



A Company registered in Papua New Guinea  
Company Number: 1-63551  
ARBN: 151 201 704

24 July 2014

## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD 1<sup>ST</sup> April 2014 to 30th June 2014**

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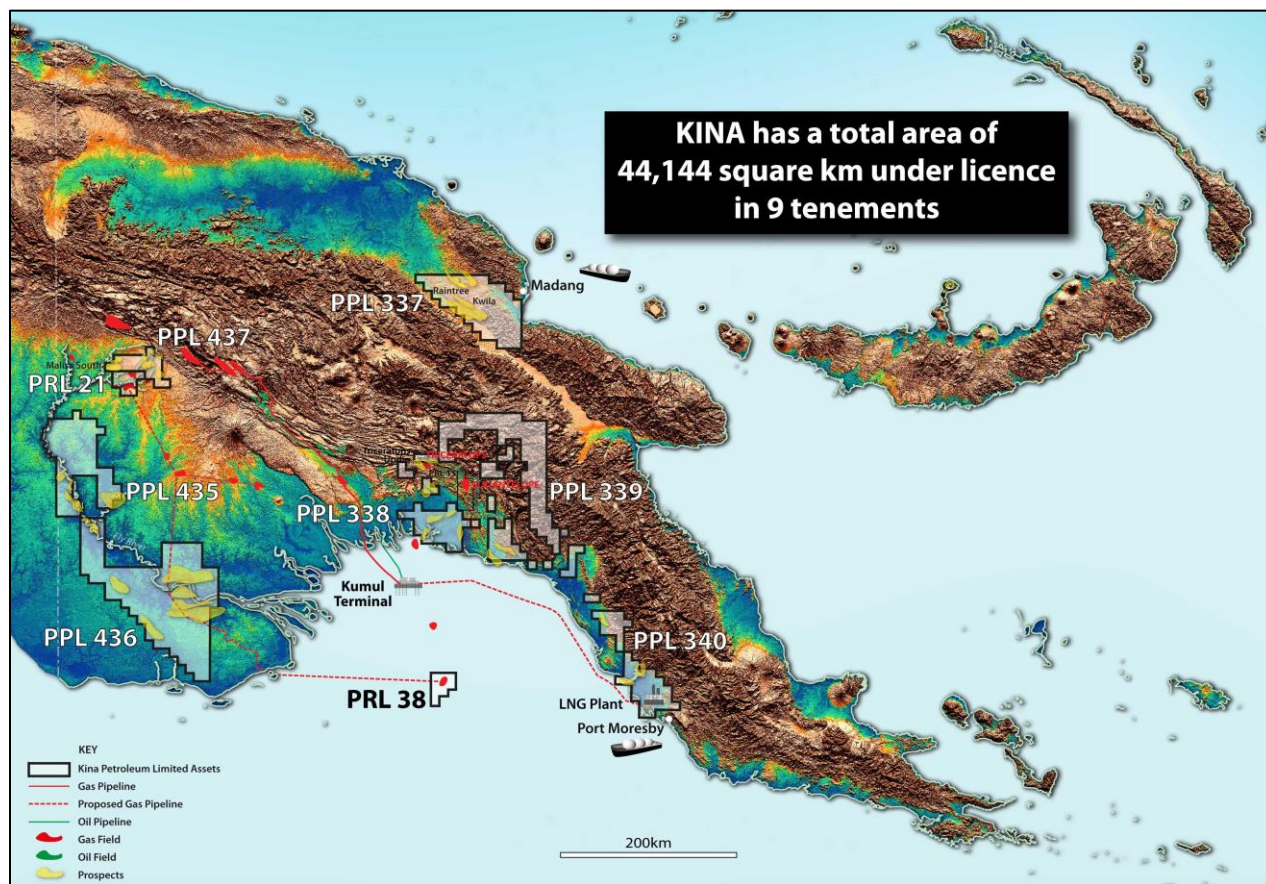
Kina Petroleum Limited (ASX: "KPL") has working interests in the PRL 21 and PRL 38 retention licences and 7 exploration licences in PNG.

During the April – June quarter, FEED activity in PRL 21 continued, significant preparatory work began in relation to the PPL 337 drilling program that will commence in the second half of the year, and the seismic acquisition program in PPL 437 commenced. This program is aimed at delineating a drillable target at the Malisa South Prospect, immediately north of the Elevala and Ketu fields. Additionally, the Aeromagnetic/gravity survey in PPLs 435 & 436 was completed.

### **Highlights for the Quarter**

- **PRLs 21 & 38 – the value of Kina's resource base improves with sound look-through valuations from the proposed Roc-Horizon merger.**
- **PPL 337 - drilling contractor has been selected with Raintree-1 and Kwila-1 nominated for drilling 4<sup>th</sup> quarter 2014. Pre-drilling activities are underway.**
- **PPL 437 - Seismic operations (Gosur 2014 program) have commenced with a view to maturing a drilling location at Malisa South.**
- **Interoil's transactions in PRL 15 and PPLs 475, 476 and 477 have enhanced the value of Kina's neighbouring PPLs 338, 339 & 340.**
- **PPLs 435 & 436 – Data from Kina's recently completed aerogravity and aeromagnetic survey in Western Province will be merged with previous data to high-grade prospects and leads in both licences for seismic acquisition in 2015.**

### Map of Kina Petroleum Limited's licence interests



### A Growing Gas Story:

A recent Independent Expert Report, commissioned by Roc Oil for the proposed merger of ROC Oil and Horizon Oil, indicated an unrisks value range of USD494million to USD607million for Horizon's share of 1.024 Tcf of gas and 51mm bbls of liquids in PRL 21. This valuation implies an in-ground value for Kina's 15% interest in PRL 21 in the range of c. USD250M to c. USD310M, or between \$A 1.08/share and \$A 1.37/share.

In 2010 Kina made application for PRL 21 on the basis of the liquids within the Elevala and Ketu structures. Drilling over the last 4 years has confirmed a commercial quantity of liquids but also substantially increased the gas resource within the licence, as the abovementioned Independent Expert's Report illustrates.

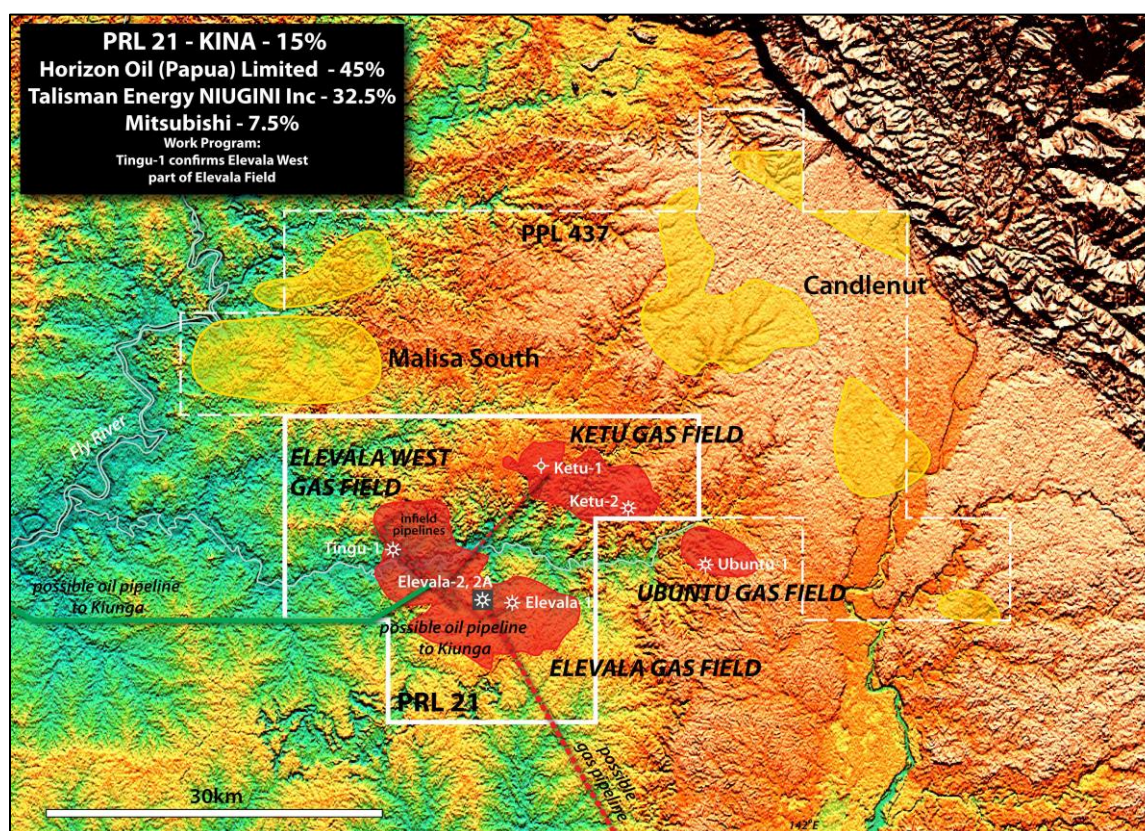
With the gas resources in PRL 21, and the recently acquired PRL 38, as a material base asset, Management is now focussed on commercialising these along with upside from attractive exploration targets in the Eastern Forelands and elsewhere in the Western Province.



Work has continued during the April – June quarter on FEED for the proposed PRL 21 liquids development with the joint venture meeting regularly to progress towards the technical, commercial and operational milestones required for FID.

A core component of these meetings and the ongoing work being conducted by the operator is to optimize the field development plan as the results of the successful Tingu well (drilled and tested October 2013) and testing of the Ketu 2 well are further analysed and incorporated into technical models. Additionally, the capacity to leverage off observations from the nearby development of PDL 10 will transform the optimisation process into one of continuous improvement and positive refinement which will benefit the PRL 21 joint venture.

#### **PRL 21 (and adjacent PPL 437) licence area and Schematic (Kina interest 15%)**



#### **Petroleum Retention Licence ("PRL") 38 (Kina Interest 25%)**

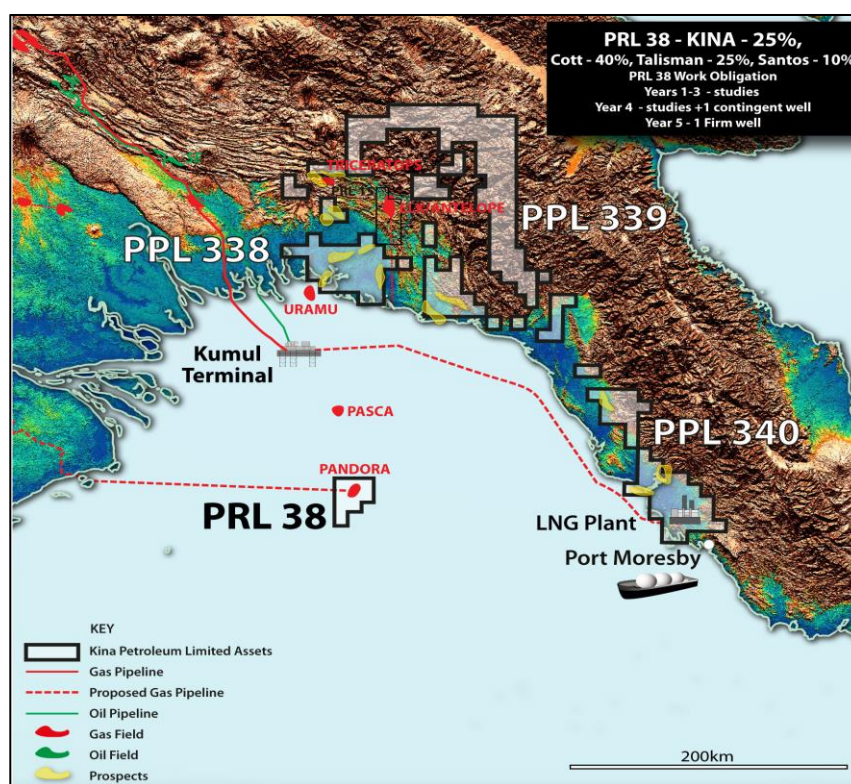
Kina has 25% of the newly-granted PRL 38, located offshore Gulf of Papua, which incorporates the Pandora gas discoveries. On the basis of those discoveries, the licence was noted by the previous tenement holders to have a multi BCF<sup>1</sup> accumulation of gas, and Kina, along with other JV partners, will

1. Based on the latest publicly available information: Oil Search Limited 2012 annual report where a 2C contingent resource of 191 bcf was noted in respect of their then 24.0909% share of PRL 1.

be focussed on confirming this from available technical data. If confirmed, and where the implied unrisks value per barrel of oil equivalent ascribed to PRL 21 in the Independent Expert's Report referred to above is applied to the resource, Kina's 25% share is estimated to have an implied unrisks value of circa USD 250m to circa USD315m, or between \$A1.10/share and \$A 1.38/share.

Further untested resource upside is recognised in PRL 38 with additions possible between the 2 reefs already drilled. Pandora A and B reefs are independent structures but have a common gas water contact and Kina believes the reefs are in pressure communication. A further 7 undrilled reef structures are recognised in PRL 38, which Kina believes offers further significant resource upside.

Potential synergies from aggregating gas from PRLs 21 and 38 may exist, and commercialisation of these resources through a potential Floating LNG (FLNG) may be considered by the respective Joint Ventures. The Independent Expert's Report commissioned by ROC Oil assumes a build-own-operate (BOO) development of PRL 21 gas from a FLNG location on the coastline of Western Province. Kina is encouraged by the recent commissioning of the Caribbean FLNG. Wison, the builder of the Caribbean project, has undertaken scoping studies in respect of a FLNG project in PNG. Infrastructure somewhere on the coastline of Western Province is ideally located for export of LNG from both PRL 21 and PRL 38.

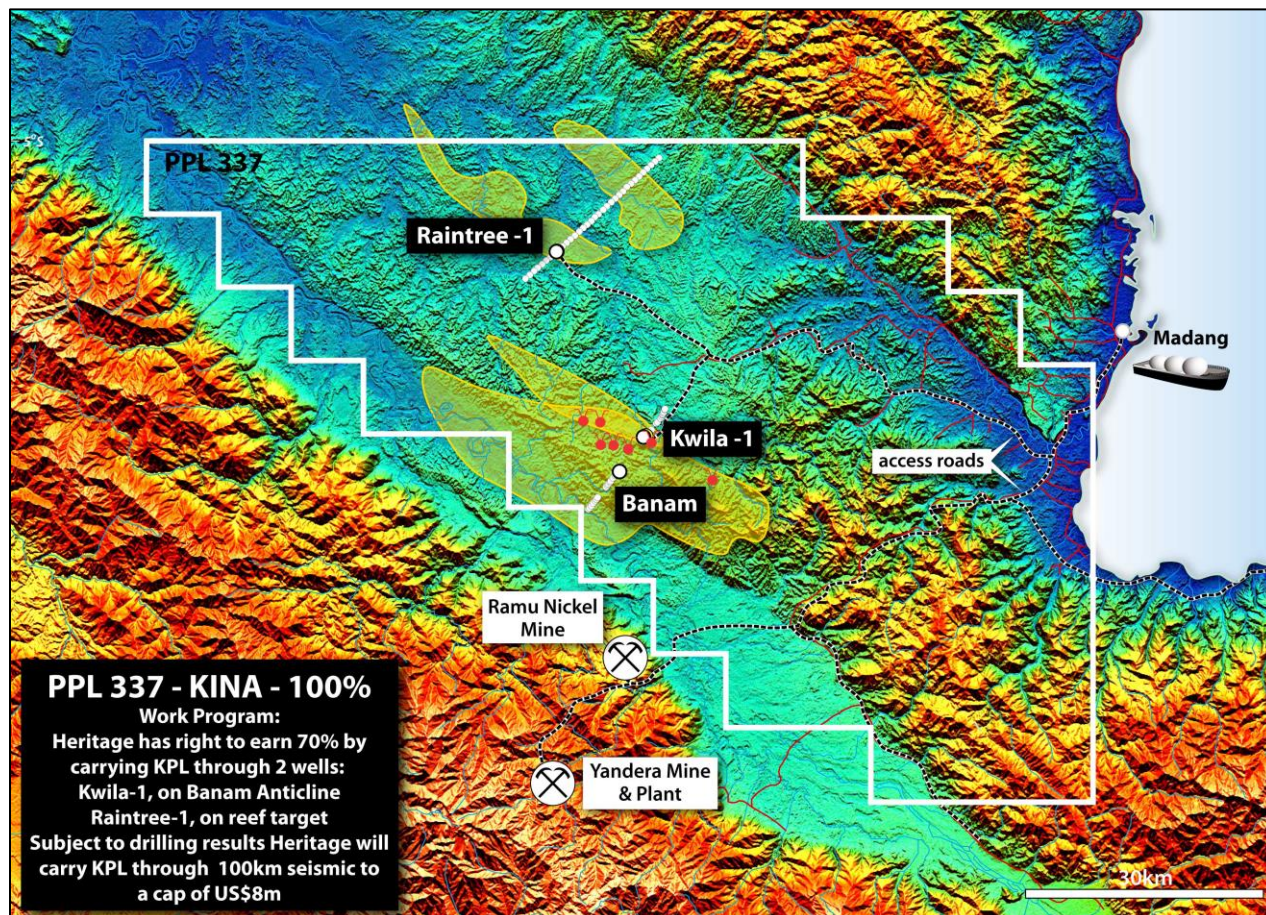


PRL 38 is strategically positioned to fit into one of several possible future gas aggregation plans which would aim to commercialise resources in either the Western Province, the Eastern Forelands or even into Port Moresby.



**Petroleum Prospecting License ("PPL") 337 (Kina Interest 100%, subject to farmout arrangements with Heritage Oil Limited)**

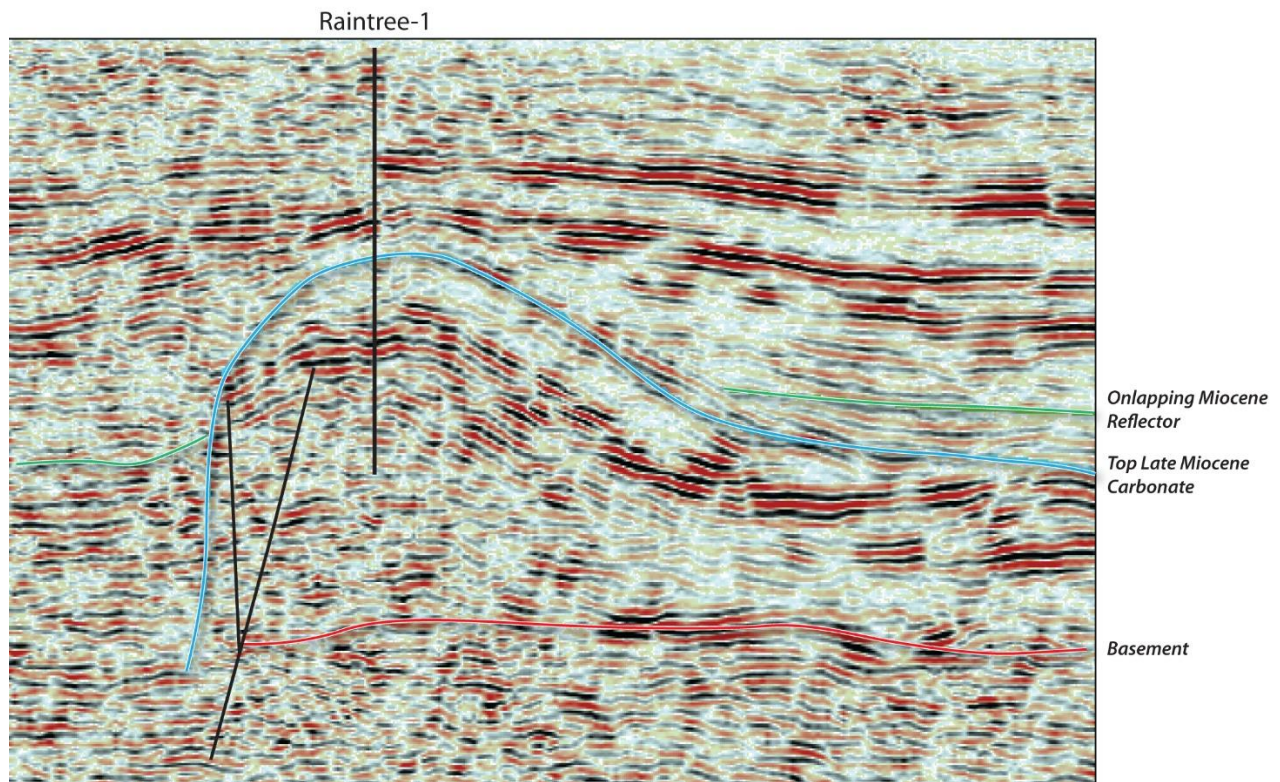
Kina is being carried, uncapped, through a two-well drilling program in the underexplored Ramu Basin of northern PNG. In the event of encouragement at either location, Kina will be carried through a follow up seismic program to a maximum of 100 line km or US\$8m cost. This is a significant milestone for the company being the first exploration drilling to be undertaken by Kina outside of PRL 21. In the event of success at either location Kina's retained equity will be 30% - twice its current equity in PRL 21.



*PPL 337 – Ramu Basin, showing proposed drill locations and proximity to Madang*

The first well, Raintree-1, will test an interpreted carbonate reef at the Raintree structure, some 60 km northwest of Banam Anticline. Raintree-1 is expected to spud in September 2014 with Kwila-1 to follow immediately after. The presence of reefs is supported by outcropping carbonates in the Adalbert Ranges to the north of Raintree well and the presence of fossilised reef rock located in the rivers draining the Ramu Sub-Basin. Carbonate reef rocks recovered from the Sogeram River further support the existence of reefs whose composition and architecture mimic that of Elk/Antelope.





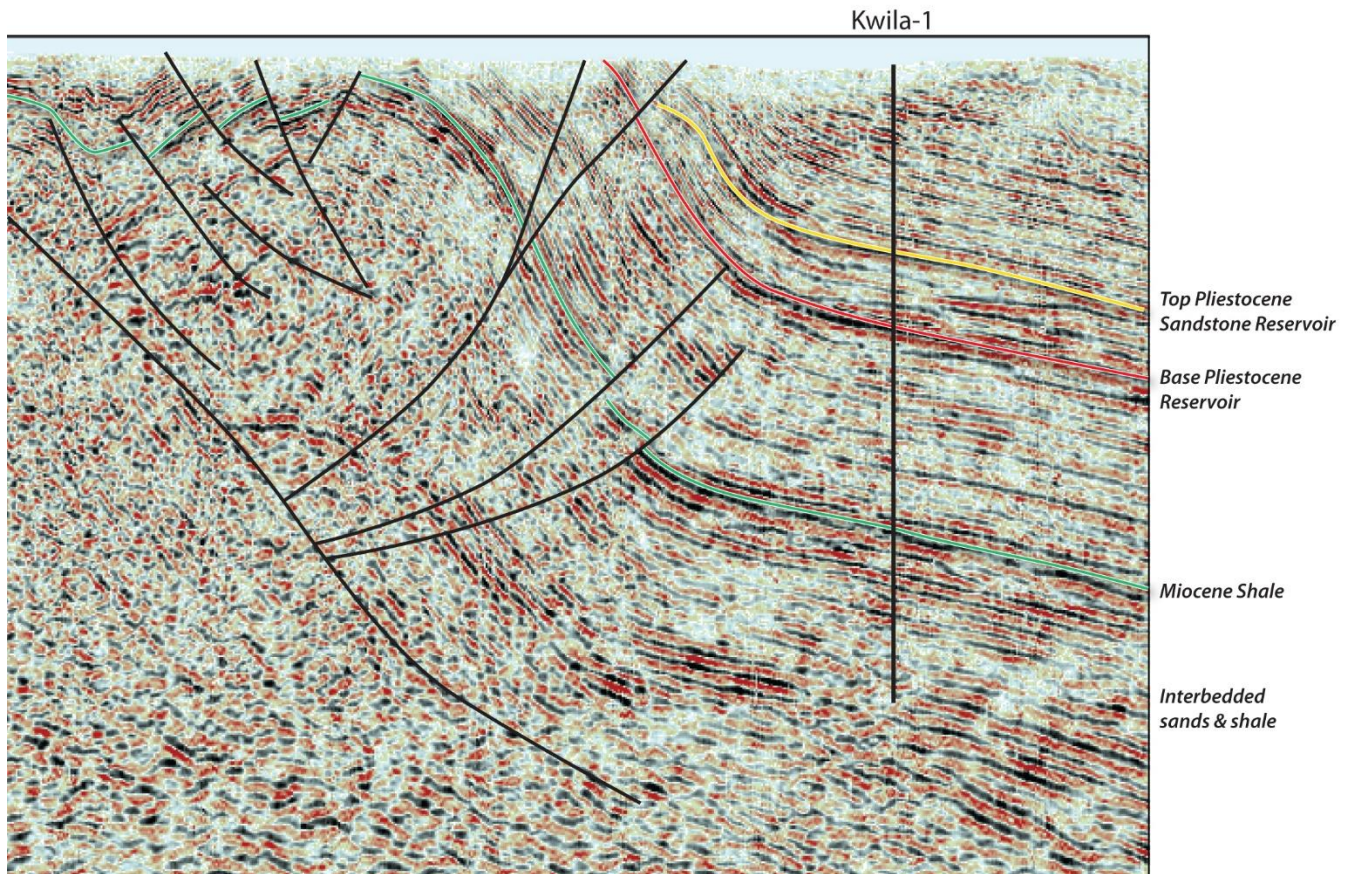
*Interpreted seismic section with proposed Raintree-1 location*

Kwila 1 will drill deep enough to test the shallow Pleistocene reservoirs and the deeper Miocene reservoirs recognised in Tsumba-1, some 70km further to the north-west of the proposed Raintree location. Kwila 1 is set to test the north eastern flank of the Banam Anticline, one of the largest untested structures in PNG. It will be drilled to test a seismic anomaly in Pleistocene sands but will drill on to evaluate reservoir potential of deeper sandstones thought to be in structural closure over the Banam anticline. Subject to encouragement from Kwila-1 a delineation seismic program will infill the existing three lines over Banam Anticline with a view to confirming structural closure to the southeast, the critical uncertainty remaining for the prospect.

The community affairs and required EIS work is complete and JV partner Heritage Oil Limited has commenced site preparations. Drill contractor Washingtons International is currently having the drill rig inspected for suitability by DPE. On arrival in Madang the rig will be road transported to the Raintree location. Expected spud for the first hole at Raintree is in September. All other service company contracts have been awarded and road and civil construction work has commenced.

Both wells are targeting dry gas and source is considered a low risk as there are numerous seeps comprising 99% methane at Banam. There are numerous potential offtake partners in and around Madang, including power generation for Madang town and the mining operations at Ramu NiCo and

Yanderra. Should a large enough discovery be made, there is also scope for an LNG project with deep water access at Astrolabe Bay.



*Interpreted seismic section with proposed Kwila-1 location*





*Washington International's Schramm T130XD drill rig, to be used in PPL 337.*

### **Petroleum Prospecting Licenses ("PPL")**

#### **338 (Kina 100%) and 339 (Kina 100%, subject to farmout arrangements with Oil Search)**

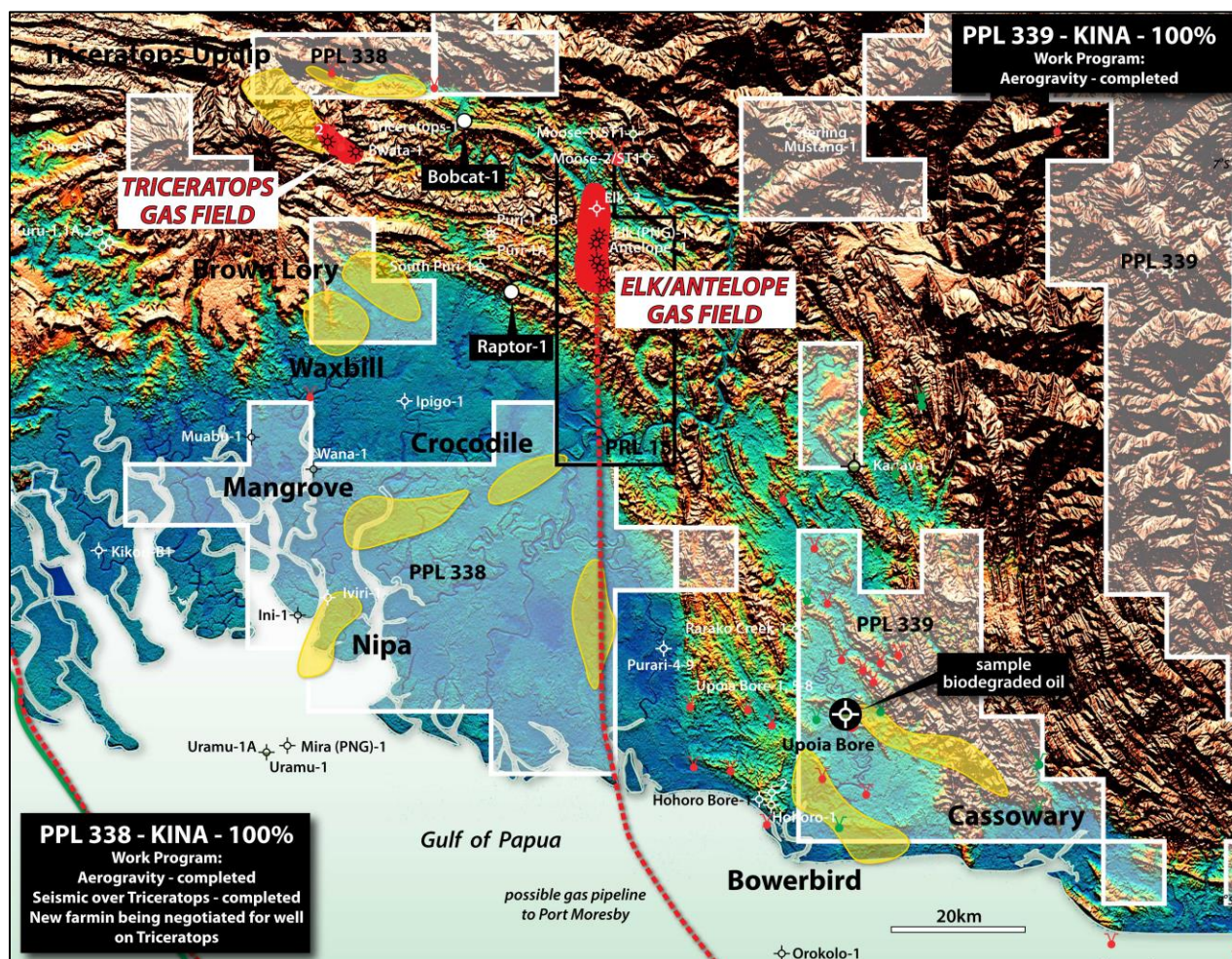
PPL 338 is located at the eastern margin of the East Papuan Basin, near the Elk-Antelope gas discovery now held as PRL 15 by Total, Oil Search and InterOil. Antelope 4 and 5 will be drilled in PRL 15 later in 2014 the outcome of which will materially impact the value of Kina's prospects and leads within PPLs 338 and 339. Elk Antelope is a fault controlled reefal structure with an estimated multi TCF accumulation of gas. Kina recognises upwards of 9 prospects and leads within PPLs 338 and 339 which if successful may be able to commercialised alongside a potential development of the Elk/Antelope field.

InterOil are also currently drilling Bobcat 1 in PPL 476. The well is located 3 to 4kms from PPLs 338 and 339 and its outcome will have a material impact on prospectivity in the northern parts of both of Kina's licences. Kina has identified a faulted footwall closure northwest of Bobcat within PPL 338 which it considers favourable in the event that fault seal can be demonstrated.

Later this year InterOil's Triceratops 3 will be drilled in PRL 39 after Bobcat 1 at a location which is within 3km of the PPL 338 boundary. Kina has completed interpretation of the 2013 Tagula geophysical data and



tied in open file seismic data from PRL 39 and has mapped an extension of the Triceratops structure from PRL 39 into PPL 338. The extension termed Triceratops Updip significantly increases the prospectivity of PPL 338. Kina owns 100% of PPL 338 and with the revised interpretation of the new and vintage seismic data Kina is actively undertaking a farm out process with a view to testing Triceratops Updip within PPL 338.



PPL 338 & 339 Schematic

In the central part of PPL 338 Kina recognises 2 leads; Waxbill and Brown Lory, west of the Raptor-1 well currently drilling in InterOil's PPL 475. These leads are on the footwall of the Kereru and Era Faults. Puri 1 drilled in 1957 flowed 1610 barrels of oil per day for 9 days before watering out from fractured Puri Limestone in similar footwall setting at a depth of approximately 2280m. Although the seismic data quality is too poor to know if the structures in the Waxbill area are reefal or not it is possible to map a potential closure in the Waxbill area up dip of the zone that flowed oil in Puri-1.

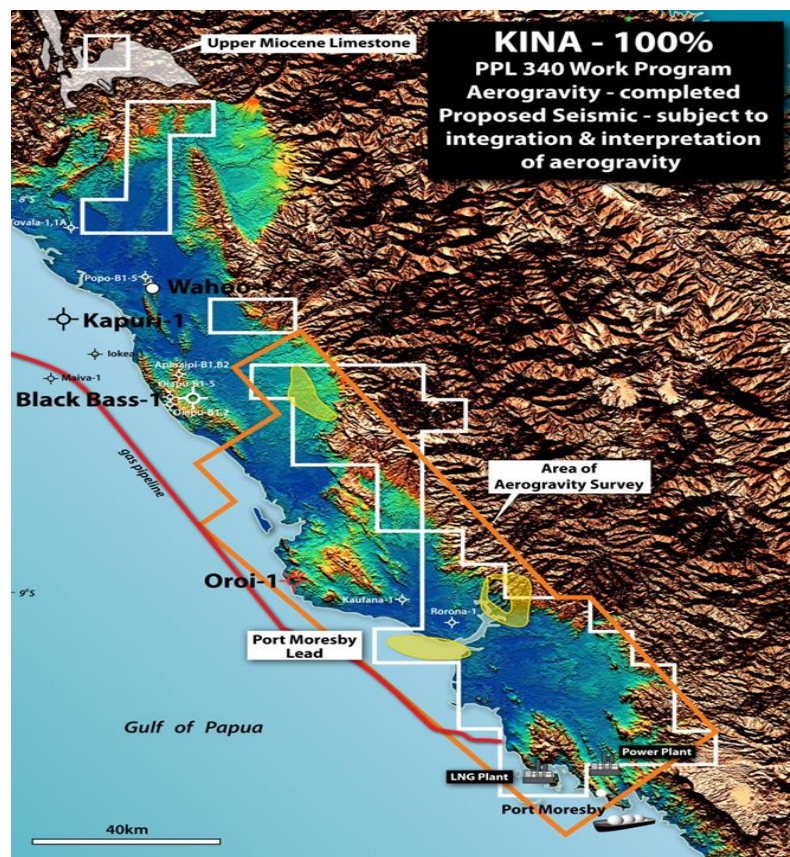


To the south within PPL 338 and PPL 339 Kina recognises at least 5 leads worthy of follow up. Nipa, Mangrove and Crocodile lie within PPL 338 and are north and up dip of the offshore Uramu gas field. Bowerbird and Cassowary lie within PPL 339 and are along trend and south of the Antelope Gas field. Gravity and seismic data show evidence of basement uplift in the Bowerbird and Cassowary area and their location close to Kerema and the coastline put them in a relative low cost drilling environment. To the southeast of Bowerbird and Cassowary Pliocene reef rock is recognised in outcrop high-grading the potential for reef development at Bowerbird and Cassowary.

### **Petroleum Prospecting License ("PPL") 340 (Kina Interest 100%)**

An aerogravity and aeromag survey over PPL 340 (100% KPL) was completed between September and December, 2013. Interpretation of the PPL 340 data is underway and is focussed on three seismic leads; Port Moresby, Rorona Updip and Lizard. Until recently Kina believed these structures had only dry gas potential ideal for power generation for the Port Moresby market. However on 14<sup>th</sup> July InterOil announced it had suspended Wahoo-1 due to the intersection of high formation pressures within the Orubadi mudstone which contained thermogenic hydrocarbons. This considerably upgrades the liquids potential of northern PPL 340 as Wahoo is located less than 20km from the boundary of PPL 340.

Kina is currently revising its assessment of PPL 340 in view of this new information.

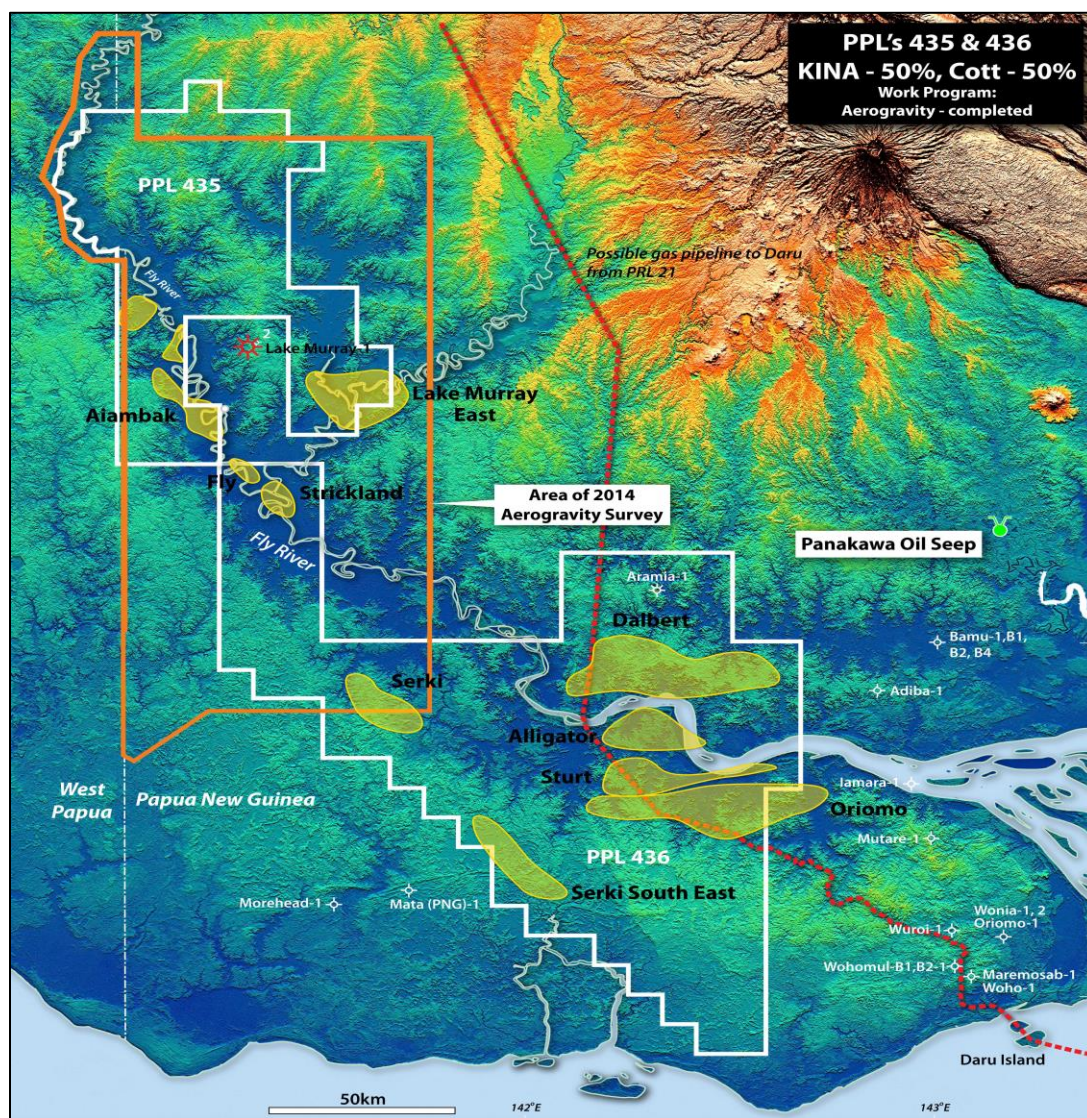




### Petroleum Prospecting Licenses (“PPL”) 435 and 436 (Kina Interest 50% in both)

An aerogravity and aeromag survey over PPLs 435 & 436 (50% KPL, 50% Cott) was undertaken from January to June, 2014. The survey was extended by periods of poor weather beyond the normal weather constraints in Western Province. Interpretation of the data will focus on the leads identified from vintage seismic programs. Part of the interpretation has been a comprehensive study of the architecture of the basement underlying the western and south-western part of the Papuan Basin.

The interpreted structures are all targeting wet gas from multiple reservoir intervals and, given the size of the structures, may be capable of hosting multi-TCF accumulation of gas and hundreds of millions of barrels of oil. Any hydrocarbons in PPL 435 and 436 would be attractive due to proximity to the Fly River and Aiambak port and in the event of a gas discovery are well placed for any future gas aggregation strategy.



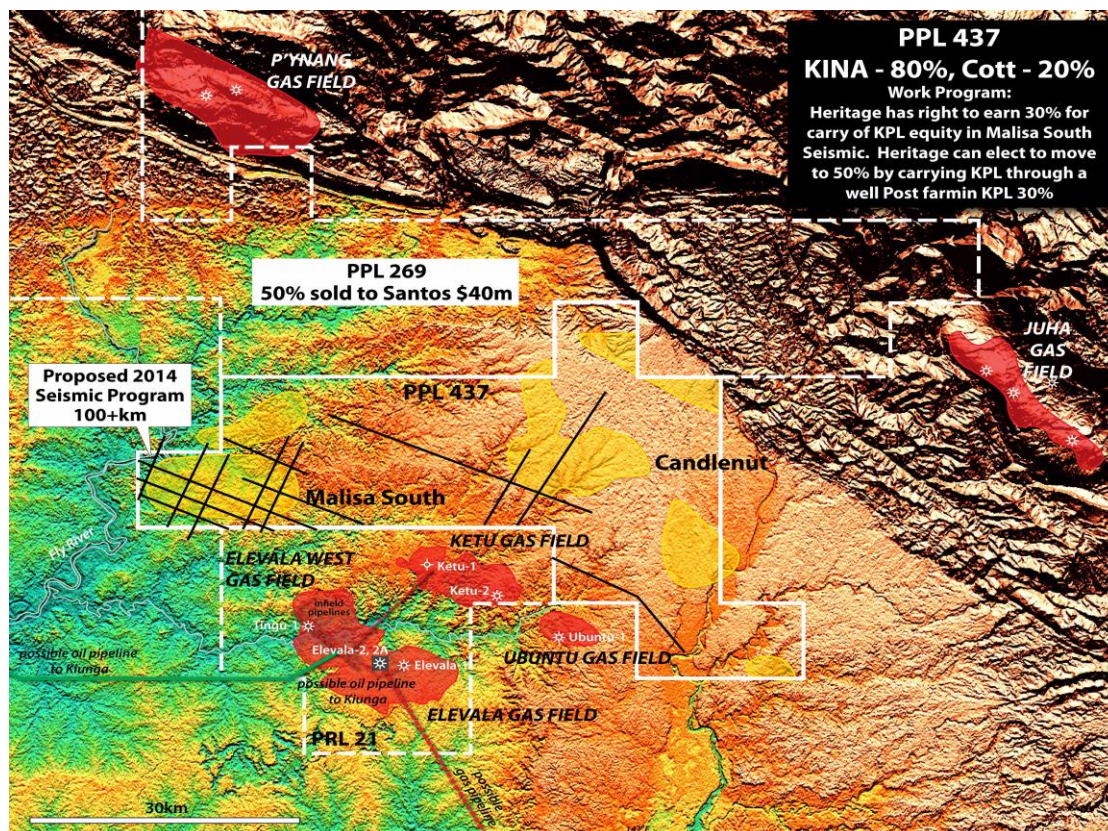


### **Petroleum Prospecting License ("PPL") 437 (Kina Interest 80%, subject to farmout arrangements with Heritage Oil Ltd)**

The 2014 Gosur Seismic Survey, operated by farminee Heritage Oil has begun in PPL 437, with line cutting, bridging and surveying operations all underway. Kina will be fully carried by Heritage through a 2D seismic program and a subsequent exploration well.

The Gosur Seismic Survey is focussed on enhancing the definition of the Malisa South Prospect along trend from Tingu. Subject to the results of the survey, a well will be drilled which Kina will be carried through. The Malisa South structure is the focus for the PPL 437 Joint Venture due to its proximity to the proposed PRL 21 Development infrastructure and because of good quality Elevala Sandstone and Toro Sandstones intersected in Tingu 1. The Elevala Sandstone, where testing in PRL 21 has demonstrated the capacity of single wells to flow at nearly 50MMcu ft/d and in-excess of 3000 barrels of condensate per day, remains the primary reservoir target. However, the intersection of good shows in an improved quality Toro Sandstone at Tingu 1 has elevated the Toro Sandstone as a significant deeper objective at the Malisa South Lead.

Recording should commence in the July - September quarter, and rapid interpretation techniques will facilitate quick decision making in relation to other areas of focus within the licence.



*PPL 437 – Showing Proposed 2014 Gosur Seismic and proximity to PRL 21 development*



Appendix 5B

**Mining exploration entity quarterly report**

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

KINA PETROLEUM LIMITED

ARBN

151 201 704

Quarter ended ("current quarter")

30 June 2014

COMPANY NO.

1-63551

**Consolidated statement of cash flows**

		Current quarter USD \$'000	Year to date (6 months) USD \$'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(833)	(2,123)
	(b) development	(70)	(161)
	(c) production	-	-
	(d) administration	(380)	(757)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	5	14
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (J/V Operator Fee income)	63	103
		(1,215)	(2,924)
<b>Net Operating Cash Flows</b>			
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-

1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (receipt of back costs pursuant to PPL 437 farmin agreement)	-	300
		-	300
	<b>Net investing cash flows</b>		
1.13	Total operating and investing cash flows (carried forward)	-	-
1.13	Total operating and investing cash flows (brought forward)	(1,215)	(2,624)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
		-	-
	<b>Net financing cash flows</b>		
	<b>Net increase (decrease) in cash held</b>	(1,215)	(2,624)
1.20	Cash at beginning of quarter/year to date	5,100	6,459
1.21	Exchange rate adjustments to item 1.20	49	99
1.22	<b>Cash at end of quarter</b>	3,934	3,934

**Note:** Payments for exploration activity relate principally to costs for the Tingu well in PRL 21.

### Payments to directors of the entity and associates of the directors

### Payments to related entities of the entity and associates of the related entities

		Current quarter
		USD \$'000
1.23	Aggregate amount of payments to the parties included in item 1.2	20
1.24	Aggregate amount of loans to the parties included in item 1.10	-



1.25 Explanation necessary for an understanding of the transactions

These payments represent Non-executive Directors Fees.

### Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

-

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

-

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available USD \$'000	Amount used USD \$'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	USD \$'000
4.1 Exploration and evaluation	1100
4.2 Development	500

4.3	Production	-
4.4	Administration	350
<b>Total</b>		<b>1,950</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter USD \$'000	Previous quarter USD \$'000
5.1	Cash on hand and at bank	3,934	5,100
5.2	Deposits at call*	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>3,934</b>	<b>5,100</b>

\* Removed from Reconciliation of Cash to ensure consistency with 2013 Audited Financial Statements.

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-



### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)	Nil			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>+Ordinary securities</b>	245,519,138	245,519,138		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Release from escrow	-	-		
7.5	<b>+Convertible debt securities</b> (description)	Nil			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	1,500,000 600,000		Exercise price \$0.50 K1.10	Expiry date 20 December 2015 3 May 2016

7.8	Issued during quarter	Nil	Nil		
7.9	Exercised during quarter	Nil	Nil		
7.10	Expired during quarter	Nil			
7.11	<b>Performance Shares</b> (totals only)	Nil	Nil		
7.12	<b>Unsecured notes</b> (totals only)				

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: Richard Schroder..... Date: .....24/07/14.....

(Managing 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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.



5       **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.