



A company registered in Papua New Guinea

30 January, 2019

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## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD: 1<sup>st</sup> October 2018 to 31<sup>st</sup> December 2018**

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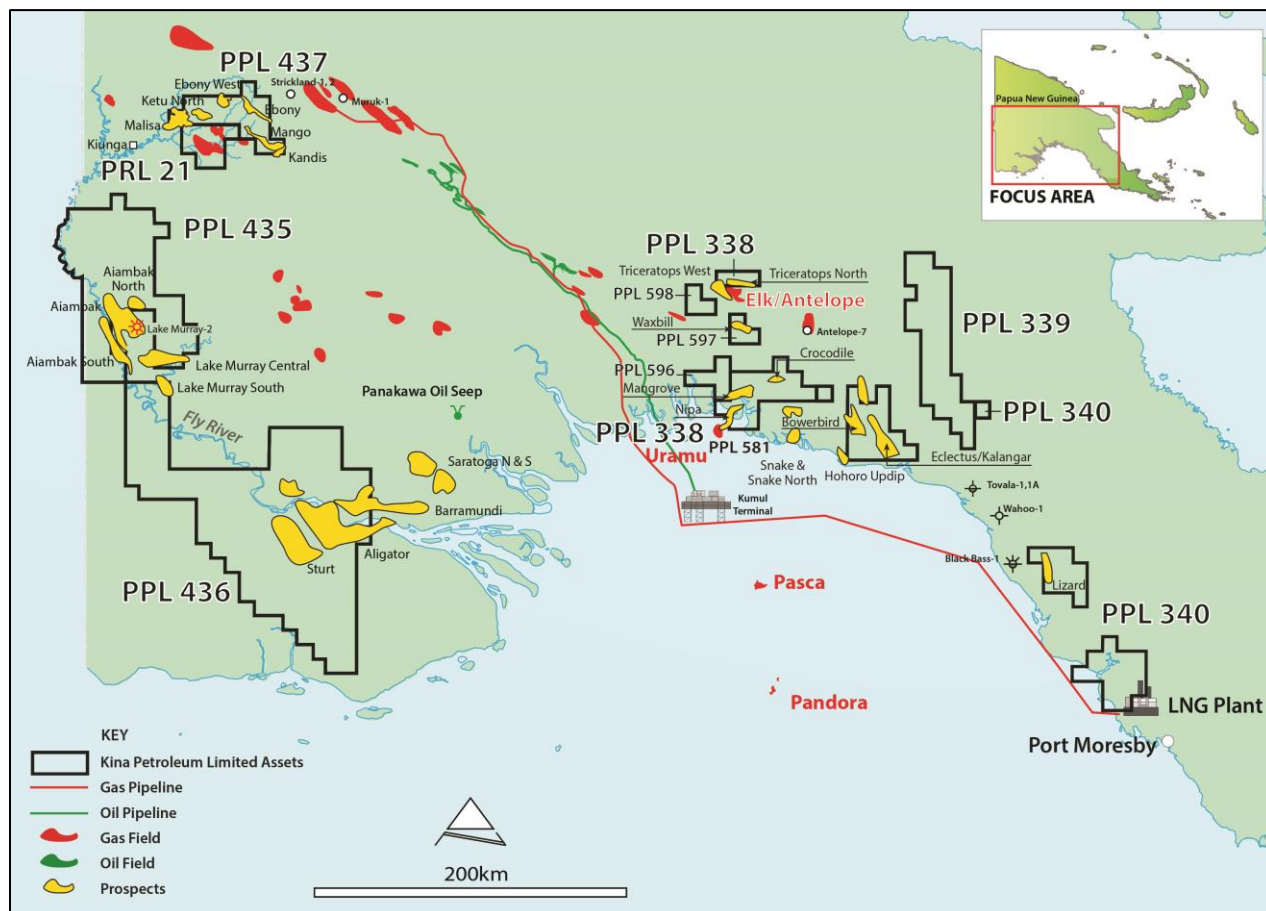
### **Highlights and Summary for the Quarter**

- **PRL 21** – Kina remains committed to early commercialisation of the 48 million barrel liquids resource in PRL21 and is reviewing funding strategies for early development work. We continue to advocate the feasibility of production from the early 2020s, a timeframe which would be of significant benefit to all stakeholders.
- **PRL 38** – The licence expired on 28 November 2018. Kina has applied for a new licence covering the blocks contained within the former PRL 38 licence area.
- **PPL 338, 581, 596, 597 & 598** – The high-graded Mangrove, Nipa, Snake and Waxbill prospects are being assessed for suitability in a soil gas geochemistry survey. Kina has purchased gravity-gradiometry data over the prospects
- **PPL 339** – The Kalangar, Eclectus and Bowerbird features remain the focus in PPL 339, with selected fieldwork expected to commence upon confirmation of extension of the licence.
- **PPL 340** – A soil gas survey was undertaken in October and the results of the survey over the Lizard Prospect have been encouraging both in respect of the PPL 340 licence itself, and also in terms of its application as an exploration tool to other licences within Kina's portfolio.
- **PPL 435 & 436** – Kina continues discussions with the Department of Petroleum regarding extension of these licences. Forward work will focus on the Alligator and Aiambak Prospects.
- **PPL 437** – An extension application for PPL 437 was lodged during the quarter. The Malisa, Mango and Ebony Prospects are attractive targets in close proximity to PRL 21. PPL 437 is optimally placed with respect to future developments at P'nyang and PRL 21. Kina's work will focus on appropriate means of de-risking the prospects in advance of future seismic surveys or drilling.

## Company, PNG and Industry Outlook

Kina Petroleum Limited (ASX: "KPL") has, at the end of this period, a participating interest in Petroleum Retention Licence ("PRL") 21 and in ten exploration licences ("PPLs") across PNG. Kina is in discussion with the PNG government about how best to capture the Aiambak and Alligator Prospects, and any extensions of the Alligator prospect.

### Map of KPL's licence areas



### *Overview of the Current Asian and Global Oil and Gas Industry Environment*

Oil prices have settled back to US\$60 per barrel since the last report and the economics of development of Kina's key prospects, and PRL 21 in particular, remain robust at these prices.

As stated last quarter we remain steadfast in our commitment to bringing a liquids project on stream as soon as possible supplied from PRL 21.

PRL 21, together with prospects in PPL 437, provide a natural focus for a future liquids hub in Western Province using the Fly River as a virtual export pipeline. Their proximity to the port of Kiunga make them the obvious candidates for early development ahead of the smaller discoveries in our licences to the south east.

To the south of Kiunga where the Fly River changes direction to the south east, a second tier of large prospects have been identified and high-graded by Kina. The trend from Aiambak to Alligator and Barramundi in the south east are the mirror image of the Stanley/Elevala to Manta/Douglas/Puk Puk trend. Large structures east of the Puk Puk-1 well tested by the Koko-1, Komewu-1 and Goari-1 wells along the Komewu Fault (northeast Fly Platform) failed due to loss of the critical Ieru shale seal. The differentiating factor for the Aiambak to Alligator/Barramundi Prospects that makes them more attractive for potential development is the preservation of Ieru shale seal at these locations. These prospects are very large and represent material value additive potential for the company in the event of drilling success.

Kina has spent recent months restructuring its work program and licence configuration to tailor a fit-for-purpose work program that will enable it to high-grade and test the survey and assessment concepts the company has developed in the last 3 years across the breadth of its holdings in the Papuan Basin. During the October quarter, Kina completed a pilot soil gas survey over the Lizard prospect in PPL340. Results are encouraging and a follow up survey is planned to confirm the initial outcomes. With confirmation, Kina anticipates using this technology to high grade the prospects for seismic follow-up.

In parallel, during the quarter Kina has been investigating node technology to reduce seismic costs and is encouraged by preliminary findings which will impact costs on any seismic acquisition program in Western Province.

The company also recognises the medium to longer term need to tap both capital markets and exploration farmin markets to fund its development plans and expand its exploration activity. Over the last year Kina has been focussed on strategies to encourage investment in our near term development opportunity in PRL 21. In respect of PRL 21, our development related studies have focussed on constraining costs and understanding the risks and challenges of development. As this work matures, we have been able to bring together the elements of an attractive development proposal.

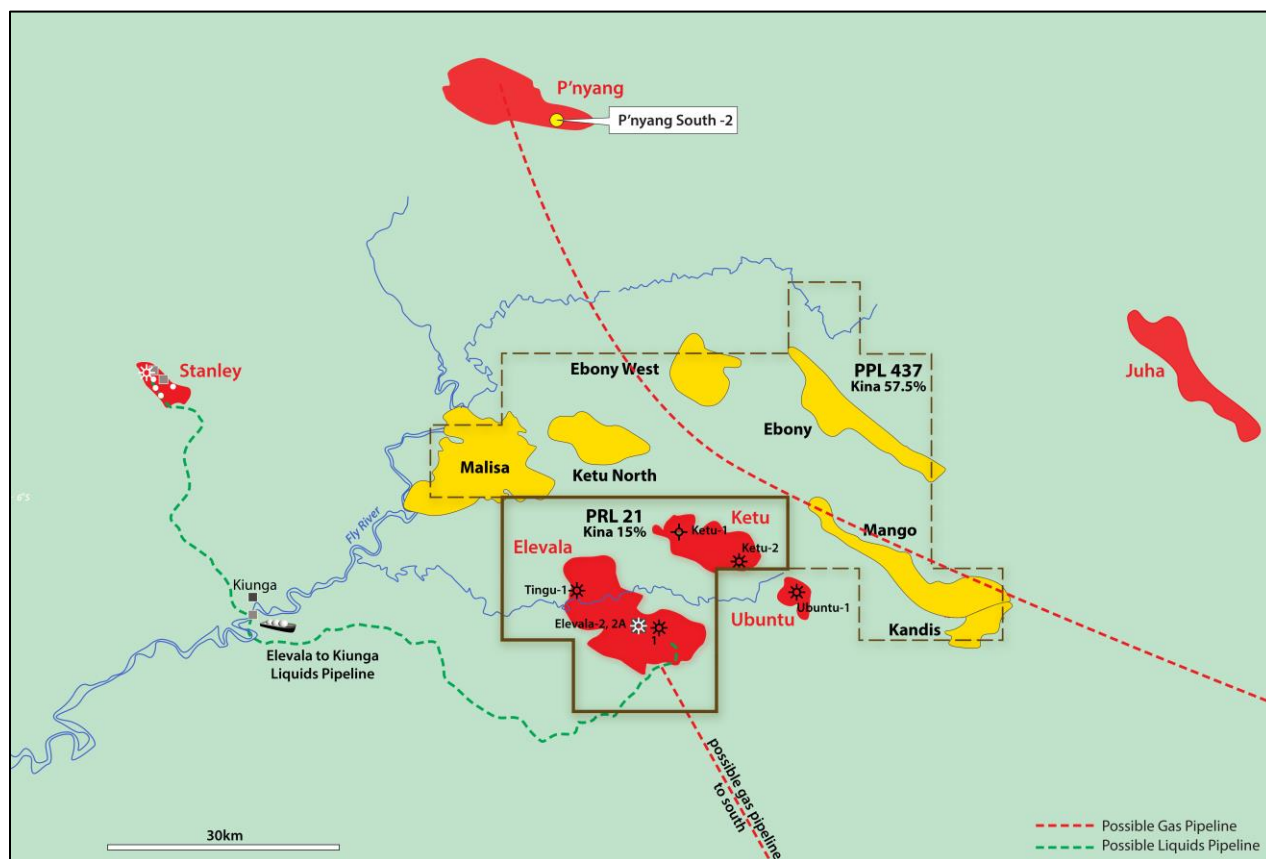
Within Kina's exploration portfolio, the company's prospect inventory has been matured and we have commenced a farmout campaign to attract interested parties to farm in to the portfolio. Work is well advanced on the Western Province Fly Platform Play pending definition of the restructured licence terms.

#### **PRL 21 (KPL interest 16.75%)**

Kina's work on development concepts demonstrates that the 2C (liquids) contingent resource of 48 million barrels of condensate in PRL 21 is economic at current oil prices. Kina maintains its belief that a future development of the Elevala & Ketu fields should aim for first liquids production in the early 2020s

and believes this can be achieved by the joint venture. To further our commitment to an early liquids development, Kina is evaluating potential funding options.

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



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

The PRL 38 licence expired on 28 November 2018, along with the tenure of Kina and other licence holders. Kina has submitted an application for the blocks contained within the former PRL 38 licence area.

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

Kina has purchased gravity-gradiometry data coverage over the key Mangrove, Nipa, Waxbill and Snake prospects and is in the process of merging the data with coverage over the Triceratops West and Bowerbird prospects in PPL 338 and Kalangar/Eclectus (K/E) in PPL 339.

This new data has not yet been integrated into our seismic interpretation. This will take place in the first half of 2019 and interpretation of the integrated data set will form the basis for our next phase of work,

which may include soil gas geochemistry, based on our experience with this technology on the Lizard prospect in PPL 340 as noted above, or immediate follow up seismic.

Ground conditions at Nipa, Mangrove and Snake in southern PPL 338 and PPL 581 are very different and wetter than those at Lizard in PPL 340 and the approach used for collection of soil gas sampling may well have to be amended if the technology is ultimately to be used in these areas.

Interpretation of Kina's seismic data continues to lend support for the development of late Miocene to early Pliocene build-ups on rising and faulted carbonate ramp structures at Nipa and Mangrove. Snake, Crocodile, Waxbill and Triceratops West appear to form along a palaeo-continental boundary which may have been initiated in the late Cretaceous and complicated by uplift and thrusting in the early Pliocene to later Pliocene. The Snake, Crocodile, Waxbill, and Triceratops trend is difficult to interpret due to multiple phases of movement which culminated in the emplacement of Pleistocene volcanics, the Dua Dua and Mt Favenc Volcano.

Kina also believes the uplift associated with the emplacement of the volcanics sets up favourable structuring for entrapment of hydrocarbons below the volcanic apron in and around Mt Favenc and continues to favourably rank the Triceratops West Prospect for present day charge of oil. However its remote location and difficult terrain would make any exploration work expensive.

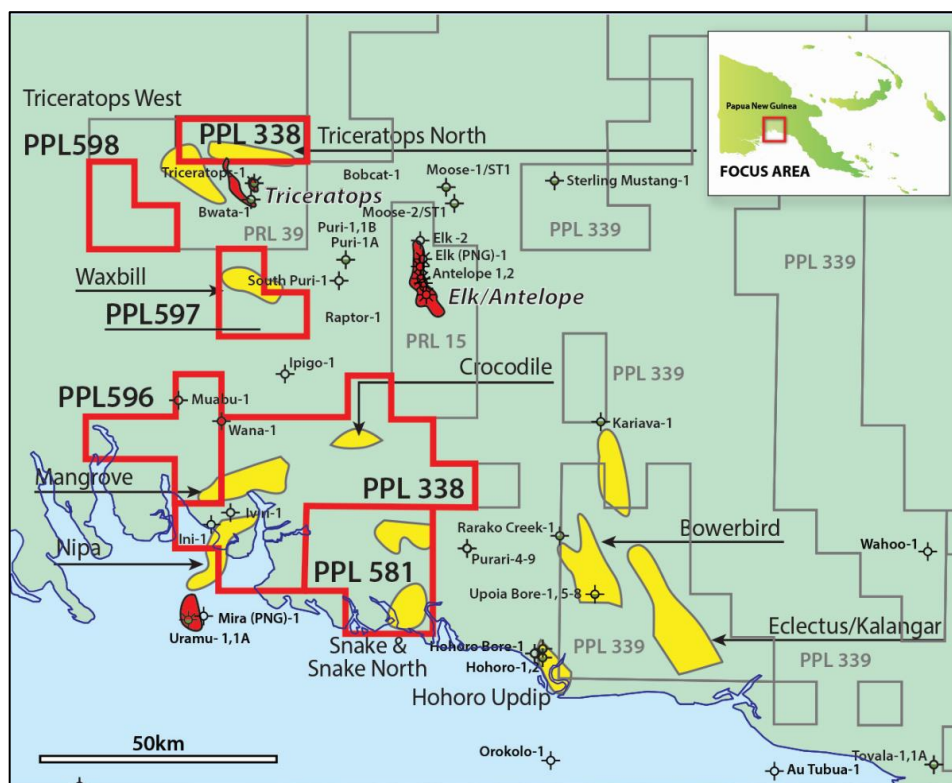
The area from Uramu to Mira and then Nipa to Mangrove has been affected by the late Pliocene to early Miocene faults that cut across a rising carbonate ramp that climbs toward the Fly Platform. The trend is interpreted to culminate at Omati 1 and 2 to the west where encouraging oil shows were intersected in the deeper Mesozoic sands. Cross-cutting faults set up conditions for build ups to develop at Mangrove and Nipa and their mapped form and relatively late closure sets them up as ideal candidates for current and recent oil migration out of the eastern trough that separates the Uramu-Mangrove block from the Bowerbird/Eclectus/Kalangar uplift in PPL 339.

Extensive surface oil and gas seeps exist in the foreland area of the Kuku and Bevan Faults. The abundant oil and gas seeps and oil and gas shows at Omati 1 encourage Kina that Nipa and Mangrove have a high probability of trapping oil and wet gas.

Kina will continue to investigate the applicability of soil gas geochemical technology to help rank the inventory of Triceratops West, Waxbill, Crocodile, Mangrove, Nipa and Snake Prospects.

A map of the PPL 338, 581, PPL 596, 597 and 598 licence areas appears on the following page.

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



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

The operator continues to work with the PNG Department of Petroleum to finalise the PPL 339 licence extension, and we await confirmation of the anniversary date of the 5 year licence extension period of the licence to determine timing of an optimal work program.

Kalangan/Eclectus (K/E) and Bowerbird remain Kina's high-graded features.

Kina believes they lie on a palaeo-ramp established in the Oligo-Miocene which, like Nipa and Mangrove, was uplifted in the late Miocene to early Pliocene and later uplifted by the Kuku and Bevan faults in Plio-Pleistocene times. The K/E Bowerbird area is one of the more complex regions in Kina's portfolio and for this reason Kina elected to farm out its forward obligations.

It is hoped that greater geological certainty in relation to Kalangan/Eclectus can be generated through a combination of new regional datasets, particularly an integrated gravity set, and present opportunities to validate or at least reduce risk for the area currently considered prospective. The operator is evaluating soil gas technology as a potential low cost ranking tool. Kina believes that the terrain in the K/E area is dry, like around the Lizard Prospect, and so lends itself to this technology more so than the Nipa Mangrove area of PPL 338.

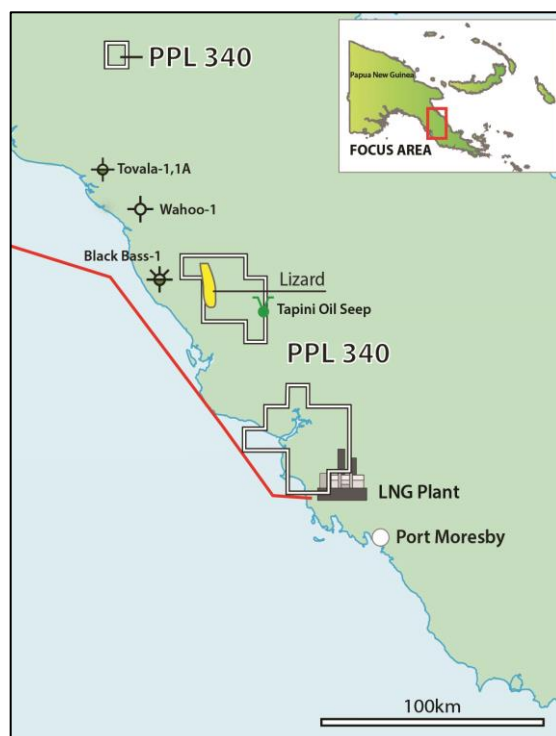
\*subject to farmout agreement with Santos



The prospect is located on the Eastern Shelf of the Papuan Basin, which is separated from the Owen Stanley uplift by the Lakekamu Embayment. Previous wells Wahoo-1, Oro-i-1 and Black Bass-1 all had indications of dry gas but are located on the western coastal strip of the Eastern Shelf. Very early wells Kaufana-1 and Rorona-1 look to have been drilled within the south eastern limits of the Lakekamu Embayment in an area affected by uplift during emplacement of the Owen Stanley Range.

Lizard remains an attractive prospect located only 158 km from Port Moresby by road and if confirmed by the phase 2 soil gas survey, a detailed seismic grid is proposed to delineate closure for the prospect in advance of a future well.

*Map of PPL 340 licence area*



**PPL 435 and 436 (KPL Interest: 100%)**

The Alligator and Aiambak Prospects are two large structures located at either end of the Fly River Fault on the southern margin of the Fly Platform. Both exhibit residual gravity anomalies, are in areas of easy access along the Fly River and are in areas of gentle terrain conducive to low cost field operations.

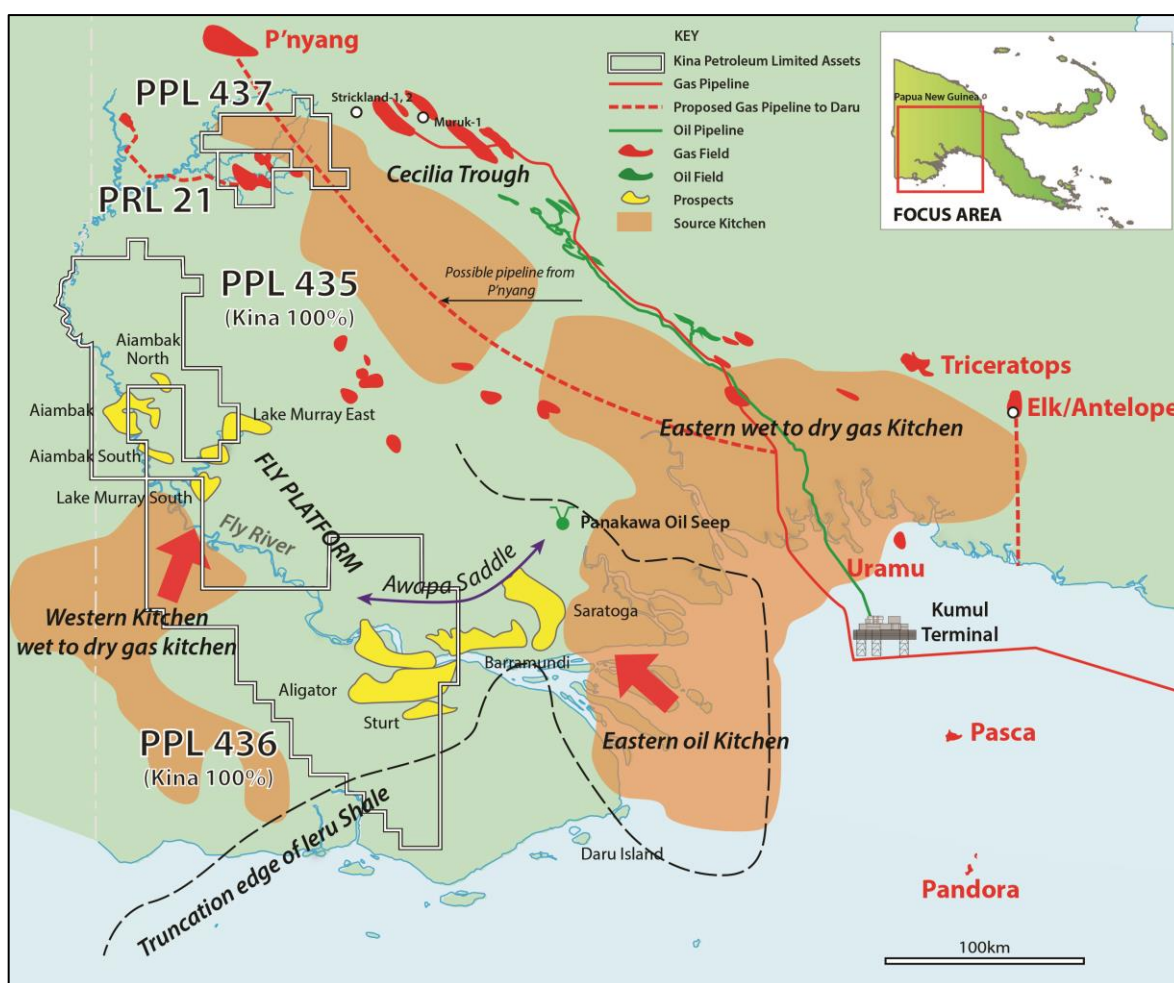
The depth to target is estimated to be less than 2000m and helicopter supported drilling operations are not expected to be required.

Kina ranks Alligator as one of its top prospects. Unlike prospects and structures drilled along the Komewu Fault on the north east of the Fly Platform the Aiambak and Alligator Prospects have the regional Ieru shale intact and in the case of Alligator Kina maps 4 independent reservoirs between base of the Ieru seal and basement. The Alligator Prospect is one of the largest undrilled targets in PNG and is up-dip of an actively and presently generating oil and gas kitchen. Kina intends investigating the soil gas signature of the area once the technology has been fully evaluated at Lizard.

Both PPL 435 and PPL 436 have reached the end of their first exploration terms. As a consequence, Kina has entered into discussions with the Department of Petroleum with the objectives of (i) restructuring PPLs 435 and 436 into a licence that will cover both prospects, and (ii) developing a tailored exploration program focussed on maturing both prospects to assess the most appropriate location to test of the play.

Kina also remains in discussion with other exploration companies in respect of its farm out proposal for the play.

*Map of the PPL 435 & 436 licence areas (showing proximity to forelands, discovered Western Province resources and key geological features)*



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

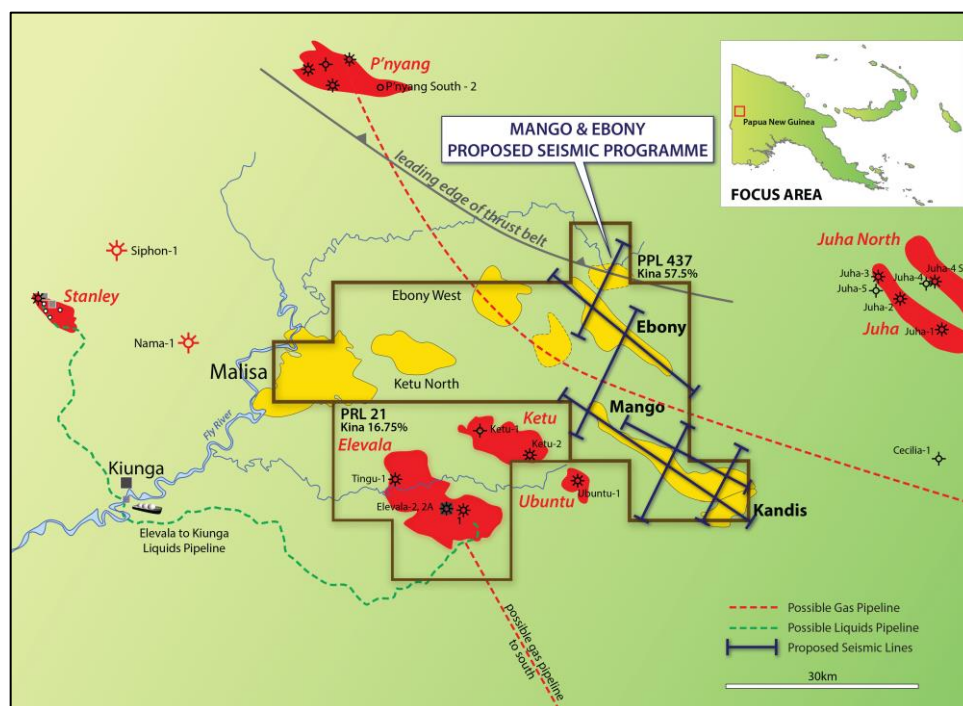
PPL 437 is located in Western Province, immediately north of PRL 21 (Ketu-Elevala) and south of the Hides, Muruk, Juha and P'nyang fields. Kina, as stated previously sees merit in early commencement of liquids development out of PRL 21 and thus establishing an independent export hub utilising the Kiunga river port on the Fly River.

The Malisa prospect is drill-ready on a technical basis but is uneconomic on a stand-alone basis. Its commercial attractiveness would improve if tie in to existing infrastructure could be established. Development of PRL 21 would offer such an opportunity. Ebony and Mango Prospects require additional seismic control to confirm closure prior to drilling. Kina is investigating nodal technology to reduce seismic acquisition costs.

The soil gas geochemical trials being evaluated by Kina in PPL 340 could impact costs of exploration in PPL 437. Subject to outcome of the follow up soil gas survey in the first quarter of 2019, Kina may test the soil gas signature of the Elevala and Ketu Fields in PRL 21 and then evaluate the PPL 437 prospects by analogy to their response compared to Elevala Ketu. Kina hopes the soil gas response will enable a ranking of the prospect inventory at a reduced cost by limiting the need for an extensive and costly seismic program.

Kina is in Year 6 of its exploration program and has filed for an extension of the licence. Future work will focus on the Malisa, Ebony and Mango Prospects

*Map of the PPL 437 Licence Area (with PRL 21 immediately to the south)*



## 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 2018

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	(288)	(2,012)
(b) development	-	-
(c) production	-	-
(d) staff costs	(112)	(468)
(e) administration and corporate costs	(445)	(1,199)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	5
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>(845)</b>	<b>(3,674)</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	-	-
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.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	6,083	8,933
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(845)	(3,674)
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)	-	-
4.5	Effect of movement in exchange rates on cash held	(11)	(32)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>5,227</b>	<b>5,227</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	5,227	6,083
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>5,227</b>	<b>6,083</b>

**6.     Payments to directors of the entity and their associates**

6.1     Aggregate amount of payments to these parties included in item 1.2

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

<b>Current quarter \$US'000</b>
34
-

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.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$US'000</b>
9.1	Exploration and evaluation	1,200
9.2	Development	-
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</b>	<b>Total estimated cash outflows</b>	<b>1,720</b>

<b>10.</b>	<b>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	PRL 38 Offshore Gulf of Papua	Participating interest	25%	nil
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:

Date: 30 January 2019

(Director)

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.