discussions. It's worth shareholders supporting this effort, because success here would lead to a whole new and different chapter for the company.

A handwritten signature in black ink, appearing to read 'Ian Gowrie-Smith', with a long, sweeping underline.

**Ian Gowrie-Smith**  
**Chairman**  
**31 October 2014**

# **KEA PETROLEUM PLC**

## **STRATEGIC REPORT**

### **OPERATIONAL REVIEW**

Over the past year Kea has continued with its exploration program on the Company's New Zealand Petroleum Exploration Permits (PEPs) and has also continued testing of two wells located at the Puka well site in Taranaki. The Puka-1 and -2 discoveries continue to provide cash flow for Kea as the company transitions from being purely exploration focused to being a business based on both exploration and production.

The major activities for the year were:

- Installation of gas generators on Puka site to utilise gas for onsite power
- Farm-out of PEP51153 licence to MEO New Zealand Pty Ltd
- Replacement of downhole pump in Puka-2
- Reprocessing of offshore 3D seismic for Mercury area
- Installation of permanent pipework at Puka site and drilling of Puka-3 (subsequent events)

These activities are discussed in more detail below by licence area.

#### **PEP51153**

PEP51153 is located onshore in Taranaki, New Zealand and contains the Puka discoveries and the suspended Douglas well.

Puka-1 was been completed in Mt Messenger Formation reservoir sands, and was first flow tested in August 2012. Analysis of the initial flow and downhole data confirmed that the discovery was of commercial size. Flow testing has continued under natural reservoir pressure. Following an initial period of decline, flow appears to have stabilised at a rate of about 55bopd. However it is expected that at some unknown future time, reservoir pressures will drop to a point where artificial lift will be required to continue oil production.

Puka-2 testing commenced in late March 2013, and has continued with a short break while a replacement downhole pump was installed. Over 47,000bbl's and 388 Million Cubic Feet of Gas (MMCF) have been produced on test to May 31 2014 from Puka-1 and Puka-2. Oil production has been consistent at around the 110bopd since production at Puka-2 was brought back online in June 2014.

Temporary rental production facilities at Puka have been replaced with permanent equipment to reduce operating costs. Significant savings have been made by replacing the diesel generators with gas fired generators.

The majority of gas produced to date has been flared, however a study of gas utilisation options, including a gas pipeline to a nearby processing station, as well as electricity generation onsite for sale into the grid has been commissioned. This work is being carried out by a Wellington based energy consulting company.

Puka-3 was spudded from the Puka well site pad on 22 July 2014. The well reached total depth (TD) of 2,200m on 13 August 2014, and a comprehensive logging programme was carried out by Schlumberger, with final results not available to management until 16 August 2014. At that point, the decision was made to plug and abandon the well.

The high quality Puka 3D seismic survey data, recorded in December 2012, has been further reprocessed by MEO, with subsequent improved imaging of the main hydrocarbon reservoir horizons. The data continues to be used as one of the key data sets that guides the location of future drilling targets.

#### **PEP 381204**

Following the drilling of Mauku-1, post well studies have been undertaken. These include remapping of the seismic data, and 123km new PSDM data that shows the well was drilled significantly down dip of a 20 km<sup>2</sup> structural closure a Mangaheua level, and a larger closure at mid-Cretaceous Taniwha Formation level.

Management have estimated the recoverable resource potential in this part of the permit is in the 63 to 700Bcf range, with a P<sub>50</sub> estimate of 215Bcf. The associated condensate resource potential is 3.8 to 42 MMbbl, with a P<sub>50</sub> of 12.9 MMbbl. A larger resource at multi-Trillion cubic foot size could be present at Taniwha level.



## **KEA PETROLEUM PLC**

### **STRATEGIC REPORT**

To advance further exploration in this permit, including drilling a well into the updip structure north of Mauku-1, Kea has entered into confidentiality agreements with various potential farm-in partners.

#### **PEP52333**

Interpretation of the high quality 3D seismic data acquired over the permit in the previous year has been interpreted by the Kea geology and geophysics team in Wellington.

One of the prospects, Mercury, that is being worked up to a drill ready target is a large 3-way dip and fault closed prospect. The reservoir comprises a relict early Miocene proximal basin-floor sandstone, with onshore correlative sands. There is a proven hydrocarbon source present, and there were live oil and gas shows in the Miocene sections of offset wells.

Management have estimated an original oil in place prospective resource potential of 108 – 688 MMbbl (P<sub>90</sub> – P<sub>10</sub>). The company is actively promoting the opportunity to interested farm-in participants.



**Ian Brown**  
**Managing Director – New Zealand**  
**31 October 2014**

# KEA PETROLEUM PLC

## STRATEGIC REPORT

### FINANCIAL REVIEW

The Group's loss for the year was £3,819,000 of which £1,571,000 comprised the write-offs of the exploration permit PEP52333. This represents a decrease of £5,532,000 over the previous losses. Cash balances as at 31 May 2014 were £823,000. Net administrative expense for the year decreased by £870,000. The Company embarked on numerous cost-cutting measures throughout the period under review. This has seen combined employee and Board levels drop from 17 to 10 with associated savings over the period. The costs of the London office continue to be offset by the sub-letting of the office space. Operational cost saving was achieved with the installation of gas generators on the Puka site to replace diesel generators, the in-house servicing of the wax cutting unit and prudent site management to reduce well downtime. The installation of the permanent pipework in July 2014 has further reduced the monthly operational costs.

During the year the company impaired exploration and evaluation expenditure by an amount of £1,571,000 which were for all costs in licences PEP52333, PEP381204 and PEP51155 as the latter was relinquished during the period and at year end there was no certainty regarding further exploration in either PEP52333 or PEP381204. No impairment was made against PEP 51153 (Puka) as a result of the prospectivity of the deeper Shannon play. A depletion charge, of £281,000, based on the Depletion policy in note i was charged against Production & Development and included in the cost of sales calculation. The company also allocated an amount of £649,000 to Production and development assets (note 7B) and £632,000 to Plant & Equipment.

Revenue for the period increased by £1,258,000 to £2,087,000 as a result of sales of hydrocarbons associated with production from both Puka 1 and Puka 2.

In January 2014 the Company entered into the first of three deals concluded with Darwin Strategic Limited ("Darwin") for the issue of £1,200,000 of Convertible Loan Notes and an Equity Financing Facility of up to £5,000,000. Under this deal the following shares were issued:

- January 2,823,529 shares;
- February 39,204,437 shares;
- April 10,240,785 shares;
- May 11,805,463 shares.

In May 2014 the Company entered into a further agreement with Darwin for £2,000,000 of Convertible Loan notes. Under the May deal £400,000 of the January CLN's fell away and the EFF agreement was cancelled. Under the new deal the following shares were issued:

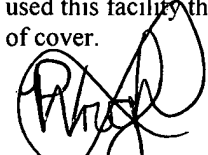
- May 3,589,743 shares.

In total the Company issued 67,663,957 shares to Darwin in the period in settlement of Convertible loan notes and fees and received £720,000 under the first agreement and a further £900,000 under the new agreement in funding for the year under review.

In addition in May 2,295,908 shares were issued to Directors at 1.95p in lieu of salary of £44,770 that had been on hold since October 2013, 3,680,198 shares were issued to Gresham Limited in settlement of an outstanding invoice of £69,923 and 4,000,000 shares were issued to Ardel Trust for the benefit of Ian Brown under the Overseas Employee Share Benefit Trust scheme.

The exchange movement for the year showed a loss of £1,044,000 arising primarily on the company's NZD balances and assets. The year end exchange rate of NZ\$1.9714/£ was significantly higher than the rate at the start of the year (NZ\$1.8946/£), averaging around NZ\$1.9571/£ through the year.

In December 2013 the company agreed a bank facility, based on sales and stock delivered, in order to allow better management of cashflows from the sale of hydrocarbons. During the period under review the company used this facility three times. Kea is currently assessing this facility to ensure that it is providing a suitable level of cover.



**Peter Wright**  
**Finance Director**  
**31 October 2014**

# **KEA PETROLEUM PLC**

## **STRATEGIC REPORT**

### **HEALTH, SAFETY AND THE ENVIRONMENT (“HSE”)**

Kea is a safety conscious and environmentally responsible company that is committed to providing a safe place of work and to operating in a manner that ensures that the highest standards of safety and environmental protection are maintained. Kea values the safety of its staff, contractors and the wider community in which it operates.

As standard practice, the company:

- strives for best practice in HSE performance
- complies with and where possible exceeds legislative requirements
- identifies, assesses and manages environmental health and safety hazards, risks and impacts
- promotes continuous improvement practices within all aspects of the business
- minimises work place exposure to hazards

#### **Social Licence to Operate**

Kea believes that continuous improvement in the areas of environment, community and stakeholder relationships and safety is fundamental to ongoing sustainability, success and to maintaining the company's social licence to operate.

The company is looking to build its reputation as a responsible organisation with a social licence to operate by:

- being a part of the community not apart from it
- working closely with neighbours and co-occupiers of the land and respecting their land use requirements and accommodating them as far as possible
- respecting the culture and traditions of all members of the local communities
- providing public information about environmental, community, health and safety aspects of the business.

Kea is striving to foster lasting and tangible relationship with the local communities and stakeholder groups where it works, and is aware that in addition to regulatory operating approvals, the company also requires a social licence to operate, and that acceptance has to be earned. Kea is committed to working in an effective and collaborative manner with local communities that co-exist with its operations. To achieve this Kea will continue to:

- establish and maintain positive and meaningful communication with all affected parties,
- consult with the people whose land may be affected by its activities,
- work collaboratively with other land users and affected parties to minimise the negative impacts of the company's operations and maximise the benefits to the community.

Kea has strict anti-bribery procedures and policies in place and strives to ensure that its employees and contractors are aware of and observe these at all times in carrying out the company's business.

### PRINCIPAL RISKS AND UNCERTAINTIES

#### 1. Company specific risks

##### **Ability to exploit successful discoveries**

It may not always be possible for the Group to participate in the exploitation of any successful discoveries which may be made in any areas in which the Group has an interest. Such exploitation will involve the need to obtain, in addition to funding, the necessary licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretions by such authorities. It may or may not be possible for such conditions to be satisfied. In addition, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as the Group's. Such further work may require the Group to meet or commit to financing obligations for which it may not have planned. The Group attempts to mitigate this risk by regular meetings with the authorities relating to ongoing and proposed projects in order to gain a clear understanding of what is required prior to proceeding.

##### **Decommissioning costs**

The Group may become responsible for costs associated with abandoning and reclaiming wells or facilities which it may in the future use for production of oil and gas. Abandonment and reclamation of facilities and the costs associated therewith is often referred to as "decommissioning". There are no immediate plans to establish a cash reserve account for these potential costs, rather, the costs of decommissioning are expected to be paid from proceeds of production in accordance with the practice generally employed elsewhere in the industry. Should decommissioning be required, the costs of decommissioning may exceed the value of hydrocarbon resources remaining at any particular time to cover such decommissioning costs. The Group will mitigate this risk through careful planning of the production phase to take into account the implications of decommissioning.

##### **Cash flow and financing risk**

The ability to finance the licence commitments and to further develop the business depends upon cash flow from current producing assets as well as finance from various sources, including the capital markets, farm-downs and debt finance. In the event that sufficient funds are unavailable it would have a material adverse effect on the Group's ability to conduct operations. The Group attempts to mitigate this risk by maintaining an ongoing dialogue with known providers of financing.

##### **Availability of equipment, supplies and crews**

Some of the principal resources necessary for the exploration and development of oil and gas are drilling rigs, related equipment and suitably qualified and experienced crews to drill for and produce oil and gas reserves. A shortage of drilling equipment and supplies could increase the costs and delivery times of equipment and supplies. There can be no assurance that necessary drilling equipment, supplies and crews will be available on satisfactory terms. Any such shortages or material price increases could delay and adversely affect the Group's exploration activities, its ability to exploit any hydrocarbons that may be discovered and its operations and profitability. The Group mitigates this risk by taking particular care in the ordering of long lead items to ensure that they are ordered and supplied well in advance of any proposed drilling program.

#### 2. Resource sector risks

##### **General exploration, development and production risks**

There are risks inherent in the exploration and development of oil and gas reserves. Whilst the rewards can be substantial, there is no guarantee that exploration will lead to commercial discoveries. Exploration and production activities by their nature involve significant risks.

Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Risks such as delays in the construction and commissioning of drilling platforms or other technical difficulties, lack of access to key infrastructure, adverse weather conditions, environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected geological

# KEA PETROLEUM PLC

## STRATEGIC REPORT

formations, explosions and natural phenomena are inherent to the business. Although in many cases these represent insurable risks, the Group may also become subject to other hazards (including pollution and oil seepage liability) against which it is not insured (for example where insurance is not available) or is under insured. The Group mitigates this risk by ensuring that its insurance covers the majority of the risks and that comprehensive HSE plans are in place to deal with any pollution and or seepage.

Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharges or toxic gases, the occurrence of any of which could result in substantial losses to the Group due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Damages occurring as a result of such risks may give rise to claims against the Group which may not be covered, in whole or part, by insurance. The occurrence of any of these incidents can result in the Group's current or future project target dates for drilling or production being delayed or interrupted, increase capital expenditure and production costs and result in liability to the contractors or operator of the field. The Group mitigates this risk by close management of the contractors on all its ongoing projects.

### **Dependence on key personnel**

In common with other services and businesses in this industry sector, the Group's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The success of the Group is, and will continue to be to a significant extent, dependent on the expertise and experience of the directors and senior management. The Group will compete with numerous other oil and gas companies (many of which will have greater resources) and individuals in the search for and acquisition of oil and gas assets, as well as for the recruitment and retention of qualified employees and contractors. The Group mitigates this risk by offering competitive packages to employees along with the share option plans.

### **Environmental risks**

The Group's operations are subject to the environmental risks inherent in the exploration industry. The Group is subject to environmental laws and regulations in connection with all of its operations. Although the Group intends to be in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other circumstances that could subject the Group to extensive liability which it may be unable to or unwilling to cover by insurance.

Further, the Group may require approval from the relevant authorities before it can undertake activities which are likely to impact the environment. Failure to obtain such approvals will prevent the Group from undertaking its desired activities. The Group is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Group's cost of doing business or affect its operations in any area. The Group maintains regular communication with all the relevant regulatory authorities and is part of the industry body in New Zealand that makes submissions on the behalf of members regarding any proposed changes to legislation.

### **Commodity prices**

The market price of hydrocarbons products is volatile and when the price of hydrocarbons drops significantly the economic prospects of the projects currently involved in, or considered, can be significantly reduced or rendered uneconomic. The Group seeks to mitigate this risk through careful planning of projects, however they may be exposed to any longer term declines in commodity prices.

## **3. General Risks**

### **Share price volatility and liquidity**

The share price of publicly traded emerging companies, particularly those in the natural resources sector, can be highly volatile. The price at which the Ordinary Shares will be traded and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors; some specific to the Group, its proposed operations and the ability to successfully implement its intended plans; and some which may affect quoted companies generally. These factors could include the performance of the Group's operations, large purchases or sales of Ordinary Shares, liquidity (or absence of liquidity) in the Ordinary Shares, currency fluctuations, legislative or regulatory changes and general economic conditions. The value of the Ordinary

## **KEA PETROLEUM PLC**

### **STRATEGIC REPORT**

Shares may go down as well as up. The Group mitigates this risk by continued communication of news through regulatory reporting and through the Company website.

The risks noted above are considered the key risks faced by the Group and do not include generic risks that face all businesses, nor are they intended to be presented in any assumed order of priority.

#### **Financial risk management**

Information relating to the Group's financial risk management is set out in note 16 of the financial statements.

**STRATEGIC REPORT**

**Statement of directors' responsibilities - Group and parent Company**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Accounting Standards and applicable laws. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss of the Company and the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable IFRSs / UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to the auditor**

The directors confirm that:

- so far as each director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken, as directors, to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

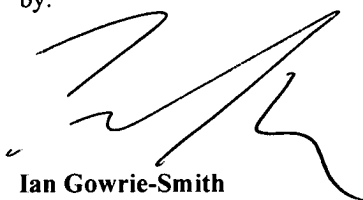
**Auditor**

Grant Thornton UK LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be put to the Annual General Meeting.

**ANNUAL GENERAL MEETING**

A notice of the 2014 Annual General Meeting, together with an explanatory letter and a form of proxy, are enclosed with this report.

The Strategic Report as set out on pages 3 to 14 is approved by the Board of Directors and signed on its behalf by:



**Ian Gowrie-Smith**  
**Chairman**  
**31 October 2014**

# **KEA PETROLEUM PLC**

## **REPORT OF THE DIRECTORS**

### **REPORT OF THE DIRECTORS**

The directors present their report together with the financial statements for the year ended 31 May 2014.

The Company's subsidiaries are listed in Note 19.

#### **Business review**

A review of the business during the year and an indication of likely future developments may be found in the Chairman's Statement, the Operational Review and the Financial Review.

The consolidated loss for the financial period after taxation amounted to £3,819,000 (2013:£9,351,000).

#### **Directors**

The directors holding office during the period are set out below:

I R Gowrie-Smith  
D J Lees  
P Wright  
R Parkes (Left Office May 2014)  
J Bentley  
P Mikkelsen  
John Dennehy (Resigned June 2013)

#### ***Biographic details***

##### **Ian Gowrie-Smith (66)**

##### **Non-Executive Chairman (Member of Audit and Remuneration Committees)**

Ian has been a founder and developer of mining and pharmaceutical public companies over the past 30 years. He was the founding Chairman of SkyePharma plc. Prior to establishing SkyePharma, Ian was founding Chairman of Medeva plc and Griffiths Bros. Limited, which listed TiO2 Corporation. He was Chairman of Tiberon Minerals Limited prior to its acquisition by Dragon Capital and also Chairman of Rift Oil plc prior to its successful sale to Talisman Energy in 2010.

##### **Peter Wright (45)**

##### **Finance Director**

Peter Wright holds a Bachelor of Commerce Degree in Economics from the University of Cape Town. Peter was previously Finance Director of Triple Plate Junction plc and prior to joining Triple Plate Junction, Peter acted as a consultant on audit, accountancy and corporate finance matters for a number of AIM listed companies. Peter was also previously Finance Director of Rift Oil plc prior to its successful sale to Talisman Energy in 2010.

##### **David Lees (67)**

##### **Executive Director (Member of Audit Committee)**

David has extensive experience in the management and promotion and financing of public companies. David was a founding director of Griffiths Bros. Limited, Medeva plc, NamesCo plc, Rift Oil plc, Triple Plate Junction plc and SkyePharma plc, and is, together with his role in Kea currently Chairman of Automotive and Insurance Solutions Group Plc as well as a director of Metis Biotechnologies plc and Ventutec Limited.

##### **John Bentley (66)**

##### **Non-Executive Director (Member of Audit and Remuneration Committees)**

John has over 40 years experience in the natural resources sector in Africa, South America, North America and Europe including time with the Gencor Group and Energy Africa Limited, which he took through the listing process in South Africa. John was Chief Executive Officer of Energy Africa for five years, building it up to be one of the leading independent exploration and production companies in the region. John is currently chairman or director of a number of public companies including Faroe Petroleum plc, Wentworth Resources Ltd, Caracal Energy Inc and Scotgold Resources Ltd. John was previously a Non-Executive Director of Rift Oil.



# KEA PETROLEUM PLC

## REPORT OF THE DIRECTORS

### Peter Mikkelsen (61)

#### Non-Executive Director (Member of Remuneration Committee)

Peter is a geologist with over 30 years of upstream oil industry experience, including 15 years at exploration manager level or equivalent. Peter joined Carless Exploration Ltd, working on its UK onshore and offshore portfolio and was primarily responsible for onshore discoveries in the early 1980s. Peter became Vice President of Exploration of Carless's US subsidiary in 1986 and then returned to the UK to join Brabant in 1988. As exploration director, Peter was involved in a number of North Sea discoveries, including Malory, Hannay and Goldeneye, together with an expansion of Brabant's international portfolio into Europe and Tunisia. Over the past 12 years, Peter has worked as an independent, international consultant, with particular focus on Africa, Mediterranean and Australasia. He was previously a Non-Executive Director of Rift Oil.

### Substantial shareholders

At 30 October 2014 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's shares.

Beneficial interests	Shareholding	%
Thornaby Limited	70,165,140	7.5%
Ocarina Investments Limited	67,951,692	7.2%
Nigel Wray	29,803,570	3.2%
Jürg Marquard	29,033,253	3.1%

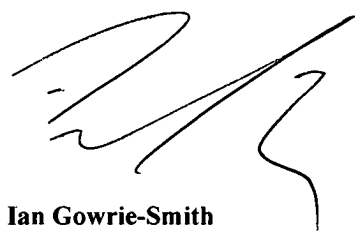
Thornaby Limited is a company wholly owned by the trustees of the I R Gowrie-Smith Family Settlement, of which I R Gowrie-Smith is a beneficiary.

Ocarina Investments Limited is a company wholly owned by the trustees of the D J Lees Family Settlement, of which D J Lees is a beneficiary.

### Dividends

The directors do not recommend the payment of any dividends

Approved by the Board of Directors and signed on its behalf:



**Ian Gowrie-Smith**  
Chairman  
31 October 2014



**Peter Wright**  
Finance Director  
31 October 2014

# KEA PETROLEUM PLC

## CORPORATE GOVERNANCE

### CHAIRMAN'S GOVERNANCE REPORT

The Board of Directors is accountable to the Company's shareholders for good corporate governance. Strong corporate governance coupled with relevant and practical internal policies ensure Kea continues to operate at a high standard of business professionalism.

The Company has established subcommittees of the Board, comprising an Audit Committee and a Remuneration Committee, each of which has its own written terms of reference. A copy of these terms of reference is available on the Company's website.

The Directors recognise the importance of sound corporate governance and whilst we do not comply with the UK Corporate Governance Code, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the company and best practice.

The Company has a Code of Business Conduct and Ethics and an Employee Handbook containing all Group policies and procedures. Kea's corporate governance framework, which includes all these policies and procedures, is considered a fundamental driver in our approach to business, and our commitment to strong governance will remain central to the business during the years to come.

**Ian Gowrie-Smith**

**Chairman**

**31 October 2014**

### BOARDS AND COMMITTEES

#### Workings of the Board and Committees

At 31 October 2014 the Board comprised of 3 non-Executive Directors, one of whom is the Chairman, and two executive Directors. The Board is responsible to the shareholders for the proper management of the Group. Regular Board meetings are scheduled to take place throughout the year plus other ad hoc meetings as are deemed necessary to deal with urgent matters. All major policies are approved by the Board including performance reviews, approval of major capital projects, set strategy and to deal with other financing matters. All Directors are subject to election by shareholders at the first AGM after their appointment and to re-election by shareholders of at least 1/3 of the Board each year.

The Chairman, Executive Directors and Non-Executive Directors have other third party commitments including Directorships of other companies as disclosed in their biographies. The Company is satisfied that these commitments have no adverse impact on the ability to discharge their responsibilities effectively.

The Company Secretary's services are available to all members of the Board. The appointment and removal of the Company Secretary is a decision for the Board as a whole.

	<u>Scheduled</u>	<u>Special Purpose<sup>4</sup></u>	<u>Audit Committee</u>	<u>Remuneration &amp; Nominations Committee</u>
Meetings held during year	7	6	2	-
<u>Attendance</u>				
Richard Parkes <sup>1</sup>	7	5	N/A	N/A
Peter Wright <sup>2</sup>	7	6	2	N/A
David Lees	7	6	2	N/A
Ian Gowrie-Smith	7	6	2	-
John Bentley	7	5	2	-
Peter Mikkelsen	6	5	N/A	-
John Dennehy <sup>3</sup>	1	N/A	N/A	N/A

# KEA PETROLEUM PLC

## CORPORATE GOVERNANCE

1. Richard Parkes left office in May 2014.
2. During the year Peter Wright attended the Audit Committee meetings by invitation as he is not a member of the Committee.
3. John Dennehy stepped down from the Board in June 2013.
4. These meetings typically involve approval of specific transactions.

### Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics sets out the Group's policy in relation to the payment of bribes (including facilitation payments), conflicts of interest, gifts and hospitality, charitable and political donations, and business relationships generally.

The Code states clearly that the direct or indirect offer or payment of bribes in any form is unacceptable, as is the solicitation or receipt of bribes from others, and that the payment of money or the provision of gifts or services to public officials in order to influence them in any decision concerning the Group is strictly prohibited.

### Employee Handbook

The Employee Handbook contains the Group's policies and procedures governing such matters as the workplace environment (including non-discrimination, harassment, substance abuse, and employment of family members), grievance and disciplinary procedures, maternity and paternity leave, corporate disclosure, share dealing, health & safety and information technology.

### Health, Safety & Environment Policy

A primary goal of the Group is the protection of Health, Safety and Environment ("HSE"). This policy, whose implementation is overseen by the CEO / MD, governs the Group's operations and is specifically designed to:

- comply with relevant HSE legislation, regulations and other requirements;
- maintain and develop systems to identify, assess, monitor, review and control HSE issues;
- set HSE objectives and targets;
- implement mechanisms to communicate with and to obtain input from employees, contractors, partners and associates;
- coordinate HSE policy, including the HSE management systems of contractors, to provide a unified system to guide operations; and
- institute a site-specific Emergency Response Procedure ("ERP") so that immediate actions are taken, without delay, to minimise danger to personnel, the environment and property. ERPs will be rehearsed prior to commencing operations to ensure that personnel make the appropriate responses in the event of emergency.

### Board of Directors

Regular Board meetings are scheduled to take place throughout the year plus other ad hoc meetings as are deemed necessary to deal with urgent matters. All major policies are approved by the Board including acquisitions, disposals and major capital expenditure. In addition, approval of the annual budget is performed by the Board.

- The Company does not combine the role of Chairman and Chief Executive Officer.
- If required, the Directors are entitled to take independent legal advice and, if the Board is informed in advance, the cost of the advice will be reimbursed by the Company.
- The Company Secretary's services are available to all members of the Board. The appointment and removal of the Company Secretary is a decision for the Board as a whole.
- All Directors are subject to re-election as per the conditions laid out
- The Board is provided with detailed Board papers in advance of each Board meeting and in addition receive regular management reports to enable it to discharge its duties.

### The Remuneration and Nominations Committee

The remuneration and nomination committee of the Company comprising Ian Gowrie-Smith, John Bentley and Peter Mikkelsen (all non-executive Directors) is chaired by John Bentley. The remuneration and nomination

# KEA PETROLEUM PLC

## CORPORATE GOVERNANCE

committee is involved in the Board appointment process by making recommendations to the Board and reviews the scale and structure of the executive Directors' remuneration, including share options and the terms of their service agreements. Directors' remuneration and terms and conditions will be determined by the Directors with due regard to the interests of the shareholders of the Company and the performance of the Group. The remuneration and nomination committee also makes recommendations to the Board concerning the allocation of share options to employees.

### **The Audit Committee**

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on, monitored and controlled. It reviews the adequacy of the Group's financial controls and provides an opportunity for the external auditors to communicate directly with the Non-Executive Directors in reviewing the Audit Findings Report from the auditors. The audit committee of the Company, comprising Ian Gowrie-Smith, David Lees and John Bentley (all non-executive Directors with the exception of David Lees who is an Executive Director) is chaired by Ian Gowrie-Smith and meets at least twice a year.

The activities of the Audit Committee responsibilities which include oversight of the external audit function, risk management, internal controls, financial reporting, and the provision by the auditors of non-audit services. The Audit Committee has the power to engage such external advisers as it deems necessary to discharge its responsibilities.

### **Relationships with Shareholders**

The Company gives high priority to its communication with shareholders by means of an active investor relations programme. This is achieved through publications such as the annual and interim report, press releases and the Group's website. Newsworthy items are issued to the market on a timely basis through press releases and, in addition, corporate information is regularly updated on the Company's website.

The Board regards the annual general meeting of the Company as an important opportunity for shareholders, Directors and management to meet, exchange views and discuss the progress of the Group. Shareholders are encouraged to attend for these purposes

### **Internal Control**

The Board is responsible for establishing and maintaining the Group's system of internal control, including suitable monitoring procedures. The procedures which include financial, operational and compliance matters are reviewed on an on-going basis.

The Group operates a budgeting and financial reporting system including the preparation of budgets and management reports on a regular basis for presentation at Board meetings. Performance against budgets is monitored and reported upon. Cash flow forecasting is also carried out on a regular basis to provide the Board and management with the necessary data to determine future financing needs.

There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

### **Takeover Code**

The Company is subject to the UK City Code on Takeovers and Mergers.

### **Adopted Codes & Policies**

The Company has adopted a model code for directors' dealings which is appropriate for an AIM quoted company. The Directors will comply with Rule 21 of the AIM Rules for Companies relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Group's applicable employees.

The Company has also adopted a policy on compliance with the AIM Rules for Companies which will apply to the Company whilst its shares are traded on AIM. Save for their interests (if any) in the share capital of the Company the Board consider each of John Bentley and Peter Mikkelsen to be independent Directors.

# KEA PETROLEUM PLC

## CORPORATE GOVERNANCE

### REMUNERATION REPORT

#### Directors' emoluments

	Salaries, fees and bonus		Benefits in kind		Pension contributions		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
<b>Executive directors</b>								
R Parkes	226	263	31	40	-	-	257	303
D Lees	44	44	5	5	-	-	49	49
P Wright	159	162	5	5	12	12	176	179
<b>Non-executive directors</b>								
I R Gowrie-Smith	30	131	-	-	-	-	30	131
P Mikkelsen	30	29	-	-	-	-	30	29
J Bentley	30	29	-	-	-	-	30	29
D Bennett	-	48	-	-	-	-	-	48
J Dennehy	3	30	-	-	-	-	3	30
J Conolly	-	14	-	-	-	-	-	14
	<b>522</b>	<b>750</b>	<b>41</b>	<b>50</b>	<b>12</b>	<b>12</b>	<b>575</b>	<b>812</b>

Contributions were made to one director's personal pension plan.

#### Service contracts

The executive directors have contracts with a six month notice period on either side. The non-executive directors have contracts with a two month notice period on either side.

#### Remuneration policy for executive directors

The Company's policy on executive director remuneration is to attract and retain high quality executives by paying competitive remuneration packages relevant to each director's role and experience and the external market. The packages include employment related benefits. Directors are incentivised to maximise shareholder value through share options.

# KEA PETROLEUM PLC

## CORPORATE GOVERNANCE

### Executive share option schemes

The interests of the directors and other staff in the options of the Company at 31 May 2014 were:

	Price (p)	Earliest exercise Date	Expiry date	Number of options at 31 May 2013	Forfeited during the period	Number of options at 31 May 2014
<b>Directors</b>						
P Wright	8.0	15/02/13	15/02/20	6,000,000	-	6,000,000
I Gowrie-Smith*	8.0	15/02/13	15/02/20	5,000,000	-	5,000,000
D Lees	8.0	15/02/13	15/02/20	5,000,000	-	5,000,000
J Bentley*	8.0	15/02/13	15/02/20	2,000,000	-	2,000,000
P Mikkelsen*	8.0	15/02/13	15/02/20	2,000,000	-	2,000,000
Other Staff	12.0	07/01/14	07/01/21	8,000,000	-	8,000,000
				<u>28,000,000</u>	<u>-</u>	<u>28,000,000</u>

\*The non-executive Directors are satisfied that having share options does not impact the role of Non-Executives.

There were no options granted during the year under the Company Share Option Scheme.

The options may only be exercised between the third and tenth anniversaries of the date of grant by a person who remains a director or employee and for a limited period following cessation of employment.

No options were forfeited during the period ended 31 May 2014. (2013: 10,000,000)

No options lapsed or were exercised during the period ended 31 May 2014. No Directors have any interest in any outstanding warrants.

### Joint Share Ownership Plan ("JSOP") and Overseas Employee Share Benefit Trust ("OESBT")

No new shares were allotted under the JSOP in 2014 (2013: 7,000,000).

For the purposes of the OESBT, the employee benefit trust subscribed for 4,000,000 new shares (2013: 8,000,000) in the Company at a price of 2.0p per share, on 27 May 2014, which was been funded by a loan from the Company. Shares held by the Overseas Share Trust retain normal voting dividend rights.

7,250,000 (2013: 0) shares in the OESBT have been forfeited and are being held pending further instructions from the Company.

Name	Hurdle Price (p)	Earliest date for realisation	Expiry Date	JSOP shares at 31/5/13 and 31/5/14	OESBT shares at 31/5/13	OESBT shares at 31/5/14
I Gowrie-Smith	10.38	08/03/2016	07/03/2023	5,000,000		
P Wright	10.38	08/03/2016	07/03/2023	2,000,000		
R Parkes	10.38	08/03/2016	07/03/2023	5,000,000	-	
J Dennehy	10.38	08/03/2016	07/03/2023	2,000,000	-	
Other Staff	10.38	08/03/2016	07/03/2023	1,000,000		4,750,000

## KEA PETROLEUM PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEA PETROLEUM PLC

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We have audited the Group financial statements of Kea Petroleum plc for the year ended 31 May 2014 which comprise the Principal Accounting Policies, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement on page 18, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 May 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Emphasis of matter - Going concern**

In forming our opinion on the Group financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note c of the Principal Accounting Policies to the Group financial statements concerning the Group's ability to continue as a going concern.

The Group incurred a loss of £3,819,000 during the year ended 31 May 2014 and the directors have prepared operating cash flow forecasts and projections which show a funding shortfall in 2015. The directors are in discussions with a potential investor to secure additional funding that would cover the shortfall, but an agreement has not yet been signed.

These conditions, along with the other matters explained in Note c of the Principal Accounting Policies to the Group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## KEA PETROLEUM PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEA PETROLEUM PLC

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#### Other matter

We have reported separately on the parent Company financial statements of Kea Petroleum plc for the year ended 31 May 2014. That report includes an emphasis of matter.



Nicholas Page  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Gatwick  
**31 October 2014**



# KEA PETROLEUM PLC

## PRINCIPAL ACCOUNTING POLICIES

### Basis of preparation

#### a. Statement of compliance

The consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and on an historical cost basis, and in accordance with the Companies Act 2006 that applies to companies reporting under IFRS.

#### b. Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Kea Petroleum plc was incorporated in September 2009. In October 2009, Kea Petroleum acquired the entire issued share capital of the recently incorporated Kea Petroleum Holdings Limited (KPHL) by way of a share for share exchange with the then shareholders of KPHL. KPHL is a New Zealand registered company with four wholly-owned New Zealand subsidiaries, namely Kea Exploration Limited, Kea Oil and Gas Limited, Kea Offshore Taranaki Limited and Kea Petroleum Limited.

The directors consider that neither Kea Petroleum nor any of the acquired subsidiaries constituted a business at the point of the reorganisation and that the business combination falls outside the scope of IFRS 3. Accordingly, the consolidated financial statements have been prepared using the pooling of interests method which the directors consider best reflects the economic substance of the transaction, which was to form a Group with exploration licences in New Zealand in preparation for an Initial Public Offering on AIM.

Accordingly, these financial statements reflect the combined results and net assets of the merged Group from 12 June 2009, being the date on which KPHL was incorporated. The difference between the nominal value of the shares issued by Kea Petroleum to the shareholders of KPHL and the nominal value of the shares of KPHL taken in exchange has been credited to a merger reserve on consolidation.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that these do not indicate evidence of impairment.

#### c. Going concern

The Group has incurred a loss of £3,819,000 for the year ended 31 May 2014. In common with other junior exploration companies, the Group is reliant on raising further funds periodically through equity finance, including share options and warrants, or possibly debt facilities to achieve its long term objectives.

The directors have prepared operating cashflow forecasts and projections which assume a minimum level of expenditure to conform with the requirements of the Group's exploration licences for the 12 months from the date of signing these financial statements, which show a funding shortfall in 2015. The directors are in discussions with a potential investor to secure additional funding that would cover the shortfall, but an agreement has not yet been signed. If the Group is unable to secure this funding and cannot find alternative sources of financial support, the Group may cease to be a going concern. In these circumstances adjustments may be required to reflect the position that assets may not be realised at the amounts currently disclosed in the Statement of Financial Position, and additional liabilities may be incurred. In addition, the Group's operating cashflow forecasts and projections include certain assumptions in relation to the level of future production and consequent revenues from the Puka Wells, which can vary due to possible fluctuations in both the oil price and foreign exchange rates.

The directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the directors have an expectation that the Group will have access to adequate resources to continue in operational existence for the foreseeable future and for these reasons, they continue to adopt the going concern basis in preparing the annual report and Group financial statements.

**PRINCIPAL ACCOUNTING POLICIES****d. Critical accounting estimates and key sources of estimation uncertainty**

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following are critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

- In applying the Group's accounting policy on oil & gas exploration assets, the Group has adopted the full cost method of accounting as set out in policy note h below. Under that method, capitalised costs are allocated to cost centres on a licence area by licence area basis. Impairment is also applied on a licence area by licence area basis and assets written off as defined in policy note l below.
- Recoverability of oil and gas assets – this assessment involves a review for impairment indicators in accordance with IFRS 6, where indicators of impairment exist the carrying value of the assets are compared to their recoverable amount, which may be assessed using expected future commodity prices, cash flows and an estimate of commercial reserves. In the current year two licences were fully impaired and there were no indicators of impairment relating to the remaining oil and gas assets. The write-off/impairment of unsuccessful expenditure relates to a full provision against all expenditure previously capitalised in relation to the Mauku-1 well (permit PEP382104) and a write-off of all costs relating to permit PEP51155.
- In the parent company balance sheet the carrying amounts of investment in subsidiaries (note 7) and amounts due from subsidiaries (note 9) are assessed for impairment with regard to the prospects of the Group's operations in New Zealand taken as a whole and with reference to the anticipated net return to the Group. The resource information relating to the exploration costs which remain capitalised within the oil and gas assets at the year-end were considered sufficient to support the carrying value of the intercompany balances.
- At the reporting date management assesses whether it is probable that future taxable profits will be available within which current tax losses available will be utilised. This assessment of the deferred tax asset is based on current reporting results and the likelihood of expected positive revenue flows in at year end.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Exploration and Evaluation Intangible Assets***

At the end of each reporting period management reviews the carrying amount of oil & gas assets on a licence area basis for indicators of impairment. Where exploration for resources in a specific licence area has not led to the discovery of commercially viable reserves and the entity has decided to discontinue exploration in that area, all previous accumulated costs capitalised in that area are derecognised and expensed in the Statement of Comprehensive Income. This assessment is based on management's judgement upon review of planned and budgeted exploration and evaluation of projects.

***Warrants and fair value of derivative liability***

The Company has estimated the fair value of the warrants and the derivative liability as set out in note 17.

***Share Options***

The Company has estimated the grant date fair value of share options as set out in note 15.

The directors consider that there are no other key sources of estimation uncertainty that have had an impact on these financial statements.

**e. Functional and presentation currencies**

The directors have determined that the functional currency of the parent company is pound sterling and that of the subsidiaries is the New Zealand Dollar. UK Sterling (£) is the presentation currency of the Group.

**PRINCIPAL ACCOUNTING POLICIES**

**f. New and amended accounting standards**

The Group has adopted all new and revised standards effective for accounting periods beginning on or after 1 June 2013. At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group. Management anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. The new standards and interpretations are not expected to have a material impact on the Group's financial statements. The relevant new standards are considered to be as follows:

Standard number and title		Summary	Effective date
<i>IFRS 9 (Amended)</i>	<i>Financial instruments</i>	• New standard that forms the first part of a three-part project to replace IAS 39 Financial instruments: Recognition and measurement	Pending
<i>IFRS 10 (Amended)</i>	<i>Consolidated Financial Statements</i>	• Has changed the definition of the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.	1 January 2014
<i>IFRS 12 (Amended)</i>	<i>Disclosures of interest in other entities</i>	• Disclosure requirements for all forms of interest in entities, including joint arrangements and associates.	1 January 2014
<i>IAS 27 (Amended)</i>	<i>Separate Financial Statements</i>	• Updated as a result of the issue of IFRS 10. Revised standard includes requirements relating to separate financial statements	1 January 2014
<i>IAS 28 (Amended)</i>	<i>Investments in Associates and Joint Ventures</i>	• Replaces current version as a result of the issue of IFRS 11. Revised standard includes the requirements for associates and joint ventures that have to be equity accounted following the release of IFRS 11.	1 January 2014

**Significant accounting policies**

**g. Foreign currency translation**

**a) Functional and presentational currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group's presentational currency is sterling.

**b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the balance sheet date rates of exchange of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

**c) Group companies**

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

- i. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates where these approximate actual rates; and
- iii. All resulting exchange differences are recognised in other comprehensive income in the statement of comprehensive income and are accumulated as a separate component of equity.

**PRINCIPAL ACCOUNTING POLICIES**

On disposal of a foreign operation the cumulative translation differences are reclassified from equity to profit or loss as a reclassification adjustment.

**h. Intangible Oil & Gas Exploration Assets - capitalised exploration and evaluation expenditure**

Exploration and evaluation (E&E) costs include the costs of property acquisition, geological and geophysical studies, drilling both productive and non-productive wells, and overhead expenses on both producing and non-producing properties directly related to these activities. E&E costs are accumulated on a project by project basis in licence area cost centres pending determination of technical feasibility and commercial viability. Projects include, amongst other items, seismic acquisition and reprocessing, drilling of wells and completion and testing of wells.

Capitalised E&E costs are carried at cost less impairment losses. If no reserves are found, the E&E asset is tested for impairment. If extractable reserves are found and, subject to further appraisal activity (e.g. by drilling further wells), are likely to be developed commercially, the costs continue to be carried as E&E assets while sufficient and continued progress is made in assessing the commerciality of the reserves.

Upon technical feasibility and commercial viability of an area of interest within a licence, the E&E costs for the area of interest (which may include unsuccessful exploration within the licence area) are reclassified, after testing for impairment, to Development and Production (D&P) assets. They are classified as either tangible (property, plant & equipment) or intangible (oil & gas interests) assets. The size of a cost centre is dependent on the area of interest and the individual projects in each area, defined by the expected geographic extent of the field, as mapped by in-house geological team.

The disposal or sale of an interest in a licence area will result in derecognition of capitalised costs attributable to that area. Any difference between proceeds received and the carrying value of attributable E&E assets is recognised in the reported net surplus / deficit reported within the Statement of Comprehensive Income.

Unproved properties are assessed for impairment when facts and circumstances suggest the carrying amount of an asset may exceed the recoverable amount by applying factors that rely on historical experience. For purposes of impairment testing, E&E assets are allocated to cash generating units, currently defined on a licence area basis. The Group undertakes an impairment test in the following circumstances:

- Exploration rights for a specific licence area have expired or will expire in the near future;
- Substantive expenditure on further exploration and evaluation in the specified licence area is not planned or budgeted;
- Sufficient data exists to indicate that the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale;
- Exploration for and evaluation of resources in the specific licence area have not led to the discovery of commercially viable quantities and the entity has decided to discontinue operations in the specific licence area; and
- Prior to reclassification of E&E assets to D&P assets (i.e. when technical feasibility and commercial viability has been demonstrated).

**i. Oil and Gas – Development and Production Assets (D&P)**

Development and production assets include reclassified E&E assets (note h) as well as costs incurred subsequent to the reclassification. Subsequent costs are treated as operating expenditure or capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalised costs generally represent costs incurred in developing proved and / or probable reserves and bringing in or enhancing production from such reserves. All costs related to development and production of oil and gas reserves that meet the criteria for capitalisation are capitalised in cost centres.

Capitalised D&P costs include the construction, installation or completion of infrastructure facilities such as platforms, pipelines and drilling of development and production wells. The cost of day-to-day servicing of D&P assets are recognised in the reported net surplus / deficit reported within the profit/loss.

D&P assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced.

The carrying amounts of D&P assets and any future estimated expenditure necessary to develop proven and probable reserves, as well as the costs of developing undeveloped reserves, to meet current commitments under sales contracts, are depleted from when production commences.

## PRINCIPAL ACCOUNTING POLICIES

Depletion is calculated for producing properties using a units of production method based on proved reserves, both developed and undeveloped, and probable reserves, before royalties, as determined by management or independent consultants. Expenditure on production areas of interest and any future estimated expenditure necessary to develop proven reserves, both developed and undeveloped, and probable reserves to meet current commitments under sales contracts, are depleted. Sales or dispositions of oil and gas properties are credited to the respective cost centres and a gain or loss is recognised when all properties in a cost centre have been disposed of unless such a sale or disposition significantly alters the relationship between capitalised costs and proved reserves of oil and gas attributed to the cost centre. Costs of abandoned oil and gas properties are accounted for as adjustments of capitalised costs and written off to expenditure in the profit / loss.

The carrying values of D&P assets are assessed for impairment by comparing for each cost centre, the net capitalised costs to the present value of the estimated future net revenues from production of proved and probable reserves.

### **j. Financial instruments**

#### **Non-derivative financial instruments**

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

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

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

#### **Derivative financial instruments**

##### **Convertible Loan Notes and Warrants**

The valuation of the Notes for accounting purposes are governed by IAS 32 and IAS 39. The standard requires the Notes to be separated into two components:

- A derivative liability, and
- A debt host liability

This is because the Notes are potentially convertible into an unknown number of shares, therefore failing the 'fixed-for-fixed' criterion under IAS 39. This requires the 'underlying option component' of the Note to be valued first (as an embedded derivative), with the residual of the face value being allocated to the debt host liability.

The Warrants were issued in conjunction with the Notes and therefore form part of the Notes for accounting purposes. The warrants are of the nature of a liability, as per classification under IAS 39 as they failed the 'fixed-for-fixed' criterion, in that they do not convert into a fixed number of shares.

#### **Valuation method**

The fair value of the derivative liability and Warrants is determined in accordance with IAS 32 and IAS 39 using an appropriate valuation methodology.

The valuation of the underlying options in the Notes and Warrants was completed using a Black-Scholes / Binomial option pricing model. These models are widely accepted and it is our assessment that it will provide an appropriate fair value of the underlying options.

According to their terms, the Financial Derivatives can be converted into Shares before their respective expiry dates. The underlying options are therefore of the nature of American options.

The term fair value is defined in IFRS 13: Fair Value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### **Fair Value of the Derivative Liabilities and the Debt Host**

In the case of the Notes, the value of a Note consists of a derivative component (Derivative Liability) and a debt component (Debt Host Liability). The residual balance of the Note is allocated to the debt component.

# KEA PETROLEUM PLC

## PRINCIPAL ACCOUNTING POLICIES

Cash and cash equivalents comprise cash balances, call deposits and term deposits with a maturity not exceeding 90 days from inception that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Accounting for finance income and expense is discussed in note q.

### **Trade and other receivables**

Trade receivables are classed as financial assets and after initial recognition are stated at amortised cost less provision for impairment losses. Provision is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables.

### **Trade and other payables**

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate, less settlement payments.

### **Share capital**

#### *Ordinary Shares*

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

#### *Own shares held*

Shares held in Kea Joint Share Ownership Plan ("JSOP") and the Kea Overseas Employee Share Benefit Trust ("OESBT") are shown as a deduction in arriving at equity funds. Purchases and sales of own shares increases or decreases the book value of "Own shares held" in the Balance Sheet, with any gain or loss on the sale or transfer of these shares recognised in the Statement of Changes in Equity.

### **k. Property, plant and equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part that will flow to the Group and its cost can be measured reliably. The costs of the day to day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

Depreciation is recognised in the profit / loss on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The depreciation rates used are intended to expense the cost of the assets over their anticipated useful lives. The annual rates used are as follows:

Office equipment	25%
Computer equipment	33%
Motor Vehicles	33%

Depreciation methods, useful lives and residential values are reassessed at the reporting date.

### **l. Joint arrangements**

The Group has entered into an agreement with a third party to fund the exploration for oil & gas in some areas under licence to the Group. Under the terms of the agreement, the Group will receive funding from the third party in return for granting the third party a share of future profits from the sale of petroleum products.

# KEA PETROLEUM PLC

## PRINCIPAL ACCOUNTING POLICIES

Funding received by the Group during the exploration phase is accounted for as a reduction in capitalised exploration and evaluation expenses. Funding has been received for 50% of the Mauku well drilled in exploration permit PEP381204, 100% of the Beluga well drilled in permit PEP51155, 50% of a 2D seismic study in PEP51155 and 50% of a seismic study in PEP51153.

Upon a licence area being confirmed as commercially viable, any subsequent funding received by the Group from the third party is treated as a de-recognition of a relevant portion of exploration and evaluation assets. Any gain or loss is recognised in profit and loss within the Statement of Comprehensive Income.

### **m. Impairment**

The carrying amounts of the Group's assets, excluding capitalised exploration and evaluation expenditure, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the profit or loss.

Estimated recoverable amount of investments and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at their original effective interest rate. Receivables with a short duration are not discounted.

Estimated recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### **n. Provisions**

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

### **o. Petroleum sales revenue**

The Group has generated petroleum sales revenues of £2,087,000 (2013:£829,000).

Revenue from the sale of goods is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Ownership is transferred when the oil is loaded onto a ship from the holding facility at the Omata tank farm holding facility in New Plymouth. No revenue is recognised if there are significant uncertainties regarding recovery and quantum of the consideration due or associated costs.

### **p. Lease payments**

Payments made under operating leases are recognised in the profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### **q. Finance income**

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

### **r. Taxation**

#### **Income taxes**

The tax expense for the period comprises current and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax

**PRINCIPAL ACCOUNTING POLICIES**

regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Financial Statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

**s. Equity**

Equity comprises the following:

- "Issued capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Investment in own shares" represents the shares held by the various Trusts for awards made under the JSOP and the OESBT.
- "Merger reserve" represents the difference between the nominal value of shares issued by the company to the shareholders of Kea Petroleum Holdings Limited (KPHL) and the nominal value of the shares in KPHL taken in exchange (Note 13).
- "Share option reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Warrants Reserve" represents the fair value for the warrants issued based on the difference between the price paid for shares issued and the actual price at date of listing.
- "Retained earnings" represents retained profits less retained losses.

**t. Share-based payments*****Equity-settled transactions***

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share option awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability or sales growth targets).

All options are equity settled. The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted, at date of grant, and this is expensed on a straight line basis over the estimated vesting period with a corresponding credit in equity. The estimated fair value is determined using an appropriate valuation model considering the effects of the vesting conditions, expected exercise period and the payment of dividends by the Company.

If the share options lapse before being exercised a related portion of the share-based payment reserve is transferred to retained earnings.

On cancellation any cost not yet recognised is expensed immediately in the profit / loss.



## **KEA PETROLEUM PLC**

### **PRINCIPAL ACCOUNTING POLICIES**

#### **u. Employee benefits**

##### *Defined contribution pension scheme*

The pension costs charged in profit / loss are the contributions payable to the scheme in respect of the accounting period.

The Group pays contributions to personal pension schemes of employees, which are administered independently of the Group.

#### **v. Trading Stock**

Inventories are valued at the lower of the cost and net realisable value. The cost of inventories is based on the first in first out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**KEA PETROLEUM PLC****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 May 2014

		<b>Year ended 31 May 2014 £'000</b>	<b>Year ended 31 May 2013 £'000</b>
	Notes		
Revenue		<b>2,087</b>	829
Cost of sales		<b>(1,756)</b>	82
<b>Gross profit</b>		<b>331</b>	911
Administration expenses		<b>(2,213)</b>	(3,083)
<b>Operating loss before exploration costs written off</b>		<b>(1,882)</b>	(2,172)
Exploration costs written off		<b>(1,571)</b>	(7,197)
<b>Operating Loss</b>		<b>(3,453)</b>	(9,369)
Finance Income	4	<b>14</b>	38
Finance Cost	4	<b>(420)</b>	-
Foreign Exchange gains / (losses)		<b>40</b>	(20)
Loss before taxation	2	<b>(3,819)</b>	(9,351)
Taxation	5	<b>-</b>	-
<b>Loss for the year</b>		<b>(3,819)</b>	(9,351)
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operation		<b>(1,044)</b>	943
<b>Total comprehensive loss for the year</b>		<b>(4,863)</b>	(8,408)
<b>Loss per share</b>			
Basic and diluted (pence per share)	6	<b>(0.54)p</b>	(1.59)p

The loss for the year and total comprehensive loss for the year are 100% attributable to equity shareholders of the parent undertaking.

# KEA PETROLEUM PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 May 2014

Company Registration: 7023751

		31 May 2014 £'000	31 May 2013 £'000
	Notes		
<b>Current Assets</b>			
Cash and cash equivalents		823	2,788
Trading Stock and WIP	9	244	89
Trade and other receivables	10	330	1,045
		<u>1,397</u>	<u>3,922</u>
<b>Non-Current Assets</b>			
Property, plant & equipment	8	1,254	771
Production & Development Assets	7	7,021	6,997
Intangible Oil & gas exploration assets	7	9,794	12,063
		<u>18,069</u>	<u>19,831</u>
<b>Total Assets</b>		<u>19,466</u>	<u>23,753</u>
<b>Current Liabilities</b>			
Trade and other payables	11	936	2,846
Borrowings	12 / 17	515	-
Derivative Financial Instruments	12	434	-
Total liabilities		<u>1,885</u>	<u>2,846</u>
<b>Shareholders' Equity</b>			
Issued capital	13	7,751	6,974
Share premium	13	29,828	29,353
Merger reserve	14	125	125
Share option reserve	15	3,054	2,689
Warrants Reserve	14	135	135
Translation reserve		(139)	905
Investment in Own Shares	15	(1,637)	(1,557)
Retained earnings		<u>(21,536)</u>	<u>(17,717)</u>
Total equity		<u>17,581</u>	<u>20,907</u>
<b>Total Equity and Liabilities</b>		<u>19,466</u>	<u>23,753</u>

The financial statements were approved by the Board of Directors on 31 October 2014



**P. Wright**  
Director

**KEA PETROLEUM PLC**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 May 2014

	Share capital	Share premium	Investment in Own Shares	Merger Reserve	Share option reserve	Translation reserve	Warrants Reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 01 June 2012	5,094	16,787	-	125	2,069	(38)	-	(8,366)	15,671
Issue of shares	1,880	12,566	-	-	-	-	135	-	14,581
Investment in own shares	-	-	(1,557)	-	-	-	-	-	(1,557)
Equity settled share options	-	-	-	-	620	-	-	-	620
Transactions with owners	1,880	12,566	(1,557)	-	620	-	135	-	13,644
Loss for the period	-	-	-	-	-	-	-	(9,351)	(9,351)
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	-	-	-	943	-	-	943
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	943	-	(9,351)	(8,408)
<b>At 31 May 2013</b>	<b>6,974</b>	<b>29,353</b>	<b>(1,557)</b>	<b>125</b>	<b>2,689</b>	<b>905</b>	<b>135</b>	<b>(17,717)</b>	<b>20,907</b>
Issue of shares	777	475	-	-	-	-	-	-	1,252
Investment in own shares	-	-	(80)	-	-	-	-	-	(80)
Equity settled share options	-	-	-	-	365	-	-	-	365
Transactions with owners	777	475	(80)	-	365	-	-	-	1,537
Loss for the period	-	-	-	-	-	-	-	(3,819)	(3,819)
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	-	-	-	(1,044)	-	-	(1,044)
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	(1,044)	-	(3,819)	(4,863)
<b>At 31 May 2014</b>	<b>7,751</b>	<b>29,828</b>	<b>(1,637)</b>	<b>125</b>	<b>3,054</b>	<b>(139)</b>	<b>135</b>	<b>(21,536)</b>	<b>17,581</b>

**KEA PETROLEUM PLC****CONSOLIDATED STATEMENT OF CASHFLOWS**

For the year ended 31 May 2014

	Year ended 31 May 2014 £'000	Year ended 31 May 2013 £'000
<b>Net cash outflow from operating activities</b>	<b>(2,852)</b>	<b>(1,502)</b>
<b>Cash flows from investing activities</b>		
Interest received	7	38
Expenditure on oil and gas exploration assets	(49)	(8,025)
Expenditure on Production and development assets	(649)	(6,997)
Purchase of property, plant and equipment	(628)	(169)
<b>Net cash used in investing activities</b>	<b>(1,319)</b>	<b>(15,153)</b>
<b>Cash flows from financing activities</b>		
Proceeds from share issues	1,252	14,581
Debt liability	949	-
Investment in Own Shares	(80)	(1,557)
<b>Net cash generated from financing activities</b>	<b>2,121</b>	<b>13,024</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,050)</b>	<b>(3,631)</b>
Cash and cash equivalents at beginning of year	2,788	6,692
Foreign exchange differences - net	85	(273)
<b>Cash and cash equivalents at balance sheet date</b>	<b>823</b>	<b>2,788</b>
<b>Reconciliation of cash flows from operating activities with loss for the year</b>		
<b>Loss for the year</b>	<b>(3,819)</b>	<b>(9,351)</b>
<b>Movements in Working Capital</b>		
Trade and other receivables	715	(302)
Trade and other payables	(1,910)	274
Depreciation	107	98
Stock and WIP	(155)	-
Derecognition of unsuccessful expenditure	1,571	7,197
Depletion on development & production assets	281	-
Interest received	(7)	(38)
Share option expense	365	620
<b>Net cash outflow from operating activities</b>	<b>(2,852)</b>	<b>(1,502)</b>

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

### 1. Revenue and segmental reporting

In the opinion of the Directors, the Group's single operating segment is the exploration for hydrocarbons, comprising oil and gas. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and whose results are regularly reviewed by the Board of Directors. The Board of Directors reviews operating results by reference to the core principle of geographic location. The Group currently has oil and gas exploration in one market, New Zealand, and it has a head office and associated corporate expenses in the UK.

Revenue of £2,087,000 (2013:£829,000) has been earned through the sale of oil to Shell Todd Oil Services Limited, in New Zealand, during the period.

The following table provides a breakdown of the Group's capital expenditure based on the area of operation:

	2014 £'000	2013 £'000
New Zealand	1,174	9,121

The following table provides a breakdown of the Groups total segment non current assets based on the area of operation:

	2014 £'000	2013 £'000
New Zealand	18,067	19,827
United Kingdom	2	4
	18,069	19,831

### 2. Loss before taxation

	2014 £'000	2013 £'000
Loss before taxation has been arrived at after charging / (crediting):		
Foreign exchange differences	40	20
Depreciation of property, plant and equipment	107	98
Employee benefits expense: Employee costs (Note 3)	1,022	1,459
Operating leases rentals: Land and buildings	210	143
Audit and non-audit services: Fees payable to the Company's auditor for the audit of the Group accounts	42	34
Fees payable to the Company's auditor and its associates for other services: The audit of the Company's subsidiaries, pursuant to legislation	18	15
Tax services	9	10
Other Consultancy	-	7
JSOP Planning	-	67
Revenue from sub-letting part of Group head office in London	(114)	(92)

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

### 3. Employee numbers and costs

	2014 £'000	2013 £'000
Employee costs (including directors):		
Wages and salaries	716	1,106
Social security costs	281	313
Pension costs – defined contribution plans	25	40
	<b>1,022</b>	<b>1,459</b>

The average number of employees (including directors) during the year was as follows:

Management	7	8
Administration	4	5
Exploration and Mining	4	4
	<b>15</b>	<b>17</b>

Remuneration of key management personnel:

	£'000	£'000
Emoluments	534	604
Post employment benefits	12	12
	<b>546</b>	<b>616</b>

Included in the figure of £546,000 are costs of £325,000 (2013: £230,000) relating to time spent by the CEO and other employees that have been capitalised against specific projects.

The total directors' emoluments for the year were £522,000 (2013: £750,000). In addition directors' total pension contributions for the year were £12,000 (2013: £12,000). The emoluments of the highest paid director were £257,000 (2013: £303,000).

### 4. Net Finance Expense / Income

	2014 £'000	2013 £'000
Interest income	7	38
Change in revaluation of derivative liability	7	-
<b>Investment revenues</b>	<b>14</b>	<b>38</b>
Interest expense	(166)	-
Derivative liability transaction costs	(54)	-
Revaluation Expense	(35)	-
Deferred facility early payment charge	(165)	-
<b>Finance costs</b>	<b>(420)</b>	<b>-</b>
<b>Net finance (Expense) / Income</b>	<b>(406)</b>	<b>38</b>

### 5. Taxation

There is no income tax expense due to losses incurred in the year. The tax assessed for the year differs from the standard rate of corporation tax as applied in the respective trading domains where the Group operates.

	2014 £'000	2013 £'000
Loss for the year before tax	(3,819)	(9,351)
Loss for year multiplied by the standard rate of corporation tax applicable in the UK, 22.67% (2013: 23.837%)	(865)	(2,229)
Effects of:		
Expenses not deductible for tax purposes	194	472

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

Losses utilised	-	262
Foreign exchange arising on consolidation	(367)	-
Differences in rates of taxation	(208)	(255)
Unprovided deferred tax adjustment for prior year	-	225
Accelerated Capital Allowances	-	1
Unrelieved tax losses and other deductions raised in the year – UK	-	83
Tax losses for future utilisation - NZ	1,246	1,441
	<hr/>	<hr/>
Tax (charge) / credit for the year	-	-
	<hr/>	<hr/>
<b>Deferred tax</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax assets:		
Short term temporary differences	-	-
Tax losses available for offset against future taxable profits	(3,211)	(5,337)
Deferred tax liabilities:		
Temporary differences on capitalised exploration expenditure	3,211	5,337
	<hr/>	<hr/>
Net deferred tax asset recognised	-	-
	<hr/>	<hr/>

The group has tax losses unrecognised carried forward in the UK of £1,472,000 (2013: £800,000) and New Zealand of £13,318,000 (2013: £10,843,000). The movement in relation to New Zealand includes the prior year adjustment in relation to the unrecognised tax losses and the impact of movement in foreign exchange rates.

The Group has a deferred tax asset of £4,024,000 (2013: £3,220,000) which is unrecognised. Deferred tax assets are recognised for all deductible differences, carry forward on unused tax credits and unused tax losses, to the extent that the likelihood of sufficient future taxable profits being generated within the Group satisfies the definition of "probable". The benefit of unused tax losses has been recognised to the extent that the Group has deferred tax liabilities.

### 6. Loss per share

	<b>Year ended 31 May 2014 £'000</b>	<b>Year ended 31 May 2013 £'000</b>
Loss for the year attributable to equity shareholders	(3,819)	(9,351)
	<b>Pence per share</b>	<b>Pence per share</b>
Basic and diluted loss per share	(0.54)p	(1.59)p
	<b>Number of shares</b>	<b>Number of shares</b>
Issued ordinary shares at start of the year	697,442,407	509,355,000
Ordinary shares issued in the year	77,640,063	188,087,407
Issued ordinary shares at end of the year	775,082,470	697,442,407
	<hr/>	<hr/>
Weighted average number of shares in issue for the year.	711,684,429	586,363,514
	<hr/>	<hr/>

The diluted loss per share does not differ from the basic loss per share as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive. The weighted average number of shares used in calculating the basic earnings per share has been adjusted to remove the shares in issue held by the Employee Benefit Trusts.



# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

### 7. Oil and gas exploration assets

<b>A. Intangible Exploration and evaluation expenses capitalised</b>	<b>£'000</b>
<b>Cost</b>	
Net book value at 31 May 2012	10,108
Additions 2013	15,022
Transferred to Development & Production	(6,997)
Exchange Differences on translation	1,127
Write off / Impairment of unsuccessful expenditure	(7,197)
Net book value At 31 May 2013	12,063
Additions 2014	49
Transferred to Stock	(153)
Exchange Differences on translation	(594)
Write off / Impairment of unsuccessful expenditure	(1,571)
<b>Net book value at 31 May 2014</b>	<b>9,794</b>

The write-off/impairment of unsuccessful expenditure relates to a full provision against all expenditure previously capitalised in relation to the Mauku-1 well (permit PEP382104), permit PEP51155 and permit PEP52333. The write-off of all expenditure relating to PEP51155 was due to the permit being relinquished during the period. All costs associated with PEP382104 and PEP52333 have been impaired, as at year end there was no certainty further exploration operations will be carried out in these permits.

### B. Intangible Development & Production Assets Capitalised

<b>Cost</b>	
Opening Balance at 01 June 2012	-
Additions 2013	6,997
Opening Balance At 01 June 2013	6,997
Additions 2014	649
Exchange Differences on translation	(344)
Depletion Charge	(281)
<b>Net book value at 31 May 2014</b>	<b>7,021</b>

All of the Group's operating expenses and other assets and liabilities are derived from the exploration and evaluation of hydrocarbon resources, unless stated otherwise in these financial statements.

### 8. Property, plant and equipment

	<b>Property, plant &amp; equipment £'000</b>
<b>Cost</b>	
Opening Balance at 01 June 2012	826
Additions	169
At 31 May 2013	995
Additions	628
Exchange Differences on translation	(38)
At 31 May 2014	1,585
<b>Depreciation</b>	
Opening Balance at 01 June 2012	126
Charge for the year	98
At 31 May 2013	224
Charge for the year	107
At 31 May 2014	331
Net Book Value at 31 May 2013	771
<b>Net Book Value at 31 May 2014</b>	<b>1,254</b>

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

### 9. Stock

	2014 £'000	2013 £'000
Trading Stock	92	84
Stock on hand - Consumables	152	5
	<u>244</u>	<u>89</u>

### 10. Trade and other receivables

	2014 £'000	2013 £'000
Other receivables	109	346
Value added taxes	64	539
Prepayments	157	160
	<u>330</u>	<u>1,045</u>

There were no financial assets overdue for receipt.

### 11. Trade and other payables

	2014 £'000	2013 £'000
Trade payables	577	2,519
Social security and other taxes	34	39
Accrued expenses and other payables	325	288
	<u>936</u>	<u>2,846</u>

### 12. Borrowings and derivative financial instruments

	2014 £'000	2013 £'000
<u>Borrowings</u>		
Convertible Loan Note (Note 17)	825	-
Deferred facility fees	(310)	-
	<u>515</u>	<u>-</u>
<u>Derivative Financial Instruments</u>		
Warrants Financial Liability (Note 17)	146	-
Derivative liability (Note 17)	288	-
	<u>434</u>	<u>-</u>

### 13. Share capital

	Shares	Nominal Value (1.0p) £'000	Premium net of costs £'000	Total £'000
Opening Balance 31 May 2013	697,442,407	6,974	29,353	36,327
Shares Issued – Jan 2014	2,823,529	28	27	55
Shares Issued – 06 Feb 2014	19,204,437	192	9	201
Shares Issued 28 Feb 2014	20,000,000	200	-	200
Shares Issued – 09 Apr 2014	10,240,785	103	224	327
Shares Issued – 22 May 2014	11,805,463	118	86	204
Shares Issued – 23 May 2014	3,589,743	36	34	70

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

Shares Issued – 27 May 2014	9,976,106	100	95	195
Warrants exercised	-	-	-	-
<b>31 May 2014</b>	<b>775,082,470</b>	<b>7,751</b>	<b>29,828</b>	<b>37,579</b>

The market price of the ordinary shares at 31 May 2014 was 1.68p and the range during the year was 0.9p to 5.62p.

Warrants	Number of warrants
At 01 June 2013	23,607,141
Granted during the year	20,101,266
Exercised during the year	-
Lapsed during the year	(2,000,000)
<b>At 31 May 2014</b>	<b>41,708,407</b>

Date of grant	Latest exercise date	Warrant price	Number of warrants
31/05/2013	31/05/2015	10.00p	21,607,141
16/01/2014	10/01/2017	2.6563p	12,000,000
23/05/2014	01/06/2019	2.46875p	8,101,266
			<b>41,708,407</b>

Of the warrants issued at 31 May 2014, 423,731 were held by members of the concert party or by related parties.

### 14. Other reserves

	Merger Reserve £'000	Warrant Reserve £'000	Total £'000
Balance 01 June 2012	125	-	125
Movement in year	-	135	135
Balance 31 May 2013	125	135	260
Movement in year	-	-	-
At 31 May 2014	125	135	260

In October 2009, the Company acquired the entire issued share capital of the recently incorporated KPHL by way of a share for share exchange with the then shareholders of KPHL. The difference between the nominal value of the shares issued by Kea Petroleum to the shareholders of KPHL and the nominal value of the shares of KPHL taken in exchange has been credited to a merger reserve on consolidation.

In January and May of this year the Company issued warrants to Darwin as part of an equity fund raise. The shares were issued at a 25% and a 21% premium to market price respectively and a reclassification was made from Deferred Facility Fees to Warrants liability to represent fair value for the warrants issued.

### 15. Share based payments

The Group has an unapproved share option plan for the benefit of employees, as well as the JSOP and the OESBT. Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the period are as follows:

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

	2014 WAEP Number	Pence	2013 WAEP Number	pence
Outstanding at the beginning of the year	38,000,000	8.84	42,000,000	9.14
Granted during the year	-	-	-	-
Forfeited during the year	(10,000,000)	-	(4,000,000)	-
<b>Outstanding at the balance sheet date</b>	<b>28,000,000</b>	<b>8.84</b>	<b>38,000,000</b>	<b>8.84</b>
<b>Exercisable at the balance sheet date</b>	<b>28,000,000</b>	-	-	-

The fair value of options granted has been arrived at using a Binomial model. The assumptions inherent in the use of this model are as follows:

- The option life is assumed to be at the end of the allowed period.
- No variables change during the life of the option (e.g. dividend yield).
- Expected volatility was determined by calculating the weighted average share price movement of 4 comparable companies. Expected life was based on the contractual life of the options, adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Date of grant	Vesting period (Yrs)	Life in years from grant date	Exercise price (pence)	Risk-free rate	Share price at grant (pence)	Volatility of share price	Fair value (pence)	Number outstanding
15/02/10	Min 3 years	10	8.0	2.95%	9.15	85%	6.49	20,000,000
07/01/11	Min 3 years	10	12.0	2.44%	14.5	85%	10.46	8,000,000

### OESBT / JSOP Model

No shares were subscribed for under the JSOP during the year.

For the purposes of the OESBT, the employee benefit trust which has subscribed for 4,000,000 new shares in the Company at a price of 2.0p per share, being the closing mid-market price on 22 May 2014, which has been funded by a loan from the Company.

Name	Date of Grant	Vesting period - years	Exercise price	Risk free rate	Share price at grant	Volatility of share price	Fair value	Number of awards
OESBT – tranche1	28/2/13	1	0.1038	0.91%	0.105	60%	0.053	2,000,000
OESBT – tranche2	28/2/13	2	0.1038	0.91%	0.105	60%	0.057	2,000,000
OESBT – tranche3	28/2/13	3	0.1038	0.91%	0.105	60%	0.060	2,000,000
OESBT – tranche 4	27/5/14	1	0.02	2.72%	0.0183	90%	0.008	1,333,333
OESBT – tranche 5	27/5/14	2	0.02	2.72%	0.0183	90%	0.010	1,333,333
OESBT – tranche 6	27/5/14	3	0.02	2.72%	0.0183	90%	0.012	1,333,333
JSOP – tranche 1	28/2/13	1	0.1038	0.91%	0.105	60%	0.037	2,333,333
JSOP – tranche 2	28/2/13	2	0.1038	0.91%	0.105	60%	0.037	2,333,333
JSOP – tranche 3	28/2/13	3	0.1038	0.91%	0.105	60%	0.037	2,333,333

The Group recognised total expenses of £365,139 (2013:£619,125) related to equity-settled share based payment transactions during the year. A corresponding credit has been made to the share option reserve. Further details of share based payments are set out in the Remuneration Report.

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

	Share Option Reserve £'000	Investment in own shares £'000	Total £'000
Balance 01 June 2012	2,069	-	2,069
Movement in year	620	(1,557)	(937)
Balance 31 May 2013	2,689	(1,557)	1,132
Movement in year	365	(80)	285
At 31 May 2014	3,054	(1,637)	1,417

### 16. Financial instruments and risk management

#### *Risk management*

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the effective management of liquid resources raised through share issues. The principal risks faced by the Group resulting from financial instruments are liquidity risk, foreign currency risk and, to a certain extent, interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below.

#### *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other members. The Group will also seek to minimise the cost of capital and attempt to optimise the capital structure. Currently no dividends are paid to shareholders and capital for further development of the Group's products is achieved by share issues and by the exercise of outstanding warrants (note 12). Warrants are issued, at times, as part of the equity fund raisings as an incentive for investors to take part in a capital issue.

The current share price is under 0.5p and the Directors are not sure what level of share price would support the exercise of warrants either at 5p or at 10p. The Group does not carry significant debt.

#### *Categories of financial instrument*

	2014 £'000	2013 £'000
Loans and receivables		
- Cash and cash equivalents	823	2,788
- Trade receivables	-	-
	<u>823</u>	<u>2,788</u>
Financial liabilities at amortised cost		
- Payables	756	2,519
- Convertible loan liability - debt portion (Note 17)	515	-
	<u>1,271</u>	<u>2,519</u>
Financial Liabilities at fair value		
- Warrants Financial liability (Note 17)	146	-
- Derivative financial instruments (Note 17)	288	-
	<u>434</u>	<u>-</u>

#### *Foreign currency risk*

The cash balances carried within the Group comprise the following foreign currency holdings:

	2014 £'000	2013 £'000
NZ dollars	649	2,019
US Dollars	12	77
AUS Dollars	-	14
	<u>661</u>	<u>2,110</u>

The Group operates within the UK and New Zealand. All transactions are denominated in Sterling, NZ Dollars or US dollars. As such the Company is exposed to transaction foreign exchange risk. The mix of currencies and terms

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

of trade are such that the directors believe that the Company's exposure is minimal and consequently they do not specifically seek to hedge that exposure. Funds are periodically transferred overseas to meet local costs when required.

The table below demonstrates the sensitivity of the Group's consolidated loss before tax to reasonably possible changes in the value of the US dollar and the NZ Dollar with respect to Sterling, all other variables held constant. The sensitivity analysis includes only the US dollar and NZ Dollar because the effect of other currencies is not significant. The sensitivities reflect only those changes in consolidated loss before tax that arise from translation of the value of US dollar and NZ dollars denominated financial assets and liabilities.

	Change in value of USD vs. £ %	Effect on loss before tax and equity £'000	Change in value of NZD vs. £ %	Effect on loss before tax and equity £'000
<b>2014</b>	<b>10</b>	<b>1</b>	<b>15</b>	<b>98</b>
2013	10	8	20	404

### *Interest rate risk*

The Group finances its operations through equity fundraising and therefore does not carry significant borrowings. Interest rate risk is therefore considered to be immaterial. The Group's cash balances and short term deposits are held at floating interest rates based on LIBOR and are reviewed to ensure maximum benefit is obtained from these resources. Risk is additionally reduced by ensuring two or more banks are used for deposits.

### *Liquidity risk*

The Group is dependent on equity fundraising through private placing which the directors regard as the most cost effective method of fundraising. The directors monitor cash flow on a daily basis and at monthly board meetings in the context of their expectations for the business to ensure sufficient liquidity is available to meet foreseeable needs.

### *Credit risks*

The Group does not have any perceived credit risks on its trade and other receivables.

## **17. Convertible Loan notes**

In January 2014 the Company entered into an agreement with Darwin Strategic Limited ("Darwin") whereby Darwin was able to conditionally subscribe to a total of £1.2 million worth of convertible loan notes (Agreement A) in 6 tranches of £200,000 for which Darwin were subject to pay £180,000 for each. Each tranche expires 18 months from date of the Agreement A. Agreement A was terminated in May 2014, by which point Darwin had subscribed to 4 tranches of notes totalling £800,000. This resulted in a loss of £163,000 being recognised in the income statement. A new agreement (Agreement B) replaced Agreement A and allowed Darwin to conditionally subscribe for an additional £2.0 million in Convertible loan notes in tranches of £1.0million, £550,000 and £450,000, all subject to a 10% discount. Each of the tranches under Agreement B expire 12 months from the date of this agreement.

At 31 May the value of the convertible loan notes were analysed as follows:

	<b>2014</b> <b>£'000</b>	Inception £'000
Convertible Loan Notes		
- Debt Host liability	<b>824</b>	824
- Deferred Facility Fees	<b>(310)</b>	(310)
- Interest Charged	<b>1</b>	-
	<b>515</b>	514
Derivative Liability		
- Derivative liability at inception	<b>(439)</b>	(439)
- Fair value movements	<b>(64)</b>	-
- Exercise or lapse of options	<b>215</b>	-
	<b>(288)</b>	(439)

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

### Warrants

- Warrant liability at inception	(219)	(219)
- Fair value movements	39	-
- Lapse of options	34	-
	<b>(146)</b>	<b>(219)</b>

The table below represents the assumptions used in determining the fair value of the convertible loan notes issued under Agreement B and the warrants issued under Agreements A & B.

	2014 £'000	Inception £'000
Derivative liability term	1	1
Share Price – pence sterling	1.68	1.90
Risk-free rate (%)	0.36	0.40
Expected volatility (%)	90	90

	Agreement A		Agreement B	
	2014	Inception	2014	Inception
Warrants term	2.6	3	5	5
Share Price – pence sterling	1.68	1.93	1.68	1.90
Risk-free rate (%)	0.94	0.82	1.79	1.79
Expected volatility (%)	90	90	90	90

### 18. Capital commitments

As at signing date the Group had no capital expenditure commitments. The terms of the petroleum exploration permits which the Group holds require it to carry out certain exploration activities within specified time frames. The actual costs of these activities are dependent on a number of factors including the scope of the work and whether farm-out or similar arrangements are entered into with other parties. Estimated commitments for the minimum exploration work program obligations are as follows:

#### Within 1 year

- £750,000 15km seismic commitment on PEP381204;
- £250,000 7km seismic commitment and other work on PEP51153

### 19. Subsidiary companies consolidated in these accounts and associates

	Country of incorporation	% interest in ordinary shares at 31 May 2014	Principal activity
Kea Petroleum Holdings Limited	New Zealand	100	Oil and gas exploration
Kea Exploration Limited	New Zealand	100	Oil and gas exploration
Kea Oil and Gas Limited	New Zealand	100	Oil and gas exploration
Kea Offshore Taranaki Ltd	New Zealand	100	Oil and gas exploration
Kea Petroleum Limited	New Zealand	100	Oil and gas exploration

# KEA PETROLEUM PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2014

### 20. Operating lease commitments

At the balance sheet date, non-cancellable outstanding operating lease rentals are payable as follows:

	2014 £'000	2013 £'000
Land and buildings:		
One year	159	157
Two to five years	106	61
	<u>265</u>	<u>218</u>

The UK lease is on the property at 5-8 The Sanctuary in London and rental and service charge are payable in advance on a quarterly basis. The lease expires in July 2016. The NZ leases are on properties in Wellington and New Plymouth. The Wellington lease expires in Jan 2016. The New Plymouth lease expires in Feb 2019, with the option of a break in Feb 2015.

### 21. Contingent liabilities

The Group is defending claims brought against Kea Petroleum Holdings Limited and two operating subsidiaries by NRG Drilling Limited. Kea has taken legal advice and accordingly considers that it has strong defences to the claims and will vigorously defend them. An unfavourable outcome to the litigation could have a material adverse effect on the Company's financial position.

### 22. Related party transactions

During the period Ventutec Limited, a company in which DJ Lees is a director, charged an amount of £331 (2013: £5,035) for web based services. The balance outstanding at year end was £278.

### 23. Events after the balance sheet date

In June 2014 the Company paid NZ\$1,000,000 to the Joint Venture agreed with MEO.

In June 2014 the replacement pump was installed in Puka-2 and production restarted.

In June 2014 at a general meeting the Company was granted authority to issue 393,770,617 shares

In June 2014 the Company issued 40,638,392 shares to Darwin under the Convertible Loan Note ("CLN") agreement.

In July 2014 the Company issued 35,747,309 shares to Darwin under the CLN agreement.

In July 2014 the Company issued a further 38,401,396 shares to Darwin under the CLN agreement.

In August 2014 the Company, along with MEO, plugged and abandoned the Puka-3 well after finding non-commercial quantities of oil.

In September 2014 the Company issued 50,000,000 shares to Darwin under the CLN agreement.

In October 2014 a change of work conditions on licence area PEP381204 was granted and Section A of licence PEP51153 was surrendered.



# **KEA PETROLEUM PLC**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEA PETROLEUM PLC**

For the year ended 31 May 2014

We have audited the parent Company financial statements of Kea Petroleum Plc for the year ended 31 May 2014 which comprise the parent Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement on page 18, the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter - Going concern**

In forming our opinion on the parent Company financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 of the parent Company financial statements concerning the parent Company's ability to continue as a going concern.

The parent Company incurred a net loss of £1,198,000 during the year ended 31 May 2014 and the directors have prepared operating cash flow forecasts and projections which show a funding shortfall in 2015. The directors are in discussions with a potential investor to secure additional funding that would cover the shortfall, but an agreement has not yet been signed.

These conditions, along with the other matters explained in Note 2 of the parent Company financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the parent Company's ability to continue as a going concern. The parent Company financial statements do not include the adjustments that would result if the parent Company was unable to continue as a going concern.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## KEA PETROLEUM PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEA PETROLEUM PLC

For the year ended 31 May 2014

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#### **Other matter**

We have reported separately on the Group financial statements of Kea Petroleum plc for the year ended 31 May 2014. That report includes an emphasis of matter.



Nicholas Page  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Gatwick  
**31 October 2014**

# KEA PETROLEUM PLC

## COMPANY BALANCE SHEET

At 31 May 2014

		31 May 2014 £'000	31 May 2013 £'000
	Note		
<b>Fixed assets</b>			
Tangible assets	6	2	4
Investments	7	10,000	10,000
		<u>10,002</u>	<u>10,004</u>
<b>Current assets</b>			
Debtors due after one year	9	33,009	31,064
Debtors due within one year	9	180	190
Cash at bank and in hand		162	786
		<u>33,351</u>	<u>32,040</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>(1,152)</u>	<u>(182)</u>
<b>Net current assets</b>		<u>32,199</u>	<u>31,858</u>
<b>Total assets less current liabilities</b>		<u>42,201</u>	<u>41,862</u>
<b>Capital and reserves</b>			
Called up share capital	11	7,751	6,974
Share premium account	12	29,828	29,353
Merger reserve	12	8,000	8,000
Warrants Reserve	12	135	135
Investment in Own shares	12	(1,637)	(1,557)
Profit and loss account	12	(4,930)	(3,732)
Share option reserve	12	3,054	2,689
<b>Shareholders' funds</b>		<u>42,201</u>	<u>41,862</u>

The financial statements on pages 51 to 55 were authorised for issue by the Board of directors on 31 October 2014 and were signed on its behalf by:



**Peter Wright**  
Finance Director

**1. Accounting convention**

The parent company financial statements have been prepared under United Kingdom Generally Accepted Accounting Practice using the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. The particular accounting policies adopted by the directors are described below and are considered suitable, have been consistently applied and are supported by reasonable and prudent judgements and estimates in accordance with FRS 18.

**2. Going Concern**

The Company has incurred a loss of £1,198,000 for the year ended 31 May 2014. In common with other junior exploration companies, the Group is reliant on raising further funds periodically through equity finance, including share options and warrants, or possibly debt facilities to achieve its long term objectives.

The directors have prepared operating cashflow forecasts and projections which assume a minimum level of expenditure to conform with the requirements of the Group's exploration licences for the 12 months from the date of signing these financial statements, which show a funding shortfall in 2015. The directors are in discussions with a potential investor to secure additional funding that would cover the shortfall, but an agreement has not yet been signed. If the Group is unable to secure this funding and cannot find alternative sources of financial support, the Group may cease to be a going concern. In these circumstances adjustments may be required to reflect the position that assets may not be realised at the amounts currently disclosed in the Statement of Financial Position, and additional liabilities may be incurred. In addition, the Group's operating cashflow forecasts and projections include certain assumptions in relation to the level of future production and consequent revenues from the Puka Wells, which can vary due to possible fluctuations in both the oil price and foreign exchange rates.

The directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the directors have an expectation that the Group will have access to adequate resources to continue in operational existence for the foreseeable future and for these reasons, they continue to adopt the going concern basis in preparing the annual report and parent Company financial statements..

**3. Principal accounting policies****Investments**

Investments held as fixed assets comprise the cost of investments in subsidiary undertakings acquired during a merger and in the opinion of the directors the value of such investments is not less than that shown at the balance sheet date.

**Non-derivative financial instruments**

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

**Derivative financial instruments****Convertible Loan Notes and Warrants**

As the convertible instruments fail the fixed for fixed test so the convertible loan does not meet the definition of a compound financial instrument. In such cases, the convertible loan (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. Attached options (options entered into in consideration for entering into the host contract) on similar terms are also embedded derivatives. The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. The derivatives and warrants are held at cost from initial recognition. The method used for revaluation is the Black Scholes method. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost.

**Tangible fixed assets**

Tangible fixed assets are recorded at cost net of accumulated depreciation and any provision for impairment. Depreciation is provided using the straight line method to write off the cost of the asset less any residual value over its useful economic life as follows:

Office & computer equipment	25%
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# KEA PETROLEUM PLC

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 May 2014

### Share based payments

All share based payment arrangements granted after 7 November 2002 that had not vested prior to 1 April 2006 are recognised in the financial statements. All goods and services received in exchange for the grant of any share based payment are measured at their fair values. Where employees are rewarded using share based payments the fair values of their services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (e.g. profitability and sales growth targets).

All equity settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to 'other reserves'.

Upon exercise of share options the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and, where appropriate, share premium.

### Investment in own shares

Shares held in Kea Joint Share Ownership Plan ("JSOP") and the Kea Overseas Employee Benefit Trust ("OEBT") are shown as a deduction in arriving at equity funds. Purchases and sales of own shares increases or decreases the book value of "Own shares held" in the Balance Sheet. At each period end the Group assesses and recognises the value of "Own shares held" with reference to the expected cash proceeds and accounts for the movement between book value and fair value as a reserves transfer.

### 4. Company profit and loss account

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's result after taxation for the financial year was a loss of £1,198,000 (2013:£992,000). The auditor's remuneration for the statutory audit was £38,500 (2013: £31,500).

### 5. Employees

The Company had an average number of employees of 8 in the year including directors. Their emoluments are shown on page 37.

### 6. Tangible fixed assets

	Office and computer equipment £'000
Cost	
Opening Balance 01 June 2013	12
Additions	1
At 31 May 2013	13
Additions	-
At 31 May 2014	13
Depreciation	
Opening Balance 01 June 2013	6
Additions	3
At 31 May 2013	9
Charge for the year	2
At 31 May 2014	11
Net book amount at 31 May 2013	4
Net book amount at 31 May 2014	2

# KEA PETROLEUM PLC

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 May 2014

### 7. Investments

	Investments in subsidiary Undertakings £'000
Cost of shares acquired in merger At 31 May 2013 and 31 May 2014	10,000
	<u>10,000</u>

The disclosures for the subsidiaries are set out in Note 19 to the Group financial statements.

### 8. Reconciliation of movement in shareholder funds

	2014 £'000	2013 £'000
Loss for the financial year	(1,198)	(992)
Issue of shares and warrants	1,362	14,581
Investment in own shares	(80)	(1,557)
Share option charge	365	619
Net increase in shareholders' funds	449	12,651
Shareholders' funds at 1 June brought forward	41,862	29,211
Shareholders' funds at 31 May	<u>42,311</u>	<u>41,862</u>

### 9. Debtors

	2014 £'000	2013 £'000
Amounts owed by Group undertakings	<u>33,009</u>	<u>31,064</u>
Amounts due within one year:		
VAT recoverable	16	23
Prepayments	93	88
Other debtors	71	79
	<u>180</u>	<u>190</u>

The effect of any discounting is not considered to be significant.

### 10. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	123	88
Social security and other taxes	16	4
Other creditors	12	10
Accruals and deferred income	76	80
	<u>227</u>	<u>182</u>
Convertible Loan Notes		
- Debt Host liability	813	-
- Deferred liability	2	-
- Warrants Financial Liability	110	-
	<u>925</u>	<u>-</u>

### 11. Share capital

The disclosures for the Company are identical to those of the Group and are set out in Note 13 to the Group financial statements.

# KEA PETROLEUM PLC

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 May 2014

### 12. Reserves

	Share premium account	Merger reserve	Warrants Reserve	Investment in own shares	Share option reserve	Profit and loss account
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance June 2012	16,787	8,000	-	-	2,070	(2,740)
Share and warrant issues less expenses	12,566	-	135	(1,557)	-	-
Loss for the year	-	-	-	-	-	(992)
Share option expense	-	-	-	-	619	-
At 31 May 2013	29,353	8,000	135	(1,557)	2,689	(3,732)
Share and warrant issues less expenses	475	-	-	-	-	-
Loss for the year	-	-	-	(80)	-	(1,198)
Share Option expense	-	-	-	-	365	-
At 31 May 2014	29,828	8,000	135	(1,637)	3,054	(4,930)

In October 2009, the Company acquired the entire issued share capital of the recently incorporated KPHL by way of a share for share exchange with the then shareholders of KPHL. The difference between the nominal value of the shares issued by Kea Petroleum to the shareholders of KPHL and the nominal value of the shares of KPHL taken in exchange has been credited to a merger reserve on consolidation.

In January and May of this year the Company issued warrants to Darwin as part of an equity fund raise:

### 13. Operating lease commitments

	2014 £'000	2013 £'000
Operating lease payments recognised in the income statement	159	102
At the balance sheet date, the Company had annual commitments under non-cancellable outstanding operating leases as follows:		
	2014 £'000	2013 £'000
Land and buildings: leases expiring		
Within one year	159	157
Between two to five years	106	61
	265	218

### 14. Share based payments

The disclosures for the Company are identical to those of the Group and are set out in Note 15 to the Group financial statements.

### 15. Capital commitments

The disclosures for the Company are identical to those of the Group and are set out in Note 18 to the Group financial statements.

# KEA PETROLEUM PLC

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 May 2014

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### **16. Related party transactions**

The Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose transactions with its wholly owned subsidiary undertakings. The other disclosures for the Company are identical to those of the Group and are set out in Note 22 to the Group financial statements.

### **17. Post balance sheet events**

The disclosures for the Company are identical to those of the Group and are set out in Note 23 to the Group financial statements.