

Company No:

9698077

**PING PETROLEUM UK LIMITED**  
(Incorporated in England and Wales)

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL PERIOD FROM 22 JULY 2015  
(DATE OF INCORPORATION) TO 30 JUNE 2016**

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Company No.

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**PING PETROLEUM UK LIMITED**

(Incorporated in England and Wales)

**ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL PERIOD FROM 22 JULY 2015 (DATE OF INCORPORATION)  
TO 30 JUNE 2016**

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Company No.

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## PING PETROLEUM UK LIMITED

(Incorporated in England and Wales)

### STRATEGIC REPORT

The Directors present their Strategic Report for the period ended 30 June 2016.

#### GENERAL

The Company is a private limited company, incorporated and domiciled in England and Wales. The registered office and principal place of business are as follows:

Principal place of business is Bridge View, 1 North Esplanade West, Aberdeen AB11 5QF, United Kingdom.

The registered address of the Company is 78, Cannon Street, London EC4N 6AF, United Kingdom.

The holding company is Ping Petroleum Limited, a company incorporated in Bermuda.

#### BUSINESS REVIEW

The Company was incorporated on 22 July 2015 with issued and paid-up share capital of GBP1.

The Company is principally engaged in the exploration and production of oil and gas.

On 10 March 2016, the Company, with Anasuria Hibiscus UK Limited jointly completed the transaction to each acquire 50% of the entire interests of Shell U.K. Ltd ("Shell UK"), Shell EP Offshore Ventures Limited ("Shell EP") and Esso Exploration and Production UK Limited ("Esso UK") in the Anasuria Cluster of oil and gas fields. The Anasuria Cluster represents an attractive, geographically focused package of operated interests in producing fields and associated infrastructure. The assets have a proven and producing resource base which provides a platform for further development. A number of incremental development and exploration opportunities exist within the licence areas which are expected to generate significant incremental value in the medium term.

The Anasuria Cluster is located approximately 175 kilometres east of Aberdeen in the United Kingdom ("UK") Central North Sea and consists of:

- 100% interest in the Guillemot A field and the related field facilities;
- 100% interest in the Teal field and the related field facilities;
- 100% interest in the Teal South field and the related field facilities;
- 38.65% interest in the Cook field and the related field facilities; and
- 100% ownership in the common infrastructure known as the Anasuria Floating Production Storage and Offloading ("FPSO") unit and the related equipment.

**PING PETROLEUM UK LIMITED**

(Incorporated in England and Wales)

**STRATEGIC REPORT (CONTINUED)****BUSINESS REVIEW (CONTINUED)**

The Company, together with Anasuria Hibiscus UK Limited ("AHUK"), a wholly owned subsidiary of Hibiscus Petroleum Berhad ("Hibiscus") has established the joint operating company, Anasuria Operating Company Limited ("AOCL") in Aberdeen and this company has been approved as the license operator for the assets by the Secretary of State for Energy and Climate Change of the UK Government. On 10 March 2016, AOCL successfully assumed the role of operator for the assets from Shell UK. The day-to-day operations and maintenance of the assets are being managed by Petrofac Facilities Management ("Petrofac") under the supervision of AOCL. Petrofac is a substantial contract operator of North Sea assets. The AOCL office is co-located within Petrofac's Aberdeen office to enable an efficient and seamless workplace.

From the date of acquisition to 30 June 2016, the Anasuria Cluster has contributed USD19.0 million to revenue and USD3.3 million to gross profit from the sale of oil and gas products. In addition, the Company recognised negative goodwill of USD88.2 million upon completion of the acquisition.

Also in the current period, the Company incurred the following one-off and non-recurring items relating to the Anasuria Cluster:

- Transition costs, due diligence and professional fees – USD 1.7 million.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Company is subject to various risks and uncertainties in the course of its business. The principal risks and uncertainties that may adversely impact its business, financial condition or operating results are discussed below.

**1. Market prices for crude oil and gas**

A substantial or extended decline in crude oil or gas prices would reduce the Company's operating results and cash flows and could adversely impact its future rate of growth and the carrying value of its assets.

Prices for crude oil and gas fluctuate widely. Many of the factors influencing prices of crude oil and gas are beyond the Company's control. The factors include:

- worldwide supply and demand for crude oil and gas,
- the cost of exploring for, developing and producing oil and gas,
- the ability of the members of Organization of the Petroleum Exporting Countries ("OPEC") to agree to and maintain production controls,
- political instability or armed conflict in oil-producing regions,
- changes in weather patterns and climatic changes,
- natural disasters such as hurricanes and tornados,
- the price and availability of alternative and competing fuels,
- domestic and foreign governmental regulations and taxes, and
- general economic conditions worldwide.

The long-term effects of these and other factors on the prices of crude oil and gas are uncertain.

Significant reductions in crude oil and gas prices could require the Company to reduce its capital expenditures and impair the carrying value of its assets.

## PING PETROLEUM UK LIMITED

(Incorporated in England and Wales)

### STRATEGIC REPORT (CONTINUED)

#### PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

2. Estimates of crude oil and gas reserves

Estimates of crude oil and gas reserves depend on many factors and assumptions, including various assumptions that are based on conditions in existence as at the dates of the estimates. Any material changes in those conditions or other factors affecting those assumptions could impair the quantity and value of the Company's crude oil and gas reserves, as discussed in Note 3(p)(i)(a) to the financial statements.

3. Environmental matters and decommissioning provision

The Company will continue to incur significant capital expenditures and operating costs as a result of compliance with, and changes in, environmental and decommissioning laws and regulations, and, as a result, its profitability could be materially reduced.

The Company provides for decommissioning liabilities in its financial statements in accordance with International Financial Reporting Standards ("IFRSs"). Additional information regarding decommissioning liabilities is set forth in the Note 21 to the financial statements. The process of estimating decommissioning liabilities is complex and involves significant uncertainties concerning the timing of the decommissioning activity, legislative changes, technological advancement, regulatory, environmental and political changes, and the appropriate discount rate used in estimating the liability.

4. Unexpected business interruptions and uninsured losses

The Company's operations are subject to business interruptions and casualty losses and it does not insure against all potential losses and, therefore, it could be seriously harmed by unexpected liabilities.

The Company's production operations are subject to unplanned occurrences, including blowouts, explosions, fires, loss of well control, spills, adverse weather, labour disputes and accidents. Its operations are also subject to the additional hazards of pollution, releases of toxic gas and other environmental hazards and risks, as well as the hazards of marine operations, such as capsizing, collision and damage or loss from severe weather conditions. These hazards could result in loss of human life, significant damage to property and equipment, environmental pollution, impairment of operations and substantial financial losses.

The Company maintains insurance against many, but not all, potential losses or liabilities arising from these operating hazards in amounts that management believes to be prudent. Uninsured losses and liabilities arising from operating hazards could reduce the funds available to the Company for production, and could materially reduce the Company's profitability.

5. Uncertainties over changes in tax rate

As at the year end, there were uncertainties over the UK corporation tax due to a proposed reduction in supplementary charge rate by 10% as proposed under the UK's Finance Bill 2016 ("Finance Bill 2016"). This change was not substantively enacted at the balance sheet date and has therefore not been included in these financial statements. It has received Royal Assent on 15 September 2016 (refer to Note 10 to the financial statements).

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**PING PETROLEUM UK LIMITED**  
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**STRATEGIC REPORT (CONTINUED)**

**PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

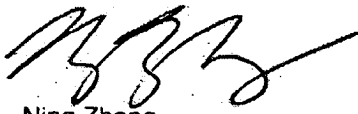
5. Uncertainties over changes in tax rate (Continued)

The impact caused by the reduction in the rate of the supplementary charge on the deferred tax liabilities relating to fair value of the identifiable assets and liabilities of the Anasuria Cluster recognised as at 30 June 2016 (refer to Note 9 to the financial statements) shall be recognised as a tax credit in the financial year ending 30 June 2017.

**KEY PERFORMANCE INDICATORS**

For reasons of commercial sensitivity, the Directors have elected not to discuss key performance indicators related to the Company's estimates of crude oil and gas reserves in these financial statements.

By order of the Board,



Ning Zhang  
Director

21 June 2017

## PING PETROLEUM UK LIMITED

(Incorporated in England and Wales)

### DIRECTORS' REPORT

The directors present their report and the audited financial statements for the financial period ended 30 June 2016.

### FUTURE DEVELOPMENTS

The Directors do not believe that there will be any significant changes to the Company during the next financial year. The Company will continue its operations of developing and producing oil and gas.

### FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of financial risks that include the effects of changes in commodity prices, credit risk, liquidity risk, interest rate risk and foreign exchange rate risk.

(i) Price risk

Commodity price risk related to crude oil is the Company's significant market risk exposure. Crude oil prices and quality differentials are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. The Company is also exposed to natural gas price movements. Natural gas prices are generally influenced by oil prices and local market conditions. The Company's expenditures are subject to the effects of inflation, and prices received for the product sold are not readily adjustable to cover any increase in expenses from inflation. The Company may periodically use different types of derivative instrument to manage its exposure to price volatility, thus mitigating fluctuation in commodity-related cash flows.

(ii) Credit risk

The Company's accounts receivable with customers in the oil and gas industry are subject to normal industry credit risks. Oil production from the Anasuria Cluster is sold to BP Oil International Limited. Gas production from the Anasuria Cluster is sold to Shell UK and Esso UK.

The Company regularly monitors all customer receivables balances outstanding in excess of 90 days. As at 30 June 2016, all trade receivables were current (being defined as less than 90 days). The Company has no allowance for doubtful debts as at 30 June 2016.

(iii) Liquidity risk and cash flow risk

The Company along with its holding company will ensure it has sufficient available funds to operate its existing licenses and participate in future opportunities.

### DIVIDENDS

No dividend has been paid or declared by the Company since the date of incorporation. The Directors do not recommend the payment of any dividend for the financial period ended 30 June 2016.

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## PING PETROLEUM UK LIMITED

(Incorporated in England and Wales)

### DIRECTORS' REPORT (CONTINUED)

#### POLITICAL DONATIONS AND POLITICAL EXPENDITURE

The Company has not made any donations to a registered political party, other political organisation in the EU (including the UK) or any independent election candidate for the financial period ended 30 June 2016.

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

Since 30 June 2016, no matter or circumstance has arisen that has significantly affected, or may significantly affect:

- (a) the Company's operations in future periods, or
- (b) the results of those operations in future periods, or
- (c) the Company's state of affairs in future periods.

#### DIRECTORS

The Directors who have held office during the period since the date of incorporation are as follows:

Ning Zhang	(appointed on 22 July 2015)
Paul A Baltensperger	(appointed on 18 October 2016)
David Roy Phillips	(appointed on 18 October 2016)

The Directors of the Company shall not be subjected to retirement at all general meetings.



## PING PETROLEUM UK LIMITED

(Incorporated in England and Wales)

### DIRECTORS' REPORT (CONTINUED)

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, Directors' 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/period. Under that law the Directors have prepared the financial statements in accordance with IFRSs as adopted by the European Union.

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

The Directors 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.

All Directors in office at the date of approval of the Directors' Report confirm that in so far as each of the Directors are aware, there is no relevant audit information (meaning information needed by the Company's auditors in connection with preparing their report) that has not been disclosed to the Company's auditors. Each of the Directors believes that he or she has taken all steps that ought to have been taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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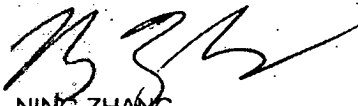
## DIRECTORS' REPORT (CONTINUED)

Directors' report for the period ended 30 June 2016 (Continued)

### INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Signed on behalf of the Board  
In accordance with a resolution of the Directors,



NING ZHANG  
DIRECTOR

21 June 2017

# ***Independent auditors' report to the members of Ping Petroleum UK Limited***

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Ping Petroleum UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2016 and of its profit and cash flows for the 11 month period (the "period") then ended;
  - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 30 June 2016;
- the Statement of Comprehensive Income for the period then ended;
- the Statement of Cash Flows for the period then ended;
- the Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

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

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## **Other matters on which we are required to report by exception**

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### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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## **Responsibilities for the financial statements and the audit**

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### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the

## Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Bruce Collins (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Aberdeen  
June 2017

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**PING PETROLEUM UK LIMITED**

(Incorporated in England and Wales)

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL PERIOD FROM 22 JULY 2015  
(DATE OF INCORPORATION) TO 30 JUNE 2016**

		22.07.2015 (date of incorporation) to 30.06.2016 USD'000
	Note	
Revenue	4	18,993
Cost of sales	5	(15,676)
Gross profit		3,317
Other income	7	4
Administrative and general expenses		(1,765)
Finance costs	8	(1,949)
Negative goodwill from business Combination	9	88,226
Profit before taxation	6	87,833
Taxation	10	(518)
Profit after taxation/ Total comprehensive income for the financial period		87,315

The notes on pages 17 to 55 form an integral part of these financial statements.

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# **PING PETROLEUM UK LIMITED**

(Incorporated in England and Wales)

## **STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016**

	<u>Note</u>	<u>2016</u> USD'000
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Intangible assets	12	190,043
Property, plant and equipment	13	100,218
		<u>290,261</u>
<b>CURRENT ASSETS</b>		
Trade and other receivables	14	4,285
Inventories	15	1,376
Cash and cash equivalents	16	9,598
		<u>15,259</u>
<b>TOTAL ASSETS</b>		<u><u>305,520</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY</b>		
Share capital	17	-
Retained earnings		87,315
		<u>87,315</u>
<b>NON-CURRENT LIABILITIES</b>		
Deferred consideration	18	6,622
Contingent consideration	19	370
Deferred tax liabilities	20	97,142
Provision for decommissioning costs	21	88,857
		<u>192,991</u>

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**PING PETROLEUM UK LIMITED**  
(Incorporated in England and Wales)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016 (CONTINUED)**

	<u>Note</u>	<u>2016</u> USD'000
<b>CURRENT LIABILITIES</b>		
Trade and other payables	22	6,275
Deferred consideration	18	13,920
Amount due to Parent Company	23	5,019
		<hr/> 25,214
<b>TOTAL LIABILITIES</b>		<hr/> 218,205
<b>TOTAL EQUITY AND LIABILITIES</b>		<hr/> <hr/> 305,520

The notes on pages 17 to 55 form an integral part of these financial statements.

The financial statements on pages 11 to 55 were authorised for issue by the Board of Directors on 21 June 2017 and were signed on its behalf.



Ning Zhang  
Director

Ping Petroleum UK Limited  
Registered no. 9698077

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**PING PETROLEUM UK LIMITED**

(Incorporated in England and Wales)

**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD FROM 22 JULY 2015  
(DATE OF INCORPORATION) TO 30 JUNE 2016**

	Share <u>capital</u> USD'000	Retained <u>earnings</u> USD'000	<u>Total</u> USD'000
Balance as at the date of incorporation, 22 July 2015	-	-	-
Profit after taxation/Total comprehensive income for the financial period	-	87,315	87,315
Balance as at 30 June 2016	-	87,315	87,315

The notes on pages 17 to 55 form an integral part of these financial statements.



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**PING PETROLEUM UK LIMITED**

(Incorporated in England and Wales)

**STATEMENT OF CASH FLOWS**

**FOR THE FINANCIAL PERIOD FROM 22 JULY 2015**

**(DATE OF INCORPORATION) TO 30 JUNE 2016**

22.07.2015  
(date of  
incorporation) to  
30.06.2016  
USD'000

**CASH FLOWS FROM OPERATING ACTIVITIES**

Profit before taxation	87,834
Adjustment for:	
Negative goodwill	(88,226)
Depreciation, depletion and amortisation	5,587
Finance costs	1,950
Unrealised foreign exchange gains	(257)
Operating profit before changes in working capital	6,888
Changes in working capital:	
Inventories	4,035
Trade and other receivables	(3,792)
Trade and other payables	5,214
Net cash generated from operating activities.	12,345

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**PING PETROLEUM UK LIMITED**

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**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL PERIOD FROM 22 JULY 2015  
(DATE OF INCORPORATION) TO 30 JUNE 2016  
2016 (CONTINUED)**

22.07.2015  
(date of  
incorporation) to  
30.06.2016  
USD'000

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net cash outflow arising from business combination	(7,750)
Interest received	4
	<hr/>
Net cash used in investing activities	(7,746)
	<hr/>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Advances from Parent Company	5,019
	<hr/>
Net cash generated from financing activities	5,019
	<hr/>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 9,618

**EFFECT OF FOREIGN EXCHANGE MOVEMENT ON  
CASH AND CASH EQUIVALENTS** (20)

**CASH AND CASH EQUIVALENTS AT THE DATE  
OF INCORPORATION**

**CASH AND CASH EQUIVALENTS AT THE END OF THE  
FINANCIAL PERIOD**

16 9,598

The notes on pages 17 to 55 form an integral part of these financial statements.

**PING PETROLEUM UK LIMITED**  
(Incorporated in England and Wales)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD  
FROM 22 JULY 2015 (DATE OF INCORPORATION) TO 30 JUNE 2016**

**1 GENERAL INFORMATION**

The Company was incorporated on 22 July 2015 and the principal activities of the Company are exploration and production of oil and gas. The principal activities of the joint operating company is set out in Note 11 to the financial statements. There has been no significant change in the nature of these activities during the financial period.

The Company is a private limited company, incorporated and domiciled in England and Wales.

Details of the registered office, principal place of business and holding company are as stated in the Strategic Report.

**2 BASIS OF PREPARATION**

The financial statements of the Company have been prepared in accordance with IFRS and IFRS Interpretations Committee ("IFRS IC") interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 (p) to the financial statements.

The financial statements are presented in United States Dollars ("USD") and all values are rounded to the nearest thousand, unless otherwise indicated.

Going concern

As at 30 June 2016, the Company is in a net current liabilities position of USD9,955,000.

The Directors are of the view that the Company will have sufficient cash flows for the next twelve months from the reporting date to meet their cash flow requirements, and there is no material uncertainty on their ability to continue as a going concern. Therefore, the Directors have prepared the financial statements of the Company on a going concern basis.

The Company's cash requirements for the next twelve months include the settlement of the deferred consideration for the acquisition of the Anasuria Cluster and operational requirements for the Anasuria Cluster.

## PING PETROLEUM UK LIMITED

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD  
FROM 22 JULY 2015 (DATE OF INCORPORATION) TO 30 JUNE 2016  
(CONTINUED)

## 2 BASIS OF PREPARATION (CONTINUED)

Going concern (continued)

In preparing the cash flow forecast for the next twelve months, the Directors expect to fund their obligations via cash inflow from the operations of the Anasuria Cluster and funding from the holding company. The cash inflow assumes four offtakes of approximately 250,000 barrels per offtake net to the Company from the Anasuria Cluster production. The production profile is in line with the production profile estimated at the date of completion of the acquisition. For the purposes of the cash flow forecast, the oil prices are estimated based on Brent futures prices in 2017 which ranges from USD41.7 per barrel ("bbl") to USD54.8 per bbl. The Brent futures is a proxy for the prevailing spot prices on the respective offtake dates.

The holding company, Ping Petroleum Limited, has informed the Company its present intention to provide financial support to the Company for the next twelve months from the date of the financial statements so as to enable the Company to meet its liabilities as and when they fall due and to carry on its business without curtailment of operations.

Changes in accounting policy and disclosures

- (a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective

There are no new accounting standards, amendments to published standards and interpretations that are effective for the first time for the financial period beginning on 21 July 2015.

- (b) Standards early adopted by the Company

- Amendment to IFRS 11 'Joint Arrangements' (effective from 1 January 2016) requires an investor to apply the principles of IFRS 3 'Business Combination' when it acquires an interest in a joint operation that constitutes a business. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

- (c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2015. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

- Amendment to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' (effective from 1 January 2016) clarifies that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

**PING PETROLEUM UK LIMITED**

(Incorporated in England and Wales)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD  
FROM 22 JULY 2015 (DATE OF INCORPORATION) TO 30 JUNE 2016  
(CONTINUED)**

**2 BASIS OF PREPARATION (CONTINUED)**

- (c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

The amendments to IAS 38 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- Amendments to IAS 7 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to IAS 12 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

- IFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations.

The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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**2 BASIS OF PREPARATION (CONTINUED)**

- c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

- IFRS 9 'Financial Instruments – Classification and Measurement of Financial Assets and Financial Liabilities' (effective from 1 January 2018) replaces the parts of IAS 39 'Financial instruments: Recognition and Measurement' that relate to the classification and measurement of financial instruments.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

- IFRS 16 'Leases' (effective from 1 January 2019) supersedes IAS 17 'Leases' and the related interpretations.

Under IFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). IFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in IFRS 16 and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, IFRS 16 retains most of the requirements in IAS 17. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Company is currently assessing the impact of adopting the above standards and amendments to published standards on the financial statements.

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**3 SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements, unless otherwise stated.

**(a) Investment in a joint arrangement**

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Company with one or more parties, where decisions about the relevant activities relating to the joint arrangement require unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to the Company's interest in the joint operation, the Company recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

**(b) Revenue**

**Sale of oil and gas products**

Oil and gas revenues comprise the Company's share of shares of hydrocarbons when the significant risks and rewards of ownership have been passed to the buyer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

**(c) Intangible assets**

Intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Amortisation of producing oil and gas properties is computed based on the unit of production method using proven and probable reserves for capitalised acquisition costs.

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(CONTINUED)****3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Intangible assets (continued)**

Amortisation of other intangible assets are based on the cost of an asset less its residual value and is amortised from the date they are available for use. The intangible assets will be amortised using the unit of production method.

Changes in the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as a change in the accounting estimate. Cost associated with production and general corporate activities are expensed in the period incurred. Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

**(d) Oil and gas assets**

Expenditure on the construction, installation and completion of infrastructure facilities is capitalised within property, plant and equipment.

Depreciation of oil and gas assets comprising subsea facilities and equipment is computed based on the unit-of-production method using proven and probable developed reserves.

**(e) Property, plant and equipment**

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any.

The costs of an item of property, plant and equipment initially recognised include purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

Floating production storage and offloading ('FPSO')	5%
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The depreciation method, useful lives and residual values are reviewed, and adjusted as appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment. The effects of any revision are recognised in profit or loss when the changes arise.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of parts that are replaced is derecognised. All other repair and maintenance expenses are recognised in profit or loss when incurred.



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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Property, plant and equipment (continued)**

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss.

Expenses incurred for the construction of tangible assets attributable to ongoing projects incurred are capitalised as 'work in progress'. Capitalisation is made within tangible assets according to the nature of the expenditure. No depreciation is charged during this phase until the asset is ready for use. The depreciation rate would be calculated based on the useful life of the asset to be assessed once it is ready for use.

**(f) Impairment**

**(i) Impairment of financial assets**

All financial assets (other than those categorised at fair value through profit or loss), are assessed at the end of each reporting period whether there is any objective evidence of impairment as a result of one or more events having impact on the estimated future cash flows of the asset. For an equity instrument, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

An impairment loss in respect of loans and receivables financial assets is recognised in statement of comprehensive income and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

**(ii) Impairment of non-financial assets**

Assets that have indefinite useful life or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when there is an indication that these assets may be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value-in-use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised in statement of comprehensive income immediately.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised.

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Inventories**

Inventories of diesel, chemical and spares are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of petroleum products includes direct costs and transportation charges incurred in bringing the inventories to their present condition and location, and is determined on a weighted average basis.

**(h) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise bank balances, cash on hand and deposits with licensed banks which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

**(i) Receivables**

Receivables are carried at anticipated realisable value. Allowance is made for doubtful debts based on specific review of outstanding balances at the reporting date. Bad debts are written off during the period in which they are identified.

**(j) Payables**

Payables, including accruals represent liabilities for goods purchased and services rendered to the Company prior to the end of the period and which remain unpaid.

**(k) Provisions**

**(i) Decommissioning costs**

Provision for future decommissioning costs is made in full when the Company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Periodic estimates are made for such future facility abandonment costs. The estimated cost of decommissioning and restoration is discounted to its net present value. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable developed reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in profit or loss as hydrocarbons are produced. The estimated interest rate used in discounting the cash flow is reviewed at least annually.

Any change in the expected future cost, interest rate and inflation rate is reflected

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as an adjustment in the provision for decommissioning costs of the corresponding oil and gas asset.

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(CONTINUED)****3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(k) Provisions (continued)****(ii) Other**

Provisions are recognised when the Company has a present obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation. The increase in the provision due to passage of time is recognised as finance cost.

**(l) Income taxes**

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred tax liability is recognised on temporary differences on investments in subsidiaries, except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date; and
- (ii) based on the tax consequence that will follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred taxes are recognised as income or expense in statement of comprehensive income, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from business combination is adjusted against goodwill on acquisition, if any.

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments**

Financial instruments are recognised in the statement of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument classified as a liability or an asset are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognised in the statement of financial position are disclosed in the individual policy statement associated with each item.

**(i) Financial assets**

The Company classifies its financial assets in the following categories: at FVTPL, held-to-maturity, loans and receivables, and available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. The Company determines the classification of its financial assets at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date. The Company had only financial assets classified as loans and receivables at the reporting date. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 14 and 16).

Loans and receivables financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the reporting date which are presented as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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(CONTINUED)****3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) Financial instruments (continued)****(i) Financial assets (continued)**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in other comprehensive income relating to that asset is reclassified to profit or loss.

**(ii) Financial liabilities**

All financial liabilities are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges. The Company had not entered into any hedging activities as at the reporting date. The Company's other financial liabilities comprise of trade payables, other payables and accruals, amount owing to ultimate holding company, amount owing to a related party, deferred consideration and contingent consideration.

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

**(iii) Equity instruments**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

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(CONTINUED)****3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(n) Foreign currency****(i) Functional and presentation currency**

The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollar ('USD'), which is also the Company's functional currency.

**(ii) Transactions and balances**

Transactions in a currency other than the functional currency are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rate at the reporting date are recognised in profit or loss.

Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined.

Closing rates

The principal closing rates in the 30 June financial year end used in translation of foreign currency amounts are as follows:

Foreign currency

2016  
USD

1 Great Britain Pound ("GBP")

1.3389

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(CONTINUED)****3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Other income**

Other income includes interest income, which is recognised using the effective interest method. Interest income consists of income from deposits with a licensed bank.

**(p) Critical accounting estimates and assumptions**

The Company makes accounting estimates and assumptions concerning the future which may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are:

**(i) Critical accounting estimates and assumptions****(a) Estimation of oil and gas reserves**

Oil and gas reserves are key elements in the Company's investment decision making process. They are also an important element in testing for impairment. Changes in proved and probable developed oil and gas will affect unit-of-production depreciation charges to profit or loss. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as the discounted cash flows, depreciation, depletion and amortisation charges, and decommissioning provisions) that are based on proved reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. Proved reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.



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(CONTINUED)**

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(p) Critical accounting estimates and assumptions (continued)**

**(i) Critical accounting estimates and assumptions (continued)**

**(a) Estimation of oil and gas reserves (continued)**

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Changes to the Company's estimates of proved and probable reserves, particularly proved and probable developed reserves, also affect the amount of depreciation and amortisation recorded for oil and gas assets and rights and concessions related to revisions. A reduction in proved and probable developed reserves will increase depreciation and amortisation charges (assuming constant production) and reduce income.

Although the possibility exists for changes in reserves to have a critical effect on depreciation and amortisation charges and, therefore, income, it is expected that in the normal course of business, the Company will continue to prioritise exploration and timely project delivery which ultimately results in maximisation of reserve recovery and will thus constrain the likelihood for changes to occur.

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(CONTINUED)****3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(p) Critical accounting estimates and assumptions (continued)****(i) Critical accounting estimates and assumptions (continued)****(b) Impairment review of oil and gas assets**

The recoverable amount of the Company's oil and gas assets is determined by post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would take into account when assessing fair value.

Key assumptions in a valuation model relate to prices and costs that are based on long term assumptions. The calculation of the valuation requires the use of estimates of key assumptions. The Company uses the oil price forecast based on the oil price forward curve from independent parties initially, then management's views, future cost inflation factor of 2% per annum and discount rate of 10% to calculate post-tax cash flows. These assumptions and judgements are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates and the discount rate applied is reviewed on an annual basis.

In June 2016, an independent valuer performed a valuation of the Anasuria Cluster as at completion date. The valuation numbers were considered in the purchase price allocation pursuant to the business combination. There were no significant changes to the economic conditions from the completion date to June 2016 which require an update to the key assumptions used. The valuation is sensitive to crude oil price, oil production level and costs.

**(c) Asset retirement obligations**

The Company incurs retirement obligations for certain assets. The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time the assets are installed. In the estimation of fair value, the Company uses assumptions and judgments regarding such factors as the existence of a legal obligation for an asset retirement obligation; technical assessments of the assets; estimated amounts and timing of settlements; discount rates; and inflation rates. Asset retirement obligations are disclosed in Note 21 to the financial statements.

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(CONTINUED)**

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(p) Critical accounting estimates and assumptions (continued)**

**(i) Critical accounting estimates and assumptions (continued)**

**(d) Business combination**

The recognition of business combinations requires the excess of the purchase price of acquisitions over the fair value of net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgements and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognised as goodwill and if negative, it is recognised in the statements of comprehensive income. Business combination is disclosed in Note 9 to the financial statements.

**(ii) Critical judgments in applying the entity's accounting policies**

In determining and applying accounting policies, judgment is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Company. The following accounting policy require subjective judgment, often as a result of the need to make estimates about the effect of the matters that are inherently uncertain:

**(a) Functional currency**

The financial statements are prepared in the functional currency of US Dollar, which is the currency of the primary economic environment in which the company operates. Factors considered by management when determining the functional currency include the competitive forces and regulations affecting the sales price, the currency used to acquire raw materials, labour, services and supplies and sources of financing. Based on the factors considered, the Company has determined that US Dollar is the functional currency.

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(CONTINUED)**

**4 REVENUE**

22.07.2015  
(date of  
incorporation) to  
30.06.2016  
USD'000

Crude oil sales

18,526

Gas sales

467

18,993

**5 COST OF SALES**

22.07.2015  
(date of  
incorporation) to  
30.06.2016  
USD'000

Cost of operations

9,765

Crude oil marketing fees

83

Tariff and transportation expenses

241

Depreciation, depletion and amortisation ("DD&A") of  
oil and gas properties

5,587

15,676

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD  
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(CONTINUED)****6 PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging/(crediting):

	22.07.2015 (date of incorporation) to 30.06.2016
	<u>2016</u> USD'000
Negative goodwill	(88,226)
Operating expenses	9,765
Fee payable to the company's auditors and its associates for the audit of the Company's annual accounts	28
Crude oil marketing fee	83
Tariff and transportation	241
Due diligence expenses	1,711
Depreciation, depletion and Amortisation	5,587
Finance costs	
- Unwinding of discount for decommissioning costs	1,267
- Unwinding of discount for deferred and contingent consideration	682
Interest income	(4)
Unrealised foreign exchange gains	257
Realised loss on foreign exchange	16
Other general and administrative expenses	160

The remuneration of Ning Zhang, Paul A Baltensperger and Roy Phillips is paid by Ping Petroleum Limited which makes no recharge to the Company. Ning Zhang, Paul A Baltensperger and Roy Phillips are directors of Ping Petroleum Limited and a fellow subsidiary, and it is not possible to make an accurate apportionment of his remuneration in respect of each of the entities. Accordingly, the above details include no remuneration in respect of Ning Zhang, Paul A Baltensperger and Roy Phillips. His total remuneration is included in the key management personnel compensation disclosed in the financial statements of Ping Petroleum Limited.

The Company employs no staff and any technical and administrative expenses are provided by a Ping Petroleum Limited.

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## 7 OTHER INCOME

22.07.2015  
(date of  
incorporation) to  
30.06.2016  
USD'000

Interest income

4

## 8 FINANCE COSTS

22.07.2015  
(date of  
incorporation) to  
30.06.2016  
USD'000

Unwinding of discount on deferred consideration (Note 18)

670

Unwinding of discount on contingent consideration (Note 19)

12

Unwinding of discount on provision for decommissioning costs (Note 21)

1,267

1,949

## 9 BUSINESS COMBINATION

On 10 March 2016, the Company completed the acquisition of a 50% interest in the Anasuria Cluster.

The Anasuria Cluster represents an attractive, geographically focused package of operated interests in producing fields and associated infrastructure. The assets have a proven and producing resource base which provides a platform for further development. A number of incremental development and exploration opportunities exist within the licence areas which are expected to generate significant incremental value in the medium term.

The base consideration of USD52.5 million comprises the following:

- Initial consideration of USD30.0 million; and
- Deferred consideration of USD22.5 million.

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(CONTINUED)****9 BUSINESS COMBINATION (CONTINUED)**

The initial consideration was payable upon completion of the acquisition. After certain working capital and other interim period adjustments from the economic date of 1 January 2015, the resulting net cash outlay was USD7.8 million, out of which USD5.5 million was paid during the current financial year.

The deferred consideration will be payable as follows:

- USD15.0 million within 12 months from completion; and
- USD7.5 million within 18 months from completion.

The fair value of the identifiable assets and liabilities of the Anasuria Cluster as at the date of acquisition was:

	Fair value recognised on acquisition USD'000
<b>Assets</b>	
- Intangible assets	193,248
- Property, plant and equipment	102,600
- Inventories	5,411
	<u>301,259</u>
<b>Liabilities</b>	
- Deferred tax liabilities	(96,624)
- Provision for decommissioning costs	(87,590)
- Other payables and accruals	(839)
	<u>(185,053)</u>
Fair value of net assets acquired	(185,053)
Total identifiable net assets at fair value	116,206
Negative goodwill from business combination	(88,226)
	<u>27,980</u>
<b>Purchase consideration:</b>	
- Cash paid and payable	7,750
- Contingent consideration	358
- Deferred consideration	19,872
	<u>27,980</u>

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## 9 BUSINESS COMBINATION (CONTINUED)

The negative goodwill has been recognised in profit or loss in the financial year ended 30 June 2016. The transaction resulted in a gain as the Company has the skill sets and capabilities to enhance the value of the assets post acquisition. As a result, the fair value of the assets is greater than the purchase consideration.

Deferred tax liabilities recognised upon completion of a business combination are in relation to temporary differences in the tax base of intangible assets (i.e. rights and concession) acquired and their accounting base. This balance is non-cash and will reverse in line with the depletion of the said intangible assets. The reversal of the deferred tax liabilities will result in a tax credit being recorded in profit or loss. Deferred tax liabilities relating to fair value of the identifiable assets and liabilities of the Anasuria Cluster recognised as at 30 June 2016 are measured at the tax rate expected to apply to the period when such liabilities are settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The Group has duly adopted the applicable rate of the Supplementary Charge in the United Kingdom as at 30 June 2016 to compute deferred tax liabilities. The United Kingdom's Finance Bill 2016 ("Finance Bill 2016") published on 24 March 2016 stated a downward revision of the rate of the Supplementary Charge, but that has not received Royal Assent and therefore, not been substantively enacted as at 30 June 2016. Due to the fact that the Finance Bill 2016 is yet to be enacted, or substantively enacted, the reduction in the rate of the Supplementary Charge announced cannot be taken into account when calculating deferred tax liabilities as at 30 June 2016. The change in tax rate subsequent to the financial year end will be recognised as a tax credit in the next financial year when and if Royal Assent is granted.

It is not practicable to disclose the results of operations from the Anasuria Cluster had the combination taken place from 1 July 2015 as such information was not made available by the sellers, namely Shell U.K. Ltd ("Shell UK"), Shell EP Offshore Ventures Limited ("Shell EP") and Esso Exploration and Production UK Limited ("Esso UK").

Transaction costs and professional fees incurred relating to the Anasuria Cluster of USD1.7 million was expensed to the profit or loss.

## 10 TAXATION

22.07.2015  
(date of  
incorporation) to  
30.06.2016  
USD'000

Current tax

Deferred income tax

518

518



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(CONTINUED)****10 TAXATION (CONTINUED)**

The tax assessed for the period is lower than the standard effective rate of corporation tax in the United Kingdom for the period ended 30 June 2016. The difference is explained below:

	22.07.2015 (date of incorporation) to <u>30.06.2016</u> USD'000
Profit before taxation	87,834
Tax calculated at effective tax rate of 50%	43,917
Effects of:	
- Expenses not deductible for tax purposes	714
- Income not subject to tax	(44,113)
	<u>518</u>

Upstream oil and gas production activities are taxed at a UK corporation tax of 30% plus a supplementary charge of 20%. It is proposed under the Finance Bill 2016 that the supplementary charge rate will be further reduced by 10% with effect from 1 January 2016. This change was not substantively enacted at the balance sheet date and has therefore not been included in these financial statements.

The Finance Bill 2016 published on 24 March 2016 stated a downward revision of the rate of the supplementary charge in the UK. Following agreement by both the UK's House of Commons and House of Lords on the text of Finance Bill 2016, it received Royal Assent on 15 September 2016. The Finance Bill 2016 is therefore now an Act of Parliament.

The impact caused by the reduction in the rate of the supplementary charge on the deferred tax liabilities relating to fair value of the identifiable assets and liabilities of the Anasuria Cluster recognised as at 30 June 2016 (refer to Note 9 to the financial statements) shall be recognised as a tax credit in the financial year ending 30 June 2017.

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## 11 JOINT OPERATIONS

Anasuria Operating Company Limited ("AOCL")

During the financial year, the Company with Anasuria Hibiscus UK Limited, completed the transaction to each acquire 50% of the entire interests of Shell UK, Shell EP and Esso UK in the Anasuria Cluster of oil and gas fields.

The Anasuria Cluster is located approximately 175 kilometres east of Aberdeen in the UK Central North Sea and consists of:

- 100% interest in the Guillemot A field and the related field facilities;
- 100% interest in the Teal field and the related field facilities;
- 100% interest in the Teal South field and the related field facilities;
- 38.65% interest in the Cook field and the related field facilities; and
- 100% ownership in the common infrastructure known as the Anasuria Floating Production Storage and Offloading unit and the related equipment.

The Company, together with Anasuria Hibiscus UK Limited has established the joint operating company, AOCL in Aberdeen, United Kingdom and this company has been approved as the License Operator for the assets by the Secretary of State for Energy and Climate Change of the United Kingdom Government. On 10 March 2016, AOCL successfully assumed the role of operator for the assets from Shell UK.

The principal place of business of the joint operations is in Aberdeen, United Kingdom.

## 12 INTANGIBLE ASSETS

	<u>2016</u> USD'000
At the date of incorporation	-
Acquisition through business combination (Note 9)	193,248
Amortisation	(3,205)
At 30 June 2016	<u>190,043</u>

Capitalised expenditures are measured at cost less any accumulated amortisation and any accumulated impairment losses.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 22 JULY 2015 (DATE OF INCORPORATION) TO 30 JUNE 2016 (CONTINUED)

### 13 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets USD'000	FPSO USD'000	Total USD'000
<u>Cost</u>			
At the date of incorporation	-	-	-
Acquisition through business combination (Note 9)	95,600	7,000	102,600
At 30 June 2016	95,600	7,000	102,600
<u>Accumulated depreciation</u>			
At the date of incorporation	-	-	-
Depreciation for the financial period	(2,313)	(69)	(2,382)
At 30 June 2016	(2,313)	(69)	(2,382)
<u>Net book value</u>			
At 30 June 2016	93,287	6,931	100,218

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## 14 TRADE AND OTHER RECEIVABLES

	<u>2016</u> USD'000
Trade receivable	1,915
Other receivables	2,370
	<u>4,285</u>

The Company's trade and other receivables are neither past due nor impaired and have not been renegotiated during the financial year. The Company believe no impairment is necessary in respect of their trade and other receivables.

The credit term of trade receivables is 30 days.

	<u>2016</u> USD'000
Trade and other receivables are denominated in:	
USD	96
GBP	4,189
	<u>4,285</u>

## 15 INVENTORIES

	<u>2016</u> USD'000
<u>At cost</u>	
Crude oil	1,055
Diesel	231
Spares	67
Chemical	23
	<u>1,376</u>

Inventories recognised as expense during the financial period amounted to USD9,765,000. These were included in cost of sales as disclosed in Note 5 to the financial statements.

Company No.

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(CONTINUED)**

**16 CASH AND CASH EQUIVALENTS**

	<u>2016</u> USD'000
Cash at bank, denominated in:	
USD	7,694
GBP	1,904
	<u>9,598</u>

**17 SHARE CAPITAL**

	<u>2016</u> USD
<u>Authorised share capital</u>	
1 ordinary share of GBP 1.00 at 22.07.2015 (date of incorporation)/30.06.2016	<u>2</u>
<u>Issued and fully paid capital</u>	
1 ordinary share of GBP 1.00 at 22.07.2015 (date of incorporation)/30.06.2016	<u>2</u>

The Company was incorporated with 1 ordinary share of GBP1 that was subscribed for on the date of incorporation.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD  
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**18 DEFERRED CONSIDERATION**

	<u>2016</u> USD'000
Current	13,920
Non-current	6,622
	<u>20,542</u>

The base consideration for the acquisition of a 50% interest in the Anasuria Cluster comprises the following:

- Initial consideration of USD30.0 million; and
- Deferred consideration of USD22.5 million.

The initial consideration was paid upon completion of the acquisition.

The deferred consideration will be payable as follows:

- USD15.0 million within 12 months from completion; and
- USD7.5 million within 18 months from completion.

The deferred consideration has been net present valued at 10% on 31 March 2016.

The movements in the deferred consideration of the Group are as follows:

	<u>2016</u> USD'000
<u>Current</u>	
At 22 July 2015	-
Acquisition through business combination (Note 9)	13,465
Unwinding of discount (Note 8)	455
At 30 June 2016	<u>13,920</u>
<u>Non-current</u>	
At 22 July 2015	-
Acquisition through business combination (Note 9)	6,407
Unwinding of discount (Note 8)	215
At 30 June 2016	<u>6,622</u>

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(CONTINUED)**

**19 CONTINGENT CONSIDERATION**

2016  
USD'000

Non-current 370

The movements in the contingent consideration of the Group are as follows:

2016  
USD'000

At 22 July 2015	-
Acquisition through business combination (Note 9)	358
Unwinding of discount (Note 8)	<u>12</u>
At 30 June 2016	<u><u>370</u></u>

As part of the acquisition of a 50% interest in the Anasuria Cluster, a contingent consideration is payable to Shell UK, Shell EP and Esso UK from 2018 to 2021, if and only when in a calendar year, the annual average oil price (USD Y) exceeds USD75 per bbl, in which case, Shell UK, Shell EP and Esso UK will be paid USD0.15 x (Y-USD75) per bbl of the production from the Anasuria Cluster. The contingent consideration is limited by the production volume and the average oil price for the relevant calendar year.

**20 DEFERRED TAXATION**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

2016  
USD'000

Deferred tax liabilities:

- to be realised after more than 12 months	(135,051)
- to be realised within 12 months	<u>(10,236)</u>
	<u><u>(145,287)</u></u>

Deferred tax assets:

- to be recovered after more than 12 months	42,641
- to be recovered within 12 months	<u>5,504</u>
	<u><u>48,145</u></u>

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**20 DEFERRED TAXATION (CONTINUED)**

	<u>2016</u> USD'000
Deferred tax liabilities (net)	(97,142)
The movement of the deferred tax is as follows:	
At date of incorporation	-
Acquisition through business combination	(96,624)
(Charged)/Credited to statement of comprehensive income:	
- Oil and gas properties	(28,971)
- Decommissioning provision	30,679
- Tax losses	3,566
- Capital allowances	(5,792)
At 30 June 2016	(97,142)
Deferred tax assets (before offsetting)	
Tax losses	3,556
Decommissioning provision	44,589
	48,145
Offsetting	(48,145)
Deferred tax assets (after offsetting)	-
Deferred tax liabilities (before offsetting)	
Oil and gas properties	(145,287)
	(145,287)
Offsetting	48,145
Deferred tax liabilities (after offsetting)	(97,142)

The amount of unused tax losses (which have no expiry date) for which no deferred tax asset is recognised in the statements of financial position as follows:

	<u>2016</u> USD'000
Unused tax losses	7,112



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**21 PROVISION FOR DECOMMISSIONING COSTS**

	<u>2016</u> USD'000
Non-current	<u>88,857</u>

The movements in the provision for decommissioning costs of the Group and Company are as follows:

	<u>2016</u> USD'000
At 22 July 2015	-
Acquisition through business combination (Note 9)	87,590
Unwinding of discount (Note 8)	<u>1,267</u>
At 30 June 2016	<u>88,857</u>

The Company makes full provision for the future costs of decommissioning its oil production facilities and pipelines with respect to the Anasuria Cluster on a discounted basis, based on the Company's share of the contractual obligation of 50%.

The provision represents the present value of decommissioning costs which are expected to be incurred up to year 2036 assuming no further development of the cluster. The liability is discounted at a rate of 4.3% and includes an inflationary factor of 2%. The unwinding of the discount is classified as finance costs (Note 8).

These provisions have been created based on internal and third party estimates. Assumptions based on the current economic environment have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning liabilities is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil prices which are inherently uncertain.

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**22 TRADE AND OTHER PAYABLES**

	2016 USD'000
Trade payables	527
Other payables and accruals	5,748
	<u>6,275</u>
Trade and other payables are current with credit terms of 30 days.	
Trade and other payables are denominated in USD.	
USD	1,283
GBP	4,992
	<u>6,275</u>

**23 AMOUNTS DUE TO PARENT COMPANY**

The amounts owing to Parent Company are denominated in USD and are unsecured and are generally settled within one month. The Company believes no impairment is necessary in respect of its amounts due to Parent Company.

**24 SIGNIFICANT RELATED PARTY DISCLOSURES**

Parties are considered related if the party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Amount owing to related companies arose mainly from recovery of expenses and shared overhead costs with other related parties. The amounts are unsecured, interest-free and repayable on demand.

(a) The related parties of, and their relationships with the Company, are as follows:

<u>Related parties</u>	<u>Relationship</u>
1. Ping Petroleum Limited (Incorporated in Bermuda)	Parent Company  Principal Activities: Exploration and development of upstream oil and gas assets and investment holding
2. Ping Petroleum Sdn. Bhd. (Incorporated in Malaysia)	Wholly owned subsidiary of Ping Petroleum Limited  Principal Activities: Exploration and development of upstream oil and gas assets

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**24 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

**(b) Transactions with related parties during the financial year:**

In addition to related party transactions and balances mentioned elsewhere in the financial statements, set out below are the significant related party transactions and balances which were carried out on terms and conditions negotiated amongst the related parties.

Whenever exist, related party transactions also include transactions with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members.

2016  
USD'000

Recovery of expenses and shared overhead costs from:  
- Ping Petroleum Limited

4,391

**(c) Significant related party balances**

Included in the Company's statement of financial position are the following significant related party balances arising from normal business transactions:

2016  
USD'000

Ping Petroleum Limited

5,013

The transactions have been entered into in the normal course of business at terms mutually agreed between the parties.

**25 FINANCIAL RISK MANAGEMENT POLICIES**

The Company's financial risk management policy seek to ensure that adequate financial resources are available for carrying on the Company's operations while managing its foreign currency exchange risk, interest rate risk, liquidity risk and credit risk. The Company operate within clearly defined guidelines that are approved by the Company's policy which is not to engage in speculative transactions. The Company's policies in respect of the major areas of operating activities are as follows:

**(a) Market risk**

**(i) Foreign currency exchange risk**

The Company are exposed to fluctuations in foreign currencies for transactions entered into its currencies other than the USD.

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**25 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(i) Foreign currency exchange risk (continued)**

The Company are exposed to fluctuations in foreign currencies for transactions entered into in currencies other than the USD.

The currency giving rise to this risk is primarily Great Britain Pound. Foreign currency risk is monitored closely on an on-going basis to ensure that the net exposure is at an acceptable level. The Company's exposure to foreign currency is as follows:

	United States Dollar USD'000	Great Britain Pound USD'000	Total USD'000
<b>30.06.2016</b>			
<b><u>Financial assets</u></b>			
Trade receivables and other receivables	96	4,189	4,285
Cash and cash equivalents	7,694	1,904	9,598
	<u>7,790</u>	<u>6,093</u>	<u>13,883</u>
<b><u>Financial liabilities</u></b>			
Trade payables and other payables	(1,283)	(4,992)	(6,275)
Deferred consideration	(20,542)	-	(20,542)
Contingent consideration	(370)	-	(370)
Amount owing to Parent Company	(5,019)	-	(5,019)
	<u>(27,214)</u>	<u>(4,992)</u>	<u>(32,206)</u>
<b>Net financial assets/(liabilities)</b>	<u>(19,424)</u>	<u>1,101</u>	<u>(18,323)</u>

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**25 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(i) Foreign currency exchange risk (continued)**

The following table details the sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the financial period, with all other variables held constant:

2016  
Increase/  
(Decrease)  
USD'000

Effects on profit after taxation/equity:

5 percent increase in GBP	55
5 percent decrease in GBP	(55)
	55

**(ii) Interest rate risk**

At 30 June 2016, the Company does not have any interest-bearing borrowing and hence is not exposed to interest rate risk.

**(iii) Liquidity risk**

As part of the Company's prudent liquidity management, the Company maintains sufficient levels of cash to meet its working capital requirements.

The undiscounted cash flow contractually payable under financial instruments are as follows:

	Less than <u>1 year</u> USD'000	Between <u>2 to 5 years</u> USD'000	More than <u>5 years</u> USD'000	<u>Total</u> USD'000
<u>2016</u>				
Accounts payable	527	-	-	527
Other payables and accruals	5,748	-	-	5,748
Deferred consideration	15,000	7,500	-	22,500
Contingent consideration	-	639	-	639
Amount due to Parent Company	5,019	-	-	5,019
	26,294	8,139	-	34,433

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**25 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(iv) Credit risk**

Credit risk arises from deposits with financial institutions and trade and other receivables. The Company seeks to invest the cash assets safely and profitably. Deposits are placed only with financial institutions with strong long-term credit ratings based on independently rated parties. The maximum credit exposure associated with financial assets is equal to the carrying amount.

The credit quality of financial assets that are neither past due nor impaired as at the end of reporting period can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

	<u>2016</u> USD'000
<u>Cash and cash equivalents</u>	
<i>Counterparties with external credit rating ("RAM")***</i>	
AAA	<u>9,598</u>
<u>Trade and other receivables</u>	
<i>Counterparties without external credit rating</i>	
Group 1	<u>1,961</u>

The Company classify their receivables into the following groups:

Group 1 – new customers/related parties (less than six (6) months).

Group 2 – existing customers/related parties (more than six (6) months) with no defaults in the past.

Group 3 – existing customers/related parties (more than six (6) months) with some defaults in the past. All defaults were fully recovered.

\*\*\* RAM represents Rating Agency Malaysia.

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**25 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(a) Market risk (continued)

(iv) Credit risk (continued)

Exposure to credit risk

As the Company does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the financial period.

(b) Capital risk management

The Group and Company manage its capital by maintaining an optimal capital structure so as to support its businesses and maximise shareholders value. To achieve this objective, the Group and Company may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares. The capital structure for the Group and Company consists of borrowings, cash and cash equivalents and total equity as follows:

	<u>2016</u> USD'000
Total borrowing	-
Less: Cash and cash equivalents (Note 16)	9,598
Net cash	9,598
Total equity	87,315
Total capital	<u>96,913</u>

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(CONTINUED)**

**25 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(c) Classification of financial instruments

**2016**  
**USD'000**

Financial assets:

Loans and receivables

Receivables	1,915
Other receivables	46
Cash and cash equivalents	9,598
	<hr/> 11,559 <hr/>

Financial liabilities:

Other financial liabilities

Accounts payable	527
Other payables and accruals	5,748
Deferred consideration	20,542
Contingent consideration	370
	<hr/> 27,187 <hr/>

(d) Fair value of financial instruments

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2016.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.



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(CONTINUED)

## 25 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

## (d) Fair value of financial instruments (continued)

Financial instruments other than those carried at fair value

The Company uses the following hierarchy for determining and disclosing fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly (i.e. from prices) or indirectly (i.e. derived from prices).

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

	<u>Level 1</u> USD'000	<u>Level 2</u> USD'000	<u>Level 3</u> USD'000	<u>Total</u> USD'000
<u>Liability</u>				
Financial liability at fair value through profit or loss:				
<u>Deferred consideration</u>				
At 22 July 2015	-	-	-	-
Acquisition through business combination	-	-	19,872	19,872
Unwinding of discount	-	-	670	670
At 30 June 2016	-	-	20,542	20,542

Company No.

9698077

**PING PETROLEUM UK LIMITED**  
(Incorporated in England and Wales)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD  
FROM 22 JULY 2015 (DATE OF INCORPORATION) TO 30 JUNE 2016  
(CONTINUED)**

**26 CAPITAL COMMITMENTS**

2016  
USD'000

Approved and contracted for:

Share of a joint operation's material commitments

10,786

The Company's 50% share of commitments in the Facilities Management Agreement entered into by Anasuria Operating Company Limited ('AOCL') with Petrofac Facilities Managements, the Contract Operator appointed to manage the day-to-day operations and maintenance of the Anasuria Cluster.

**27 COMPARATIVE FIGURES**

No comparative figures are available as this is the first set of financial statements prepared by the Company since incorporation.

**28 CONTROLLING PARTIES**

The immediate and ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Ping Petroleum Limited. Copies of Ping Petroleum Limited's consolidated financial statements can be obtained from the Company Secretary at:

Conyers Corporate Services (Bermuda) Limited  
Clarendon House,  
2 Church Street,  
PO Box HM 1022,  
Hamilton,  
HM DX  
Bermuda.

**29 AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 19 June 2017.