



A company registered in British Virgin Islands

30 September 2020

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## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD: 1<sup>st</sup> July 2020 to 30<sup>th</sup> September 2020**

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Kina has been advised that its request of suspension of work obligations for all its operated licences has been approved by the PNG Department of Petroleum and Energy (DPE). All work commitments will be suspended from September this year. Due to the lack of activity and the difficulty in travelling to PNG at the present time Kina is looking to minimise forward expenditure, preserve its cash and cut overheads until the investment environment improves.

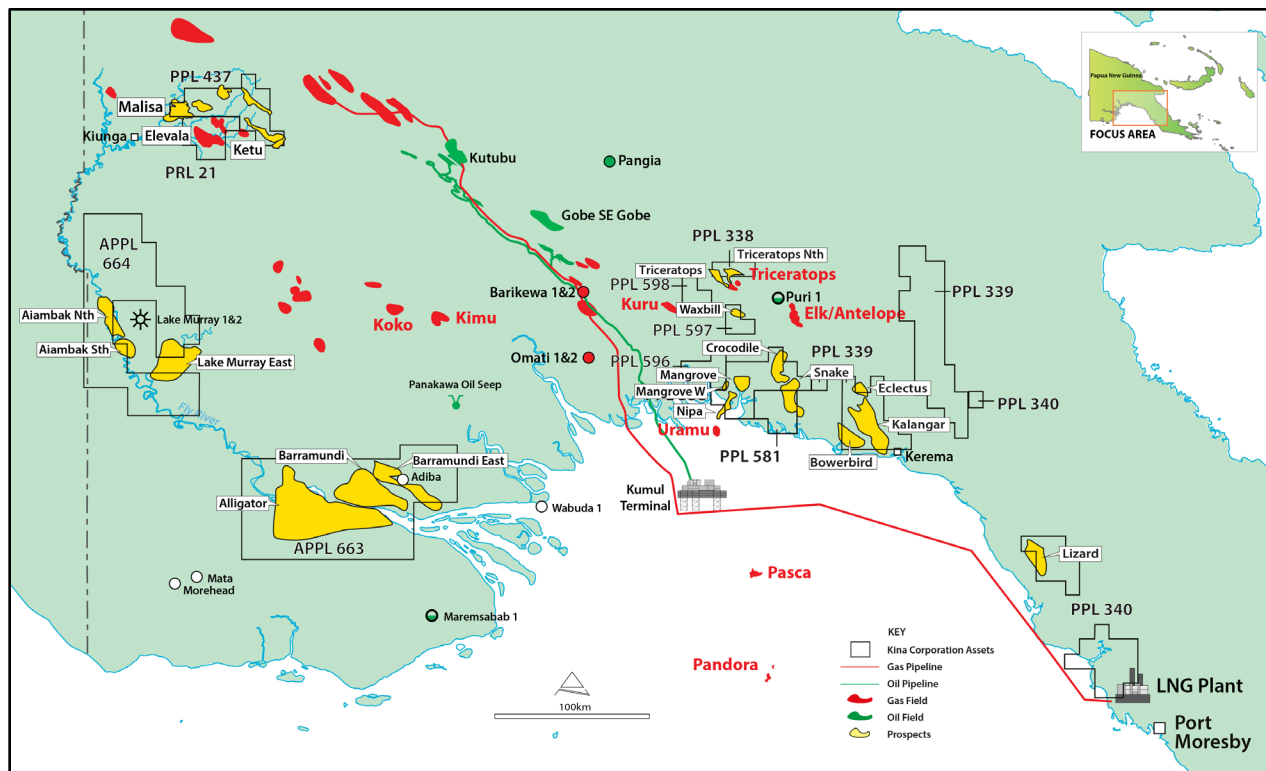
### **Summary for the Quarter:**

- **PRL 21** – JV work is suspended pending advice of the DPE on our Petroleum Development Application.
- **PPLs 338, 581, 596, 597 & 598** – KPE has completed its assessment of Mangrove Snake Cluster (MSC). MSC is located in a low-cost operating environment with finding and development costs in the lowest quartile once the investment climate improves. All non-essential work is suspended for 12 months.
- **PPL 339** – The licence is on care and maintenance with field work suspended. Kina received US\$1.48m comprising some cash and reimbursement of recent costs as a consequence of its farm out to Santos.
- **PPL 340** – In view of the decision to surrender the licence all work has ceased on the licence.
- **APPL 663 & 664** – Kina has lodged applications for APPLs 663 and 664 which have been gazetted and we wait for their consideration by the Petroleum Advisory Board and the Minister.
- **PPL 437** – Malisa Prospect is ready to drill. An extension for the licence has been submitted to the DPE for consideration.

### **Company, PNG and Industry Outlook**

Kina Petroleum Corporation (ASX: KPE) has, at the end of this period, a participating interest in Petroleum Retention Licence ("PRL") 21 and in eight exploration licences ("PPLs") across PNG. Kina's applications for APPLs 663 and 664 covering a reduced area of south west PNG have been gazetted.

***Map of KPE's licence areas***

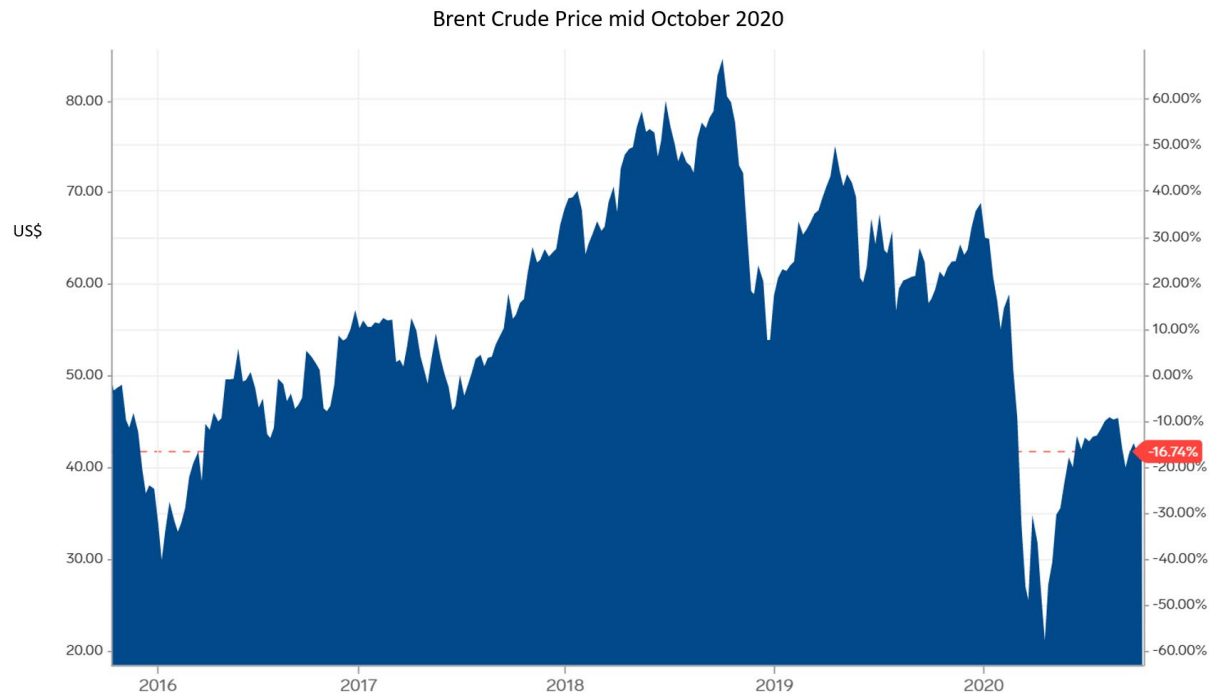


***Overview of the Current Global Oil and Gas Industry Environment***

Kina has a significant certified resource in PRL 21 with Kina's share being 8.4 million barrels of liquids and 168 billion cubic feet of gas but there is no immediate prospect of development in the prevailing oil price environment and increased uncertainty over the fiscal regime that will apply to new field developments.

In view of the prevailing investment environment Kina will cut its cost base further and reduce its obligations to preserve its most valuable assets.

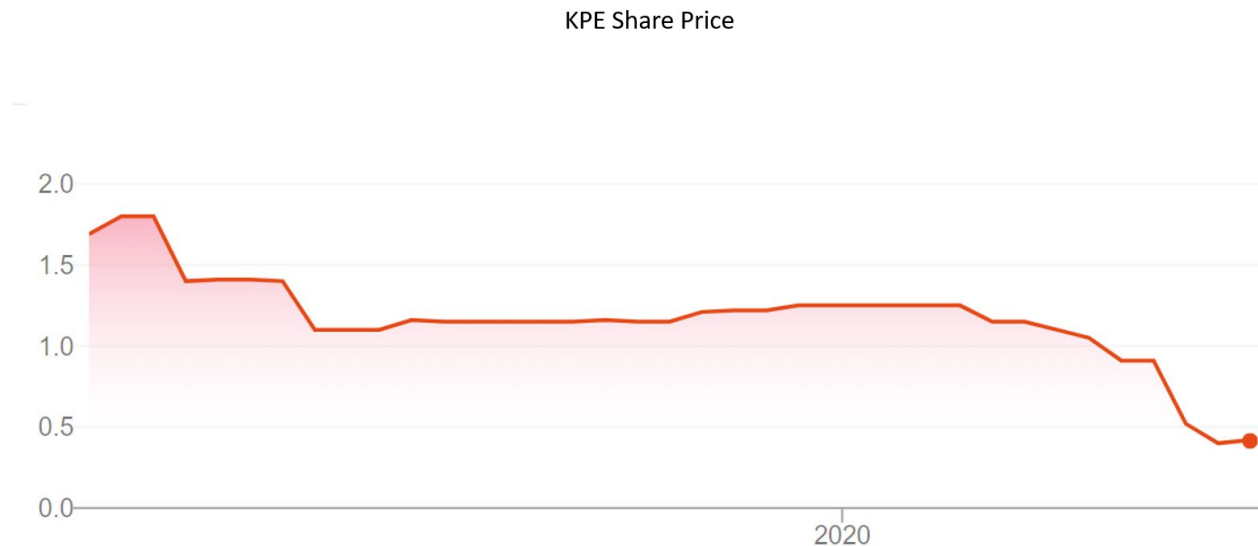
The Covid-19 pandemic has had a devastating impact on the global economy and energy demand. Economic activity remains depressed and the oversupply of oil and gas will continue to depress energy prices while travel restrictions persist. It is Kina's belief that this will remain the status quo until a vaccine is developed and travel can resume. Optimistic forecasts for a vaccine are mid- end 2021.



The Brent oil price remains around US\$40/bbl as at the time of reporting and is likely to flat line through to at least mid-2021. Fortunately, Kina's principal asset is economic at this price but a series of amendments targeting the mining, oil and gas industries by the PNG Government has increased uncertainty over development of new projects in PNG.

On 10 June 2020, the Parliament of PNG passed the Mining (Amendment) Bill 2020 - the Amendments introduce a 'live data' reporting obligation and give State entities priority in tenement applications over 'reserved land'. These amendments will give the Minister greater flexibility in determining whether to grant or refuse petroleum development licences and affect the sanctity of petroleum agreements and gas agreements. Should petroleum production under a PDL proposal be deemed of 'national significance', the Minister may impose a 'minimum expected level of return' for the State on the licensee. What the level of return might be, how it would be calculated and how it would be enforced are not prescribed in the O&G Amendments and as APDL 12 has not yet granted there is now greater uncertainty over its viability.

The current KPE share price is A\$0.42 well down from the high of A\$1.26 only 12 months ago. The fall very much tracks the oil price which collapsed first quarter this year. KPE's market capitalisation is A\$5.33m well below the value of its asset base but reflects the uncertainty now surrounding development of the asset. KPE has US\$2m cash at hand.



Management has successfully reduced forward going obligations for the next 12 months. However, Kina's survival is very much dependent on ensuring that the company remains viable and retains its key assets for when the upswing occurs.

KPE's Board is addressing all options to reduce costs/overheads and maintain corporate viability for the next 12 to 18 months of uncertainty. We are fortunate to have no debt but will need to cut costs and overheads further.

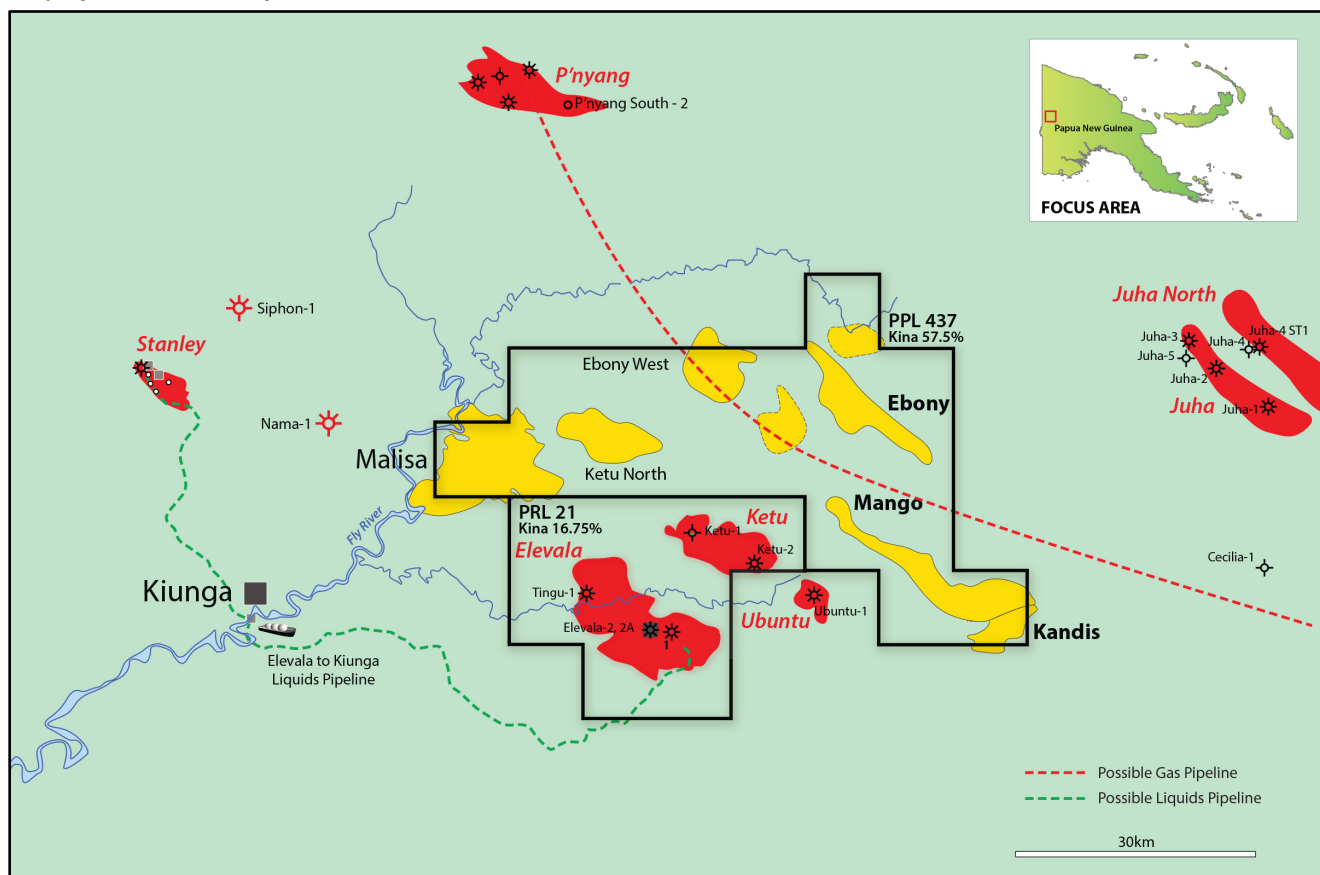
**PRL 21 (KPE interest 16.75%)**

The field contains Kina 48 million barrels and 1 trillion cubic feet, net 8.4 million barrels and 168 bcf gas to Kina.

KPE has completed its own Plan of Development using approaches similar to those likely to be adopted for APDL 10 and we continue to review further cost saving options. Our modelling shows the project is economic at US\$40/bbl going forward because of its location and it will fall in the lowest quartile of development cost options once demand improves. Our development plan envisages reinjection of gas during the liquids stripping phase of production. These gas reinjection wells will give us optionality for later carbon capture and storage once the later gas production commences.

For the present though we continue to await advice from the DPE on the PDL 12 development Plan and timing of start up for the project remains under a cloud due to restrictions imposed by Covid-19 pandemic.

Map of PRL 21 and adjacent PPL 437 licence areas



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

This area remains our most mature and best understood exploration asset. Kina has identified 5 significant prospects Nipa, Mangrove, Mangrove West, Snake, and Crocodile in the Mangrove Snake Cluster (“MSC”) located on the coast in Gulf Province only 285km from Port Moresby. Kina owns 100% of these licences and considers them very attractive exploration assets which will add considerable value once confidence returns to our industry.

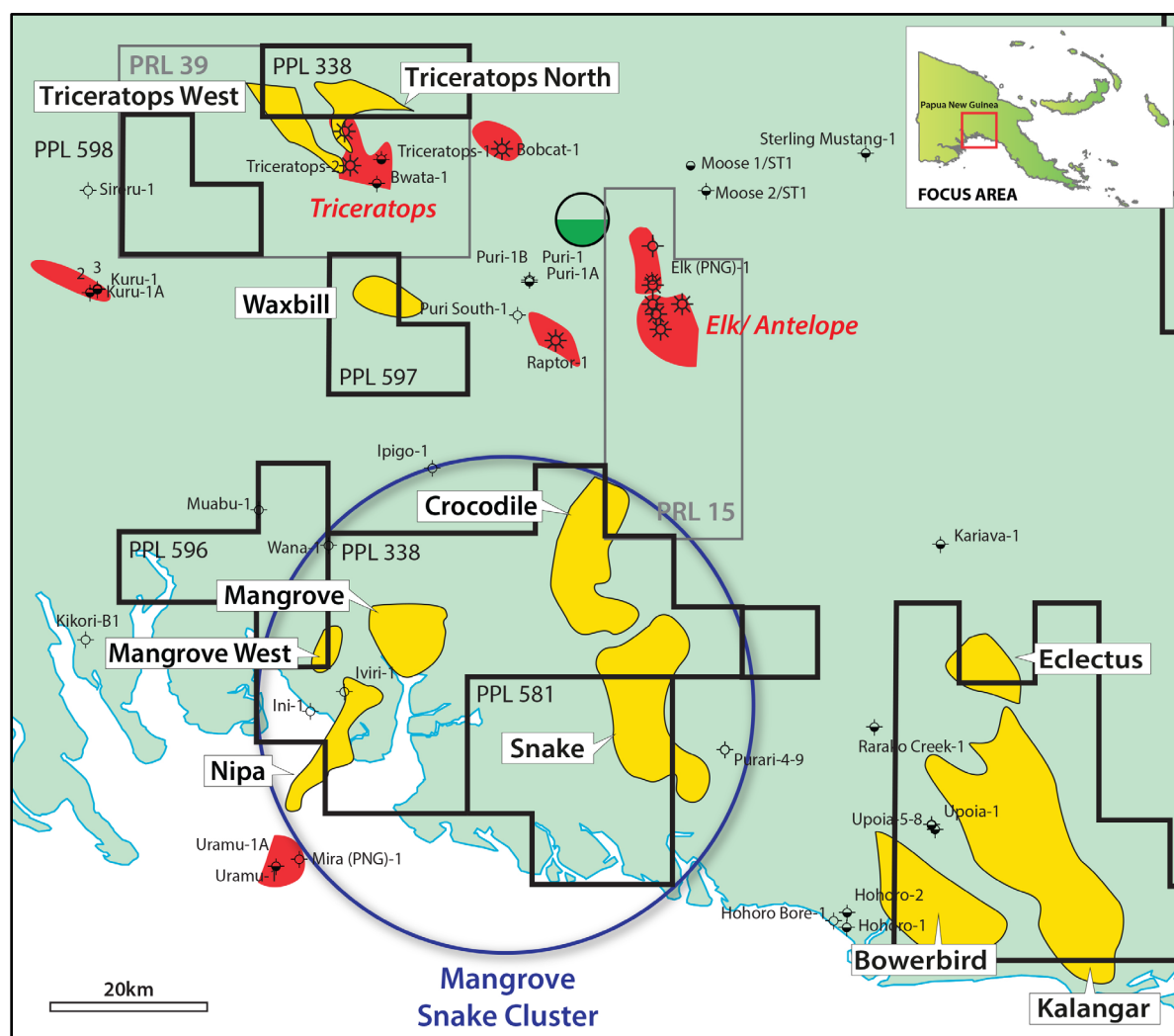
KPE has completed its assessment of MSC in PPL 338; Mangrove West in PPL 596 with Snake which extends south into PPL 581. The attractiveness of the MSC is greatly enhanced by its location on the coastline of Gulf Province. The prospects have good access to the coast via the Port Romilly estuary and Purari Rivers with Nipa and Mangrove located on the bank of the estuary and Snake and Crocodile located on the bank of the Purari River. Ease of access significantly improves their attractiveness by reducing operating, drilling and development costs to levels very much lower than those for the Elk Antelope Field or the offshore Uramu Field.

Waxbill lead in PPL 597 remains attractive at a depth of 2,100m but is more remote than MSC and any future work is very much dependent on success at MSC.

Triceratops North and Triceratops West lie in the northern part of PPL 338 very close to Triceratops 3 which tested hydrocarbons at surface, but they are located in a rugged isolated area which reduces their commercial attractiveness particularly at current oil prices.

Although the licences are on care and maintenance while the licence obligations are suspended the work completed to date makes the MSC commercially attractive once external conditions improve. The MSC finding and development costs fall into the lowest quartile and will prove highly attractive once farm out market conditions improve.

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



#### PPL 339 (KPE Interest: 10 %\*)

The licence was extended for a further 5 years effective 31 October 2019.

Work to date demonstrates the Kalangar/Electus (K/E) and Bowerbird Leads as attractive for follow-up.

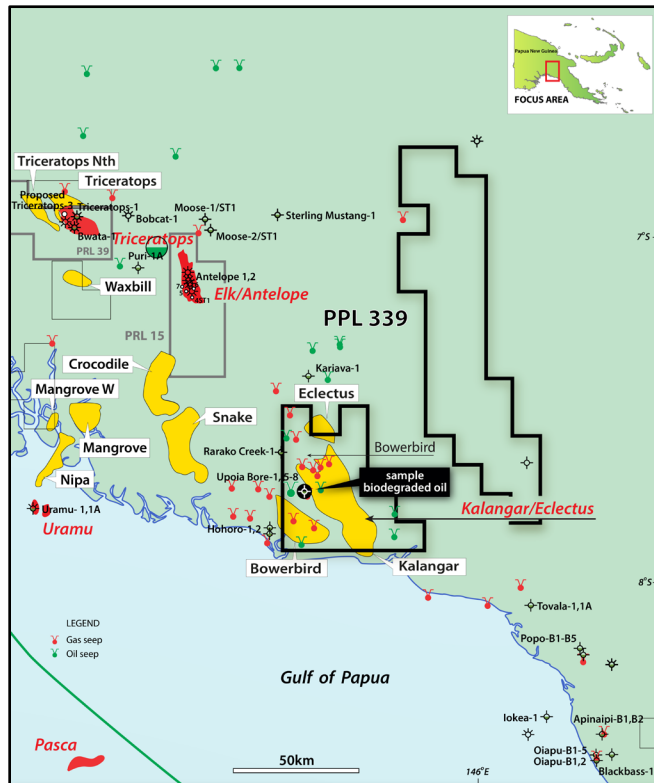
They lie along a structural ledge that extends north westerly towards Antelope but are located much closer to the coast where exploration and development costs will be lower than those at Elk Antelope.

KPE is non-operator and to avoid pressure on our limited cash reserves has farmed out forward exploration field obligations to Santos. Santos will carry KPE through its forward work obligations up to a cap of US\$9m. The farm out arrangement included a cash payment and some reimbursement of sunk costs totalling US\$1.48m. Kina will retain a residual (10%) participating interest in the licence at the time of drilling the first well with that 10% share fully carried, up to an agreed amount, pursuant to its pre-existing farm out agreement with Oil Search.

Looking forward the joint Venture has received a suspension of its work obligations in the licence over the next 12 months because of the Covid-19 crisis.

\*subject to farm out agreement with Santos

*Map of PPL 339 Licence Area*



#### **PPL 340 (KPE Interest: 100%)**

As reported last quarter KPE has downgraded this licence and KPE is preparing a relinquishment report for the licence.

### Map of PPL 340 licence area

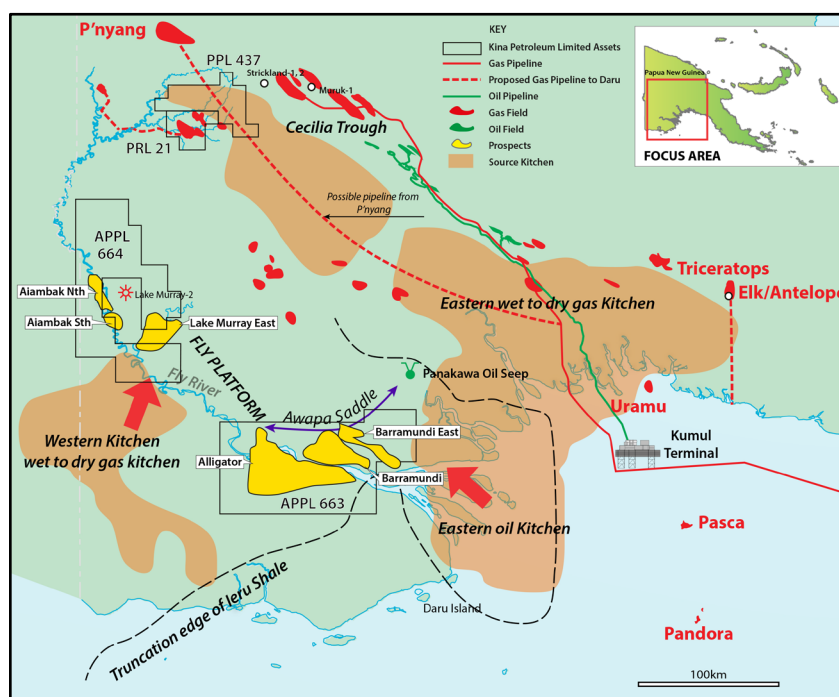
### PPL 435 and 436 (APPL 663 & 664) (KPE Interest: 100%)

As previously advised Kina recognises several large structural leads located along the Fly River. The new licences are smaller than the previously held areas and the applications are consistent with KPE's strategy to remain focussed on areas where early and cost-effective production can be achieved.

Alligator, Barramundi, Lake Murray East and Aiambak Leads are less mature than MSC in PPL 338 and have long term exploration objectives.

Our applications have been gazetted but KPE has no line of sight as to when the applications will be considered as new applications will not be addressed until the amendments to the new Oil & Gas Act are passed by parliament.

*Map of the PPL 435 & 436 (APPL 663 & 664) licence areas (showing proximity to forelands, discovered Western Province resources and key geological features)*



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

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

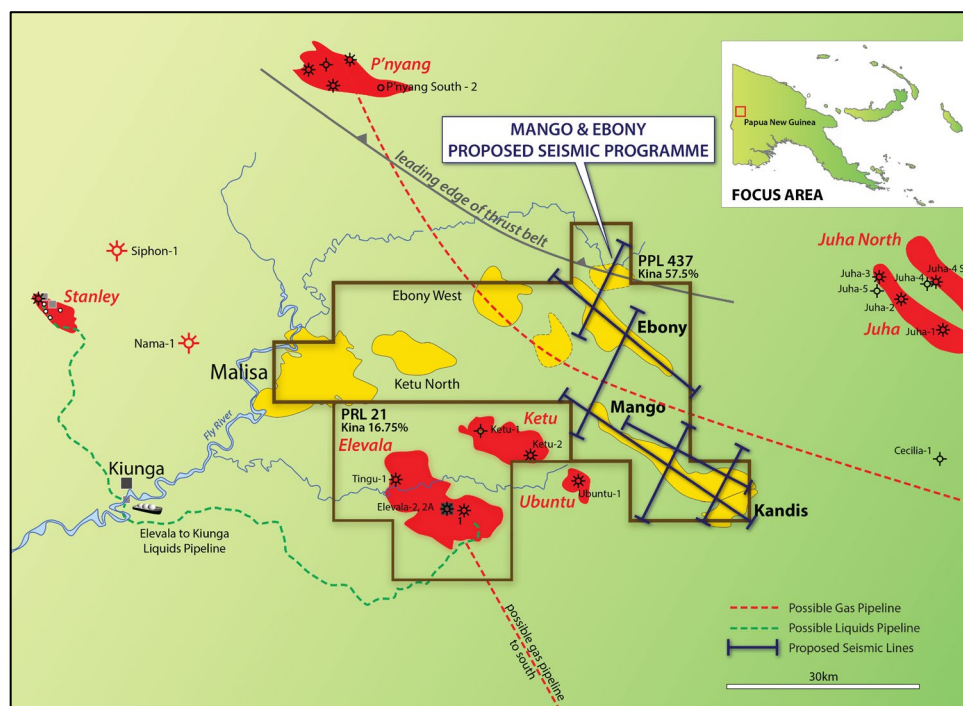
Malisa is drill ready and Kina had been engaged in discussions with potential farminees until negotiations stopped due to complications arising from the Covid-19 pandemic.

Malisa Prospect is an attractive wet gas target adjacent to and northwest of the Elevala and Ketu Fields. Malisa is close to a barge point and is suitable for a road transportable drilling operation. Malisa is only 44km from Kiunga and in the event of success a low-cost development plan could be applied to develop a discovery at Malisa like the plan Kina is proposing for PRL 21.

In the east of the licence Ebony and Mango Prospects require additional seismic control to confirm their trap integrity.

Kina has filed for an extension of the licence.

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



## Appendix 5B

### Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Kina Petroleum Corporation

ABN

30 151 201 704

Quarter ended ("current quarter")

30 September 2020

| Consolidated statement of cash flows |                                                       | Current quarter<br>\$US'000 | Year to date (9<br>months)<br>\$US'000 |
|--------------------------------------|-------------------------------------------------------|-----------------------------|----------------------------------------|
| <b>1.</b>                            | <b>Cash flows from operating activities</b>           |                             |                                        |
| 1.1                                  | Receipts from customers                               | -                           | -                                      |
| 1.2                                  | Payments for                                          |                             |                                        |
|                                      | (a) exploration & evaluation (if expensed)            | 518                         | (68)                                   |
|                                      | (b) development                                       | -                           | -                                      |
|                                      | (c) production                                        | -                           | -                                      |
|                                      | (d) staff costs                                       | (84)                        | (290)                                  |
|                                      | (e) administration and corporate costs                | (68)                        | (251)                                  |
| 1.3                                  | Dividends received (see note 3)                       | -                           | -                                      |
| 1.4                                  | Interest received                                     | -                           | -                                      |
| 1.5                                  | Interest and other costs of finance paid              | -                           | -                                      |
| 1.6                                  | Income taxes paid                                     | -                           | -                                      |
| 1.7                                  | Government grants and tax incentives                  | -                           | -                                      |
| 1.8                                  | Other (provide details if material)                   | -                           | -                                      |
| <b>1.9</b>                           | <b>Net cash from / (used in) operating activities</b> | <b>366</b>                  | <b>(608)</b>                           |
| <b>2.</b>                            | <b>Cash flows from investing activities</b>           |                             |                                        |
| 2.1                                  | Payments to acquire:                                  |                             |                                        |
|                                      | (a) entities                                          | -                           | -                                      |
|                                      | (b) tenements                                         | -                           | -                                      |
|                                      | (c) property, plant and equipment                     | -                           | -                                      |

| Consolidated statement of cash flows |                                                       | Current quarter<br>\$US'000 | Year to date (9<br>months)<br>\$US'000 |
|--------------------------------------|-------------------------------------------------------|-----------------------------|----------------------------------------|
|                                      | (d) exploration & evaluation (if capitalised)         |                             | -                                      |
|                                      | (e) investments                                       | -                           | -                                      |
|                                      | (f) other non-current assets                          | -                           | -                                      |
| 2.2                                  | Proceeds from the disposal of:                        |                             |                                        |
|                                      | (a) entities                                          | -                           | -                                      |
|                                      | (b) tenements                                         | 825                         | 825                                    |
|                                      | (c) property, plant and equipment                     | -                           | -                                      |
|                                      | (d) investments                                       | -                           | -                                      |
|                                      | (e) 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)                   | -                           | -                                      |
| 2.6                                  | <b>Net cash from / (used in) investing activities</b> | <b>825</b>                  | <b>825</b>                             |

|           |                                                                                         |          |          |
|-----------|-----------------------------------------------------------------------------------------|----------|----------|
| <b>3.</b> | <b>Cash flows from financing activities</b>                                             |          |          |
| 3.1       | Proceeds from issues of equity securities (excluding convertible debt securities)       | -        | -        |
| 3.2       | Proceeds from issue of convertible debt securities                                      | -        | -        |
| 3.3       | Proceeds from exercise of options                                                       | -        | -        |
| 3.4       | Transaction costs related to issues of equity securities or convertible debt securities | -        | -        |
| 3.5       | Proceeds from borrowings                                                                | -        | -        |
| 3.6       | Repayment of borrowings                                                                 | -        | -        |
| 3.7       | Transaction costs related to loans and borrowings                                       | -        | -        |
| 3.8       | Dividends paid                                                                          | -        | -        |
| 3.9       | Other (provide details if material)                                                     | -        | -        |
| 3.10      | <b>Net cash from / (used in) financing activities</b>                                   | <b>-</b> | <b>-</b> |

| Consolidated statement of cash flows |                                                                              | Current quarter<br>\$US'000 | Year to date (9 months)<br>\$US'000 |
|--------------------------------------|------------------------------------------------------------------------------|-----------------------------|-------------------------------------|
| <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                             | 809                         | 1,783                               |
| 4.2                                  | Net cash from / (used in) operating activities (item 1.9 above)              | 366                         | (608)                               |
| 4.3                                  | Net cash from / (used in) investing activities (item 2.6 above)              | 825                         | 825                                 |
| 4.4                                  | Net cash from / (used in) financing activities (item 3.10 above)             | -                           | -                                   |
| 4.5                                  | Effect of movement in exchange rates on cash held                            | -                           | -                                   |
| <b>4.6</b>                           | <b>Cash and cash equivalents at end of period</b>                            | <b>2,000</b>                | <b>2,000</b>                        |

|            |                                                                                                                                                                             |                             |                              |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------------------|
| <b>5.</b>  | <b>Reconciliation of cash and cash equivalents</b><br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter<br>\$US'000 | Previous quarter<br>\$US'000 |
| 5.1        | Bank balances                                                                                                                                                               | 2,000                       | 809                          |
| 5.2        | Call deposits                                                                                                                                                               | -                           | -                            |
| 5.3        | Bank overdrafts                                                                                                                                                             | -                           | -                            |
| 5.4        | Other (provide details)                                                                                                                                                     | -                           | -                            |
| <b>5.5</b> | <b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>                                                                                            | <b>2,000</b>                | <b>809</b>                   |

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

| Current quarter<br>\$US'000 |
|-----------------------------|
| -                           |
| -                           |

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Non-Executive Directors Fees

|           |                                                                                                                                                                                                                                                    |                                                                  |                                                     |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------|
| <b>7.</b> | <b>Financing facilities</b><br><i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i><br><br><i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i> | <b>Total facility<br/>amount at quarter<br/>end<br/>\$US'000</b> | <b>Amount drawn at<br/>quarter end<br/>\$US'000</b> |
| 7.1       | Loan facilities                                                                                                                                                                                                                                    | -                                                                | -                                                   |
| 7.2       | Credit standby arrangements                                                                                                                                                                                                                        | -                                                                | -                                                   |
| 7.3       | Other (please specify)                                                                                                                                                                                                                             | -                                                                | -                                                   |
| 7.4       | <b>Total financing facilities</b>                                                                                                                                                                                                                  | -                                                                | -                                                   |

|                                                                 |   |
|-----------------------------------------------------------------|---|
| 7.5 <b>Unused financing facilities available at quarter end</b> | - |
|-----------------------------------------------------------------|---|

|     |                                                                                                                                                                                                                                                                                                                                             |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.6 | Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. |
|     |                                                                                                                                                                                                                                                                                                                                             |

| 8.  | Estimated cash available for future operating activities                      | \$US'000 |
|-----|-------------------------------------------------------------------------------|----------|
| 8.1 | Net cash from / (used in) operating activities (Item 1.9)                     | 366      |
| 8.2 | Capitalised exploration & evaluation (Item 2.1(d))                            | -        |
| 8.3 | Total relevant outgoings (Item 8.1 + Item 8.2)                                | 366      |
| 8.4 | Cash and cash equivalents at quarter end (Item 4.6)                           | 2,000    |
| 8.5 | Unused finance facilities available at quarter end (Item 7.5)                 | -        |
| 8.6 | Total available funding (Item 8.4 + Item 8.5)                                 | 2,000    |
| 8.7 | <b>Estimated quarters of funding available (Item 8.6 divided by Item 8.3)</b> | 5.46     |

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

## 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.

Date: 30<sup>th</sup> October 2020



Authorised by:

Richard Schroder  
**CEO and Managing Director**

Authorised for release by the board.

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.