



A company registered in Papua New Guinea

31 January, 2018

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## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD: 1<sup>st</sup> October 2017 to 31<sup>st</sup> December 2017**

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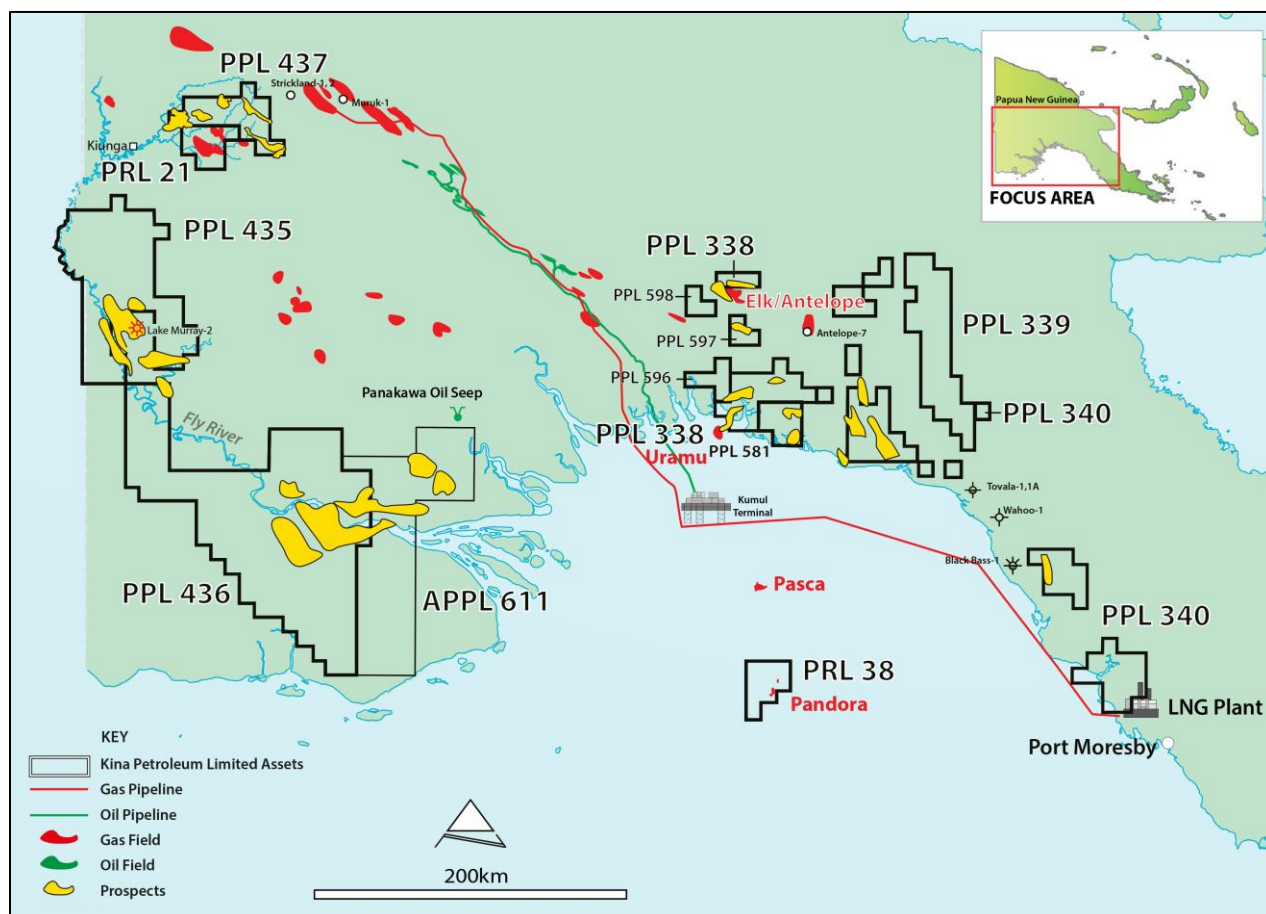
### **Highlights and Summary for the Quarter**

- **PRL 21** – The joint venture continued its evaluation of Western Province FLNG development scenarios. Kina also continued its evaluation of development options, including early liquids. Early cash flow from PRL21 remains a priority for Kina and the recent success of the P'nyang South 2 well (Kina is not a participant in the well or the PRL 3 licence) adds momentum to efforts to commercialise Western Province resources.
- **PRL 38** – Just to the north of PRL 38, in the early part of January 2018, Twinza successfully tested the well recently drilled on the Pasca A field which it operates (Kina is not a participant in the field or the licence). This is encouraging for future development offshore gas in the Gulf of Papua, and in particular the Pandora fields in PRL 38.
- **PPL 338, 581, 596, 597 & 598** – Kina is discussing full spectrum AGG, gravity and magnetic data with potential suppliers. New data acquired would be merged with existing data to image structures from the west of PPL 338 to western PPL 339 as a precursor to seismic acquisition.
- **PPL 339** – Consistent with Kina's policy of limiting exposure to pre-drilling field work costs, a farmout to Santos was announced during the quarter. Subject to the terms of the agreement with Santos and also its pre-existing farmin agreement with Oil Search, Kina's participating interest in the first well will be carried up to an agreed cap of gross well costs.
- **PPL 340** – The Lizard prospect is a large, potentially multi TCF prospect close to Port Moresby and its oil potential has been upgraded by recognition of the Tapini Station oil seep east of Lizard. A farmout effort is underway.
- **PPL 435 & 436** – Alligator and Aiambak remain large and attractive oil and gas prospects in readily accessible areas of Western Province, PNG. A farmout effort commenced in late 2017.
- **PPL 437** – Recent drilling of the P'nyang South 2 well, close to PPL 437, enhances the licence's development potential. The Malisa, Ebony and Mango Prospects represent 3 viable oil and gas prospects close to any future LNG development. A seismic program over Ebony and Mango forms part of Kina's multi-licence farm out program which commenced in December 2017.

## Company, PNG and Industry Outlook

Kina Petroleum Limited (ASX: "KPL") has, at the end of this period, participating interests in Petroleum Retention Licences ("PRLs") 21 and 38 and in ten exploration licences (PPLs) across PNG with one APPL pending. Kina has made application for APPL 611 which is an eastern extension of PPL 436.

### Map of KPL's licence areas



The Company has weathered three years of low oil prices by cutting back on exploration but has maintained its focus on early production, via liquids export, from PRL 21. Due to falling global oil production and rising consumption, the IEA recently advised that an oil price spike is possible in 2020. However, Kina will continue to assess development plans based on oil prices around current levels. The company is of the view that current oil (and related LPG) prices have the potential to underpin commercially viable development activity in PRL 21 and Western Province more broadly.

The PRL 21/PDL 10 joint working team continues its work on an independent LNG project. Kina also sees early liquids production out of PRL 21 as an attractive commercialization option given that the Elevala, Ketu and Tingu fields are ideal candidates for a cost effective development thanks to road

infrastructure and port facilities on the Fly River. That noted, the recent results of P'nyang South 2 well augur well for development of gas in Western Province and Kina will evaluate the potential of broader Western Province development in light of the results at P'nyang South 2.

#### *Corporate Activity*

Despite the 3 year down-turn in the industry which has led to delays in sanctioning a PRL 21 development plan, work has continued across the company's portfolio of assets, funded by the placement that occurred in November 2014. With the latter part of the 2017, and indeed the early part of 2018, seeing renewed buoyancy in oil price the company anticipates higher operational activity and expenditure levels during calendar year 2018 and into 2019. In the absence of announcing development of a flagship project and with the prevailing equity capital market environment being generally non-conducive to raising money for ongoing working capital, the Board had to consider whether to divest part of the company's interest in discovered assets in PRLs 21 & 38 or raise funds to meet the short term financial needs of the company via a placement. To maintain our position in PRL 21 and PRL 38 a placement occurred in late December 2017 raising a further \$A 5.4m.

#### *Asset Activity*

During the quarter Kina was pleased to announce a farm out to Santos in PPL 339, this being consistent with the company's stated policy of limiting the extent to which shareholder capital is exposed to high risk exploration. An additional benefit from the farm out is a cash component, which is expected to be directed towards acquisition of gravity data over PPL 338, a necessary pre-requisite to high grade our prospect inventory in the licence. Kina has evaluated the work required across its portfolio of operated licences and has prioritized PPL 338 given its location next to the giant Elk/Antelope Field.

Kina's gas resources remain valuable strategic assets for mid-stream LNG development, and all of these have been further upgraded by recent successful appraisal at both P'nyang (in Western Province close to both PRL 21 and PPL 437) and Pasca (offshore Gulf of Papua just to the north of PRL 38). Over and above these development options, Kina's exploration portfolio offers large upside to potential farminees in licences proximate to the Elk/Antelope Fields - PPLs 338,339 and 340 - and Pnyang/Elevala/Ketu Fields - PPLs 435, 436 and 437.

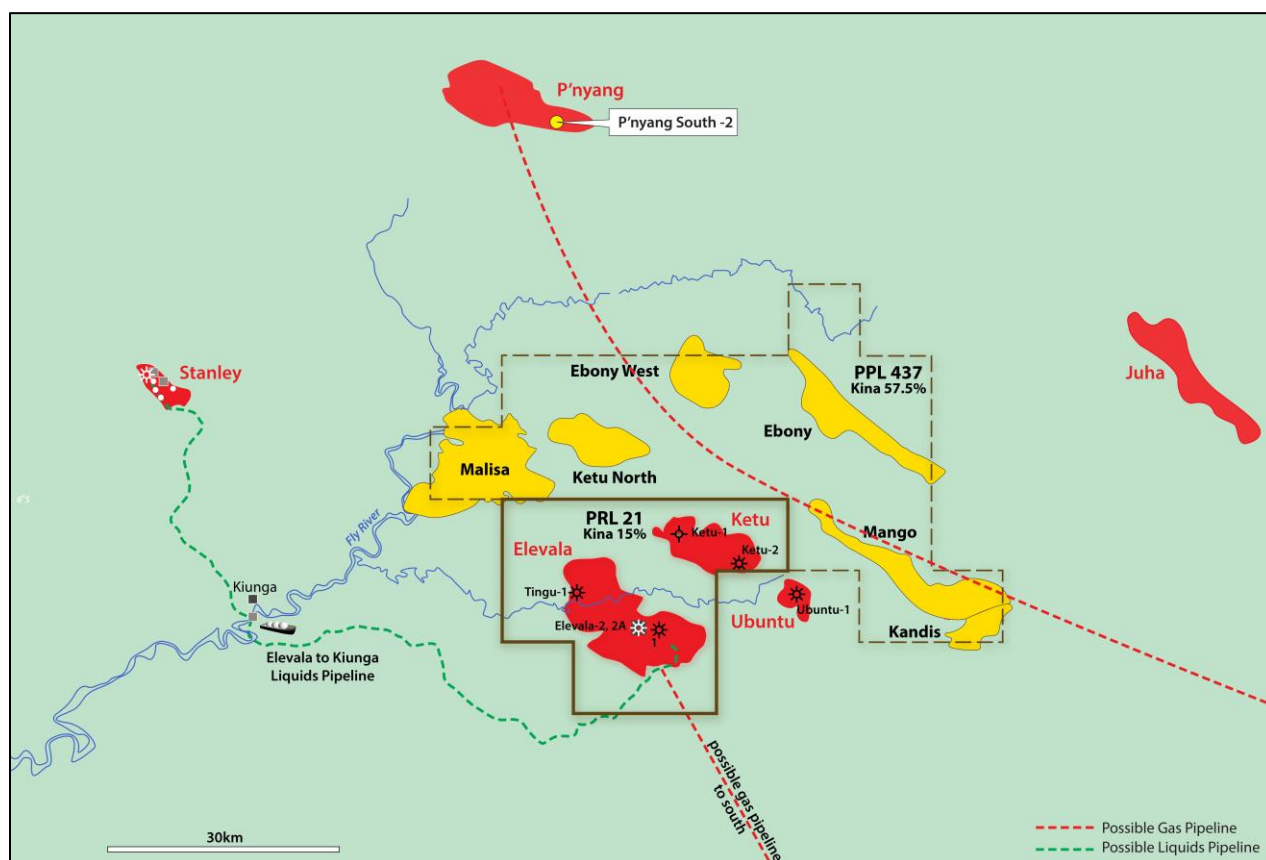
Kina commenced its exploration-licence farm out effort at the PNG Chamber of Mines and Petroleum Conference held in Port Moresby from November 28 – 30, 2017.

### PRL 21 (KPL interest 16.75%)

Kina is committed to delivering cashflow as early as possible, with production of the liquids contained in the gas trapped in the Elevala, Ketu and Tingu (EKT) fields a priority. Kina also believes the longer term value of the gas has been enhanced by recent success at P'nyang South 2 where PRL 3 participants have noted that the objective of the well was to migrate 2C gas resource volumes to the 1C Category. In mid January 2018, it was reported that the P'nyang South 2 well had reached good quality, hydrocarbon-bearing reservoirs in the Toro and Digimu sandstones, consistent with pre-drilling expectations.

An LNG development incorporating broader Western Province resources, including EKT, could be valuable to stake holders. Such a potential development option will be evaluated in the course of considering commercialization pathways for PRL 21.

*Map of PRL 21 and adjacent PPL 437 licence areas*

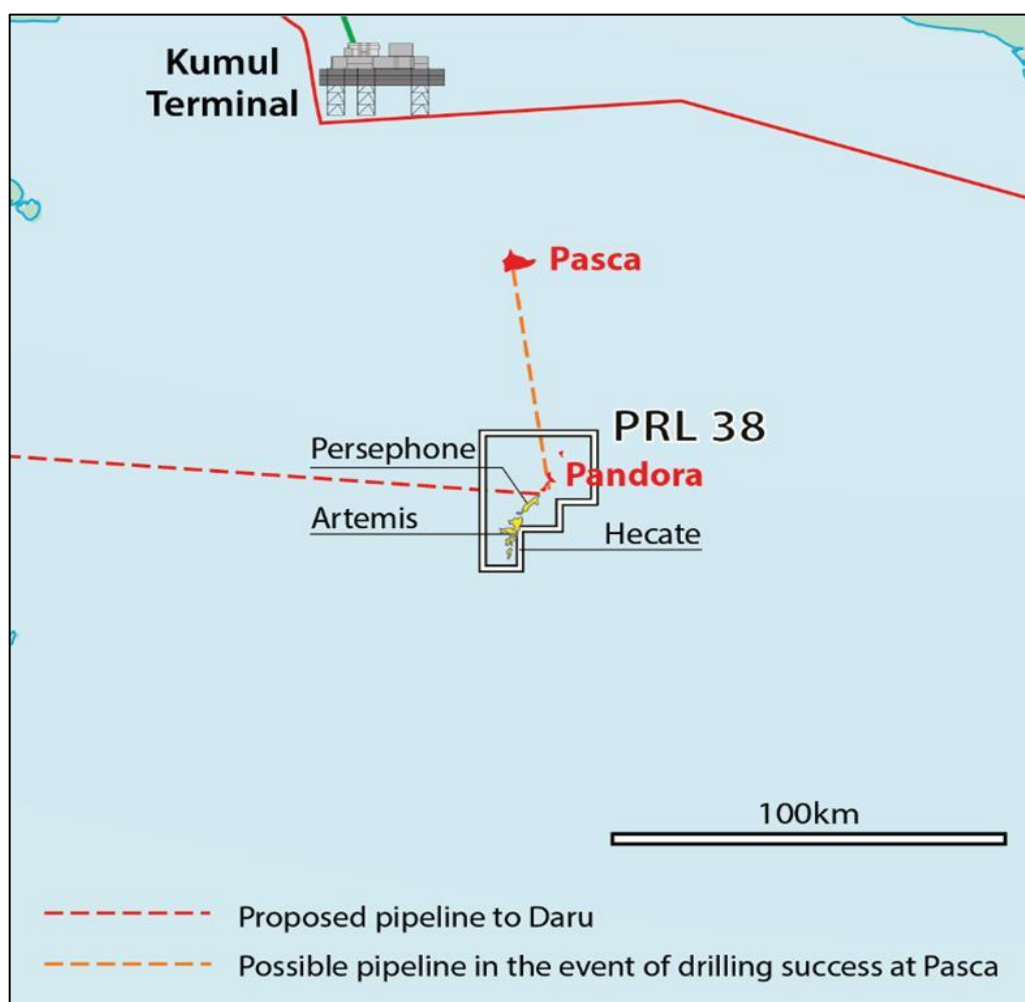


### PRL 38 (KPL Interest: 25%)

To the north of PRL 38, Twinza has tested gas from its Pasca A field (Kina has no interest in this field or the drilling). Twinza notes that the strong results could see a development project sanctioned in early 2019 and first production by the end of 2020. The outcomes from Pasca may be conducive to a development scenario that could involve gas from Pasca and PRL 38 being aggregated. Kina, along with its joint venture partners, will look to evaluate this scenario during 2018.

In advance of any development considerations Kina will complete a full technical evaluation of the Pandora asset, including resource certification. The first stage of this evaluation has been completion of the interpretation of the 3D seismic data covering PRL 38. Kina has identified a further 3 prospects to the south of Pandora A and integration of 2D data has presented a possible explanation to the common gas water contacts recognised in Pandora A and Pandora B1X.

*Map of PRL 38 Licence Area*



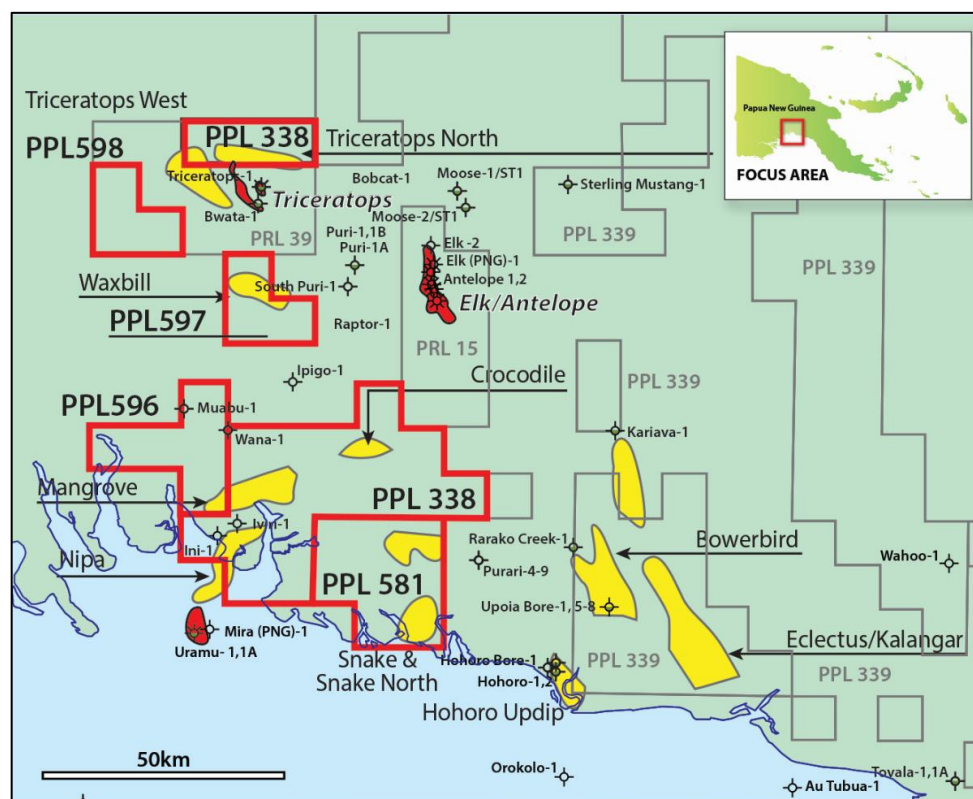
**PPLs 338, 581 596, 597 and 598 (KPL Interest: 100%)**

These licences contain the Triceratops North, Triceratops West, Nipa, Mangrove and Waxbill Prospects all of which are proximal to a future Elk Antelope development. All the prospects are relatively poorly constrained by seismic control at present and prior to acquisition of any new seismic data the prospects will need to be evaluated by state of the art gravity data.

Kina is in discussion with potential suppliers of full spectrum Falcon AGG, gravity and magnetic data for PPLs 338, 596 and 581. The data is being acquired to tie existing AGG data over northern PPL 338 (Triceratops West and Triceratops North) and PPL 339 (Eclectus and Kalangar). Prior to entering into any agreement for the acquisition of data Kina will ensure the compatibility of the data that might be acquired by suppliers and existing data sets.

The AGG and gravity data is a precursor to acquiring seismic data over Nipa and Mangrove prospects. Kina would seek to manage the acquisition using a boutique seismic crew suited to the terrain and conditions prevailing in the licence area. This is also expected to generate significant cost savings.

*Map of PPL 338, 581 and APPL 596, 597 and 598 licence areas*



**PPL 339 (KPL Interest: 30%\*)**

The operator continues to work with PNG regulatory authorities to finalise the PPL 339 licence extension paperwork, and we await confirmation of the anniversary date of the extension period of the licence so as to determine the optimal work program.

The Kalangar/Eclectus (K/E) prospect has been high graded and is located close to the late Cretaceous, East Gondwana margin where tectonic activity during the Cretaceous established an active tectonic setting of uplifted fault blocks separated by syn-orogenic troughs, an environment suitable to early Tertiary platform and reef generation. Unfortunately this marginal tectonic region is not conducive to acquisition of good quality seismic data and has led to use of other geophysical tools to high grade prospective areas.

Aerogravity/gradiometry (AGG) and seismic data has already been acquired over the K/E Prospect. The AGG data support several shallow high density anomalies in PPL 339 which may be caused by carbonates but could also be uplifted high density blocks. The seismic data is inconclusive and the joint venture intends to acquire magneto-telluric data over the K/E prospect.

The nature of the geophysical data acquired to date and the licence's resultant risk profile were factors in the company farming out its interest in the licence. This farmout was announced on 7 December 2017 and will limit the company's exposure to the aforementioned field based pre-drilling geophysical programs. Subject to Santos opting to retain its interest in the licence ahead of the first well being drilled, Kina will retain a residual (10%) participating interest in the licence at the time of drilling that first well with that 10% share fully carried, up to an agreed amount, pursuant to its pre-existing farmout agreement with Oil Search.

A map of the PPL 339 licence area appears on the following page.

\*subject to farmout agreement with Santos







**PPL 340 (KPL Interest: 100%)**

A proposed seismic program over Lizard Prospect in PPL 340 was unveiled at the PNG Chamber of Mines and Petroleum Conference in Port Moresby from November 28 - 30 2017. PPL 340, and the Lizard prospect in particular, form part of a multi-licence farmout effort. Lizard is a large, potentially multi TCF prospect close to Port Moresby and like K/E in PPL 339, is in a tectonically mobile zone but unlike PPL 339, there is some reasonable quality seismic data.

There is outcrop evidence for late Miocene carbonates at Delena to the south of Lizard and detrital early Miocene carbonates at Boera just north west of the Exxon Mobil LNG Plant. The outcrop, gravity and seismic data suggest that Lizard is located on a late Cretaceous uplifted block located close to a post orogenic Eocene trough at Port Moresby. Eocene to Oligocene orogenesis has enhanced the areas of uplift where Kina believes fringing reefs developed at locations like Lizard.

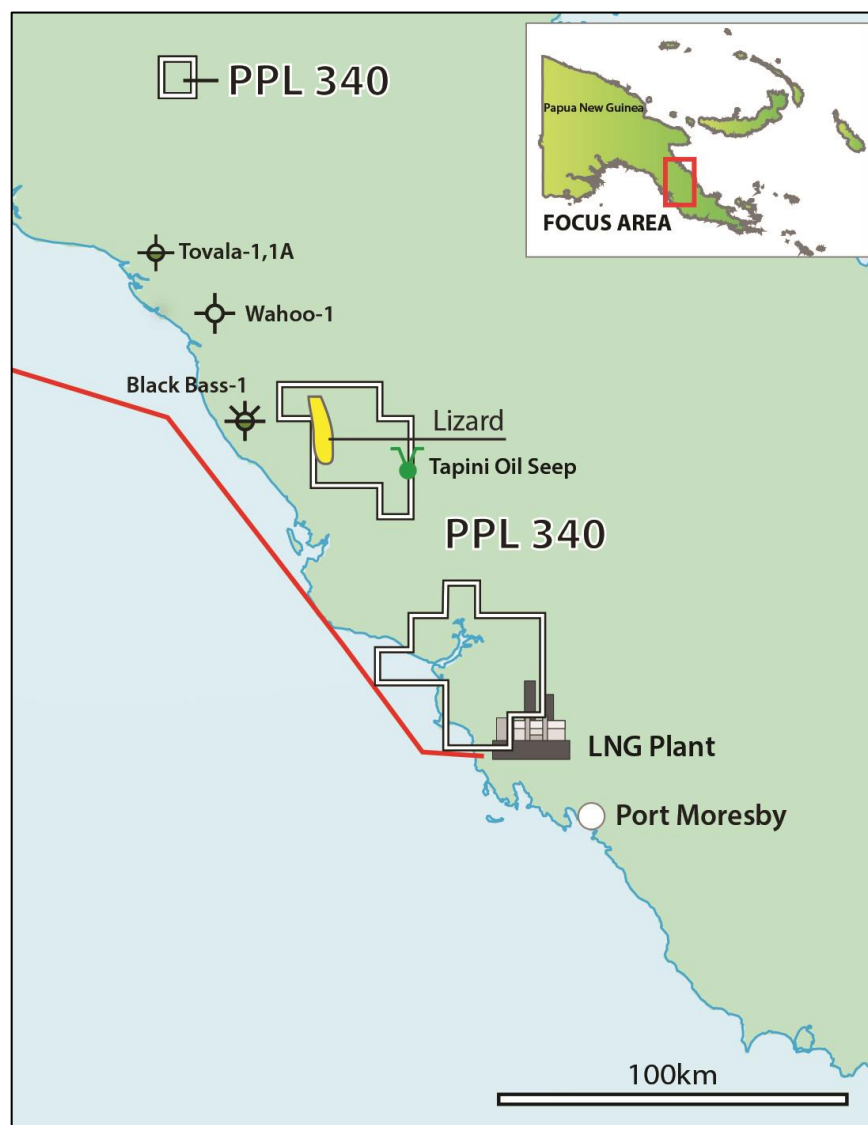
A provisional seismic program has been proposed for Lizard Prospect, the location for which has been scouted by Kina's geophysical and community affairs consultants. Cost estimates for acquisition of the seismic data are being refined in advance of commencing farm out discussions.

A key risk for Lizard is hydrocarbon charge but as mentioned in the last quarterly report, an oil seep at Tapini Station demonstrates that areas to the east of Lizard have been exposed to oil and thermogenic hydrocarbon charge. There is evidence of a thick sedimentary sequence in the Lakekamu Sub-basin with the area from Delena to Lizard lying on the early Miocene shelf edge ideally located for entrapment of oil and gas from the Lakekamu Sub-basin.

Kina remains confident of the presence of a carbonate build up at Lizard but acknowledges there is a need for additional seismic control to adequately define the Lizard shelf edge and to confirm the presence of an early Miocene reef at Lizard. Acquisition of the seismic data will be funded through farm out with an electronic data room to be opened in early 2018.

A map of the PPL 340 licence area appears on the following page.

Map of PPL 340 licence area



**PPL 435 and 436 (KPL Interest: 100% in both licences) & APPL 611**

As noted in the September quarterly report, Kina has scouted the Alligator prospect area in PPL 436 and the Aiambak prospect area in PPL 435 to help determine likely costs of the seismic surveys that will be integral to exploiting the potential of these licences and the leads and prospects within them. The surveys form the basis of a farm out effort that commenced at the PNG Chamber of Mines and Petroleum Conference in November 2017.

Alligator Prospect remains one of the most attractive undrilled structures in PNG. It is:

- one of the largest undrilled prospects in PNG;

- at the eastern edge of the active east Gondwana margin with proven multiple reservoirs, seal and good quality seismic data;
- located up dip of a liquids rich source rock facies known to be generating oil now with proven oil flowing from Panakawa seep at a rate of 5 barrels of oil per day; and
- up dip of loading of the Fly Platform and the foreland basin developing in front of the Plio-Pleistocene orogeny

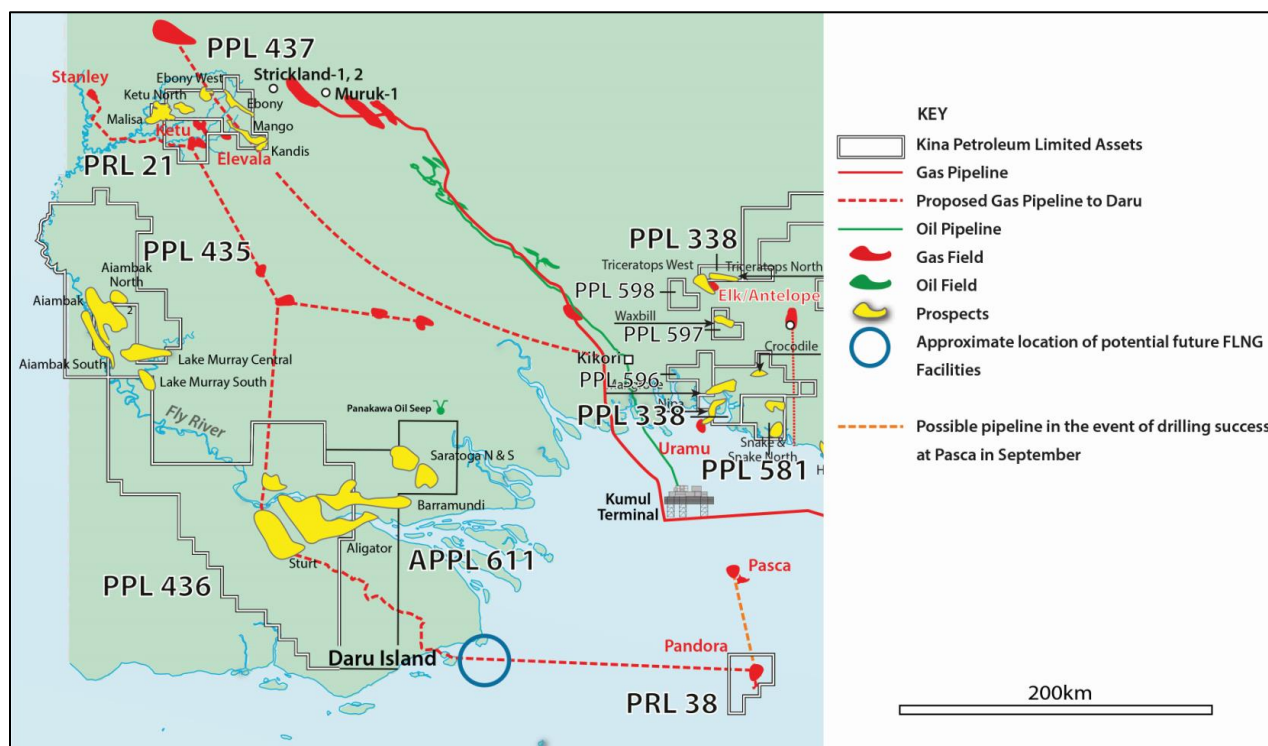
Alligator and the southern margin of the Fly Platform have a number of similarities with the Sahul Platform of the Bonaparte Basin where upwards of 40TCF of gas has been discovered. Another attractive aspect of this region of Western Province is that there is multiple follow up potential at Sturt and Barramundi prospects. These are located in an area of benign terrain with easy access to Daru Island with favourable economics of development in the event of success.

Aiambak prospect is not as large as Alligator, but is at a comparable depth to gas tested in Lake Murray 1 in 1973. It is attractive as a potential LNG target because:

- It is up dip of good reservoir intersected in Lake Murray 2 and has potentially 3 reservoirs and seals present;
- Seismic data quality is good and coverage is reasonable; and
- It is located very close to the port of Aiambak where benign terrain and ease of access provide favourable development economics in the event of success;

#### Map of PPL 435 & 436 Licence Area

(showing proximity to forelands, discovered Western Province resources and a potential future FLNG location)

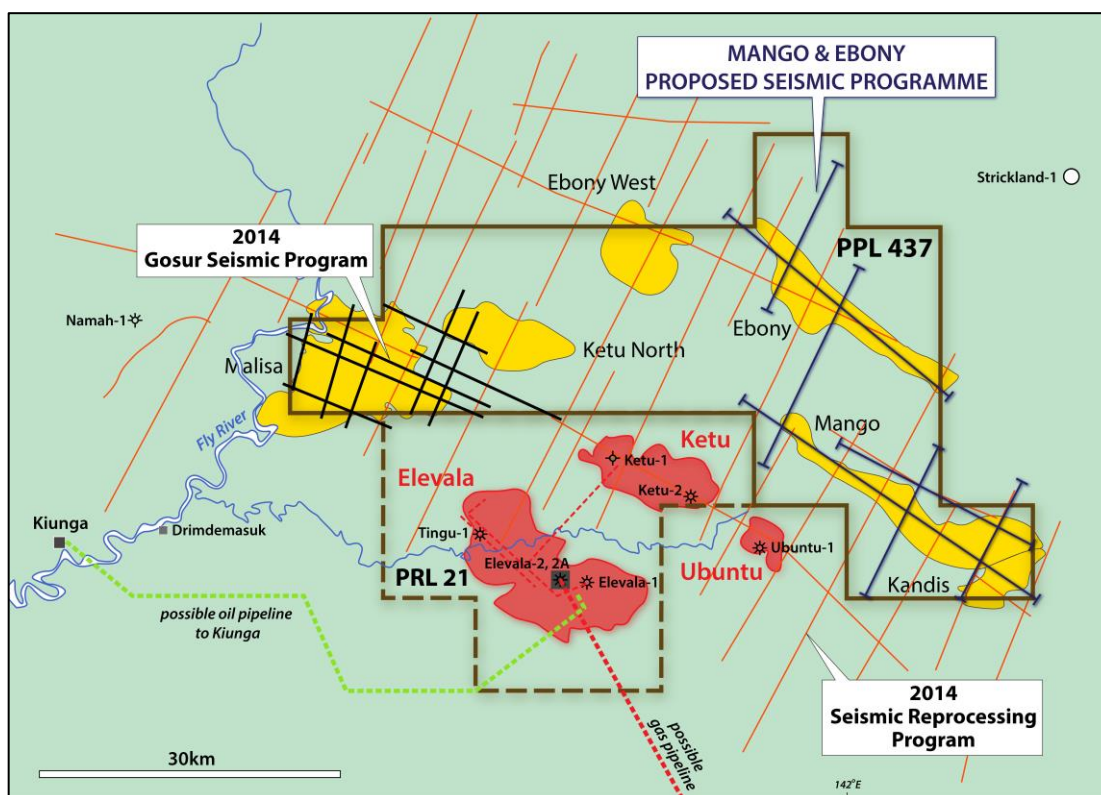


### PPL 437 (KPL Interest: 57.5%)

PPL 437 is located in the Western Province of PNG, immediately north of PRL 21 (Ketu-Elevala) and south of Hides, Muruk, Juha and P'nyang.

As mentioned in the PRL 21 section of this report, Kina is committed to early development of the liquids contained in the gas trapped in Elevala, Ketu and Tingu (EKT), but believes the longer term value of the gas in this region of Western Province has been enhanced by the recently successful drilling of the P'nyang South 2 well, which is very close to PPL 437. A gas export pipeline from P'nyang may run through PPL 437, and Kina and Heritage recognise significant oil and gas potential in the Malisa, Ebony and Mango Prospects. Ebony and Mango Prospects require additional seismic control to confirm their exploration resource potential, and a seismic program over both forms part of Kina's multi-licence prospect review and farmout program presented at the PNG Chamber of Mines and Petroleum Conference held in Port Moresby in November, 2017.

Because of PPL 437's proximity to PRL 21 and the P'nyang Field, Kina and Heritage believe the prospects will have considerable farm out appeal and following expressions of interest received around the time of the Chamber of Mines and Petroleum conference, a data room has been established for interested parties.



## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

#### Name of entity

Kina Petroleum Limited

#### ABN

30 151 201 704

#### Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(199)	(347)
(b) development	(89)	(253)
(c) production	-	-
(d) staff costs	(118)	(484)
(e) administration and corporate costs	(495)	(1,241)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	4
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(900)</b>	<b>(2,321)</b>

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
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<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	-	-

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	4,126	4,126
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>4,126</b>	<b>4,126</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	5,698	7,146
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(900)	(2,321)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,126	4,126
4.5	Effect of movement in exchange rates on cash held	9	(18)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>8,933</b>	<b>8,933</b>



5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$US'000</b>	<b>Previous quarter \$US'000</b>
5.1     Bank balances	8,933	5,698
5.2     Call deposits	-	-
5.3     Bank overdrafts	-	-
5.4     Other (provide details)	-	-
<b>5.5     Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>8,933</b>	<b>5,698</b>

6. <b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$US'000</b>
6.1     Aggregate amount of payments to these parties included in item 1.2	29
6.2     Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3     Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
Non-Executive Directors Fees	

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$US'000</b>
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

<b>8.</b>	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$US'000</b>	<b>Amount drawn at quarter end \$US'000</b>
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

<b>9. Estimated cash outflows for next quarter</b>	<b>\$US'000</b>
9.1 Exploration and evaluation	1,300
9.2 Development	130
9.3 Production	-
9.4 Staff costs	120
9.5 Administration and corporate costs	400
9.6 Other (provide details if material)	-
<b>9.7 Total estimated cash outflows</b>	<b>1,950</b>

<b>10. Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

(Director)

Date: 31 January 2018

Print name: Richard Schroder

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.