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SOUTH PACIFIC RESOURCES LIMITED

ABN 30 073 099 171

ANNUAL REPORT and FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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CORPORATE DIRECTORY**Directors**

Domenic Martino (Managing Director)
Joseph Goldberg (Non-Executive Director)
Alvin Tan (Non-Executive Director)

Company Secretary

Louisa Martino

Registered Office

Level 5, 56 Pitt Street
Sydney NSW 2000
Telephone: +612 8823 3177
Facsimile: +612 8823 3188
Website: www.southpacificresourceslimited.com

Auditors

Pitcher Partners Corporate & Audit (WA) Pty Ltd
Level 1, 914 Hay Street
Perth Western Australia 6000
Telephone: +618 9322 2022
Facsimile: +618 9322 1262
Email: partners@pitcher-wa.com.au
Website: <http://www.pitcher.com.au>

Share Registry

Advanced Share Registry Services Pty Ltd
110 Stirling Highway
Nedlands Western Australia 6909
Telephone: +618 9389 8033
Facsimile: +618 9262 3723

Stock Exchange Listing

The Company is listed on the Australian Securities Exchange Limited and Deutsche Borse AG
Home Exchange-Perth, Australia

ASX Code- SPB

WKN Code-924249

Australian Business Number

ABN 30 073 099 171

DIRECTORS' REPORT

The Directors submit their report on South Pacific Resources Limited (the "Company" or "SPR") and its controlled entities (the "Group") for the year ended 30 June 2016.

1. DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows:

<u>Name</u>	<u>Length of Service</u>
Domenic Martino	4 years
Joseph Goldberg	4 years
Alvin Tan	16 years

Domenic Martino - Managing Director

Mr Martino is a Chartered Accountant and an experienced director of ASX listed companies. Previously CEO of Deloitte Touch Tohmatsu in Australia, he has significant experience in the development of "micro-cap" companies.

Mr Martino is a key player in the re-birth of a broad grouping of ASX companies including Cokal Limited, Clean Global Energy Limited (renamed Citation Resources Ltd) and NuEnergy Capital Limited. He has a strong reputation in China, with a lengthy track record of operating in Papua New Guinea (PNG) and Indonesia, where he has successfully closed key energy and resources deals with key local players. He has a proven track record in capital raisings across a range of markets.

Mr Martino was a recipient of the Centenary Medal 2003 for his service to Australian society through business and the arts.

During the past three years Mr Martino held the following directorships in other ASX listed companies:

Australasian Resources Ltd (27 November 2003-Current), Cokal Ltd (24 December 2010-Current), Food Revolution Group Limited (11 February 2016 – Current) ORH Limited (6 May 2009-Current), Pan Asia Corporation Ltd (24 December 2010-Current), Skyland Petroleum Limited (18 December 2013 – Current) and Synergy Plus Limited (7 July 2006-Current).

Joseph (Yosse) Goldberg – Non-Executive Director

In the early 1960s Mr Goldberg joined Denis Silver and formed Silver Goldberg and Associates. The practice grew and became a leading architectural office, based in Perth and expanding its activities throughout Australia, Asia and Iran. The practice is operating today, after almost 60 years, under the name Silver, Hanley Thomas.

In mid 1970s Mr Goldberg became a property developer and designed, built, owned and operated, either on his own or in partnership, four medium-sized suburban shopping centres, apartments, a modern pig farm, 6PR radio station, managed land subdivisions and established a horse racing and breeding farm (Jane Brook Stud and Shamrock Park) providing agistment/training for 250-300 horses.

In later years he lived in the UK, Spain, USA and Canada where he helped Australian companies in establishing operations in those countries.

On his return to Australia he became a consultant and major shareholder in a number of companies and helped companies create a foothold in countries such as PNG, Indonesia, Cameroon, South Africa and Turkey. Mr Goldberg has also consulted to Sydney Gas Limited, Blue Energy Limited, Kimberley Diamond Company NL, Sundance Resources Limited, CuDeco Limited, Gindalbie Metals Ltd about resource projects such as iron ore, oil and gas bed methane and copper. Recently Mr Goldberg has been engaged in establishing a major thermal, cooking oil and gas project in Indonesia requiring major infrastructure and financing.

During the past three years Mr Goldberg has held no other directorships in ASX listed companies.

DIRECTORS' REPORT (CONTINUED)**Alvin Tan - Non-Executive Director**

Alvin Tan has over 16 years corporate experience in Australia and Asia, including mergers, acquisitions, capital raisings and listings (on ASX, the Alternative Investments Market (AIM) of the London Stock Exchange, Kuala Lumpur Stock Exchange (KLSE) and the German Stock Exchange). Mr Tan studied at the University of Western Australia, gaining a Bachelor of Commerce with honours, and subsequently was employed by KPMG in Kuala Lumpur from 1993-1995 as a financial consultant.

Returning to Australia, Mr Tan worked with the stockbroking firm of DJ Carmichael before pursuing other business interests. He was a founding director of various companies which are now listed on ASX.

Mr Tan currently serves on the board of ASX listed Advanced Share Registries Ltd and BKM Management Ltd. He also has interests in companies in exploration, property development, plantation and investment holdings.

During the past three years Mr Tan held the following directorships in other ASX listed companies:

Non- Executive Director of Advanced Share Registry Ltd (11 September 2007-Current) and BKM Management Limited (5 February 2002-Current).

2. COMPANY SECRETARY**Louisa Martino - Company Secretary**

Ms Martino provides company secretarial and accounting services through Transaction Services Pty Ltd. Prior to this she was the Chief Financial Officer of a private company during its stage of seeking investor financing.

Ms Martino previously worked for a corporate finance company, assisting with company compliance (ASIC and ASX) and capital raisings. She also has experience working for a government organisation in its Business Development division where she performed reviews of business opportunities and prepared business case documents seeking Government funding.

Ms Martino previously worked for a major accounting firm in Perth, London and Sydney where she provided corporate advisory services, predominantly on IPOs and mergers and acquisitions and also performed due diligence reviews. She has a Bachelor of Commerce from the University of Western Australia, is a member of the Institute of Chartered Accountants in Australia and a member of the Financial Services Institute of Australasia (FINSIA).

3. DIRECTORS' SHAREHOLDINGS

The following table sets out each current Director's relevant interest in shares of the Company or a related body corporate as at the date of this report.

	Fully Paid Ordinary Shares
Mr Martino	11,250,000
Mr Goldberg	11,250,000
Mr Tan	423,190

4. DIVIDENDS

No dividend has been paid during the financial year and no dividend is recommended for the current year.

DIRECTORS' REPORT (CONTINUED)**5. DIRECTORS' MEETINGS**

The number of Directors' meetings either attended in person or by telephone during the financial year and the number of meetings attended by each Director during the financial year are:

	No. Eligible to Attend	No. Attended
Mr Martino	2	2
Mr Goldberg	2	2
Mr Tan	2	2

For details of the function of the Board, Audit Committee and Remuneration Committee, please refer to Corporate Governance Statement.

6. PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were oil and gas exploration.

7. REVIEW OF OPERATIONS

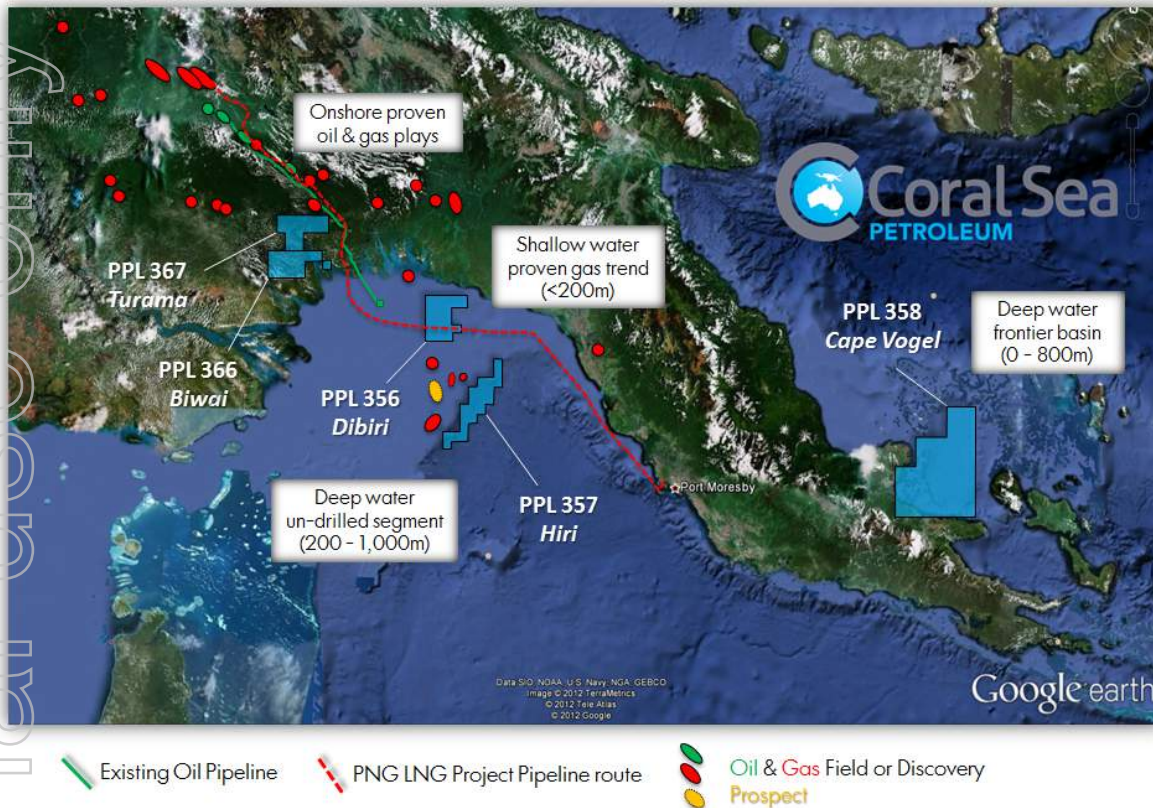
The operating loss after income tax of the Group for the year ended 30 June 2016 was \$1,145,321 (30 June 2015: loss \$1,566,672). The loss for the year ended 30 June 2016 includes an impairment provision for exploration expenditure of \$338,954 (30 June 2015: \$688,766). This provision has been raised as a result of the uncertainty surrounding the veracity of the exploration licences held by the Company's 100% owned subsidiary, Coral Sea Petroleum (PNG) Limited ("CSP (PNG)") and their commitments. Once confirmation has been received from the PNG Department of Petroleum and Energy as to the standing of the licences, directors may consider reversing the provision, thereby re-instating the exploration expenditure as an asset on the statement of financial position.

The Group is seeking to build a successful, sustainable, oil and gas entity, with a regional focus. The Group aims to be a significant oil and gas business in Papua New Guinea and plans to achieve this through the pursuit, exploration and development of the prospecting licences, while continuing to identify and target new projects via proven relationships and networks in Papua New Guinea.

The Group operates, and currently holds, a 100% working interest, in five Petroleum Prospecting Licenses in PNG ('PPL'). These cover an area of 11,972km² in both onshore and offshore settings (Figure 1). Four of the licenses (PPL 356, 357, 366 & 367) are in the Papuan Basin close to existing oil and gas fields and the associated production infrastructure. The fifth (PPL 358) is in the underexplored offshore frontier Cape Vogel Basin where natural oil and gas seepages have been reported.

DIRECTORS' REPORT (CONTINUED)

Figure 1 Location of the five PPLs (on Google Earth image)



To date South Pacific Resources Limited has built and interpreted an extensive technical database and now has a solid basis for future exploration activities. More recently, South Pacific Resources Limited has focussed on its strategic and financial direction. The Company has commenced the process of identifying third parties for potential joint venture or farm-in arrangements.

The Group has been targeting opportunities surrounding the exploration for hydrocarbons and participation in developing selected high quality discovered oil and gas assets. These can provide value for shareholders and offer an exciting blend of projects consistent with the clear metrics embodied in the Company's mission statement.

New Unconventional Oil and Gas regime in Papua New Guinea

On 26th February 2016, the Papua New Guinea Parliament enacted new legislation to enable exploration for, and development of, unconventional oil and gas resources in Papua New Guinea (PNG). Up until now exploration for unconventional sources of oil and gas in PNG has been specifically excluded under the Oil and Gas Act 1998.

PNG has large proven reserves of conventional oil and gas that testify to the presence of excellent quality petroleum source rocks. Like many sedimentary basins around the world with large conventional petroleum deposits, certain areas of PNG also have good quality source rocks with the potential to host large volumes of unconventional oil and gas. As worldwide demand for clean energy increases, large volumes of potential new resources locked in shale and tight reservoirs are being keenly sought. The passing of the PNG Unconventional Hydrocarbons Act allows PNG to join many other countries around the world in pursuing this new and exciting opportunity, one which has the potential to deliver enormous benefits to the people of PNG.

DIRECTORS' REPORT (CONTINUED)

Substantial exploration potential

The Company has undertaken a significant amount of preliminary geological and geophysical work over the past five years in order to complete a country-wide assessment of the shale gas potential of PNG. The studies indicate the presence of good quality shales, often at shallow depths, and often close to existing and proposed infrastructure. The preliminary conclusion from this work is that PNG has the potential for substantial unconventional oil and gas resources, possibly significantly greater in magnitude than the known conventional PNG oil and gas reserves.

Applications lodged for five unconventional licences covering 75,000km²

Since the introduction of the new legislation, the Company established two 75% owned subsidiaries who have each lodged five applications for Unconventional Hydrocarbon Prospecting Licences. The applications, covering some 75,000km², encompass all of the prospective areas identified in the country-wide screening, including:

- The shales surrounding the producing Foldbelt oil and gas fields, which could potentially provide the resources to extend the lives of the Kutubu, Gobe / SE Gobe, and other diminishing fields in the Foldbelt;
- The shales surrounding the Hides, Juha and P'Nyang gas fields that presently provide gas for the PNG LNG Project, for which a third train is presently being contemplated;
- The highly prospective shales surrounding the Elk / Antelope / Triceratops gas discoveries that comprise the proposed Papua LNG Project which is presently awaiting confirmation of sufficient reserves to enable the project's proponents to reach FID;
- The areas surrounding the proposed Stanley LNG Project in Western Province, which is presently looking for additional reserves sufficient to underpin a small-scale LNG project; and
- A large area of the Foreland where a number of stranded unconventional oil and gas fields presently sit.

In recognition of the Company's ongoing work, and in order to satisfy the original undertakings made by the Government at the time, the Minister for Petroleum and Energy has undertaken that his Department shall review and consider the five South Pacific Resources applications first, for determination by the Petroleum Advisory Board.

Reservation of exploration areas by the Minister

As further recognition of the Company's significant, yet incomplete preliminary work over many years, Minister Micah has reserved all of the graticular blocks contained in the five applications exclusively for the Group. This is to ensure certainty of the application areas while the license applications are processed by the Department without fear of competition, while also allowing for ongoing exploration and early drilling to be undertaken.

8. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no other significant changes in the Group's state of affairs during the year ended 30 June 2016.

DIRECTORS' REPORT (CONTINUED)**9. MATERIAL AND AFTER BALANCE SHEET DATE EVENTS**

There are no significant events after balance date likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years except as follows:

The Company completed a placement of 18,700,000 shares (with a free option for every two shares) at \$0.06 per share. The placement raised \$1,122,000 for working capital to advance the Group's oil and gas interests in Papua New Guinea. The options are unlisted and have an exercise price of \$0.12 and an expiry date of 3 February 2017. The Company has issued a further 5,500,000 options, exercisable at \$0.12 and with an expiry date of 3 August 2017, as placement fee and to consultants.

10. FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Group will continue to pursue its mission to be a significant oil and gas entity in Papua New Guinea and to grow shareholder value by exploring for, developing and producing oil and gas principally in PNG.

The PNG Government has reserved graticular blocks that make up five applications for Unconventional Hydrocarbon Prospecting Licences for the Group. The Group continues to focus on obtaining the licences.

The Group has developed excellent relationships with the relevant Government Agencies and with a number of established players in the PNG petroleum industry. Such relations offer the possibility for undertaking joint studies, initiatives and operations where appropriate and for sharing knowledge, experience and costs.

11. ENVIRONMENTAL ISSUES

The Group is not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board is not aware of any breach of environmental requirements as they apply to the Group.

DIRECTORS' REPORT (CONTINUED)**12. REMUNERATION REPORT (Audited)**

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001. There were no company executives and other key management personnel who were not also Directors of the Company for the financial year.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

The remuneration report is set out under the following main headings:

- A Remuneration Philosophy
- B Remuneration Structure
- C Remuneration Approvals
- D Remuneration and Performance
- E Details of Directors' Remuneration
- F Compensation Options Granted, Exercised or Lapsed During the Financial Year
- G Share-based Compensation
- H Equity Instruments Issued on Exercise of Remuneration Options

The remuneration arrangements detailed in this report are for Chairman the Managing Director / Chairman and Non-Executive Directors during the financial year as follows:

Domenic Martino	Managing Director and Chairman
Alvin Tan	Non-Executive Director
Joseph Goldberg	Non-Executive Director
Julian Sandt ¹	Non-Executive Director

¹ Resigned on 29 April 2015

The previous remuneration report was considered at the Company's last Annual General Meeting held on 25 November 2015. There were no comments on the previous remuneration report that were discussed at the 2015 Annual General Meeting and shareholders approved the remuneration report.

A Remuneration Philosophy

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Directors of the Company. The performance of the Group depends upon the quality of its key management personnel. To prosper the Group must attract, motivate and retain appropriately skilled directors and executives.

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Group does not have an employee share option scheme and no remuneration options or shares have been issued to Directors.

A remuneration consultant has not been employed by the Group to provide recommendations in respect of the remuneration, given the size of the Group and its current structure.

DIRECTORS' REPORT (CONTINUED)**B Remuneration Structure**

There are no formal agreements with Directors. Directors are paid on a month to month basis. All Directors are paid via their director-related entity, with the exception of Mr Martino who is paid directly and whose remuneration includes superannuation.

Executive Director

Mr Martino's employment with the Company is on a month to month basis at \$120,000 plus superannuation for the financial year (2015: \$120,000).

Non-Executive Directors

Mr Goldberg, Non-Executive Director, accrues on a month to month basis at \$120,000 for the financial year (2015: \$120,000).

Mr Tan, Non-Executive Director, accrues on a month to month basis at \$36,000 for the financial year (2015: \$36,000).

No other agreements with key management personnel or their controlled entities during the financial year have been entered into.

The Group currently does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors or any retirement benefits and, as such, there are no performance related links to the existing remuneration policies.

The following table shows the gross revenue, profit/(losses), share prices and dividends of the Company at the end of the respective financial years.

	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016
	Company	Consolidated	Consolidated	Consolidated	Consolidated
Revenue (\$)	44,765	28,511	34,570	13,965	-
Net loss (\$)	(796,055)	(1,210,035)	(3,298,274)	(1,566,672)	(1,145,321)
Share price (cents)	N/A ¹	17.0	7.0	5.6	3.0
Dividend (\$)	Nil	Nil	Nil	Nil	Nil
Return of capital	Nil	Nil	Nil	Nil	Nil

¹ The Company was suspended from trading as at 30 June 2012, awaiting re-listing as an oil and gas entity. At this time the Company consolidated its share capital on the basis 1 share for every 4 shares held.

C Remuneration Approvals

Remuneration of Executive Directors is based on fees approved by the Board of Directors and is set at levels to reflect market conditions and encourage the continued services of the Directors.

Non-Executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a General Meeting. The current limit is \$500,000 per annum as resolved at the 2012 Annual General Meeting.

D Remuneration and Performance

Director remuneration is currently not linked to either long term or short term performance conditions. The Board feels that the shares currently on issue to the Directors are a sufficient, long term incentive to align the goals of the Directors with those of the shareholders to maximise shareholder wealth, and as such, has not set any performance conditions for the Directors of the Company. The Board will continue to monitor this policy to ensure that it is appropriate for the Group in future years.

DIRECTORS' REPORT (CONTINUED)

E Details of Directors' Remuneration

2016	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,400	-
Mr Goldberg	120,000	-	-	-	-	-	-	-	-	120,000	-
Mr Tan	36,000	-	-	-	-	-	-	-	-	36,000	-
Sub-total	276,000	-	-	-	11,400	-	-	-	-	287,400	-
Other key management personal											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	276,000	-	-	-	11,400	-	-	-	-	287,400	-

* All directors' fees were paid to the Directors' entity, with the exception of Mr Martino.

2015	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,100	-
Mr Goldberg	120,000	-	-	-	-	-	-	-	-	120,000	-
Mr Tan	36,000	-	-	-	-	-	-	-	-	36,000	-
Mr Sandt ¹	30,000	-	-	-	-	-	-	-	-	30,000	-
Sub-total	306,000	-	-	-	11,400	-	-	-	-	317,400	-
Other key management personal											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	306,000	-	-	-	11,400	-	-	-	-	317,400	-

¹ Mr Sandt resigned on 29 April 2015

DIRECTORS' REPORT (CONTINUED)**F. Compensation Options Granted, Exercised or Lapsed During the Financial Year**

There were no options issued to Directors as part of their remuneration in the past 12 months. There were no compensation options that were exercised or lapsed during the year.

Details of compensation options held directly, indirectly or beneficially by key management personnel and their associated entities during the year ended 30 June 2016 are as follows:

Company Directors and associated entities		Opening Balance	Granted as Remuneration	Options Acquired	Net Change Other	Closing Balance	Total Vested and Exercisable as at Year End	Unvested as at Year End
		\$	\$	\$	\$	\$	\$	\$
Mr Martino	2016	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-
Mr Goldberg	2016	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-
Mr Tan	2016	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-
Mr Sandt ¹	2015	-	-	-	-	-	-	-

¹ Mr Sandt resigned on 29 April 2015.

G Share-based Compensation

The Company may reward Directors for their performance and align their remuneration with the creation of shareholder wealth by issuing share options and or shares. Share-based compensation is at the discretion of the Board and no individual has a contractual right to participate in any share-based plan or to receive any guaranteed benefits. No share based compensation has occurred in 2016 or 2015.

(i) Options

There were no options granted to Directors during the financial year, nor were shares issued upon exercise of options. As at the date of this report no options have been exercised.

(ii) Shares

During the financial year, no shares were issued to Directors.

(iii) Link to Performance

The Company does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors or any retirement benefits and, as such, there are no performance related links to the existing remuneration policies.

H Equity Instruments Issued on Exercise of Remuneration Options

No shares were issued during the financial year to Directors or key management as a result of exercising remuneration options.

There are currently no contractual arrangements with directors, they are engaged on a month to month basis.

I Other Transactions with KMP and/or their Related Parties

There were no other transactions conducted between the Group and KMP or their related parties, apart from those disclosed above relating to equity, compensation and loans, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

END OF REMUNERATION REPORT

DIRECTORS' REPORT (CONTINUED)**13. OPTIONS**

During the 2016 financial year, the Company issued 6,200,000 options. These options have an exercise price of \$0.05 and various expiry dates as follows:

<u>Expiry Date</u>	<u>Number of Options</u>
31 December 2018	4,200,000
24 February 2019	2,000,000

Option holders do not have any rights to participate in any issues of shares or other interests of the Company or any other entity.

14. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or its controlled entities, or to intervene in any proceedings to which the Company or its controlled entities are a party, for the purposes of taking responsibility on behalf of the Company or its controlled entities for all or part of those proceedings.

15. INDEMNIFYING OFFICERS

During the financial year, the Company paid a premium in respect of a contract insuring all its Directors and current and former executive officers against a liability incurred as such a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group against a liability incurred as such an officer or auditor.

16. NON-AUDIT SERVICES

The Board of Directors, at the date of this report, is satisfied that the provision of non-audit services during the 30 June 2016 financial year was compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services does not compromise the general principles relating to auditors independence as set out in APES 110 Code of Ethics for Professional Accountants.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below:

Audit services	
<i>Pitcher Partners Corporate & Audit (WA) Pty Ltd</i>	\$27,500
Non-audit services - Taxation	
<i>Pitcher Partners (WA) Pty Ltd</i>	\$6,700

DIRECTORS' REPORT (CONTINUED)**17. AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 53.

Signed in accordance with a resolution of the Board of Directors.



Domenic Martino
Director

Date: 21st day of September 2016

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of South Pacific Resources Limited (the “Company” or “SPR”) is responsible for the corporate governance of the Company, having regard to the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (3rd edition). The Board guides and monitors the business and affairs of SPR on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Council’s principles are summarised as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Act ethically and responsibly
Principle 4	Safeguard integrity in corporate reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of security holders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

This statement outlines the main corporate governance practices in place during the year ended 30 June 2016, which comply with the ASX Corporate Governance Council recommendations, except where noted.

This Corporate Governance Statement is current as at 21 September 2016 and has been adopted by the Board.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of directors and for the operation of the Board.

COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise a minimum of three directors, with a majority of non-executive directors;
- the Chairman should be a non-executive director;
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet at regular intervals and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the Board selects a candidate or panel of candidates with the appropriate expertise.

The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of shareholders. The Company does not have a formal Nomination Committee.

BOARD SKILLS MATRIX

The Board uses a skills matrix to guide its assessment of the skills and experience of current Directors, and those skills that the Board considers will complement the effective functioning of the Board. Current Directors possess a range of professional skills summarised in the following table:

Corporate governance and compliance	66%
Strategy / business analysis	100%
Mining / exploration industry experience	100%
Geographic experience - Asia Pacific	100%
Financially knowledgeable	66%
M&A experience / equity / capital markets	100%
Risk management skills / experience	66%
Other for profit directorship experience	100%

CORPORATE GOVERNANCE STATEMENT (continued)**REMUNERATION COMMITTEE**

Given the current size of the Company and size and composition of the Board, the Board believes that no efficiencies or other benefits would be gained by establishing a separate remuneration committee. All decisions regarding remuneration of Directors, executives and key employees are made by the full Board. As the Board has not established a separate remuneration committee, it does not have a remuneration committee charter. The Company has a standing agenda item at each Board meeting to deal with any remuneration related matters that would normally be carried out by a remuneration committee.

The Board will periodically review the Company's circumstances and a remuneration committee will be discussed and formed if deemed necessary by the Directors, should the Company experience a change in structure and Board membership. The Company recognises that formal and transparent remuneration and nomination policies assist in promoting understanding and confidence in remuneration and nomination decisions.

The Company has established a remuneration policy that states:

- non-executive Directors are to receive fees which are determined by the Board within the aggregate limit set by the shareholders at a general meeting; and
- executive Directors' remuneration is determined by the Board with reference to current market rates and remuneration paid to executives in comparable listed companies determined by the size and nature of operations.

Remuneration levels are set by the Board in accordance with industry standards to attract suitable qualified and experienced directors and senior management.

AUDIT COMMITTEE

The Board is of the view that given the current size of the Company and the size and composition of the board, that there would be no efficiencies or other benefits gained by having a separate audit committee. However, the issues relevant to the integrity of the Company's financial reporting typically dealt with by such a committee are dealt with by the full Board. The Company has as a standing agenda item at each Board meeting to deal with any audit related matters that would normally be carried out by an audit committee.

The Company will assess the need to form an audit committee on a regular basis.

As the Board has not established an audit committee, it does not have a formal audit committee charter.

The Company has appointed external auditors who have clearly demonstrated quality and independence. The performance of the external auditors is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

BOARD AND SENIOR EXECUTIVE RESPONSIBILITIES

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Company has a board charter that discloses the specific responsibilities of the Board, and those delegated to senior executives. The responsibility for the operation and administration of the Company is delegated by the Board to the Managing Director. The Board ensures that the Managing Director is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, contractors and consultants. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, directly to the Chairman. If there is no Chairman in place, the matter is to be reported to the independent directors.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. Procedures are in place to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

CORPORATE GOVERNANCE STATEMENT (continued)**MONITORING OF BOARD AND SENIOR EXECUTIVE PERFORMANCE**

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of the Board and all individual directors is to be reviewed annually by the Chairman or independent directors. Directors whose performance is unsatisfactory are asked to retire.

CODE OF CONDUCT

A formal code of conduct for the Company applies to all directors and employees. The code aims to encourage the appropriate standards of conduct and behaviour of the directors, employees and contractors of the Company. All personnel are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The directors, managers and employees are expected to act with the utmost integrity and objectivity, observe the highest standards of behaviour and business ethics and strive at all times to enhance the good reputation and performance of the Group by acting in the best interests of the Group, being responsible and accountable for their actions and observing the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

The Group has developed an extensive code of conduct which is encapsulated in the corporate governance policies and the Company's terms and conditions of employment. Conduct guidelines apply to all employees which address the values and vision of the Company, business ethics and protocol, policies and procedures, employee entitlements, responsibilities and expectations of both the Group and employees and compliance with relevant legal, shareholder and stakeholder obligations.

All employees have position descriptions that reinforce their duties, rights and responsibilities and all are required to participate in performance reviews to ensure the Group expectation is aligned with employee goals and key performance indicators. Actual performance is reviewed annually and, if necessary, more frequently. The Company encourages regular feedback, review and continuous improvement so as to maintain and enhance the desired corporate culture and standard of ethical behaviour.

SHAREHOLDER COMMUNICATION POLICY

The Board encourages shareholder communication and ensures that shareholders are kept up to date with the Company's activities.

The Company has established procedures to provide shareholders with important information in a timely manner via electronic communication. All information, including financial information, disclosed to the ASX is posted to the Company's website as soon as practicable after release to the market. A copy of the Company's annual report is issued to shareholders who have requested one and is posted on the Company's website as soon as practicable after disclosure to the ASX has been made and confirmation of receipt has been received.

CORPORATE GOVERNANCE STATEMENT (continued)

BEST PRACTICE RECOMMENDATION

Outlined below are the 8 Principles of Good Corporate Governance and Best Practice Recommendations as outlined by the ASX Corporate Governance Council (3rd edition).

Best Practice Recommendation	Action Taken
<p>Principle 1: Lay solid foundation for management and oversight</p> <p>1.1 A listed entity should disclose:</p> <p>(a) The respective roles and responsibilities of its board and management; and</p> <p>(b) Those matters expressly reserved to the board and those delegated to management</p> <p>1.2 A listed entity should:</p> <p>(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</p> <p>(b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</p> <p>1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their employment.</p> <p>1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.</p> <p>1.5 A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p> <p>1.6 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>The Company's corporate governance policies include a board charter that discloses the specific responsibilities of the Board, and those delegated to senior executives. The responsibility for the operations and administration of the Company is delegated by the Board to the Managing Director. Refer page 15, Board and Senior Executive Responsibilities.</p> <p>The Board identifies potential candidates and may take advice from an external consultant. Potential new directors are subject to appropriate and prudent background and screening checks prior to appointment. Board candidates must stand for election at the next general meeting of shareholders following such appointment, where information is set out to shareholders including; biographical details, other material directorships, any material adverse information revealed by checks and details of interest, position, association or relationship that might have influence.</p> <p>The Company does not adhere to letters of appointment for directors. Their service is on a month to month basis. The performance of all senior executives is reviewed annually by the Chairman or independent directors which includes measuring actual performance against planned performance. There were no senior executives employed by the Company during the year.</p> <p>The Company Secretary reports directly to the Board and supports the Board by advising on governance matters, monitoring implementation of policy and procedures, co-ordinating and timely despatch of Board papers and ensuring minutes accurately capture the business conducted at Board meetings.</p> <p>The Company continues to strive towards achieving objectives established towards increasing diversity. It does not propose to establish measurable gender diversity objectives in the future as:</p> <ul style="list-style-type: none"> • The Group's Directors and senior executives is a small, stable team of experienced personal. There is no intention to make changes in the near future; and • The Group is committed to making all selection decisions on the basis of merit. Setting specific objectives for such a small team would potentially influence decision making to the detriment of the Group. <p>At the end of the reporting period (30 June 2016), the Board of Directors consisted of three men and the Company Secretary is female.</p> <p>Evaluations of the Board, committees and executives (if any) occurred during the year. The Company has not disclosed the basis of such evaluation processes. The Board takes ultimate responsibility for these matters and does not consider disclosure of performance evaluation necessary at this stage.</p>

Best Practice Recommendation	Action Taken
<p>1.7 A listed entity should:</p> <ul style="list-style-type: none"> (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. <p>Principle 2: Structure the Board to add value</p> <p>2.1 The board of a listed entity should:</p> <ul style="list-style-type: none"> (a) have a nomination committee which: <ul style="list-style-type: none"> (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: <ul style="list-style-type: none"> (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. <p>2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p> <p>2.3 A listed entity should disclose:</p> <ul style="list-style-type: none"> (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director. <p>2.4 A majority of the board of a listed entity should be independent directors.</p>	<p>The Managing Director is responsible for annual evaluations of senior executives (if any). There are no senior executives (who are not directors) and therefore no evaluations of senior executives took place during the year, nor has the Company disclosed the basis of such evaluation processes adopted by the Company. The Board takes ultimate responsibility for these matters and does not consider disclosure of performance evaluation necessary at this stage.</p> <p>The Company is not of a size that justifies having a separate nomination committee. However, matters typically dealt with by such a committee are dealt with by the full Board.</p> <p>As part of its usual role, the full Board oversees the appointment and induction process for directors, and the selection, appointment, evaluation and succession planning process of the Company's directors and senior executives. When a vacancy exists or there is a need for a particular skill, the Board determines the selection criteria that will be applied. The Board then identifies suitable candidates, with assistance from an external consultant if required, and will interview and assess the selected candidates.</p> <p>Refer "Board Skills Matrix" above.</p> <p>Two (Messer's Goldberg and Tan) of the three Board members are considered independent.</p> <p>Not applicable</p> <p>The length of service of each director is set out in the Directors' Report, specifically on page 2 of the Annual Report.</p> <p>The majority of the board is independent. To assist the Directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval from the Chairman or independent directors for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.</p>

Best Practice Recommendation	Action Taken
<p>2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p> <p>2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.</p>	<p>The Managing Director and Chairman is Mr Domenic Martino who is not independent.</p> <p>The Group has an informal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the opportunity to visit the Group's areas of interest and meet with management to gain a better understanding of business operations. Directors are encouraged to undertake continuing professional education and, if this involves industry seminars and approved education courses, where appropriate, this is paid for by the Company.</p>
<p>Principle 3: Act Ethically and Responsibly</p> <p>3.1 A listed entity should:</p> <ul style="list-style-type: none"> (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it. 	<p>The Company recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics in conducting its business activities and intends to maintain a reputation of integrity. The Company has subscribed to a general Code of Conduct. The Code of Conduct lists the standards of ethical behaviour that are expected to be met by the Directors and employees of the Company. Such persons are also expected to meet the ethical standards of any professional bodies they belong to. Any breaches of the Code of Conduct are to be reported to the Chairman for notification to the Board. The Board will decide on appropriate disciplinary action and may report breaches to the appropriate authorities.</p> <p>All Directors, managers and employees are required to act honestly, in good faith and in the best interests of the Company while exercising due care and diligence, recognising and respecting their responsibility to shareholders and other stakeholders of the Company. All Directors, managers and employees of the Company are required to act in an ethical manner at all times, avoiding conflicts of interest and observing the principals of independence in decision-making.</p>

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Best Practice Recommendation	Action Taken
<p>Principle 4: Safeguard integrity in corporate reporting</p> <p>4.1 The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, who is not the chair of the board,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;</p> <p>OR</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner</p> <p>4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p> <p>4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	<p>The Board is of the view that given the current size of the Company and the size and composition of the Board, that there would be no efficiencies or other benefits gained by having a separate audit committee. However, the issues relevant to the integrity of the Company's financial reporting typically dealt with by such a committee are dealt with by the full Board. The Company has as a standing agenda item at each Board meeting to deal with any audit related matters that would normally be carried out by an audit committee.</p> <p>The Managing Director and Chief Financial Officer (CFO) provide a certification to the Board on the integrity of the Company's external financial reports for the half-year and full year. The Managing Director and CFO also provide assurance to the Board that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks. In addition reporting of the management of the Company's material business risks, forms part of routine management reporting to the Board.</p> <p>The Company receives assurances from the Managing Director and CFO in respect of the yearly and half-yearly financial statements. Given the volume of accounting transaction and the size of the management team, quarterly assurances are not considered necessary</p> <p>The performance of the external auditor is reviewed annually. It is both the Company's and the auditor's policy to rotate audit engagement partners at least every five years.</p> <p>The external auditor provides an annual declaration of their independence to the Board. The external auditor is requested to attend annual general meetings and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.</p>
<p>Principle 5: Make timely and balanced disclosure</p> <p>5.1 A listed entity should:</p> <p>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>SPR has a formal written policy for the continuous disclosure of any price sensitive information concerning the Company. The Board has also adopted a formal written policy covering arrangements to promote communications with shareholders and to encourage effective participation at general meetings.</p> <p>The Managing Director and the Company Secretary have been nominated as the Company's primary disclosure officers.</p> <p>SPR is committed to providing shareholders and stakeholders with extensive, transparent, accessible and timely communications on the Company's activities, strategy and performance.</p>

Best Practice Recommendation	Action Taken
<p>Principle 6: Respect the rights of security holders</p> <p>6.1 A listed entity should provide information about itself and its governance to investors via its website.</p> <p>6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</p> <p>6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</p> <p>6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.</p>	<p>The Company maintains a website that contains its corporate governance policies (www.southpacificresourceslimited.com).</p> <p>The Company does not currently have an investor relations program, however shareholders are able to contact the company secretary or board directly should they have any queries / comments.</p> <p>The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals.</p> <p>The Company does not currently have the facilities to send and receive correspondence electronically with shareholders. The directors will review this option, in light of the cost associated with maintaining the electronic system for communication</p>
<p>Principle 7: Recognise and manage risk</p> <p>7.1 The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p> <p>7.2 The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p> <p>7.3 A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; OR</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>The Group is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of a separate risk management committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Group's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.</p> <p>The Group has in place policies and procedures, including a risk management framework (as described in the Company's Risk Management Policy), which is developed and updated to help manage these risks. The Risk Management Policy is located on the Company's website.</p> <p>The Company's risk management policy is designed to provide the framework to identify, assess, monitor and manage the risks associated with the Company's business.</p> <p>Main areas of risk include fluctuating commodity prices and exchange rate fluctuation, political and economic climate, exploration and development and continuous disclosure obligations. Regular consideration is given to these matters by the Board.</p> <p>The Company has in place an internal control framework to assist in identifying, assessing, monitoring and managing risk. This framework includes quarterly financial reporting, maintenance of and adherence to the Company's continuous disclosure policy and regular informal operations reports provided by the Managing Director for the Board.</p> <p>The Company's internal control system is monitored by the Board and assessed regularly to ensure effectiveness and relevance to the Company's current and future operations.</p> <p>The Company has a small management team who interact with directors on a regular basis and ensures constant communication of material business risks.</p> <p>The Group does not have a formally established internal audit function. The Board ensures compliance with the internal controls and risk management procedures previously mentioned.</p>

Best Practice Recommendation	Action Taken
<p>7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>The Group undertakes minerals exploration and mining development in PNG and, as such, faces risks inherent to its business, including economic, environmental and social sustainability risks, which may materially impact the Group's ability to create or preserve value for security holders over the short, medium or long term.</p> <p>The Group views sustainable and responsible business practices as an important long term driver of performance and shareholder value and is committed to transparency, fair dealing, responsible treatment of employees and partners and positive interaction with the community.</p>
<p>Principle 8: Remunerate fairly and responsibly</p> <p>8.1 The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p> <p>8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p> <p>8.3 A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>The Board has not established a formal remuneration committee. The full Board attends to the matters normally attended to by a remuneration committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitable qualified and experienced directors and senior executives.</p> <p>For full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.</p> <p>Non-executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a general meeting.</p> <p>Executive Directors' remuneration is determined by the Board with reference to current market rates and remuneration paid to executives in comparable listed companies determined by the size and nature of operations.</p> <p>Remuneration for all Directors and key management personnel has been disclosed in the Directors' Report.</p> <p>There is no formal equity-based remuneration scheme, however shares and options can be issued as part remuneration. Securities can only be issued to Company Directors under a resolution at a general meeting of shareholders. The Directors and senior executives who participate in equity-based remuneration are prohibited from entering into transactions or arrangements that limit the economic risk of participating in invested entitlements or entitlements subject to a holding lock.</p>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016	2015
		\$	\$
Continuing Operations			
Other income	5	-	323
Profit on sale of financial asset		-	13,642
Total other income		-	13,965
Total Revenues and other income		-	13,965
Consultancy and other professional fees		(570,907)	(564,121)
Computer and office expenses		(78,653)	(114,019)
Travel and entertainment expenses		(71,810)	(139,784)
Impairment provision against exploration expenditure		(338,954)	(688,766)
Net foreign exchange gain / (losses)		30,245	9,899
Other expenses		(115,242)	(83,846)
Total Expenditure	5	(1,145,321)	(1,580,637)
Loss from ordinary activities before income tax expenses		(1,145,321)	(1,566,672)
Income tax expenses relating to ordinary activities	6	-	-
Loss for the year		(1,145,321)	(1,566,672)
Other Comprehensive Income			
Other comprehensive income, net of income tax:			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations	14	(52,837)	(9,732)
Total comprehensive loss for the year attributable to the owners of the parent		(1,198,158)	(1,576,404)
Loss per share			
Basic and diluted loss per share (cents)	15	(0.84)	(1.23)
From continuing operations			
Basic and diluted loss per share (cents)	15	(0.84)	(1.23)

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 27 to 52.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	2016 \$	2015 \$
Current Assets			
Cash and cash equivalents	7	9,325	45,836
Trade and other receivables	8	68,780	60,260
Prepayments	9	-	-
Total Current Assets		<u>78,105</u>	<u>106,096</u>
Non-Current Assets			
Exploration expenditure	10	-	-
Total Non-Current Assets		<u>-</u>	<u>-</u>
Total Assets		<u>78,105</u>	<u>106,096</u>
Current Liabilities			
Trade and other payables	11	2,070,106	1,201,712
Borrowings	12	64,000	500
Total Current Liabilities		<u>2,134,106</u>	<u>1,202,212</u>
Total Liabilities		<u>2,134,106</u>	<u>1,202,212</u>
Net Liabilities		<u>(2,056,001)</u>	<u>(1,096,116)</u>
Equity			
Issued capital	13	5,139,069	4,986,607
Reserves	14	263,686	230,712
Accumulated losses		(7,458,756)	(6,313,435)
Total Equity		<u>(2,056,001)</u>	<u>(1,096,116)</u>

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 27 to 52.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

	Ordinary Shares	Option Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Attributable to Members
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	4,064,025	-	-	184,838	(4,746,763)	(497,900)
<i>Comprehensive expenses for the year:</i>						
Foreign exchange movement	-	-	-	(9,732)	-	(9,732)
Loss for the year	-	-	-	-	(1,566,672)	(1,566,672)
Total comprehensive loss for the year	-	-	-	(9,732)	(1,566,672)	(1,576,404)
<i>Transactions with owners in their capacity as owners:</i>						
5,383,332 shares and free attaching options issued at \$0.075 per share	403,750	-	-	-	-	403,750
1,333,333 shares and free attaching options issued at \$0.075 per share	100,000	-	-	-	-	100,000
4,500,000 shares and free attaching options issued at \$0.065 per share	292,500	-	-	-	-	292,500
2,307,692 shares and free attaching options issued at \$0.065 per share	150,000	-	-	-	-	150,000
150,000 shares and free attaching options issued at \$0.065 per share	9,750	-	-	-	-	9,750
7,500,000 options issued to PNG consultants	-	55,606	-	-	-	55,606
Capital raising costs	(33,418)	-	-	-	-	(33,418)
Balance at 30 June 2015	4,986,607	55,606	-	175,106	(6,313,435)	(1,096,116)
Balance at 1 July 2015	4,986,607	55,606	-	175,106	(6,313,435)	(1,096,116)
<i>Comprehensive expenses for the year:</i>						
Foreign exchange movement	-	-	-	(52,837)	-	(52,837)
Loss for the year	-	-	-	-	(1,145,321)	(1,145,321)
Total comprehensive loss for the year	-	-	-	(52,837)	(1,145,321)	(1,198,158)
<i>Transactions with owners in their capacity as owners:</i>						
Transfer option premium reserve to share based payment reserve as options were issued for services (refer note 14)	-	(55,606)	55,606	-	-	-
4,200,000 shares and free attaching options issued at \$0.05 per share	210,000	-	-	-	-	210,000
1,000,000 shares issued at \$0.04 per share	40,000	-	-	-	-	40,000
3,100,000 options issued in lieu of placement fee	(85,811)	-	85,811	-	-	-
Capital raising costs	(11,727)	-	-	-	-	(11,727)
Balance at 30 June 2016	5,139,069	-	141,417	122,269	(7,458,756)	(2,056,001)

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 27 to 52.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016	2015
		\$	\$
Cash Flows From Operating Activities			
Cash paid to suppliers and employees		(136,156)	(734,265)
Interest received		-	323
Net cash used in operating activities	7(b)	(136,156)	(733,942)
Cash Flows From Investing Activities			
Exploration expenditure		(62,743)	(251,296)
Acquisition of subsidiaries		(6,648)	-
Sale of financial asset		-	85,089
Net cash used in investing activities		(69,391)	(166,207)
Cash Flows From Financing Activities			
Proceeds from borrowings		92,500	-
Repayment of borrowings		(29,000)	-
Proceeds from issue of shares		110,000	956,000
Share capital costs		(4,464)	(33,418)
Net cash from financing activities		169,036	922,582
Net increase/(decrease) in cash and cash equivalents		(36,511)	22,433
Cash and cash equivalents at beginning of the year		45,836	23,403
Cash and cash equivalents at end of year	7(a)	9,325	45,836

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 27 to 52.

Notes to the Financial Statements**For the year ended 30 June 2016****1. Reporting Entity**

South Pacific Resources Limited (formerly Coral Sea Petroleum Limited) (the “Company” or “SPR”) is a company limited by shares, incorporated in Australia and listed on the Australian Securities Exchange.

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

2. Basis of Preparation**a) Statement of compliance**

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

For the purpose of preparing the financial statements, the Group is a for-profit entity.

The financial statements were approved by the Board of Directors on 21 September 2016.

b) Basis of preparation

The financial statements have been prepared on the basis of historic costs, except for the financial assets for which the fair value basis of accounting has been applied.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group’s accounting policies and has no effect on the amounts reports for the current or prior periods.

c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Group’s functional currency.

d) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current period or any prior period.

e) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Group. Certain comparative amounts have been reclassified to conform with the current year’s presentation.

Notes to the Financial Statements
For the year ended 30 June 2016

a) Basis of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

A list of controlled entities is contained in Note 19(e).

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the financial report as well as their results for the period then ended.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Subsidiaries are eliminated from the date on which control is established and are de-recognised from the date that control ceases.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

c) Foreign currency translation and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Notes to the Financial Statements**For the year ended 30 June 2016**

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

d) Income tax

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

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

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

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

Deferred tax assets and deferred tax liabilities shall be offset only if:

- (a) there is a legally enforceable right to set-off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

e) Other taxes

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

- (a) Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (b) Receivables and payables are stated with amounts of GST included.

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

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

Notes to the Financial Statements
For the year ended 30 June 2016

f) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

During the 30 June 2015 financial year the Group disposed of its financial assets in the FVTPL category. As at 30 June 2016, the only financial assets are in the 'loans and receivables' category.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

(ii) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a Group's of financial assets or financial liabilities of both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and AASB 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporate any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

Notes to the Financial Statements**For the year ended 30 June 2016***(iii) Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivable assets could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is 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.

The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

(v) De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantively all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantively all the risks and rewards of ownership and continue to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantively all the risks and rewards of ownership of a transferred financial asset, the Group continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

g) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the

Notes to the Financial Statements**For the year ended 30 June 2016**

obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

i) Revenue recognition*(i) Interest Revenue*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

j) Trade and other payables

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

k) Contributed equity

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 the proceeds.

l) Earnings per share*(i) Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

m) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through successful development on the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserve.

Accumulated costs in relation to an abandoned area are written off in full against the statement of comprehensive income in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Notes to the Financial Statements**For the year ended 30 June 2016****n) Comparative figures**

When required by the Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for year.

o) Critical accounting estimates and judgements

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

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

The following are the critical judgments including those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial report:

- The Group has capitalised significant exploration and evaluation expenditure on the basis either that this is expected to be recouped through future successful development or alternatively sale of the areas of interest. If ultimately the areas of interest are abandoned or are not successfully commercialised, the carrying value of the capitalised exploration and evaluation expenditure would need to be written down to its recoverable amount;
- The Group has recorded an impairment provision in the accounts as a result of the uncertainty surrounding the veracity of the exploration licences held by CSP (PNG) and their commitments. Once confirmation has been received from the PNG Department of Petroleum and Energy as to the standing of the licences, directors may consider reversing the impairment provision, thereby re-instating the exploration expenditure as an asset on the statement of financial position; and
- The Group has carried forward tax losses which have not been recognised as deferred tax assets because it is not considered sufficiently probable at this point in time, that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

p) Share based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value of shares are measured by reference to the quoted market price. Fair value of options are measured by use of valuation techniques. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity settled employee benefits reserve

q) Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

Notes to the Financial Statements

For the year ended 30 June 2016

The Group has incurred a net loss after tax for the year ended 30 June 2016 of \$1,145,321 (30 June 2015: \$1,566,672), and a net cash outflow from operations of \$136,156 (30 June 2015: \$733,942). As at 30 June 2016 the Group had net current liabilities of \$2,056,001 (June 2015: \$1,096,116) and net equity of negative \$2,056,001 (30 June 2015: \$1,096,116).

The Group's ability to continue as a going concern and pay its debts as and when they fall due is dependent upon the following:

- The Group raising additional capital via any means available to it inclusive of, but not limited to, placements, option conversions, rights issues, or joint venture arrangement in a timely manner in order to fund the ongoing exploration and operation activities;
- The Group seeking approval to delay exploration activities in certain tenements if sufficient funds are not raised;
- The Group selling certain tenements in Papua New Guinea if sufficient funds are not raised;
- The non-executive and executive Directors not receiving payment for their fees if the Group is not in a position to pay these fees;
- The accounting, company secretarial and office rental fees will not be paid if the Group is not in a position to pay these fees; and
- A letter of support from a director to ensure the Company has adequate working capital for at least 12 months from the date of this report.

The Directors have reviewed the business outlook and cash flow forecasts after taking into account the above matters and are of the opinion that the use of the going concern basis of accounting is appropriate as the Directors believe the Group will achieve the matters set out above and be able to pay its debts as and when they fall due.

r) New standards and interpretation not yet adopted

The Company has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period.

The adoption of all the new and revised standards and interpretations has not resulted in any changes to the Company's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised accounting standards and interpretations have not had a material impact and not resulted in changes to the Company's presentation of, or disclosure in its financial statements.

Accounting standards that have been issued, but are not yet effective include the following that may be relevant to the Group:

- AASB 9 *Financial Instruments* (December 2014), AASB 2014-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014), AASB 2014-8: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2018). These Standards will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:
 - simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
 - permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
 - simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
 - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
 - introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and

Notes to the Financial Statements

For the year ended 30 June 2016

- requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: *Revenue from Contracts with Customers*, AASB 2014-5: Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15 and AASB 2016-3: Amendments to Australian Accounting Standards – Clarifications to AASB 15 (applicable for annual reporting periods commencing on or after 1 January 2018).

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

This Standard is not expected to significantly impact the Group's financial statements.

- AASB 16: *Leases* (applicable for annual reporting periods commencing on or after 1 January 2019).
AASB 16 will replace AASB 117: *Leases* and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:
 - right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
 - investment property, the lessee applies the fair value model in AASB 140: *Investment Property* to the right-of-use asset; or
 - property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: *Property, Plant and Equipment* to all of the right-of-use assets that relate to that class of property, plant and equipment; and
 - lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

This Standard is not expected to significantly impact the Group's financial statements.

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Notes to the Financial Statements

For the year ended 30 June 2016

4. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group engages in two businesses being exploration and development of oil and gas licences and investment management, activities from which it incurs costs. The major results of the Group are from the exploration and development of oil and gas licences, the investment management business is immaterial and consequently the results of the Group are analysed as a whole by the chief operating decision maker.

5. Other Income and Expenditure

	<u>2016</u>	<u>2015</u>
	\$	\$
Other Income		
Interest income	-	323
Expenditure		
Provision for exploration expenditure	338,954	688,766
Director fees	276,000	306,000
Superannuation expense	11,400	11,400
Accounting and audit fees	107,738	77,769
Travel and accommodation	71,225	136,228
Office rental	68,535	65,899
Company secretarial	60,000	60,000

6. Income Tax Expenses

	<u>2016</u>	<u>2015</u>
	\$	\$
(a) Income tax expense		
The components of income tax expense / (benefit) comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-
(b) Reconciliation of income tax expense / (benefit) to prima facie tax payable on accounting profit / (loss)		
Accounting loss before tax	<u>(1,145,321)</u>	<u>(1,566,672)</u>
Australian prima facie tax benefit on loss at 30% (2015: 30%)	(280,379)	(195,220)
Papua New Guinea prima facie tax benefit on loss at 30% (2015: 45%)	(63,386)	(274,782)

Notes to the Financial Statements
For the year ended 30 June 2016

6. Income Tax Expenses (continued)

	<u>2016</u>	<u>2015</u>
	\$	\$
Effect of expenses that are not deductible in determining taxable profit	175	1,067
Impairment of intercompany loan	(336,387)	-
Tax losses not brought to account	679,977	468,935
Income tax expenses	<u>-</u>	<u>-</u>

(c) Deferred tax assets and liabilities not brought to account

The directors estimate that the potential deferred tax assets and liabilities carried forward but not brought to account as at year end at the Australian and Papua Ne Guinean corporate tax rate of 30% are made up as follows:

Carried forward tax losses	8,843,808	8,343,378
Deductible temporary differences	(52,099)	500,430
	<u>8,791,709</u>	<u>8,843,808</u>

The Company estimates the Group has accumulated income tax losses of \$28,491,237 (2015: \$27,811,260). The benefit of these losses and timing difference will only be obtained if:

- The Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- The Group continues to comply with the conditions for deductibility imposed by law; and
- No changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the loss.

7. Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
	\$	\$
Cash and cash equivalents	9,325	45,836

(a) Reconciliation to cash at the end of the year

Balance as per above	9,325	45,836
Balance per statement of cash flows	<u>9,325</u>	<u>45,836</u>

Notes to the Financial Statements
For the year ended 30 June 2016

7. Cash and Cash Equivalents (continued)

	<u>2016</u>	<u>2015</u>
	\$	\$
<i>Adjustments for non-cash items</i>		
Profit on financial assets	-	(13,642)
Issue of options to PNG consultants	-	55,606
Issue of shares to consultant	40,000	-
Goodwill on acquisition of subsidiary	6,552	-
Impairment on prepayment of exploration licenses	-	159,708
Provision for exploration expenditure	338,954	529,058
<i>Changes in assets and liabilities</i>		
Trade and other receivables	(8,520)	24,588
Trade and other payables	579,070	126,179
Accrued expenses	76,655	25,106
Foreign exchange movement (affect on operating loss)	(23,546)	(73,873)
Net cash used in operating activities	<u>(136,156)</u>	<u>(733,942)</u>

8. Trade and Other Receivables

Rental bond	50,000	50,000
GST receivables	18,780	10,260
Total trade and other receivables	<u>68,780</u>	<u>60,260</u>

(a) Trade receivables past due but not impaired

There were no trade receivables past due but not impaired. Trade and other receivables are stated at their carrying amount which is believed to be their recoverable amount.

(b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

9. Prepayments

Prepayment of exploration licences	899,689	639,958
Impairment provision	(899,689)	(639,958)
	<u>-</u>	<u>-</u>

An impairment provision has been made against the prepayment of exploration licences given the uncertainty surrounding whether these licences will be granted.

Notes to the Financial Statements
For the year ended 30 June 2016

10. Exploration Expenditure

	2016	2015
	\$	\$
Capitalised exploration expenditure	-	-
Movement in carrying values		
Capitalised exploration expenditure		
Carrying value at the beginning of the year	-	-
Additions	96,443	103,542
Impairment provision recorded against exploration expenditure	(96,443)	(103,542)
Carrying value at end of Year	-	-

An impairment provision has been made against exploration expenditure given the uncertainty surrounding the veracity of the exploration licences (refer Note 21).

Refer to note 3(o) for significant judgements and estimates made in relation to the recoverability of capitalised exploration expenditure.

11. Trade and Other Payables

Trade payables	1,786,236	1,137,752
Accrued expenses	283,870	63,960
Total trade and other payables	2,070,106	1,201,712

Trade payables are non-interest bearing and are predominantly settled on 30-day terms.

12. Borrowings

Loans payable	64,000	500
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The loans payable are from related parties, are unsecured without interest and repayable on demand.

Notes to the Financial Statements
For the year ended 30 June 2016

13. Issued Capital

	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>
	No.	\$	No.	\$
Fully paid ordinary shares	139,232,766	5,139,069	134,032,766	4,986,607

During the year ended 30 June 2016, the following movements of ordinary shares were noted:

	<u>Number of shares</u>	<u>\$</u>
Balance as at 1 July 2015	134,032,766	4,986,607
16/10/2015 - Issue of 1,200,000 shares with 600,000 unlisted options at an issue price of \$0.05 per share	1,200,000	60,000
28/10/2015 - Issue of 1,000,000 shares with 500,000 unlisted options at an issue price of \$0.05 per share	1,000,000	50,000
25/2/2016 - Issue of 2,000,000 shares with 2,000,000 unlisted options at an issue price of \$0.05 per share	2,000,000	100,000
18/5/2016 - Issue of 1,000,000 shares at an issue price of \$0.04 per share	1,000,000	40,000
31/12/2015 - Issue of 3,100,000 unlisted options as placement and advisory fee in respect of capital raising	-	(85,811)
Capital raising costs	-	(11,727)
Closing balance as at 30 June 2016	<u>139,232,766</u>	<u>5,139,069</u>

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings, each ordinary share is entitled to one vote per share when a poll is called, otherwise each shareholder has one vote on a show of hands.

14. Reserves

	<u>2016</u>	<u>2015</u>
	\$	\$
Option Premium Reserve		
Opening balance as at 1 July 2015 / 2014	55,606	-
The issue of 7,500,000 options to PNG consultants	-	55,606
Transfer to Share Based Payment Reserve	(55,606)	-
Closing balance as at 30 June 2016 / 2015	<u>-</u>	<u>55,606</u>

Notes to the Financial Statements
For the year ended 30 June 2016

14. Reserves (continued)

	<u>2016</u>	<u>2015</u>
	\$	\$
Share Based Payment Reserve		
Opening balance as at 1 July 2015 / 2014	-	-
Transfer from Option Premium Reserve	55,606	-
The issue of 3,100,000 unlisted options as placement and corporate advisor fees	85,811	-
Closing balance as a 30 June 2016 / 2015	<u>141,417</u>	<u>-</u>
Foreign Currency Translation Reserve		
Opening balance as at 1 July 2015 / 2014	175,106	184,838
Foreign exchange movement	<u>(52,837)</u>	<u>(9,732)</u>
Closing balance as a 30 June 2016 / 2015	<u>122,269</u>	<u>175,106</u>
Total Reserves	<u>263,686</u>	<u>230,712</u>

Nature and Purposes of Reserves*(i) Option Premium Reserve*

The option premium reserve records the issue of share options for cash.

(ii) Share Based Payment Reserve

The share based payment reserve records the issue of share options in consideration for services rendered.

(iii) Foreign Currency Translation Reserve

The foreign currency translation reserve records the exchange difference resulting from the translation of the CSP (PNG) accounts from United States Dollars.

15. Earnings Per Share

	<u>2016</u>	<u>2015</u>
Net loss attributable to the ordinary equity holders of the Company (\$)	(1,145,321)	(1,566,672)
Weighted average number of ordinary shares for basis per share	<u>136,363,175</u>	<u>127,352,308</u>
Continuing operations		
- Basic and diluted loss (cents per share)	<u>(0.84)</u>	<u>(1.23)</u>

The effect of options has been excluded from the calculation of the diluted EPS on the basis that this would indicate a better EPS resulting from dividing the loss by a larger number of securities.

Notes to the Financial Statements
For the year ended 30 June 2016

16. Business Combination

During August 2015, South Pacific Resources Limited acquired 100% of the issued capital of Pacific Shale Gas Limited for \$6,600.

The Group recognised the fair values of identifiable assets and liabilities of Pacific Shale Gas Limited based on the information available as at the date of acquisition as follows:

	Recognised on acquisition \$
Cash and cash equivalents	48
Fair value of identifiable net assets	48
Goodwill	6,552
	6,600
Cost of the combination:	
Purchase price	6,600
Total cost of the combination	6,600

17. Financial Risk Management

The Group's financial instruments consist of deposits with banks, accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk.

Risk management is carried out by the Board of Directors who monitor, evaluate, and manage the Group's financial risk across its operating units.

The non-interest bearing financial assets and liabilities of the Group in the table below are due or payable within 30 days.

	Weighted Average Interest Rate %	<6 months \$	>6 - 12 months \$	> 12 months \$	Total Contractual Cash Flows \$	Carrying Amount \$
2016						
Financial assets						
Cash	-	9,325	-	-	9,325	9,325
Non-interest bearing	-	68,780	-	-	68,780	68,780
		78,105	-	-	78,105	78,105
Financial liabilities						
Non-interest bearing	-	2,134,106	-	-	2,134,106	2,134,106
		2,134,106	-	-	2,134,106	2,134,106

Notes to the Financial Statements
For the year ended 30 June 2016

17. Financial Risk Management (continued)

	Weighted Average Interest Rate %	<6 months \$	>6 - 12 months \$	> 12 months \$	Total Contractual Cash Flows \$	Carrying Amount \$
2015						
Financial assets						
Cash	1%	45,836	-	-	45,836	45,836
Non-interest bearing	-	60,260	-	-	60,260	60,260
		106,096	-	-	106,096	106,096
Financial liabilities						
Non-interest bearing	-	1,202,212	-	-	1,202,212	1,202,212
		1,202,212	-	-	1,202,212	1,202,212

(a) Capital risk management

The Company's capital includes share capital, reserves and accumulated losses. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to achieve this, the Company may issue new shares in order to meet its financial obligations.

(b) Financial risk management objectives and policies

The Board of Directors monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financing loss from defaults. The Group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised below:

	<u>2016</u>	<u>2015</u>
	\$	\$
Cash and cash equivalents	9,325	45,836
Receivables	<u>68,780</u>	<u>60,260</u>

The carrying amount of financial assets recorded in the financial statements, net of any provision for losses, represents the Group's maximum exposure to credit risk.

All receivables noted above are due within 30 days. None of the above receivables are past due.

Notes to the Financial Statements
For the year ended 30 June 2016

17. Financial Risk Management (continued)**(d) Foreign currency risk**

The Group is exposed to foreign currency risk on the following:

- transactions carried out in Papua New Guinea in the local currency, Kina and USD;
- recording of CSP (PNG) financial accounts in USD from 1 July 2013 onwards; and
- translation of the CSP (PNG) financial accounts on consolidation.

The Group has not entered into any forward exchange contracts as at balance date and is currently fully exposed to foreign exchange risk.

Based on the above, the Group is exposed to USD and Papua New Guinea Kina foreign currency risk. The Group's exposure to foreign currency risk for years 2016 and 2015 was as follows:

2016	Kina	USD
Current:		
Cash and cash equivalents	1,095	-
Payables	23,120	-
2015		
Current:		
Cash and cash equivalents	1,241	-
Payables	-	32,275

(e) Interest rate risk exposure

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The weighted average interest rates are nil% for the Company (2015: 1.0%).

	2016	2015
	\$	\$
<u>Interest bearing financial instruments:</u>		
Cash and cash equivalents	9,325	45,836
Effective interest rate	-	1.0%
Weighted average effective interest rate	-	1.0%

(f) Fair value

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

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Assets carried at fair value				
Cash and cash equivalents	9,325	9,325	45,836	45,836
Assets carried at amortised cost				
Receivables	68,780	68,780	60,260	60,260
Liabilities carried at amortised cost				
Payables	2,134,106	2,134,106	1,202,212	1,202,212

Notes to the Financial Statements
For the year ended 30 June 2016

17. Financial Risk Management (continued)

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2016	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets	-	-	-	-

2015	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets	-	-	-	-

There were no transfers among levels during the year.

(i) Sensitivity analysis

The Group has performed sensitivity analyses on its exposure to foreign exchange risk on balances as at balance date.

The analysis demonstrates the effect on current year results and equity that would result from a 10% movement in the United States Dollar / Australian Dollar exchange rate. Directors believe that a 10% movement for the 2016 financial year sensitivity gives a reasonable reflection of the possible movement in United States Dollar / Australian Dollar exchange rates in light of current economic conditions.

Since the Group has no investments and no borrowings, exposure to equity price risk and interest rate risk is immaterial in terms of the possible impact on the statement of comprehensive income and total equity. It has therefore not been included in the sensitivity analysis.

Foreign exchange rate risk	2016	2015
	\$	\$
<i>Change in other comprehensive income</i>		
Increase Kina / AUD rate by 10% (2015 Kina / AUD: 10%) – reduction in loss	(947)	(55)
Decrease Kina / AUD rate by 10% (2015 Kina / AUD: 10%) – increase in loss	1,158	45
Increase USD / AUD by 10% - reduction in loss	-	(3,820)
Increase USD / AUD by 10% - increase in loss	-	4,669

Notes to the Financial Statements
For the year ended 30 June 2016

18. Share-Based Payments

Options issued under share based payment arrangements entered into, or existing during the years ended 30 June 2016 or 30 June 2015 are set out below.

	2016		2015	
	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price
Opening balance	7,500,000	\$0.075	-	-
Granted during the year	3,100,000	\$0.050	7,500,000	\$0.075
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Closing balance	10,600,000	\$0.068	7,500,000	\$0.075
Exercisable at the end of the year	10,600,000	\$0.068	7,500,000	\$0.075

During December 2015, the Company issued 3,100,000 unlisted options exercisable at \$0.05 and with an expiry date of 31 December 2018 as a placement fee and for advisory services in respect of the issue.

The fair value of each option when granted was determined as \$0.02768 per option. These values were calculated using the Black-Scholes option pricing model applying the following inputs:

Share Price:	\$0.045
Exercise Price:	\$0.050
Expected share price volatility:	100.98%
Vesting date:	31 December 2015
Expiry date:	31 December 2018
Risk-free interest rate:	2.98%
Dividends:	0%

The Company's volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

Notes to the Financial Statements
For the year ended 30 June 2016

18. Share-Based Payments (continued)

In February 2015, the Company issued 7,500,000 unlisted options exercisable at \$0.075 and with an expiry date of 19 February 2018 to consultants as payment for services provided.

The fair value of each option when granted was determined as \$0.0074 per option. These values were calculated using the Black-Scholes option pricing model applying the following inputs:

Share Price:	\$0.075
Exercise Price:	\$0.075
Expected share price volatility:	9.75%
Vesting date:	19 February 2015
Expiry date:	19 February 2018
Risk-free interest rate:	1.87%
Dividends:	0%

Comparable company volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

19. Related Party Disclosure**(a) Key management personnel**

Disclosures relating to Directors and executives are set out in Note 20.

(b) Transactions and balances with related parties

Disclosures relating to transactions and balances with related parties are set out in Note 20.

(c) Equity Interests in related parties

Details of the percentage of ordinary shares held by Directors or their related entities are disclosed in Note 20.

(d) Loans from related parties

Refer to Note 12.

(e) Subsidiaries

The consolidated financial report includes the financial information of South Pacific Resources Limited and the subsidiaries listed in the following table:

Name	Country of incorporation and operation	Principal activity	Equity interest		Investment	
			2016 %	2015 %	2016 \$	2015 \$
Indo Pacific Energy Pty Ltd	Australia	Holding company	100	100	2,076,827	2,076,827
Coral Sea Petroleum (PNG) Ltd	Papua New Guinea	Oil and gas exploration	100	100	1	1
Pacific Shale Gas Ltd	Papua New Guinea	Oil and gas exploration	100	-	6,600	-
South Pacific Resources Ltd	Papua New Guinea	Oil and gas exploration	100	-	48	-

Notes to the Financial Statements
For the year ended 30 June 2016

20. Key Management Personnel Disclosures

(a) Key management personnel

The following persons were key management personnel of South Pacific Resources Limited during the financial year:

(i) Directors

Domenic Martino	Managing Director
Joseph Goldberg	Non-Executive Director
Alvin Tan	Non-Executive Director

Mr Julian Sandt was a Director during the 2015 financial year (resigning on 29 April 2015). No other key management personnel were noted for the years ended 30 June 2016 and 2015.

No agreements with key management personnel or their controlled entities have been entered into.

Remuneration of Non-Executive Directors is based on fees approved by the Board of Directors and is set at levels to reflect market conditions and encourage the continued services of the Directors.

The Company does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors or any retirement benefits and, as such, there are no performance related links to the existing remuneration policies.

The key management personnel of the Company are the Directors of South Pacific Resources Limited. Details of the remuneration of the Directors of the Company are set out below:

	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
2016	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,400	-
Mr Goldberg	120,000	-	-	-	-	-	-	-	-	120,000	-
Mr Tan	36,000	-	-	-	-	-	-	-	-	36,000	-
Sub-total	276,000	-	-	-	11,400	-	-	-	-	287,400	-
Other key management personal											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	276,000	-	-	-	11,400	-	-	-	-	287,400	-

Notes to the Financial Statements
For the year ended 30 June 2016

20. Key Management Personnel Disclosures (continued)

2015	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,400	-
Mr Tan	36,000	-	-	-	-	-	-	-	-	36,000	-
Mr Goldberg	120,000	-	-	-	-	-	-	-	-	120,000	-
Mr Sandt ¹	30,000	-	-	-	-	-	-	-	-	30,000	-
Sub-total	306,000	-	-	-	11,400	-	-	-	-	317,400	-
Other key management personal											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	306,000	-	-	-	11,400	-	-	-	-	317,400	-

¹ Mr Sandt resigned on 29 April 2015.

* All directors' fees were paid to the Directors' related entities, except for Mr Martino.

	2016	2015
	\$	\$
Short-term employee benefit	276,000	306,000
Post employment benefit	11,400	11,400
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
	287,400	317,400

(b) Equity instruments disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

No options were provided to key management personnel as remuneration during the current or previous year.

(ii) Shares issued on exercise of compensation options

No shares issued on exercise of compensation options for the current or previous year.

Notes to the Financial Statements
For the year ended 30 June 2016

20. Key Management Personnel Disclosures (continued)

(iii) Option holdings

Details of options held directly, indirectly or beneficially by key management personnel and their related parties during the year ended 30 June 2016 are as follows:

Company Directors and Related Parties		Opening Balance	Granted as Remuneration	Options Acquired	Net Change Other ¹	Closing Balance	Total Vested and Exercisable as at Year End	Unvested as at Year End
		\$	\$	\$	\$	\$	\$	\$
Mr Martino	2016	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-
Mr Goldberg	2016	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-
Mr Tan	2016	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-
Mr Sandt ¹	2015	-	-	-	-	-	-	-

¹ Resigned on 29 April 2015.

(iv) Shareholdings

The number of shares in the Company held by directors or other key management personnel of the Company, including their associated entities at the end of the financial year as follows:

Company Directors and Associated Entities		Opening Balance	Received During Year on Exercise of Options	Net Change Other	Closing Balance
		\$	\$	\$	\$
Mr Martino	2016	11,250,000	-	-	11,250,000
	2015	11,250,000	-	-	11,250,000
Mr Goldberg	2016	11,250,000	-	-	11,250,000
	2015	11,250,000	-	-	11,250,000
Mr Tan	2016	423,190	-	-	423,190
	2015	423,190	-	-	423,190
Mr Sandt ¹	2015	1,694,637	-	-	1,694,637

¹ Mr Sandt resigned on 29 April 2015. His shareholding for the 2015 financial year is the number held as at that date.

(c) Loans to Directors

There were no loans made to the Directors of the Company, including their related parties during the financial year.

(d) Other transactions with key management personnel including their related parties

The Company has paid \$51,239 (2015: \$204,488) inclusive of GST during the year for company secretarial, accounting, office rental, office supplies and administration services to Transaction Services Pty Ltd, an entity to which Mr Domenic Martino's son is sole director. A total of \$166,352 (2015: \$Nil) inclusive of GST remains due and payable at year end.

Notes to the Financial Statements
For the year ended 30 June 2016

21. Commitments and Contingent Liabilities

The Group's commitments in respect of its oil and gas licences as at 30 June 2016 were as follows:

PPL	Date Granted	Commitments	
		To November 2014	To November 2016
366	29 November 2010	USD 1 million	USD 15 million
367	29 November 2010	USD 1 million	USD 15 million
356	29 November 2010	USD 1 million	USD 15 million
357	29 November 2010	USD 1 million	USD 15 million
358	21 November 2010	USD 1 million	USD 25 million

It should be noted that the Company has not met commitments to November 2014 but applied for variations to the licences. In July 2014 and again on 18 March 2016, CSP (PNG) applied for variations to its licences, essentially reducing the licence commitments to USD 150,000 for each licence except in respect of PPL 358 for which a reduction to USD 200,000 has been requested. The Group awaits correspondence from the Papua New Guinean Department of Petroleum and Energy in this regard. An impairment provision has been raised in the Group accounts as a result of the uncertainty surrounding the veracity of the exploration licences held by CSP (PNG) and their commitments.

Should the variations be granted, commitments may change as noted below or as a result of work carried out. For example, if the Company is not satisfied with exploration results, it may choose to relinquish all or part of a PPL and focus its efforts and funds on the other PPLs.

There are nil contingent liabilities for the Group as at 30 June 2016 (2015: Nil).

22. Subsequent Events

There are no significant events after balance date likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years except as follows:

The Company completed a placement of 18,700,000 shares (with a free option for every two shares) at \$0.06 per share. The placement raised \$1,122,000 for working capital to advance the Group's oil and gas interests in Papua New Guinea. The options are unlisted and have an exercise price of \$0.12 and an expiry date of 3 February 2017. The Company has issued a further 5,500,000 options, exercisable at \$0.12 and with an expiry date of 3 August 2017, as placement fee and to consultants.

23. Dividend

No dividend has been paid during the year and no dividend is recommended for the year.

24. Remuneration of Auditors

	2016	2015
	\$	\$
<i>Current year</i>		
Auditors of the Company – Pitcher Partners Corporate & Audit (WA) Pty Ltd and its associated Pitcher Partners (WA) Pty Ltd		
Remuneration for audit and review of the financial report	27,500	32,800
Remuneration for other services - taxation	6,700	7,200
	<u>34,200</u>	<u>40,000</u>

Notes to the Financial Statements
For the year ended 30 June 2016

25. Parent Entity Information

South Pacific Resources Limited is the legal parent entity of the consolidated group. The following information is provided for the Company:

Financial position

	<u>2016</u>	<u>2015</u>
	\$	\$
Assets		
Current assets	52,469	79,961
Non-current assets	6,600	-
Total assets	<u>59,069</u>	<u>79,961</u>
Liabilities		
Current liabilities	<u>1,267,982</u>	<u>607,879</u>
Total liabilities	<u>1,267,982</u>	<u>607,879</u>
Equity		
Issued capital	37,635,969	37,483,507
Option reserve	55,606	55,606
Share based payment reserve	85,811	-
Retained earnings	<u>(38,986,299)</u>	<u>(38,067,031)</u>
Total equity	<u>(1,208,913)</u>	<u>(527,918)</u>
Financial performance		
Loss for the year	(919,266)	(3,452,756)
Other comprehensive income	-	-
Total comprehensive loss	<u>(919,266)</u>	<u>(3,452,756)</u>

Commitments and contingent liabilities of the parent entity

There are nil commitments and contingent liabilities of the parent entity (2015: Nil).

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 23 to 52 are in accordance with the *Corporations Act 2001*:

- a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- b) As stated in Note 2(a) the financial statements also comply with International Financial Reporting Standards; and
- c) Give a true and fair view of the financial position of the Group at 30 June 2016 and of their performance for the year ended on that date.

In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the Managing Director and Company Secretary to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2016.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Directors



Domenic Martino

Director

21st day of September 2016

AUDITOR'S INDEPENDENCE DECLARATION

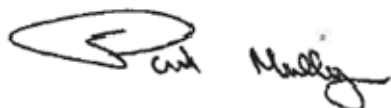
To the Directors of South Pacific Resources Limited

In relation to the independent audit of South Pacific Resources Limited and its controlled entities for the year ended 30 June 2016, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.

Pitcher Partners Corporate & Audit (WA) Pty Ltd

PITCHER PARTNERS CORPORATE & AUDIT (WA) PTY LTD



PAUL MULLIGAN
Executive Director
Perth, 21 September 2016

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of South Pacific Resources Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LIMITED**

Opinion

In our opinion:

- (a) the consolidated financial report of South Pacific Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of Matter

Without further modifying our opinion, we draw attention to Note 3 (o) to the consolidated financial report which indicates that the consolidated entity incurred a net loss of \$1,145,321 during the year ended 30 June 2016, and as of that date, the consolidated entity net current liabilities of \$2,056,001 and negative net equity of \$2,056,001. These conditions, along with other matters as set forth in Note 3 (p), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

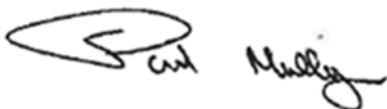
We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of South Pacific Resources Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Pitcher Partners Corporate & Audit (WA) Pty Ltd

PITCHER PARTNERS CORPORATE & AUDIT (WA) PTY LTD



PAUL MULLIGAN
Executive Director
Perth, 21 September 2016

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STOCK EXCHANGE INFORMATION

Additional information required by Australian Securities Exchange Limited and not shown elsewhere in this Annual Report is as follows. The information is as at 5 September 2016.

NUMBER OF HOLDERS OF EQUITY SECURITIES

ORDINARY SHAREHOLDERS

There are 157,932,766 fully paid ordinary shares on issue, held by 734 individual shareholders. Each member entitled to vote may vote in person or by proxy or by attorney and on a show of hands every person who is a member or a representative or a proxy of a member shall have one vote and on a poll every member present in person or by proxy or attorney or other authorised representative shall have one vote for each share held.

TWENTY LARGEST SHAREHOLDERS (AS AT 5 September 2016)

Ordinary Shareholders	Fully Paid Ordinary	
	Number	Percentage
HSBC Custody Nominees (Australia) Limited	34,467,980	21.82
JP Morgan Nominees Australia Limited	13,142,175	8.32
Lightglow Enterprises Pty Ltd <The Paloma Investments A/c>	11,250,000	7.12
Adelaide PNG Investments Pty Ltd	5,250,000	3.32
CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd A/C>	3,315,333	2.10
Ms Natalia Albuquerque Silva	3,100,000	1.96
Contango Nominees Pty Limited	2,937,175	1.86
Mrs Sara Louise Hawkins	2,537,500	1.61
Australian Executor Trustees Limited	2,535,205	1.60
Roadhound Electronics Pty Ltd	2,533,668	1.60
Adelaide PNG Investments Pty Ltd	2,500,000	1.58
Mr Andrew Lloyd White <The White Family No 2 A/C>	2,099,999	1.33
RBJ Enterprises Pty Ltd	2,000,000	1.27
Cauduro Management Pty Ltd <Yenda Fruit & Case S/F A/C>	2,000,000	1.27
Colvic Pty Ltd	1,858,075	1.18
Innovation Marketing & Finance Pty Ltd	1,791,843	1.14
Mr Colin Weekes	1,751,005	1.11
C4 Shares Pty Ltd <C4 Share A/C>	1,600,000	1.01
Mr Julian Lionel Sandt	1,500,000	0.95
Slade Technologies Pty Ltd	1,482,806	0.94
	99,652,764	63.09

STOCK EXCHANGE INFORMATION

VOTING RIGHTS

Subject to any rights or restrictions for the time being attached to any class or classes (at present there are none) at general meetings of shareholders or classes of shareholders:

- (a) each shareholder entitled to vote, may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held, or in respect of which he/she has appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

HOLDERS OF NON-MARKETABLE PARCELS

There are 354 shareholders who hold less than a marketable parcel of shares.

DISTRIBUTION OF SHARE HOLDERS (AS AT 5 September 2016)

	Number of Holders	Number of Shares
1 to 1,000	143	41,489
1,001 to 5,000	156	427,676
5,001 to 10,000	115	992,399
10,001 to 100,000	178	7,118,673
100,001 and over	142	149,352,529
	734	157,932,766

OPTIONS

As at 5 September 2016 the following unlisted options were on issue:

- 2,307,692 unlisted options with an exercise price of \$0.20 and an expiry date of 21 November 2016
- 150,000 unlisted options with an exercise price of \$0.20 and an expiry date of 25 November 2016
- 9,350,000 unlisted options with an exercise price of \$0.12 and an expiry date of 3 February 2017
- 5,500,000 unlisted options with an exercise price of \$0.12 and an expiry date of 3 August 2017
- 7,500,000 unlisted options with an exercise price of \$0.075 and an expiry date of 19 February 2018
- 4,200,000 unlisted options with an exercise price of \$0.05 and an expiry date of 31 December 2018
- 2,000,000 unlisted options with an exercise price of \$0.05 and an expiry date of 24 February 2019

SUBSTANTIAL SHAREHOLDERS

As at report date, there is 1 shareholder recorded in the Register as Substantial Shareholders.

SHARE BUY-BACKS

There is no current on-market buy-back scheme.

RESTRICTED SECURITIES

There are no restricted securities at 5 September 2016.

OTHER INFORMATION

South Pacific Resources Limited, incorporated and domiciled in Australia, is a public listed Company limited by shares.

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