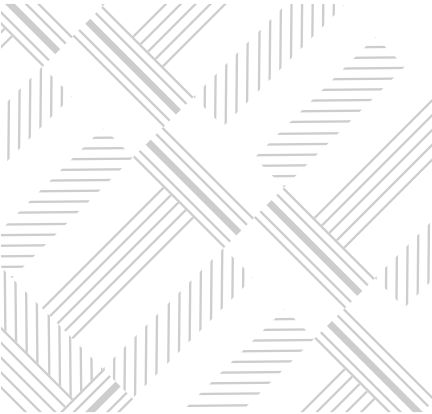




**PETROMIN**  
PNG HOLDINGS LIMITED





## HIGHLIGHTS OF PETROMIN’S CONTRIBUTION

### 1. Tax payment

Petromin has been paying Taxes since its inception in 2007. As of December 2012, Petromin has paid K226.6 million in taxes to the State, comprising of K25.7m in Group Tax, K2.4m in infrastructure tax credit schemes and K33.2m in royalty and development levy.

### 2. Dividend payment

Petromin’s beneficiary is the Independent State of Papua New Guinea and annual dividends are paid to the State. Petromin has been declaring and paying dividends since its first Annual General Meeting in 2008. A total cumulative dividend of K8.35 million has been paid by the Company.

### 3. Total asset growth

The Company is highly accountable to its shareholders, ultimately the people of Papua New Guinea. Petromin has been responsible for developing and maintaining financial control systems with an efficient budget structure and expenditure controls. From a small funding of K200,000 in 2007, the company’s total assets have expanded to more than K317 million as at 31st December, 2012.

### 4. Unique shareholder structure expected to be emulated in the proposed Kumul entities

The Petromin structure has been tested and has worked well in many respects. Under the Petromin Trust, the Prime Minister is the legal owner of the one issued share in Petromin, holding that share on trust for the benefit of the State. The Trustee Shareholder has all the usual powers of shareholder but cannot exercise his/her shareholding power independently of the Manager of the Petromin Trust. One of the major factors for creating this unique corporate structure is to minimize political interference which is one of the main impediments of growth within State businesses and enterprises. Hence, similar arrangement is expected to be emulated in the proposed Kumul entities in the near future.

### 5. Recruitment of specialised expertise

Petromin’s people are its most important assets. For that reason, the company has recruited highly skilled and experienced individuals with working knowledge of their respective industries. The company has recruited staff with specialist skills and knowledge in various fields such as LNG Business, Oil and Gas Project Evaluation and Analysis, Oil and Gas Exploration and Production, Mining Management and Operations, Minerals Exploration and Production, Minerals Project Evaluation and Analysis, Legal and Contracts for Oil, Gas and Mining, Commercial, Accounting and Financing, HR Skills and Community Relations.

### 6. Graduate trainees

Petromin initially began recruiting under its two year Graduate Training Program in 2008. The batch of Graduate Trainees is from various fields including law, economics, finance, community relations, engineering, geology and geophysics. To date, Petromin has recruited 17 graduates, of which 3 have completed the program and were offered positions to work overseas, 10 have been given permanent positions by the company. Four Graduate Trainees are still undergoing training and yet to complete their programme.

### 7. Holder of large tenements

Since inception in 2007, the Company’s tenement portfolio has expanded from the initially acquired exploration tenements in both the minerals and petroleum sectors. To date, Petromin has 8 mining exploration tenements and 10 petroleum exploration tenements. In addition, Petromin has a Nominee status in all of the Petroleum Retention Licenses (PRLs) and 10% equity position in a PPL.

### 8. Training arrangements

Petromin engineers and geologists have occasionally been sent overseas to undertake training with the company’s international partners such as Shell and JAPEX.

### 9. Software

The Company has acquired certain software for use by staff, particularly by the technical staff including engineers and geologists to interpret and reprocess seismic data and other technical information. The staff are knowledgeable in the utilization of software such as PETREL and KINGDOM.

### 10. Gained respect from potential investors and partners

Petromin, in the conduct of its business, has portrayed a positive image to its potential investors and partners. This has resulted in increasing number of potential investors keen in exploring business opportunities with Petromin.

### 11. Gained respect from financial institutions

The Company has also maintained a good working relationship with the financial institutions it engages with. It is Petromin’s good relationship and effective financial control system and expenditure control that promotes accountability and transparency. There is a high level of trust and understanding from the financial institutions that we have worked with to raise funds for implementation of various projects and activities.

### 12. Gained respect from financial institutions

Petromin built its own office complex within three years of existence. It is an achievement not normally done by newly established companies. The structure was built in a way that it is environmentally friendly as well as importantly, a landmark which is a first of its kind for a national oil, gas and mineral company in Papua New Guinea.

### Disclaimer

The information provided in this Heritage Document is designed to provide useful information on Petromin PNG Holdings Limited’s business through its 5 year existence. The authors are not offering legal, accounting, or other professional services advice. While best efforts have been used in preparing this Heritage Document, the authors make no representations or warranties of any kind and assume no liabilities of any kind with respect to the accuracy or completeness of the contents. The authors shall not be held liable or responsible to any person or entity with respect to any loss or incidental or consequential damages caused, or alleged to have been caused, directly or indirectly, by the information contained herein. Readers should be aware that the information provided in the Heritage Document may change in time or may have changed between the publishing and printing of this document.

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## 1. Background to the Formation Of Petromin

Prior to the establishment of Petromin, Mineral Resources Development Company Limited (MRDC) was responsible for acquiring and managing the equity stake for both landowners and the State in mining and petroleum projects. However, under the Petromin PNG Holdings Limited Authorisation Act 2007 (the Petromin Act) the Government removed MRDC's responsibility to manage the State's equity in resource projects and vested this responsibility with the State Nominee, Petromin. MRDC currently manages the landowners and the Provincial Government's equity in the mineral and petroleum projects.

*“...c) The Committee recommends that [Petromin] be established by law and be given a very well defined mandate.*

In June of the same year, the company was publicly launched and the Interim Board was appointed, under the Chairmanship of Sir Brown Bai, by the Prime Minister then as Trustee Shareholder.

### 3. Petromin's Mandate Vision & Mission Statement

#### 3.1 Mandate

Petromin is a 100% State owned Company. Its principal functions as set out in the Petromin Act and the Petromin Constitution is:

- Firstly, to hold State equity or to invest in its own right in mineral, oil and gas projects; and
- Secondly, to develop and commercialize mineral, oil and gas interests in PNG either wholly or in partnership with other investors.

It also has the mandate to acquire and hold all future State interests in petroleum and mineral projects both in the upstream (exploration and production) and in any value-added downstream processing projects; engage in mineral and petroleum exploration, evaluation and development, both upstream and downstream, and participate in the marketing, transportation and sale of minerals & petroleum products.

As required by its Constitution, Petromin has been operating as a commercial enterprise as efficiently as comparable business in Papua New Guinea as well as to maximize the value of its shareholders' investment in the Company.

Through Petromin, the State became more than a mere dividend recipient or rent collector. However, now it has become an entity through which the State could implement its long term vision to directly participate in the development of the country's resources so that the benefits are not only consumed upfront, but turned into profitable and long term investments for future generations.

The Petromin Act and Petromin Constitution also encapsulated Petromin's corporate objectives as follows –

- To operate as a commercial enterprise at least as efficiently as a comparable business (in the resource sector) in PNG.

b) To maximize the value of the Shareholder's investment in the Company through:

- Developing mining and petroleum tenements in PNG acquired from the State and others, whether directly or as a nominee of the State; and
- Reinvesting in socially responsible projects which would benefit society and make a profitable return to shareholders.

c) To engage in mineral and petroleum exploration, evaluation and development, both upstream and downstream, and in the marketing, transportation and sale of minerals and petroleum products.

d) To operate in accordance with principles of sustainable development, international best practices and taking account of environmental considerations.

e) To operate with a sense of social responsibility towards the best interests of affected communities.

f) To do all such things in pursuance of these objectives, anywhere in the world, whether alone or with others, as principal agent, contractors, trustee, Joint Venture partner, and regardless of whether through agents, sub-contractors, trustees, or otherwise.

#### 3.2 Vision and mission statement

Consistent with its Mandate, Petromin's Vision and Mission Statement were then established, providing guidance and foundation in the conduct of its business as follows:

*Vision:* Participation by all Papua New Guineans in the ownership and development of our oil, gas and mineral resources through profitable partnerships for our future prosperity.

*Mission:* To generate and effect asset acquisitions and investments and efficiently manage shareholder interests in petroleum and mineral resources through ownership and revenue gains, including reinvesting in profitable revenue generating projects, for the collective benefit of society and thereby deliver profitable returns to the shareholders.

Petromin's Corporate Strategy and Business Plan were formulated on the basis of its statutory mandate, Vision and Mission Statement.

### 4. Petromin Business Plan

Petromin conducts its business in accordance with the approved Business Plan (Plan) which guides the Company in terms of its focus and resource allocation priorities.

The Business Plan reflects on the foundation statements and objectives set out in the Company's Corporate Strategy, Constitution, Vision and Mission Statement. The Plan has been altered with the concurrence of the Board of Directors as economic, political or investment conditions change. Because Petromin operates in a dynamic and ever-changing environment, priorities may be altered, with the approval of the Board, throughout any year.

Petromin formerly since its inception had a three year plan. However, the Company in 2012 decided to opt for a five year term covering the period 2012 to 2017.

The Plan brings together the company's goals, plans, and strategies and identifies the resources available to conduct its business. Moreover, it sets out the various investment opportunities Petromin has identified in the mineral and petroleum sectors. Once evaluated, the Plan prioritizes the capable investment opportunities and allocates appropriate resources.

The Business Plan, amongst other things, intends to ensure that:

- Petromin focuses on projects or opportunities that it has identified, prioritized and for which it has available resources;
- Petromin management keeps track of all stages of project development;
- It creates benchmarks against which the management can measure progress of the investment opportunities;
- It reveals the amount of capital required to help finance the investment opportunities Petromin has identified and prioritized; and
- Each Division and individual within Petromin is held accountable for performance.

Priorities are established having regard to the likelihood of success, the resources that the company can make available, investment repayment period, profitability and the lead time to the receipt of revenues from an investment.

*Priority 1 projects or activities* are those which must be undertaken in the nominated year and it is these projects to which the Company's available resources are allocated.

*Priority 2 projects or activities* are those which have a high degree of probability of requiring resource allocation in the nominated year and for which provision

may be made to fund specific activities if resources permit.

*Priority 3 projects or activities* are those which could require attention and resources if financial circumstances permit. More generally these are projects which have long lead times and which, within the foreseeable future can be managed adequately as part of the day-to-day activities of the relevant Divisions.

Resource allocation is critical to implementing the Plan. The Company must have systems and processes as well as financial and human resources allocated in an efficient and timely manner. Sound Corporate Governance and an effective Board are critical success factors which should guide and support the Company's approved Plan.



Founding MD & CEO Joshua Kalinoe, CSM, CBE



Chairman Sir Brown Bai presenting first dividend payment of K5 million to former Trust Manager Peter Pokawin and former shareholder and Prime Minister Sir Michael Somare

Since its creation in 2007, the Company has established an up-to-date Accounting Function, IT System, Human Resources systems, marketing, Risk Management policy and processes, and investment functions to assist Petromin maximize the value and returns on its assets.

Furthermore, the Company has improved its investment evaluation and approval process which is part of this Plan.

Petromin's current financial capabilities are constrained. The Company has only one source of income: the Moran (PDL 5) oil project. The Tolukuma Gold Mine was initially making profit but due to recent circumstances affecting the operation as well as price volatility it has made loss. As a matter of business principles, any company operating in such a manner risks financial failure to an unacceptable degree and places the Board's fiduciary responsibilities in an unenviable situation. Nonetheless, Petromin must manage in this environment and Management and the Board must work to rectify this situation without delay. Petromin is working in consultation with various key stakeholders to manage the situation.

While the Operator of Moran (Oil Search Limited) manages the field with a high degree of expertise, the field is declining. Therefore, it is axiomatic that Petromin must develop additional and substantial sources of revenue.

The challenge faced by Petromin is to manage through to the middle of 2014 when, according to planning by various project operators, Petromin's revenue base will start to diversify and increase.

### 5. Petromin is NOT the State.

In order to fulfil its corporate and statutory objectives, the Petromin Act makes clear that Petromin and its subsidiaries are not the State or an agent or instrumentality of the State for any purpose, including application of sovereign immunity, the Public Finance (Management) Act, the Audit Act, Claims By and Against the State Act, or the IPBC Act.

Further, the Petromin Act requires that Petromin complies with the Companies Act.

The legislation establishes that Petromin's assets and its subsidiaries' assets are not public assets for any purpose, including the Loans and Assistance (International Agencies) Act.

These intentions are reflected in the Petromin Constitution and unique shareholding structure, in order to provide the requisite legal, commercial and operational separation from the State.

However, these provisions are pertinent only in the PNG context. In international law, experience has shown that Petromin is considered to be the State – a view which has significant implications for Petromin's financing and investments in the pursuance of its National mandate.

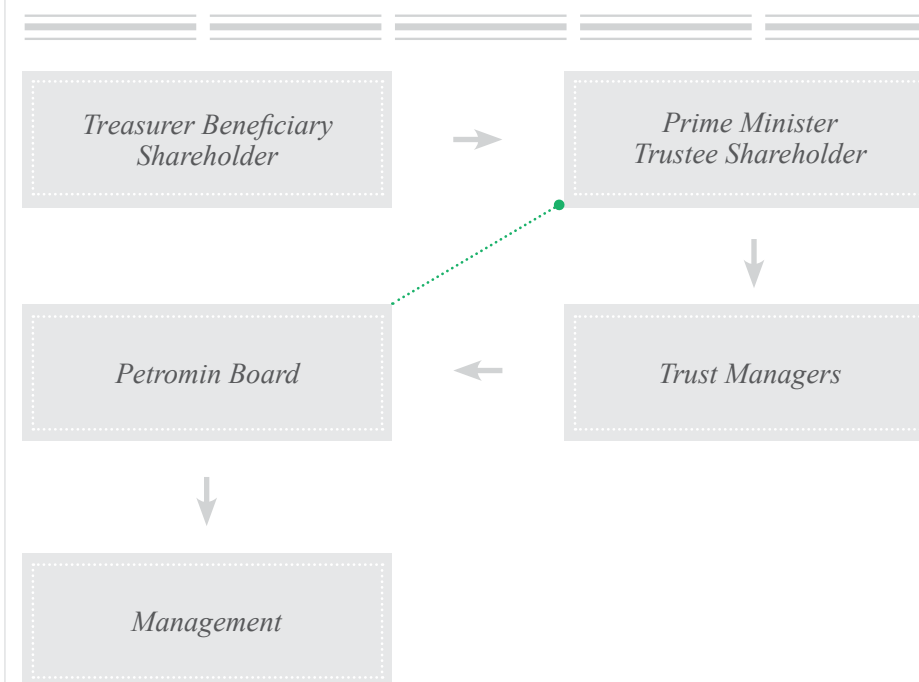


Figure 1: Petromin Corporate Structure

## 6. Corporate Structure

Petromin's corporate structure is set out in figure 1, on the previous page.

### 6.1 Unique Shareholding Structure

Under the Petromin Trust, the Prime Minister is the legal owner of the one issued ordinary share in Petromin, being the only share on issue, holding that share on trust for the benefit of the State, as Beneficial Shareholder. The Trustee Shareholder has all the usual powers of shareholder but cannot exercise his shareholder powers independently of the Manager of the Petromin Trust. All exercise of shareholder powers must be done in accordance with a unanimous resolution of the Manager of the Petromin Trust and must be done in pursuance of the best interests of the State as Beneficial Shareholder.

The Petromin Trust Manager is comprised of three Individual Trust Managers being –

- The President of the PNG Law Society or his nominee.
- The President of Certified Practicing Accountants (PNG) or his nominee.
- The State Solicitor of PNG.
- The Minister for Treasury represents the State, as Beneficial Shareholder in relation to receiving dividends. In this respect, all dividends are paid directly into the Consolidated Revenue Fund by Petromin. The merits of this unique structure are discussed in 6.4.

### 6.2 The Petromin Board & its Committee

The Petromin Board is an independent Board. As required by Petromin Constitution the majority of Directors are PNG citizens who are independent of the State and are relevantly qualified and experienced. All Directors have satisfied the stringent requirements of the Fit & Proper Guidelines for Appointment of Directors adopted by the Trustee Shareholder, through the Petromin Trust Manager. Sir Brown Bai continues as Chairman since launch of the Company in June 2007. The board is responsible under the Companies Act 1997 for the management of the Company, which it facilitates through the appointment of the Managing Director and Chief Executive Officer and Management. The Board reports to the Trustee Shareholder, through the Petromin Trust Manager.

The Board has also established the Finance, Audit & Compliance Committee as a standing Committee. The Finance, Audit & Compliance Committee is primarily responsible for considering and recommending to the full Board whether or not to approve draft audited financial statements, overseeing implementation of the Investment Guidelines, Contracts and Tender Policy and the Risk Management Policy and other duties as delegated by the Board. It is chaired by Director Richard Tengdui a senior registered accountant with CPA PNG.

The Board has established other Committees to advance and enhance its decision-making process. For example the HR & Administration Committee.

#### 6.2.1 Pioneer Board Directors

- Sir Brown Bai, Chairman
- William Searson, Director
- Joshua Kalinoe, Executive Director
- Melvin Yalapan, Executive Director
- George Minjihau, Director
- Kerenga Kua, Director
- Sumasy Singin, Director
- Jerry Wemin, Director

#### 6.2.2 Current Board Directors

##### ***Sir Brown Bai, KBE, CBE, CSM Chairman***

Independent Director, Sir Brown, is a distinguished former Public Servant, including Ambassador to Brussels and the European Community, Secretary for Treasury, Managing Director of PNG Banking Corporation as well as Secretary to the Department of Prime Minister & NEC. Sir Brown has a Bachelor's degree in Economics from the University of Papua New Guinea. He is a private consultant and a director of Hargy Oil Palm Limited and Goodman Fielder (PNG) International. He is also the Chairman of Cargill PNG Holdings Limited and currently Company Secretary for Paracel, a telecommunications company in PNG.



*Current Shareholder,  
Prime Minister Hon. Peter O'Neil, CMG*

##### ***William (Bill) Searson, CBE Director***

Born on 21st April 1950 he is a Geology Graduate from UPNG who has worked in development of the country's minerals and energy industry since early 70's. He was the Secretary for the Department of Minerals & Energy from 1983 to 1990. He has contributed to the development of many mining projects, including Ok Tedi, Misima, and Porgera, and latterly as an independent adviser in the development of Lihir, Simberi, Ramu and Hidden Valley mines.

##### ***Sumasy Singin, OBE Director***

Mr. Singin is a former State Solicitor and served as Principal Legal Advisor to the Office of the Prime Minister, under Sir Michael Somare, Sam Abal and Peter O'Neill from 2002-2011. He has also served as Director of the Law Reform Commission, 2nd Parliamentary Legal Counsel to the National Parliament, First Assistant Secretary Policy and Legal, East Sepik Provincial Government and Director of PNG Dams Ltd. He is a former Chairman of the Independent Public Business Corporation (IPBC) and was previously also Director of the Gas Project Coordination Office. He was educated in the United Kingdom, Canada, Malta, India, South Korea and Australia. He is a Police Reservist, with the rank of Sergeant Major in the Royal Papua New Guinea Constabulary. He is a member of the PNG Law Society. He is currently a member of the University of Technology Council and serves as Papua New Guinea's Consular General in Sydney, Australia.

##### ***Ian Goddard - Director***

Ian Goddard is a non-resident independent Director. He was born on 3 January 1946 and is a Mining Engineer with a distinguished operational and executive management career. He has extensive knowledge and genuine interest in the development of Papua New Guinea and was previously Managing Director and CEO of Highlands Gold Ltd for over 9 years in PNG and was involved in the development of the Porgera gold mine plus leading exploration and pre-feasibility studies for an array of gold and base metal projects including Frieda, Ramu and Kainantu. Mr. Goddard was also a previous President of PNG Chamber of Mines and Petroleum and the PNG Employers Federation as well as

various advisory boards to PNG educational institutions. He has held a number of board and executive positions in various organizations including Metallica Minerals, Morobe Consolidated Gold Fields and the Cooperative Research Centre for Vaccine Technology. He is also an Honorary Fellow of The Australasian Institute of Mining and Metallurgy, a member of the Australasian Joint Ore Reserves Committee, a Member of the Papua New Guinea Institute of Directors and a Fellow of the Australian Institute of Company Directors.

##### ***Jerry Wemin - Director***

Jerry Wemin was born on 17 September 1965 and is a resident independent Director for Petromin. Mr. Wemin is a Founding Member of the PNG Institute of Company Directors and Member of Australian Institute of Company Directors. He is Fellow of the PNG Institute of Management and Fellow of PNG HR Institute. He has a Masters Degree in Development Management (NTU-Aust) and a Bachelor of Arts Degree from University of PNG. He has International Certificates of Distinctions in Total Quality and Human Resource (HR) Management. He also serves in a number of board committees. Mr Wemin is President of the PNG Human Resource Institute and represents the country on the Board of Asia Pacific Federation HRM. He is also Chairman of the Board of Trustees of the PNG TSCF with more than 120 tertiary institutions. Mr. Wemin serves as a Council Member of the University of PNG. He has been appointed Independent Audit Committee Member by the Department of Finance and serves on the Audit Committee of the Department of Works. Mr. Wemin is currently a Human Resource Management (HRM) Specialist and Management Consultant. Previously he was employed as HR Specialist with Air Niugini and became the Group Executive Manager HR for the former PNG Banking Corporation and Finance Pacific Group of Companies. He is a National Training Council approved national trainer. He currently provides consultancy services to Government, NGOS, Multinationals, International Aid Agencies and many prominent PNG based companies.

##### ***Muri Bin Muhammad - Director***

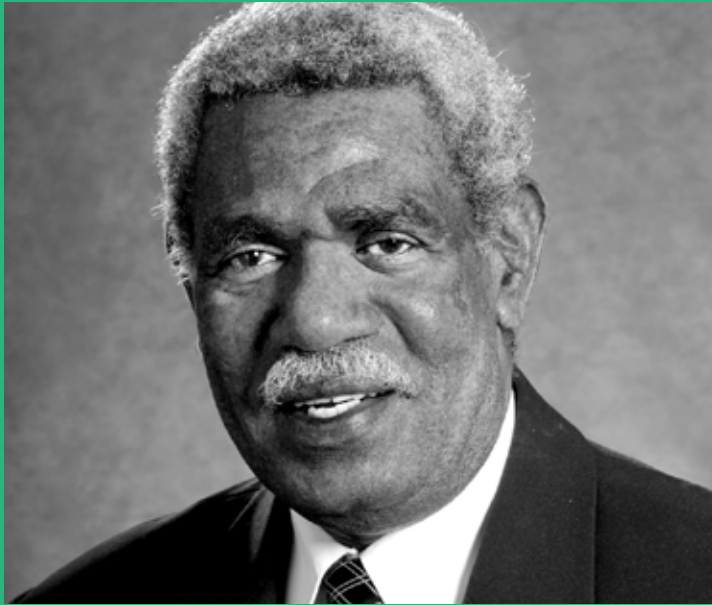
Muri bin Muhammad was born on 18 August 1942 and is a non independent Director. Mr. Muri is from Malaysia and has many years of LNG experience at Board and managerial level. Mr. Muri holds a Master of

Science in Biological Oceanography from Dalhousie University, Halifax, Canada. He joined Petronas in 1975 and after serving for 27 years in various capacities, retired as Vice President, Gas Business of Petronas in 2002. On his retirement, he was appointed Advisor to Gas Business until end of March 2005. He served in various management positions including the Managing Director/ Chief Executive Officer of ASEAN Bintulu Fertilizer Sdn Bhd, Managing Director/ Chief Executive Officer of Malaysia LNG Sdn Bhd and Vice President, Gas Business of Petronas and was also on the Board of various Petronas subsidiaries. In 2005, he was appointed by the Malaysian Government as Energy Commissioner for 4 years. He is currently a Director of a number of gas pipeline companies including, Australian Pipeline Trust (APT), a publicly listed Australian gas pipeline company, Transportadora de Gas del Norte (TGN) and Transportadora de Gas del Mercosur (TGM), both of Argentina.

##### ***Richard Tengdui - Director***

Mr Tengdui is a senior Papua New Guinea Accountant. He was born on 26 November 1959 and is a resident independent Director. He is a registered public accountant, registered company auditor, registered liquidator and registered tax agent. Mr Tengdui has a Bachelor of Accountancy from the PNG University of Technology and a Post Graduate Diploma in Accounting & Financial Management from the University of New England, in New South Wales, Australia. His career as an accountant began in 1981 when he joined Coopers & Lybrand where he was involved in audit accounting, liquidation and taxation matters. He later became the Financial Controller of Timbersales PNG Ltd in Rabaul and he is currently the Principal of Tengdui and Associates Certified Practicing Accountants which he started in 1990. An active member of the Certified Practicing Accountants of PNG, Mr Tengdui has been past president of the PNG Institute of Accountants (now CPA) Lae Branch, and Mt Hagen Branch. He is a Member of the Accountants Registration Board of Papua New Guinea. Mr Tengdui has carried out several successful audits of State owned institutions including the Coffee Industry Corporation, the PNG Forest Authority, the Cocoa Board of PNG and the PNG Medical Research Institute. In the resource industry in Papua New Guinea, Mr Tengdui has experience with Hides Gas Landowner and Ok Tedi Landowner Companies.

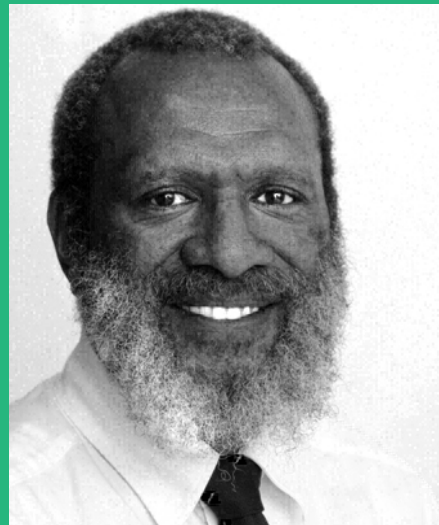
## Pioneer Petromin Board



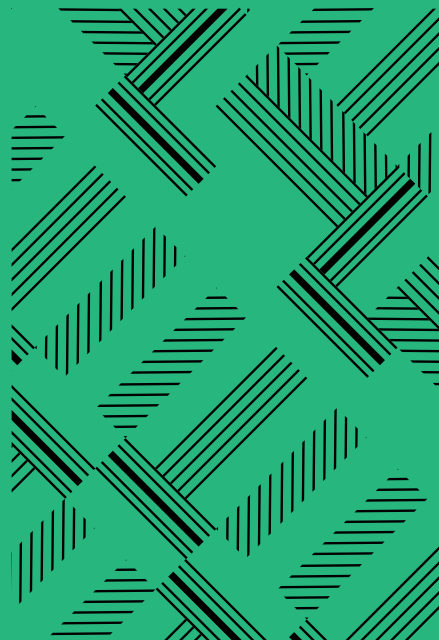
*Joshua R. Kalinoe, CSM, CBE*



*Sir Brown Bai, KBE, CBE, CSM*



*Kerenga Kua, OL, MP*



*Melvin Yalapan*



*Sumasy Singin, OBE*



*George Minjihau*

## Current Petromin Board



*Ian Goddard*



*Muri Bin Muhammad*



*Jerry Wemin*



*Richard Tengdai*



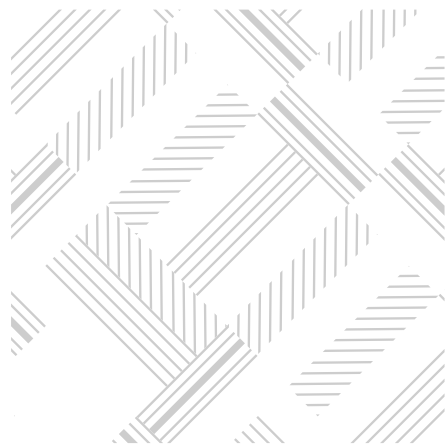
*Sumasy Singin, OBE*



*Sir Brown Bai, KBE, CBE, CSM*



*William (Bill) Searson, CBE*



### 6.3 Petromin Management

Below the Managing Director are two tiers of Management, the General Managers and the line Managers. Together, they are responsible for implementing Board policies, decisions and directions. The Company has recruited well skilled, experienced mining and petroleum geologists, engineers, accountants, economists, lawyers, and other technical officers. They have government and industry experience with some having Masters Degrees and PhDs specializing in mining and petroleum geology, engineering, economics, business, administration and law.

#### 6.3.1 Pioneer Management

- Joshua R. Kalinoe, CSM, CBE  
*Managing Director and CEO*
- Arunava Basu,  
*General Manager, Finance & Corporate Affairs*
- Karo Lelai,  
*Company Secretary*
- Sam Inguba,  
*Manager Government Affairs*
- Stevie Nion,  
*Manager Minerals*
- Bernard Pawih,  
*Manager Petroleum*
- Saki Ipata,  
*Financial Controller*
- Melvin Yalapan,  
*Manager Legal & Contracts*
- Roger Avinaga  
*Manager, Commercial & Strategic Planning*
- Jack Sari  
*Petroleum & Mineral Exploration Manager & Chief Geologist*
- Timboko Pyapeta,  
*Human Resources Manager*

#### 6.3.2 Current Management

##### **Arunava Basu, Bcom, F.C.A**

*Chief Executive Officer  
& Chief Financial Officer*

Arunava Basu has a Bachelor Degree in Commerce from the University of Calcutta, India. He is a chartered accountant and a Fellow Member of the Institute of Chartered Accountants of India and an Associate Member of the Certified Public Accountants of Papua New Guinea. Mr Basu has over 19 years experience and in-depth knowledge of the mining and petroleum industry operations in PNG. He has specific experience in project financing and taxation matters in the industry. Prior to joining Petromin he was formerly the General Manger Corporate Services for Mineral Resources Development Company Limited and prior to that he was the Financial Controller of Orogen Minerals Limited from its inception until it was merged with Oil Search Limited in 2002. He was actively involved in financing Orogen's acquisition of BHP's interest in various PNG oil projects and co-ordinated Orogen's acquisition of twenty percent interest in the Porgera Joint Venture in 1999.

##### **Sam Inguba, QPM, DPS, CBE**

*Chief Executive Officer – TGM & General Manager; Corporate Services*

Sam Inguba was previously the Manager for Government Relations and Public Affairs. After the Board approved the organizational restructure in September, Mr. Inguba was appointed General Manager, Corporate Services. Mr. Inguba has had a distinguished career with the Royal PNG Constabulary and in 2002 was appointed Commissioner of Police and Secretary of Department of Police. He served in both of these positions for four years. He brings to Petromin an extensive network of contacts in all levels of Government and society in general. One of Mr. Inguba's achievements is his involvement in the coordinating of the construction of the newly built Petromin Haus Building in 2010.

##### **Roger Avinaga, BA (Hons), MSc**

*Deputy General Manager, New Ventures  
& Business Development*

Roger Avinaga holds a Master of Petroleum Finance and Taxation from Dundee University, United Kingdom and a Bachelor of Arts (Hons) from UPNG. He has also obtained specialized training Oxford University, England, Imperial College in London and Japan Bank for International Cooperation, Tokyo. He has 19 years of commercial experience in; finance, economics, fiscal, taxation and policy relating to the petroleum and mineral sectors. He is skilled in economic modeling, financial and cash flow analysis, petroleum cost reporting, drafting policies and business plans/strategies. He is also knowledgeable on petroleum and mining project management, gas project and international gas business, petroleum finance and accounting principles, petroleum financial management, international petroleum marketing and petroleum policy management. He has spent over a decade working with the Department of Petroleum and Energy until joining Petromin in 2008 was the Assistant Director for Petroleum Policy and Senior Petroleum Economist.

##### **Bernard Pawih, BSc, MSc**

*Deputy General Manager, Petroleum*

Bernard Pawih has a Master of Science, Geology, from the University of Sydney and a Bachelor of Science, Geology from UPNG. He has 26 years experience as a geologist and in-depth knowledge of the PNG petroleum sector. Mr Pawih was a senior member of the State Technical Team overseeing the PNG Gas Pipeline Project. He is an active member of the American Association of Petroleum Geologists (AAPG) and a member of the PNG Section of the Society of Petroleum Engineers (SPE). He was the acting Secretary of the Department of Petroleum and Energy. He previously served the department as a Deputy Secretary and Director, Petroleum Division.

##### **Lyndah Brown-Kola, BEng**

*Deputy Genral Anager – Minerals*

Lyndah has a bachelor of Mining Engineering from the Papua New Guinea University of Technology. She has over 14 years experience in the mining industry, with a proven track record in managing multiple projects with various stakeholders, as well as operational, design and construction experiences. Prior to being appointed as Manager-mineral projects for Petromin PNG Holdings Limited, she worked with the Mineral Resource Authority (MRA) as Manager for the Technical Assessment Branch. Her responsibilities at the time include, planning and coordinating the operational activities of the branch to achieve the defined objectives defined in the Annual Regulatory Division's work plans required by the Authority. Moreover, Lyndah's experience also comprises having being employed by Lihir Gold Limited for the last 9 years as Plant Metallurgist and within the period progressed to the position of senior projects metallurgist.

##### **Melvin Yalapan, LLB, LLM**

*Manager, Legal And Contracts*

Melvin Yalapan has a Master of Law from the University of Melbourne, specializing in natural resources law and financial transactions law and holds a Bachelor of Law from UPNG. He has a significant wealth of knowledge and experience in PNG oil, gas and mining sectors, practicing as a lawyer both in upstream and financing of PNG resource projects. He has practiced as a commercial lawyer for over 20 years. Mr Yalapan was the senior natural resource lawyer at the State Solicitors Office, Attorney Generals Department before joining MRDC in 1997 as Company Secretary. At MRDC, he was the team leader of the MRDC management team in the acquisition of State's interest in the Gobe Oil project and the sale of twenty percent interest in the Porgera Mine from MRDC to the then Orogen Minerals Ltd. He was a legal consultant to Posman Kua Aisi Lawyers and a lecturer at the School of Law, UPNG and Legal consultant to Posman Kua Aisi Lawyers prior to joining Petromin.

##### **Saki Ipata, BCAC, MBA, ACPAPNG**

*Financial Controller*

Saki Ipata has a Bachelor of Commerce in Accountancy from the PNG University of Technology and MBA from the University of Papua New Guinea. He is an Associate Member of PNG Institute of Accountants (CPA) and is a registered Tax Agent of the Internal Revenue Commission. A registered accountant, he has over seventeen years work experience with Accounting/Finance, Audits and Taxation. He was previously Financial Controller of the Coffee Industry Corporation (2005 – 2008). Prior to this he held number of senior management positions with the Coffee Industry Corporation Limited (1998 – 2005), and from 1994 to 1997 he was with Price Water house Coopers as the Accountant with Business Advisory Services Division.

##### **Karo Lelai, LLB, MBA**

*Manager – Special Projects /Acting Executive Officer To MD & CEO*

Karo Lelai graduated from the University of PNG with a Bachelor of Law in 1997. She received a certificate of training from the Legal Training Institute in 1998. Mrs Lelai has nine years of commercial law experience with reputable commercial law firm Posman Kua Aisi Lawyers, prior to joining Petromin in early 2008 and is a graduate member of the Australian Institute of Company Directors. She completed a Masters in Business Administration at the University of PNG in 2012. Mrs. Lelai is also Deputy Chairman of the PNG Athletes Commission and is a Board member of the PNG Sports Federation and Olympic Committee. She is a registered member of the PNG Law Society. Mrs Lelai is a registered professional member of the PNG Institute of Directors.

##### **Jack Sari, BSc, MSc**

*Chief Geologist And Manager,  
Petroleum Exploration*

Jack Sari has a Masters of Applied Science majoring in Geology from the Queensland University of Technology and a preliminary Masters in Geology from the University of Sydney. He holds a Bachelor of Science degree majoring in Geology form UPNG. Mr Sari has over 30 years experience as a Petroleum geologist in PNG. From 2004 to 2008 he was the General Manager and Chief Geologist of Cheetah Oil and Gas Ltd. Before joining Petromin he occupied senior managerial and technical positions with resource companies including; Technical Manager for Oil Search Ltd, Manager Assets for Orogen Minerals Ltd, Senior Geologist with Oil Search Ltd and Senior Petroleum Geologist for the Department of Mining and Petroleum.

“  
*The Company has recruited well skilled, experienced mining and petroleum geologists, engineers, accountants, economists, lawyers, and other technical officers.*  
”

### **Wilfred Lus, Bsc (Hons), PhD**

*Chief Geologist & Manager*

*Mineral Exploration*

Wilfred Lus holds a BSc (Hons, First Class) in Geology from University of Papua New Guinea (UPNG); a PhD in Geology and Experimental Petrology from the Australian National University. He was a lecturer in Geology at UPNG from 2000-2005 and has published in a number of internationally refereed geological journals. He has over 18 years as a field geologist in the mineral industry in PNG and abroad with CRA Explorations, Solomon Gold, Australian Resource Management and Magma Mines. His experience also included marine geology work in Manus Basin and offshore Aitape where he completed a number of manned submersible dives with Japan Marine Science and Technology Centre (JAMSTEC). Prior to his appointment with Petromin in 2009, he was project manager and senior geologist with Barrick Gold. Dr. Lus is a full member of Australasian Institute of Mining and Metallurgy (AusIMM).

### **Palli S Rao, M.Tech**

*Manager LNG*

Palli Rao holds Masters of Chemical Engineering from the Institute IIT Madras-India. He has over twenty two years of experience in the oil and gas sector handling multibillion dollar projects. His previous roles included Refinery Manager and Project Engineering Manager for Indian Oil. He has also worked in Nigeria as Engineering Manager for a natural gas project operated by Shell. He has held senior management roles in the oil and gas sector including engineering manager, project manager, refinery manager for multi billion dollars oil and gas projects. He has experience in upstream, downstream and midstream project, engineering management, operation and construction and international standard. Mr Rao was appointed PNG Manager in 2011.

### **Wayne Kasou, LLB**

*Corporate Secretary/Manager*

*Governance And Board Affairs*

Wayne Kasou commenced as Company Secretary and Manager Governance and Board Affairs on September 1, 2012 after serving for a short period as Manager-Special Projects. He holds a Bachelor of Laws Degree from the University of PNG having graduated in 1999 and is currently completing a Masters Degree in Public Administration from the Divine Word University. Mr.Kasou commenced his professional career with reputable commercial law firm PosmanKuaAisi in 2001. In July 2009 he joined the National Roads Authority as the Board Secretary for three years before joining Petromin in August 2012. Apart from providing the secretariat to all subsidiary companies of Petromin, he also ensures strict compliance on all board and corporate governance matters. Mr. Kasou is a registered professional member of the PNG Institute of Directors and a board member of the Korobosea International School. He is a registered member of the PNG Law Society.

### **Tom Gesa, BBM, (Ps)**

*Manager; Human Resource & Administration*

Tom Gesa is an educationist by profession after graduating from the former UPNG Goroka Campus in 1981. He also holds a Bachelor Degree in Business Management from the University of Papua New Guinea. An education administrator cum Human Resource practitioner, he has significant wealth of knowledge and experience in the PNG education system, particularly in aspects of successful secondary school management. Mr Gesa has valuable experience in Public Service Management, having served as Director of Education Services and Deputy City Manager, Community and Social Services with the National Capital District Commission. He is a Council member of the Papua New Guinea Human Resource Institute. Prior to being appointed Manager Human Resources and Administration, he was the Senior Human Resource Officer with Petromin PNG Holdings Limited.

### **Daniel Patrick Katakumb, BBM, DLA**

*Manager; Properties & Security*

Daniel Patrick Katakumb has a Bachelor of Business & Management (Policy) and Diploma in Land Administration from the University of Papua New Guinea. He has 36 years' experience as a Land Administrator and in-depth knowledge of the Papua New Guinea Land Administration Process and Procedures. Mr Katakumb was a senior member of the State Technical Team overseeing the PNG Non-Renewal, Renewable and Infrastructure Projects. He was also a Team Leader of State Technical Team carrying out awareness on Voluntary Customary Land Registration Act. He is an active Member of the Papua New Guinea Institute of Valuers and Land Administrators and a Councillor/Committee Member of the Institute. Mr Katakumb was the Acting Deputy Secretary, Operations; Department of Lands and Physical Planning (2000-2001). Before joining Petromin in 2010 he served as Director for Land Administration Division.

## **6.4 Merits of the Petromin structure**

Several key reasons underpin Petromin's unique corporate structure:

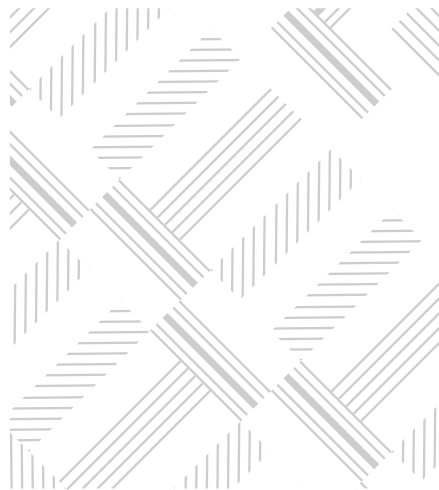
### **6.4.1 Negative Pledge**

- A key issue faced by the State was financing its equity interest in mining and petroleum projects. This issue arose when the State sought to finance its equity interests in resource projects when the contracts for existing loans it has from lenders, such as the World Bank, the ADB and even commercial banks, contain clauses which restrict the State's ability to offer security over its assets to new lenders. In essence, these so called "negative pledge" obligations provide that the State cannot offer security over its assets to any new lender to the exclusion of the existing lender. In other words, the existing lender must have equal security over the asset to that which may be offered to any new lender and precludes project financing;
- The negative pledge obligations are particularly problematic in situations where the State seeks to finance an interest in a resource project by way of "project recourse borrowings" or project finance. Such borrowings, usually from commercial banks or export credit agencies, are secured against the asset

being acquired and its associated cash flows. In general, negative pledge obligations effectively preclude the State securing project recourse funds; and

- Legal advice obtained at the time indicated that the negative pledge problem faced in raising project recourse funding can be overcome if the State's interest is acquired and financed through an incorporated company (Petromin) that operates sufficiently at arm's length from the State: that is, a company that cannot be regarded as being "a part of the State." This would work provided the company has the appropriate structure.

The need to overcome the State's negative pledge obligations in respect of financing its interest in petroleum and minerals projects therefore was a major factor in determining the most appropriate structure that led to the creation of Petromin. However, as noted earlier, international financiers and the World Bank have not been totally comfortable with this structure and have continued to raise negative pledge as an issue.



*Darren Ninkama, Joshua Kalinoe & Lyndsay Abal*

### **6.4.2 Minimized Political Interference**

It was also envisaged that the State's interests were best served by creating a Holding Company incorporated under the Companies Act 1997. Petromin evolved out of this facilitated by an Act of Parliament - Petromin PNG Holdings Ltd Authorization Act 2007. The Holding Company (Petromin) falls within the responsibility of the Prime Minister under a Trust arrangement which deliberately precluded "political interference" in the commercial activities of the State through its National Oil, Gas and Minerals Company. This protection is a cornerstone of PNG's ability to attract much needed investment in the resources sector.

The Trust structure facilitates for Petromin to be owned by the State, operate for the benefit of the State, however, limits political interference which has historically been an impediment to commercial operations. The Petromin structure allows an independent Board to make commercial decisions. Any shareholder decisions are required by the Petromin Trust Deed to be made in the best interests of the State. It is the duty of the Manager of the Petromin Trust to ensure that this fiduciary duty is adhered to at all times. Consequently, although the Board has the duty to act in the best interests of Petromin, the Trustee Shareholder (through the Trust Manager) may reject a major transaction if it is not also in the best interests of the State.

The Company Constitution is transparent and contains all the usual provisions dealing with the roles and responsibilities of the Chairman and Directors, the calling and conduct of meetings, dealings in the company's shares, rights of the Shareholder and appointment (and dismissal) of directors amongst other things.

In addition, the Constitution prescribes that only persons who would qualify to be "fit and proper" under the Fit and Proper Guidelines for Appointment of Directors (which is modelled on that used under the banks and Financial Institutions Act 2000) may be appointed as Directors (including the Managing Director and Chief Executive Officer.) The sort of experience, expertise and, where appropriate, qualifications that a company's independent Directors must have between them is also prescribed in the Constitution.

### **6.4.3 Independent and Professional Board, Management & Governance Structure**

- Petromin has an independent Board with a strong management team. The Company has recruited well skilled, experienced mining and petroleum geologists, engineers, accountants, economists, lawyers, and other technical officers. They have government and industry experience with some having Masters Degrees and PhDs specializing in mining and petroleum geology, engineering, economics, business, administration and law. The Constitution of Petromin specifies that all but two of the Directors must be distinguished Papua New Guineans and that all Independent Directors must be Papua New Guineans with a degree from a recognized university and with not less than 10 years experience in a relevant field of the mineral and petroleum industries such as banking and finance, accounting, law and technical experience;
- Petromin has adopted an aggressive, market oriented HR management strategy with merit based policies and performance incentives designed to compete with resource sector companies for best skilled and experienced staff;
- Petromin has been structured differently from Statutory Bodies and State owned Companies in order to ensure, among other things, operational independence from the State whilst complying with a high standard of transparency, compliance and corporate governance; and
- Given that Petromin is highly accountable to its shareholder (ultimately the people), it has developed and is maintaining financial control systems with an efficient budget structure and expenditure controls. It has in place Financial Management and Accounting policies and procedures as well as Internal Audit policies and procedures which ensure accountable; systems, controls and checks to protect the business against fraud, theft or mismanagement.

## Pioneer Petromin Management



*Joshua R. Kalinoe, CSM, CBE*



*Stevie Nion*



*Bernard Pawih*



*Jack Sari*



*Saki Ipata*



*Sam Inguba, QPM, DPS, CBE*



*Arunava Basu*



*Timboko Pyapeta*



*Roger Avinaga*



*Melvin Yalapan*



*Karo Lelai*

## Current Petromin Management



*John Mosoro*



*Noreen Gugumi*



*Wayne Kasou*



*Tom Gesa*



*Dr Wilfred Lus*



*Palli S Rao*



*Sam Inguba, QPM, DPS, CBE*



*Bernard Pawih*



*Melvin Yalapan*



*Roger Avinaga*



*Jack Sari*



*Saki Ipata*



*Karo Lelai*



*Arunava Basu*

“  
The Company, in its 6 years of operation, expanded fast and had gained the respect from investment partners and other key stakeholders.”

7. Growth & Expansion of Petromin

It is to be noted that the establishment of the Company, its corporate structure, constitution and corporate governance arrangements was done in close consultation with relevant government departments and agencies. The Petromin structure was envisaged to fully and effectively meet the Government’s objectives and requirements.

Petromin has, since its establishment, positioned itself to acquire, hold and manage direct shares for and on behalf of the State in the development of the country’s petroleum and mining resources. The Company, in its 6 years of operation, expanded fast and had gained the respect from investment partners and others key stakeholders. At present, Petromin has six wholly owned operational subsidiaries which are:



**EDA OIL LIMITED**

Ownership:  
Wholly owned subsidiary:  
Moran Petroleum Project.



**EDA LNG LIMITED**

Ownership:  
Wholly owned subsidiary  
Elk/Antelope LNG Project.



**TOLUKUMA GOLD MINES LIMITED**

Ownership:  
Wholly owned subsidiary:  
Tolukuma Gold Mine.



**KUMUL LNG LIMITED**

Ownership:  
Wholly owned subsidiary:  
PNG LNG Project.



**EDA MINERALS LIMITED**

Ownership:  
Wholly owned subsidiary:  
Mineral Exploration.



**EDA ENERGY LIMITED**

Ownership:  
Wholly owned subsidiary:  
Petroleum Exploration.

Other subsidiaries are special purpose vehicles (SPV) incorporated to facilitate participation in emerging mining and petroleum projects but are not yet operational (Annexure 2). An example would be Eda Kopa (Solwara) Ltd, which is the SPV for the Solwara 1 project in New Ireland Province..

8. Petromin’s Financial Position

It is to be noted that in terms of Petromin’s financial position the Company was not properly capitalized when it was established to fund projects and activities it has been embarking on to either participate or develop minerals and petroleum projects. It is envisaged that the current consolidation and restructure of the State’s interest and assets in both the petroleum and mining projects will help the new entities leverage the financing of emerging projects.

Given that the Company is highly accountable to its shareholders – ultimately the people of Papua New Guinea, Petromin through its Finance and Accounts Division has been responsible for developing and maintaining financial control systems with an efficient budget structure and expenditure controls. From a small funding of K200,000.00 in 2007 the Company total asset has expanded to more than K317,000,000.00 at 31 December 2012. The growth has been largely due to the fact that Petromin has put in place:

- Financial Management and Accounting policies and procedures reflecting the Strategic Thrust philosophy and the Petromin Corporate Values ensuring international best practice and internal consistency.
- Internal Audit policies and procedures ensuring accountable systems and controls and checks to protect the business against fraud and theft.
- Budget driven commitment and expenditure procedures ensuring no over commitments or budget over-runs.
- Integrated Project Accounting systems and procedures for rapid, accountable transactions, with stringent budgetary controls.
- Accounting and reporting procedures to provide same day transaction reports and expeditious management and board reports on State of the accounts – monthly, quarterly and annually.
- State of the Art Information Technology and Communication user friendly computer applications which minimize accounting transaction times and ensure system accountability and security to facilitate multi-functional, multi-currency reporting.

- Risk management analysis and comprehensive insurance coverage for general business loss, company assets, Directors and Officers, public liability, workers compensation, global travel and accident, and medical benefits etc.
- Administration, procurement of essential accommodation, services and supplies at competitive rates recognizing the Company’s limited start up capacity and budgetary constraints.
- Statutory compliance instruments and procedures under the Companies Act, Taxation Act etc, including statutory audits procedures.
- Budget linked Work Plan structure for application in the annual budget process, providing focus on cost minimization and revenue maximization.

The Group’s Consolidated Profit and Loss Statement from 31 December 2007 to 31 December 2012 is set out in [Table 1](#).

[Table 2](#) shows the Group (Consolidated) Balance Sheet on the annual basis since ending its first year of operation on 31 December 2007 and ending 31 December 2012.

[Table 3](#) shows the Company (Petromin) Balance Sheet on the annual basis since its first year of operation on 31 December 2007 and ending 31 December 2012.

9. Taxes & Dividend Payments

As a requirement under the relevant laws, regulations and policies of Papua New Guinea, Petromin (on becoming fully operational) has been paying taxes and dividends to the Independent State of Papua New Guinea.

9.1 Tax Payment

In terms of tax payments made by Petromin as a group to the State, it has paid a total of K288 million in various taxes since its inception in 2007 to the end of 2012.

These taxes comprise the following;

- Infrastructure Tax Credit K2.445
- Development Levy K13.412
- Royalties K19.876
- Company Tax K226.601
- Petromin Group Tax K25.730

In summary, the overall contribution in tax by Petromin since 2007 has been of significance.

|                                         | The Group |          |          |          |          |         |
|-----------------------------------------|-----------|----------|----------|----------|----------|---------|
|                                         | 2012      | 2011     | 2010     | 2009     | 2008     | 2007    |
|                                         | K'000     | K'000    | K'000    | K'000    | K'000    | K'000   |
| Revenue                                 | 177,670   | 278,164  | 307,055  | 260,833  | 276,429  | 72,046  |
| Cost of sales                           | -139,763  | -165,426 | -195,543 | -146,882 | -155,282 | -26,241 |
| Gross profit                            | 37,907    | 112,738  | 111,512  | 113,951  | 121,147  | 45,805  |
| Administrative expenses                 | -44,994   | -40,465  | -34,637  | -27,618  | -26,321  | -5,082  |
| Other Income                            | 0         | 0        | 0        | 0        | 0        | 215,222 |
| Other expenses                          | 0         | 0        |          |          | -5,340   | 0       |
| Operating profit                        | 44,994    | 72,273   | 76,875   | 86,333   | 89,486   | 255,945 |
| Finance costs                           | 694       | -18,903  | -84      | -7       | -5       | -5,249  |
| Finance income                          | 2,573     | 2,449    | 4,759    | 5,373    | 8,892    | 583     |
| Profit/(Loss) before tax                | -3,819    | 55,819   | 81,550   | 91,699   | 98,373   | 251,279 |
| Income tax ( expense)/ credit           | -26,557   | -54,670  | -55,400  | -13,505  | -5,112   | -50,351 |
| Profit/( Loss) after tax                | -30,376   | 1,149    | 26,150   | 78,194   | 93,261   | 200,928 |
| Other comprehensive income              | 0         | 0        | 0        |          |          |         |
| Total comprehensive income for the year | -30,376   | 1,149    | 26,150   | 78,194   | 93,261   | 200,928 |

Table 1: Petromin Group’s Consolidated Profit & Loss Statement from 2007 to 2012

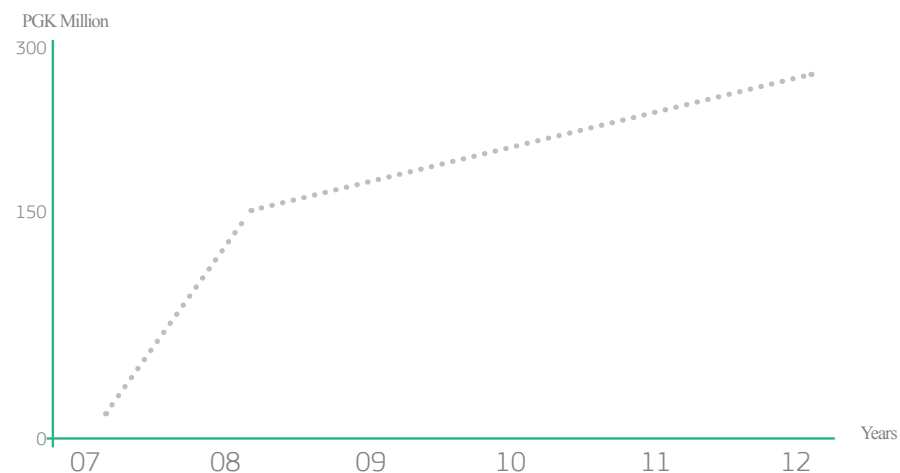
| Year                         | 2012        | 2011        | 2010        | 2009        | 2008        | 2007        |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Current Assets         | 166,299,616 | 215,417,000 | 172,465,000 | 141,923,000 | 136,130,000 | 78,751,002  |
| Total Non-Current Assets     | 412,520,172 | 372,338,000 | 338,400,000 | 278,846,000 | 235,059,000 | 192,297,446 |
| Total Assets                 | 578,819,788 | 587,756,000 | 510,865,000 | 420,769,000 | 371,189,000 | 271,048,448 |
| Total Current Liabilities    | 121,874,285 | 106,202,000 | 61,368,000  | 31,363,000  | 34,095,000  | 18,376,764  |
| Total noncurrent liabilities | 139,149,620 | 119,191,000 | 89,733,000  | 56,448,000  | 32,324,000  | 53,800,924  |
| Total liabilities            | 261,023,905 | 225,394,000 | 151,101,000 | 87,811,000  | 66,419,000  | 72,177,688  |
| Net assets                   | 317,795,885 | 362,362,000 | 359,764,000 | 332,958,000 | 304,770,000 | 198,870,760 |
| Total equity                 | 317,795,885 | 362,362,000 | 359,764,000 | 332,958,000 | 304,770,000 | 198,870,760 |

Table 2: Petromin Group Consolidated Balance Sheet from 2007 to 2012

| Year                         | 2012        | 2011    | 2010    | 2009    | 2008    | 2007       |
|------------------------------|-------------|---------|---------|---------|---------|------------|
| Total Current Assets         | 20,537,082  | 91,525  | 40,064  | 45,937  | 70,473  | 2,063,170  |
| Total Non-Current Assets     | 189,253,241 | 144,564 | 129,929 | 85,216  | 56,711  | 40,731,945 |
| Total Assets                 | 209,790,323 | 236,089 | 169,993 | 131,153 | 127,184 | 42,795,115 |
| Total Current Liabilities    | 4,349,375   | 78,202  | 12,358  | 11,868  | 19,400  | 6,457,750  |
| Total noncurrent liabilities | 12,147,964  | 12,282  | 10,498  | 10,018  | 10,018  | 15,000,000 |
| Total liabilities            | 16,497,339  | 90,484  | 22,856  | 21,886  | 29,418  | 42,795,115 |
| Net assets                   | 193,292,984 | 147,136 | 145,605 | 109,267 | 97,766  | 301,735    |
| Total Shareholders 'equity   | 193,292,984 | 147,136 | 145,605 | 109,267 | 97,766  | 301,734    |

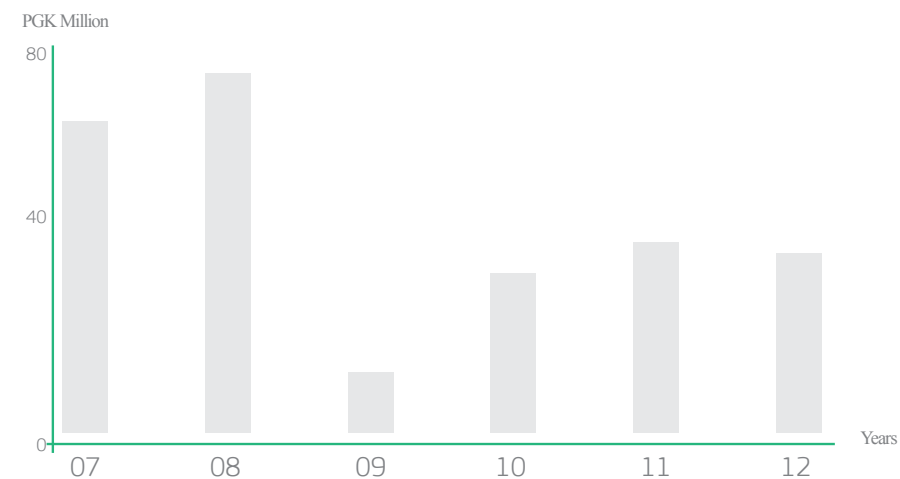
Table 3: Petromin Balance Sheet from 2007 to 2012

The cumulative tax payments made by Petromin is illustrated in the figure below.



Graph 1: Cumulative Tax Payment made by Petromin to date

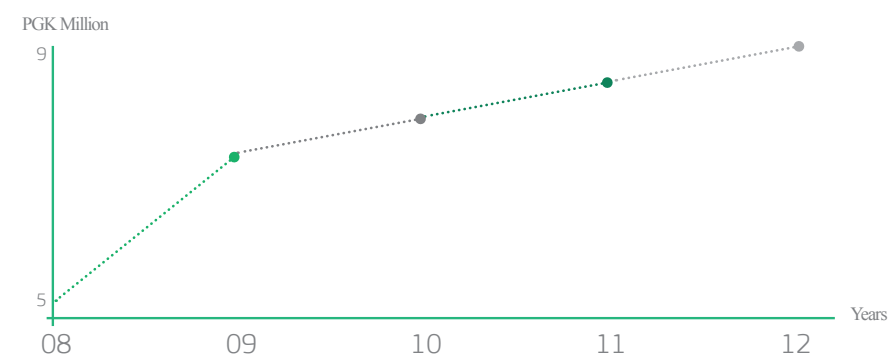
The Company tax forms a major part of all the taxes that Petromin has been paying to the State. In 2012 the Company paid K26.267 million in Company tax. The Company tax payment made by the Company each year since 2007 to the end of 2012 has been illustrated below.



Graph 2: Company Tax paid by Petromin to date

## 9.2 Dividend Payment

The Petromin Board upon consideration of its annual financial report, the year ahead's budget, its policies and the future business plan, etc, determines if dividend can be declared. Petromin is proud to have been declaring and paying dividends since its first full year of operations since 2008. Cumulatively, Petromin has declared more than K9 million in dividends declared as shown in the figure below.



Graph 3: Cumulative Dividend Payments made to the Independent State of PNG

It is important to have a clearly defined dividend policy between the State and the respective State owned entities which would allow flow of dividends to the State and at the same time ensuring that sufficient funds are retained by the companies to be invested in projects for revenue generation.

It is in this light that a balanced dividend policy is recommended between each of the entity and the State which ensures certain portion of the revenues is distributed for consumption, savings and investment.

### How will this be achieved?

a) Cash flow for consumption. It is proposed that certain portion of the dividend be directed for consumption. These funds should be directed to the Government Consolidated Revenue (Treasury/Planning Departments) for funding Government activities/projects including infrastructure projects, social welfare and other activities.

b) Cash flow for investment. It is proposed that certain portion of the dividend be retained by each entity for investment purposes. These funds to be channeled to the following activities:

- Re-invest in the petroleum investments projects.
- Re-invest in the minerals investments/projects.
- iPart of the revenues generated should be retained for reinvestment in projects such as power project, water, communication, airlines, etc.

c) Cash flow for savings. It is suggested that certain portion of the dividend should be directed for future savings. These funds should be directed to the Sovereign Wealth Fund (SWF). These funds may be saved in the following ways;

- Invested within PNG or offshore but it must be PNG based;
- Expands the capital market; and
- Creates a future for the next generation of Papua New Guineans

## 10. Investment Guidelines

To ensure optimal resource allocation and thorough and systematic project evaluation prior to matters or proposals being considered by the Board, the following processes have been instituted:

The core functions of commercial analysis and strategic planning are implemented by the New Ventures and Business Development Division which provides visionary asset acquisition and investment advice based upon strategic assessments of the potential commercialization of upstream and downstream interests and activities.

The New Ventures and Business Development Division have continued to design and implement their respective strategies and ongoing business plans within the defined key result areas. The Division employs economic assessment of the investment opportunities and develops a portfolio of potential acquisitions and investments and provide medium to long term strategic acquisition and investment plans. Economic models have been developed to test individual projects and various strategic alternatives chosen. Negotiate viable partnership arrangements guaranteeing financial and technical contributions, minimizing risk and ensuring effective and timely commercial development of assets. The Division's focus will be on the projects identified in this Business Plan.

Further, the division provides viable economic and financial business proposals and coordinates the implementation strategy to reinvest Company returns in commercially viable projects for collective benefit of society, and deliver profitable returns and ensure risk free funds at competitive rates are negotiated with financial institutions. It oversees the commercial operations of joint venture businesses and ensures effective product marketing, sales, and distribution through cost effective global transportation and distribution networks and monitor the Company's planned revenue streams are intact and in fact generating revenues as anticipated. Petromin ensures that commercial agreements with JV and business partners are properly drafted to take full account of the Company's interests and to minimize exposure and risk to the Company and ensure that the Executive Management is provided with accurate and timely legal advice on actual and potential litigation and that the Company is always protected from harmful claims and court cases.

### Project Evaluation, Approval Process & Management Structure

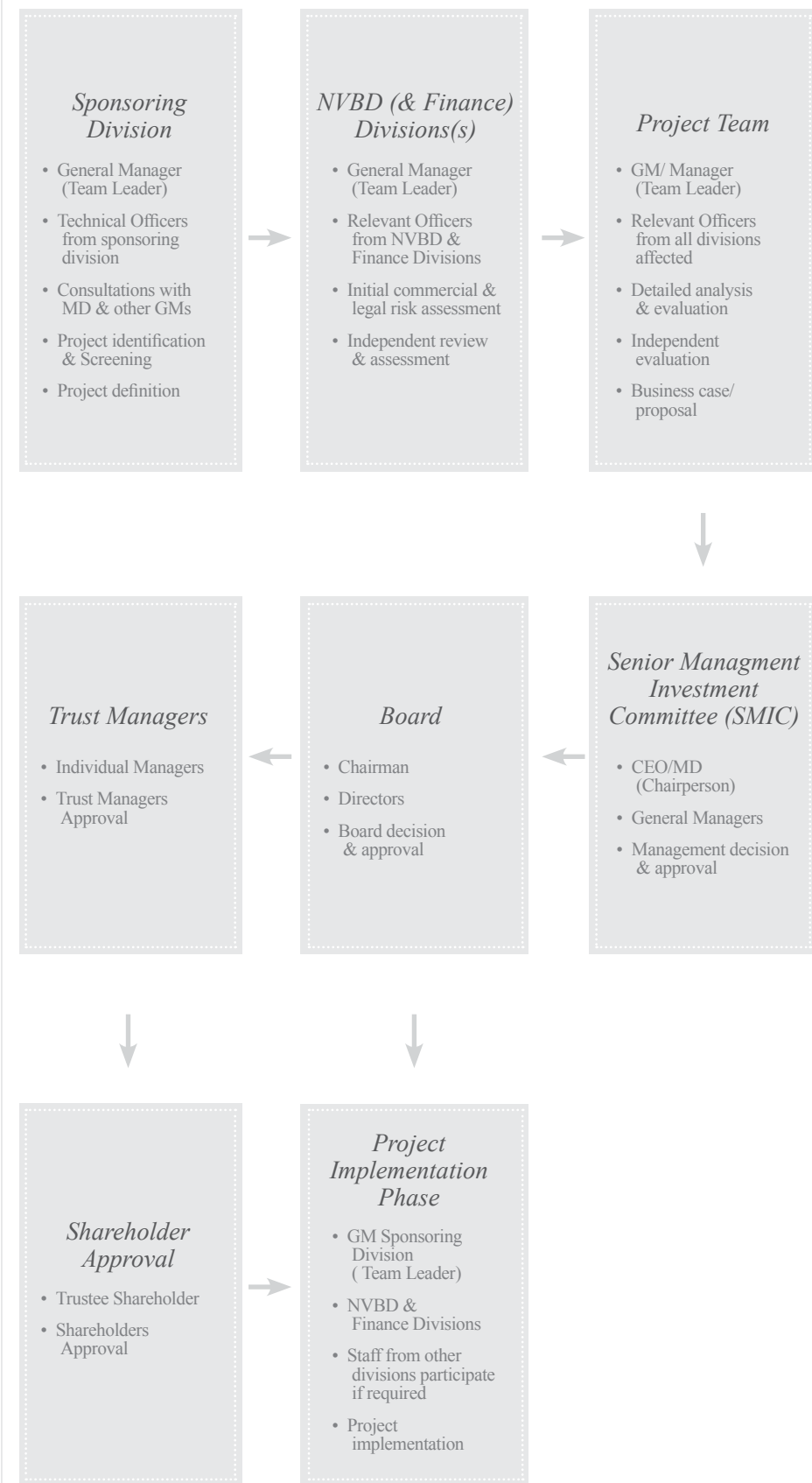


Figure 2: Petromin Investment Evaluation Process

“  
**Medium to long term public relations strategies and programs are needed to ‘win the hearts and minds of the people and the communities in which the Company operates’.**  
 ”

Petromin has Board approved Investment Guidelines for assessing all new investments.

### 1. Management will

a) Assess projects under 3 categories, viz:

- Financially-driven investments;
  - Hybrid investments where there is a finance/social trade-off; and
  - Exploration
- b) Adopt a base hurdle rate of return for new category(i) projects of 15% where US\$ funding is used and 14% where Kina funding is used;
- c) Assess Hybrid investment projects to the extent possible in terms of quantifiable non-financial benefits and the expected rate of return for Petromin and to advise Directors of these considerations; and
- d) Submit proposals for exploration and any other high risk investments to the Board for consideration in a form which contains a definitive Risk Management/Risk Mitigation strategy as required by the Project Risk Management Policy.

### 2. Management will

Advise the Board annually of the overall risk profile of Petromin by reference to the categories of investments set out in 1 above; and

### 3. Management will

Review the hurdle rate of return for investments on an annual basis in the light of changing market conditions.

## 11. Marketing & Fund Investment

Marketing and Investment is to ensure Petromin maximizes the value and returns on its investment portfolio, and sales of its crude oil, precious metal and natural gas. Portfolio Investment will be prudently managed consistent with liquidity needs, asset and liability management strategies and safety of principal. Trading of crude oil, precious metal and natural gas is done at competitive prices in the world market so that Petromin and its stake holders receive maximum returns on the investment. Therefore, to attain these objectives, the following are in place:

- a) Investment guidelines based on best market practice tailored specifically for Petromin, and its subsidiaries. The document ensures that excess fund from sales proceeds are diverted to form part of the investment portfolio, and managed to maximize yield from investment.
- b) An Investment Committee comprising of the General Manager (NVBD), the Commercial Manager Senior Investment Analyst and the Senior Marketing Officer are empowered by the investment Policy. The responsibilities of the members shall be included in the document.
- c) A Processes and procedures Manual to ensure trading is effective completed from front office to back office. All transactions are properly captured into the system.
- d) Risk Management or/and Hedging Policy to mitigate any impending price risk.

## 12. Technical Evaluation & Policies

The technical evaluation of mining and petroleum projects forms a major component of the Company’s core business. The Petroleum and Mineral Divisions have been responsible for the identification, evaluation and recommendations relating to any decision to exercise the State’s options to participate in mining and petroleum projects, or of its own volition to buy into such projects directly. The Division’s primary focus has been on all projects identified in the Business Plan in order of priority. The Petroleum and Mineral Divisions have undertaken the following key programs:

a) Establishing a secure data-base of minerals and hydrocarbon information for timely analysis and commercial evaluation of those projects for potential acquisition and development network with government and strategic partners in order to secure information and advice on project status and performance in all areas of compliance under relevant legislation, including license conditions;

b) Providing comprehensive technical evaluation of investment opportunities and provide operations reports on the performance of projects, including the performance of subsidiary companies and business partners, for compliance with project agreements and business undertakings;

c) Developing technical capacity to assess all operational aspects of project plans and to advise on all aspects of Petromin business, including latest and most appropriate technology in downstream processing of minerals, oil and gas, and the storage and transportation of products; and

d) Developing and implementing state of the art computerized project management systems to enable critical path analysis for timely action and for the production of management reports on resource commitments and expenditures and to engage in the exploration of prospective tenements in partnership with exploration operators and/or specialist geologists in order to expedite timely and fruitful development by bringing extraction and downstream processing on line.

## 13. Environment Standards & Assessment Policies

Petromin is committed to ensuring that all exploration, mining and petroleum operations meet internationally accepted standards for environmental management. The Environmental Section within the Corporate Division will advance the standard of environmental management for exploration, petroleum and mining activities for the company. Key strategies that have been implemented with other Divisions include:

### a) Corporate Standards and Policies

The Company has established corporate standards and policies for Environment, Health and Safety (EHS) and facilitating communication between Mineral and Petroleum Divisions to liaise with the government, the affected community, the mining and/or petroleum industries;

• Develop Environment Policy,

• Develop Health and Safety Policy,

• Develop and establish Environmental Management Systems (ISO 14001 EMS) based on International Organization for Standards (ISO),

• Based on EHS Policy develop Standard Operation Procedures for EHS

### b) Environment Assessment of Priority Projects

Undertaking regulated activities on priority projects approved by Petromin Board, including:

• Review of Environmental Impact Statement (EIS) for proposed exploration, mining and petroleum activities;

• Conduct environmental risks assessment of priority project investments;

• Promoting compliance through site inspections, audits (both mandatory and voluntary) and regular reporting;

• Investigate complaints and environmental incidents;

• Take appropriate remedial action if non-compliances is identified ; and

• Coordinate regulatory activities, such as MOA meetings, due diligence performance audits, with other relevant government departments and agencies;

All mining and petroleum projects and most exploration activities require environmental assessment under the Environmental Act 2000 before they can commence. The comprehensive merit-based assessment process under the Environmental Act 2000 considers a broad range of environmental issues including air quality, biodiversity (marine & terrestrial), water management, alternative uses of the land and whether the proposed development is in the best interests of the State. The ecological sustainability of the development, including inter-generational equity, social and economic factors, is also considered in the Act.

As permit holder, Petromin is required to document plans detailing how they will minimize impacts on the environment and undertake progressive and effective rehabilitation of disturbed land through implementation of a DEC approved Environment Management Plan. Petromin will ensure all projects, including exploration, mining and petroleum activities, are thoroughly assessed and their potential environmental impacts and risks are properly managed to promote sound investments by Petromin.

## 14. Government & Stakeholder Relations

Managing stakeholder relationships is an important component of Petromin strategies, designed to minimize external threats to the Company’s core business operations and to enhance the Company’s business image and performance record. Medium to long term public relations strategies and programs are needed to “win the hearts and minds of the people and the communities in which the Company operates”. The Government & Community Affairs function has developed effective strategies, policies and plans in the following key result areas:

a) Establish communication networks at the highest levels in order to maintain open constructive dialogue, to promote trust and understanding to enhance the Company’s business reputation and resolve perception issues.

b) Determine a marketing strategy and communications program appropriate to the industry and the country utilizing all media avenues to promote the Company’s business interests and enhance the Company’s image with the shareholders, at each stage of development.

c) Engage with professional Public Relations and Media advertising firms to develop promotional programs and materials including magazine and press articles.

d) Ensure that the Managing Director is properly apprised of all inter-governmental issues and protocols that impinge upon business, and manages visits and exchanges between the Company and government representatives.

e) Establish a media monitoring and screening process to identify and avert inappropriate stakeholder perceptions of the Company and to counteract attacks on the Company ensuring compliance with legal advice provided on defamation, and compliance issues.

f) Establish a sound two way communications network with key landowner groups in areas of the Company’s operations to foster trust and ensure that the Company’s position is well understood, and problems can be resolved.

Plan and organizes Company participation in national and international resources sector events, including Company road-shows to publicize and promote the Company image.

### 14.1 Community Affairs

Petromin recognises community relations as a critical factor to our business success. In the project areas where Petromin is present, it maintains active community participation. It conducts its business as a responsible corporate member of the society, to comply with the applicable laws and regulations supporting fundamental human rights. Petromin participation has been demonstrated in the TGM MOA Review Warden Hearings with respect to its tenements and awareness in the project impacted areas. Through such participation, Petromin gives proper regard to health & safety, security, environment and the community in the project areas.

## 15. IT Systems

The role of an IT System involves the design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware. IT deals with the use of electronic computers and computer software to convert, store, protect process, transmit, and securely retrieve information.

For the IT System to operate in an acceptable manner and support the operations of Petromin PNG Holdings Limited, an IT Policy has been put in place to ensure proper usage:

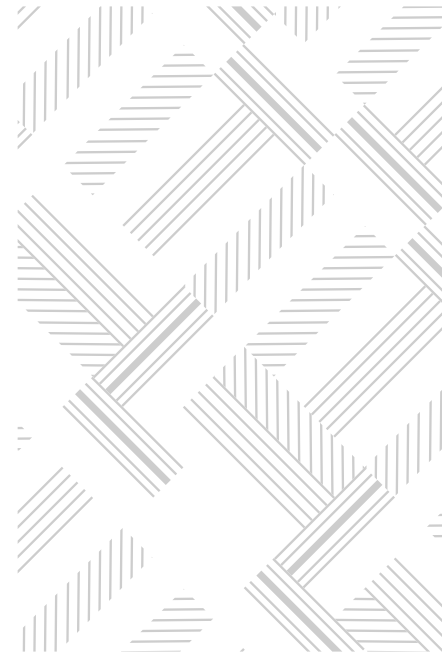
a) IT user Policy to enable effective use of technology and minimize abuse.

b) State of the Art Information Technology and Communication user friendly computer applications which minimize accounting transaction times and ensure system accountability and security to facilitate multi-functional, multi-currency reporting.

c) Integrated management information system through a reliable database.

d) Keep up with technology in terms of equipment and application software.

“  
Petromin’s  
unique  
governance  
structure  
facilitates its  
mandate to  
operate as State  
Nominee on a  
commercial basis  
in the Petroleum  
and Minerals  
industries.”



Former Prime Minister Sir Michael Somare & shareholder opening Petromin Haus while current shareholder Prime Minister Peter O’Neil looks on with other Members of Parliament



Joshua Kalinoe, Former MD and CEO



Company Secretary Wayne Kasou & Director William Searson

“  
The staff of  
Petromin  
have gone  
through  
various skills,  
knowledge &  
experience  
acquisition  
which is  
indeed the  
strength for  
the Company.”

## 16. Contracts & Tender Policy

Petromin has in place an approved Contracts & Tender policy which guides the Company in procurement of goods and services. The policy provides the framework within which the Company may procure goods and services and has the following basic objectives:

- a) Ensure value for money and propriety in expenditure of the Company's money;
- b) Enable services to be delivered objectively (where applicable), effectively and efficiently; and
- c) Ensure probity, accountability and transparency in procurement processes.

Tenders for works, goods and services may be sourced by direct procurement, open tender or closed tender.

Direct Procurement involves;

- a) Works, goods and services which may be procured directly from the suppliers, providing that the pricing is demonstrably competitive and where the expenditure will not exceed K20,000.00 over the life of the contract;
- b) The onus is on the Manager involved to have evidence of competitive pricing which may take the form of quotations or a survey;.
- c) Most of the goods, services and supplies may be secured by direct procurement, consistent with the aim of the policy.

Open tender involves;

- a) Open tender will be called where the company through advertisement in the press, invites all suppliers of particular goods or services to submit a tender.
- b) The open tender process will be used where the known market is limited and the Company wishes to seek extra interest from other suppliers.

Closed tender involves;

- a) Closed tenders involve the submission of sealed bids by potential contractors by a specified date and time and are required for large contracts.
- b) The closed tender process will be used where the market is relatively well known, and it would therefore be expeditious to invite tenders from a selected group of respected and credit-worthy suppliers.
- c) The outcome of the Closed Tender selection process must be endorsed by the tender committee.

All tenders whether open or closed address the following key areas, depending on the nature of the goods or services that are being purchased:

- Legal standing, including a copy of the Certificate of Incorporation
- Compliance to statutory requirements, including tax and GST compliance
- Business details
- Technical ability and knowledge
- Financial standing and ability
- Equal opportunity considerations
- Health and safety standards
- Environmental issues
- Insurance cover
- Previous experience

If a tender does not have the technical knowledge and ability, which criteria also includes the technical background of the tenderer, their professional staff compliments, the contract shall not be awarded to the tenderer. Tender Committee comprising Chief Finance Officer (Chairman), General Manger, New Ventures and Business Development; and appropriate Manager of the relevant business unit.

The Tender Committee:

- a) oversee the tender process in calling and evaluating tenders for probity, ethics, transparency, timing and any particular requirements relative to the works, goods and services;
- b) endorse the conclusion reached through the tender evaluation process; and
- c) monitor contract performance.

## 17. Petromin Haus

Petromin Haus is a state-of-the-art, three storey, environmentally friendly building in Port Moresby, reflecting Petromin's innovative outlook and commitment to environmentally sustainable practices. The building was pre-fabricated in Indonesia and materials, furniture and fittings were shipped in containers to Port Moresby. Using efficient construction technique Petromin Haus was constructed in the record time of nine months (March 2010 and November 2010). This pioneering approach also meant that the building was completed economically and within its budget of K31.2 million, which included the purchase of land, design, materials, fittings, furniture and all security systems. Petromin Haus has many innovative features. The complex is built to withstand earthquakes and incorporates special fireproof coating materials to ensure that in the event of a fire, the building structure will remain intact. The building is also one-of-a-kind in PNG, designed to conserve energy through climate control systems, unique insulated roofing materials and a glass exterior with reflective paneling. Petromin Haus has the following features:

- Completed in record time
- Floor area of 4,300 square metres including covered car park
- Compliant to PNG standards and certified by an independent Engineer
- Environmentally friendly glass building
- Full back up facilities for power and water supply
- State-of-the art security system including finger print readers
- Main pillars designed and treated to be fire resistant
- Designed to resist earthquake shocks

## 18. Human Resource Requirement & Development

The human resource function, through the leadership of the Human Resources Manager (HRM) has facilitated the achievement of the corporate strategies by providing manpower and material resources and administrative support in an efficient and timely manner. Petromin from its humble beginning has boosted its human resource capacity and initiated appropriate systems and processes capable of meeting the strategic needs of the Company.

Capacity building in human resources and putting in place administrative systems and processes has been priority action for the Human Resource & Administration. The human resource section of the Company has put in place the following:

- a) Human Resource Policies and Guidelines reflecting the Strategic Thrust philosophy and Petromin Corporate Values ensuring internal consistency of practices.
- b) Organization and establishment with precise job descriptions based upon a flat structure with highly accountable positions to minimize work force overheads and provide business focus.
- c) Terms and conditions of employment and performance based contracts consistent with lawful requirements and best practice in the resources sector.
- d) Recruitment and employment practices based upon merit and equal opportunity and a competent staff to set up the core business and support units.
- e) Staff development and training practices based upon Petromin needs, including a Graduate Development Program designed for future succession.

f) Occupational health and safety policies and procedures which emulate best international practices as adopted by the mining and petroleum industries within Papua New Guinea.

g) Employee relations practices built on trust, understanding, and teamwork, promoting a “full day's work for an agreed days pay” backed up by strong discipline.

h) Remuneration and reward structures pitched at competitive resource sector levels, to retain and motivate staff to high levels of work performance.

### 18.1 Capacity Acquisition & Staff Development

Petromin, through embarking capacity acquisition and staff development programs has ensured the staff acquires skills and knowledge in running a commercial enterprise and in the following specific areas;

- LNG Business
- Oil and Gas Project Evaluation & Analysis
- Oil and Gas Exploration and Production

- Mining Management and Operations
- Minerals Exploration and Production
- Minerals Project Evaluation and Analysis
- Legal Knowledge & Skills for Oil, Gas and Mining
- Commercial Knowledge and Skills
- Accounting and Financing Skills, HR Skills and Community Relations Skills
- Company Secretariat

Human resources at Petromin have remained critical to the growth of the Company since its inception in 2007. The staff of Petromin have gone through various skills, knowledge and experience acquisition which is indeed the strength for the Company. Going by the Divisions the staff within each Division has acquired the following skills and knowledge as captured in the list on the next page.



Petromin Haus located along the Sir Hubert Murray Highway



Slady Surute & Karo Lelai

### 1. Div / Finance & Accounts

#### Skills and Knowledge Acquired

- Corporate Financing (National & International). Involved in organizing projects funding externally for Petromin projects Oil & Gas Financial Reporting, Accounting & Taxation. Involved in setting up the financial reporting under IFRS for Petromin and its subsidiaries.
- Oil & Gas Financial Reporting, Accounting & Taxation. Involved in setting up the financial reporting under IFRS for Petromin and its subsidiaries.
- Minerals Financial Reporting, Accounting & Taxation. Involved in setting up the financial reporting under IFRS for Petromin and its subsidiaries.
- Hedging/Managing Hedge book.
- Corporate Management skills (through MBA & other workshops & seminars).
- Advanced Financial Management skills.
- Cash flow Management and modeling of Projects, including project evaluation and analysis.
- Advanced Treasury Management.
- Project Appraisal, Evaluation & Management (Financial & Physical).

### 2. Div / New Ventures & Business Development

#### Skills and Knowledge Acquired

- Short to long term business plans, business proposals/cases, investment proposals, strategic planning & analysis

- Skills and knowledge to develop, interpret, evaluate and analyze Project Economic and Financial Models of mining and petroleum projects
- Project/Investment appraisals, analysis and evaluation
- Project (mining and petroleum projects) management skills
- Skills and knowledge to assess project viability, determine risks and return on investment, forecast asset growth and negotiate viable partnership arrangements
- Writing/structuring financing proposals
- Financial analysis and evaluation skills
- Skills and knowledge base for investment acquisition, farm- out/farm-in, divestment, investment & asset performance trends, creation of joint ventures & subsidiaries
- Acquisition of knowledge of Company's (petroleum and mining) financial and funding position and the status of the international business environment
- Advanced computer skills (excel), communication skills and negotiation skills
- Negotiating and drafting of contracts and partnership agreements (including Joint Venture Agreements, Confidentiality Agreements, Term Sheets, Memorandum of Understanding, Cooperation Agreements, Shareholders Agreement, Joint Development Agreement, Sales and Purchase Agreements) and State agreements such as Project Agreements, Gas Agreements, Mining Contracts, Equity Option Agreements
- Skills and knowledge of investment banking
- Knowledge of international business environment including oil, gas and minerals market trends, commodity price trends, etc.
- Knowledge of financial institutions, commercial operations regarding joint venture businesses, product marketing, sales, transportation and distribution networks.
- Knowledge of relationship with key stakeholders, business community, and financial institutions.
- Skills and knowledge to negotiate, draft, understand and interpret complex commercial agreements
- Knowledge and skills regarding various contracts
- Knowledge and skills in relation to litigation

### 3. Div / Petroleum Division

#### Skills and Knowledge Acquired

- Seismic Interpretation of Gulf of Papua using Petrel Geoscience application software
  - Seismic interpretation using Kingdom Geoscience application software
  - Onshore LNG Technology
  - Floating LNG Technology
  - Skills for technical management of petroleum projects
  - Skills for petroleum exploration
  - Skills for petroleum project appraisal, analysis and evaluation
  - Skills for Joint Technical Studies and collaboration with partners
  - Skills for technical presentation to partners and potential investors
  - LNG Processing, Crude Oil Processing, Basic Petroleum geology, Basic Subsurface Engineering (Drilling)
  - Play Based Exploration (PBE) methodology applied by Shell to assessment and exploration of a basin for petroleum, and using petrel software to conduct PBE of the Gulf of Papua.
  - 3D seismic data interpretation
  - sequence stratigraphy and petroleum systems analysis
- ### 4. Div /Minerals Division
- #### Skills and Knowledge Acquired
- MS Project Planning and Application on current projects
  - Modeling of Truck Utilization
  - Mobile & Light vehicle Maintenance Cost Analysis
  - Equipment Availability versus Utilization Analysis
  - Establishment of Technical Appraisal Criteria and Application on current projects.
  - Technical Report Writing, Project Proposals and Terms of References Structures
  - Technical Presentation Skills
  - Project Economics Analysis, Evaluation and Modeling
  - Bow-Tie Risk Assessment Analysis and Application on Existing Mine
  - Mine Closure Planning Framework and Application on Existing Mine
  - Stakeholder Engagement & Application on

#### Exploration and Existing Mine Sites

- Life of Mine Planning , Forecasting and Modeling
- Improved Computer Skills Through Use of the Following Packages:-
  - Micromine
  - Surpac
  - Access Data Base
  - MS Project
- Environmental Compliance Strategies Through:
  - Environmental Permitting
  - Environmental Management Plan
  - Key Environmental Risk Assessment on Permit Conditions
  - Annual Environment Report & EMMP Framework
- Emergency First Aid Accreditations
- Knowledge of Relationships with Developers, Regulators and other State Agencies
- Shutdown Planning and Scheduling
- Design and Exploration Target Generation:
  - development mineral exploration techniques
  - specific to Petromin exploration assets
  - Understanding of Porphyry Copper Gold deposit models and epithermal gold silver mineralization models
  - Geology field mapping and sampling skills
  - 64 Channel 3DIP surveys
  - Petrography, geochemistry, and age dating of mineral deposits
  - 3D Mag Inversion Studies using airborne helimag data on mineral deposit
  - Petrophysical Study of rock samples
  - Mineral Exploration Drilling
  - QAQC work on drill core samples
  - Independent JORC Compliant Resource study on mineral deposit
  - Owing and running drilling rigs
- Independent JORC/NI 43-101 resource studies
- Development of Term Sheets for Joint Venture and Farm-in mineral exploration licenses
- Joint Venture Agreements negotiations for mineral exploration

- Exploration License applications
- Mineral Exploration Tenement Management and regulatory Compliance Reporting
- Underwater/deep sea Mineral exploration
- Presentation of Exploration Results in major mining conferences
- Underwater mining technology
- Safety aspects of sea bottom production tools
- Research and post graduation study of mineral deposits
- Landownership issues in exploration tenements
- Land boundary mapping

### 5. Div / Corporate Affairs

#### Skills and Knowledge Acquired

- Establishment of Public Relation with Government Department.
- International Policing Strategies on Crime Prevention.
- Trans-National Crime Prevention and Weapon Training skill ( eg. metal extraction, close combat/use of firearms).
- National Security Policy Management.
- Corporate Regularity and Compliance (International & National).
- Fraud Investigation skill.
- Corporate Strategic Policy.
- Multi-lateral Agreements ( e.g. MEA).
- Project Appraisal (Oil & Gas)
- Adoption of International Best Standard Practices for Oil & Gas Development in developing countries.
- Advanced Management Skill.
- Project Planning and Management ( e.g. Project development).
- Financial Management.
- Risk Assessment or Management.
- Occupational & Health Safety Management skill.
- Properties and Assets management skill and training.
- Basic Building and architectural skill.
- Facilities Maintenance and Management (Lift repair, access control, fire protection, electrical system, plumbing & sewerage, air conditioning & power generator set).

- Information and Communication Technology (windows server, FTP server and Proxy server).
- Security surveillance (CCTV) and vehicle tracking
- Achieved Security Services in line with National Security Act.
- Management of Company Security Services.
- Advance Diplomatic Corp ( protocol)
- Warden Hearing with MRA
- Public Relation and Community Affairs Communication Technology
- Advance Environment Impact Assessment (Oil & Gas projects).
- Customary Land Acquisition and Negotiation for Project Development (e.g. Stanley Gas Project).
- Land Administration and Management.
- Advanced Program Management.
- Customer Relationship skill.
- Advance Secretarial and Personal Assistant.

### 6. Div / Company Secretary & Board Affairs

#### Skills and Knowledge Acquired

- Management of corporate governance and compliance issues in line with the Petromin Act, the Companies Act and the company's approved policies in conjunction with other divisions.
- Managing board affairs and coordinating with divisional managers in preparation of Board meetings and ancillary issues relating to travel
- Managing subsidiary board affairs and coordinating with divisional managers in preparation of Board meetings
- Managing Trust Secretariat and providing relevant briefings to the Trust Manager and the Trustee Shareholder regarding the company's operational affairs
- PNGID certification on responsibilities of a Company Director Certification in business Language (HA)
- Accounting skills
- Business Administration skills
- Public Administration skills
- Contract Management in conjunction with Legal Division
- Commercial litigation in conjunction with Legal Division

18.2 Training Strategies Facilities

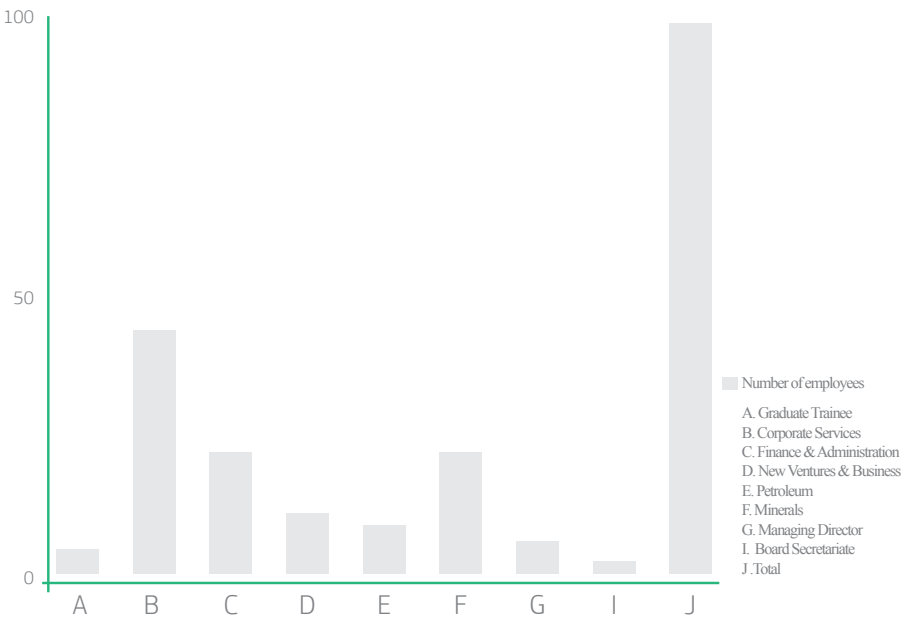
Petromin has in place training strategies and facilities which allow its staff to acquire valuable skills. These include;

- a) Alliance Agreement with Shell
- b) Japex/Petromin Agreement
- c) Project Joint Venture Agreements and Cooperation Agreements with Partners in both the mining and petroleum projects which provide skills, technology and knowledge transfer to Petromin staff.

Further, Petromin has in place the following important documents:

- The Human Resource Policy Manual; and
- The Human Resource Strategic Plan which documents Petromin’s Performance Management, Talent Management, Succession Management, Career Planning, Data Management, Recognition & Reward Strategy and recruitment & appointment guidelines and Training Strategy to compliment all aspects of training and development.

Graph 4 shows Petromin staff on strength against establishment as at 15 April 2013. However, this excludes Tolukuma Gold Mine employees. The TGM employees stand around 430 both permanent and casual inclusive.



Graph 4: Petromin staff on strength against establishment as at 15 April 2013

18. 3 Careers at Petromin

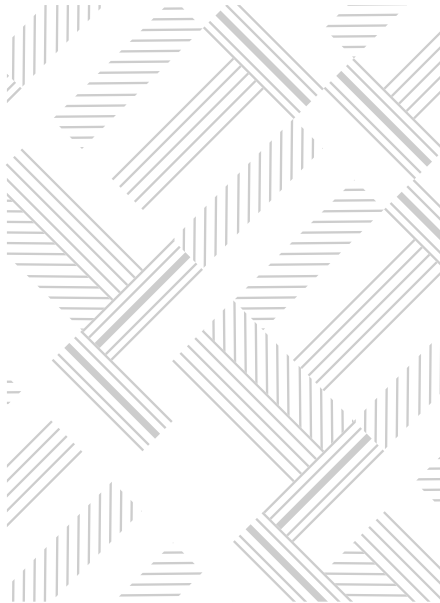
Papua New Guinea has been going through an unprecedented resource boom with the development of the PNG LNG Project and other resource projects. Petromin as PNG’s national oil, gas and minerals company understands that its growth and ability to remain competitive depends on a well established management process of quality recruitment, training and development programs for our technical and professional staff.

Petromin as PNG’s national oil, gas and minerals company understands that its growth and ability to remain competitive depends on a well established management process of quality recruitment, training and development programs for our technical and professional staff.

Petromin places emphasis on staff development and training to equip its human resource with appropriate knowledge, skills and competencies to deliver on its mandate. Petromin initially began recruiting under its two year Graduate Training program in 2008, and expanded graduate training across various divisions. Graduate Trainees are recruited from various fields including law, economics, finance, community relations, engineering, geology, and geophysics. These are core skills which Petromin requires now and into the future. With highly experienced professionals in our respective divisions Petroleum, Minerals, Corporate Governance, Corporate Services and New Ventures & Business Development. These graduate trainees are not only applying themselves in their particular fields but also have access to a wealth of knowledge in Petromin.



Exploration team - Gwaibo Kopi & Wendy Abone



| Name              | Field                 | Date of Inception | Current Employment Status          |
|-------------------|-----------------------|-------------------|------------------------------------|
| Isaac Kone        | Engineering           | 21/01/2008        | Australia - Mining Engineer        |
| Nelson Sukwianomb | Environmental Studies | 29/01/2008        | Completed and moved on             |
| Darren Ninkama    | Commercial Law        | 25/05/2009        | Petromin –Senior Lawyer            |
| Ken Vei           | Geophysicist          | 02/08/2010        | Petromin - Geophysicist            |
| Roger Ralli       | Geology               | 02/08/2010        | Rio Tinto – Brisbane               |
| Stanley Sungi     | Accounting            | 02/08/2010        | Petromin - Accountant              |
| John Willie       | Engineering           | 04/10/2010        | Petromin – Mine Engineer           |
| Adrian Dentana    | Geology               | 25/10/2010        | Petromin- Mining Geologist         |
| Lyndsay Abal      | Finance/Accounting    | 07/02/2011        | Petromin – Accountant              |
| George Karingal   | Economics             | 21/02/2011        | Petromin – Economist               |
| Rex Duma          | Economics             | 07/03/2011        | Petromin – Economist               |
| Mathilda Namorong | Commercial Law        | 12/12/2011        | Petromin – GT Lawyer               |
| Philip Hehonah    | Commercial Law        | 05/01/2012        | Petromin – GT Lawyer               |
| Channel Kuia      | Engineering           | 14/05/2012        | Petromin – GT Petroleum Engineer   |
| Junior Koipi      | Engineering           | 05/06/2012        | Petromin – GT Mining Engineer      |
| Sailas Tipayamb   | Environmental Studies | 30/07/2012        | Petromin – GT Environ-ment Officer |

Table 4: List of Petromin Graduate Trainees – Past & Present



#### 18.4 Performance Management Contract

Petromin introduced a proactive process of Performance Management Contract at all levels of our organization's functional areas to ensure that agreed operational and administrative targets, based on our business strategy, were achieved on time and within budget. This management system enabled employees to effectively contribute in delivering on specific objectives and being appropriately rewarded for their effort.

Note that Annexure 3 sets out the Board approved organizational structure for Petromin.

#### 19. Risk Management

Risk is inherent in the oil, gas and mineral business. Petromin's business activities are no exception. It requires continuous risk assessment and creation of appropriate strategies to manage or mitigate these risks.

The mining and petroleum projects are capital intensive and high-risk hence, joint ventures are structured to spread risks among project participants. It is characterised by long lead-times and usually companies are prepared to take risks for rewards. Before an investment decision is made Petromin would ensure all projects follow the approved project evaluation and approval process. The projects will be evaluated, analysed and appraised in order to avoid possible risks which may cause the project to fail. Considering this, the Company has in place Risk Management Policy and Risk Register. The policy has been put in place to ensure coherent and prudent mitigating measures are employed in the conduct of its business.

The Board has appointed an Audit and Compliance Committee to specifically deal with risk management issues. The Board approved a Risk Management Register and the management makes quarterly reports to the Board on the status of the implementation of the register. Given the significance of managing risks possible risks and ways of mitigating such risks on priority projects are set out in the company's business plan.

The Risk Register covers the following aspects of the company's activities:

1. Project and type of risk
2. Details of the risk
3. Provides probability weighting
4. Describes the consequence of risks materialising
5. Mitigation strategies
6. Officer's responsible

Some of the risks associated with projects vary from transportation risk, reserve risk, environmental risk, exploration risk, management risk, balance sheet risk and liquidity risk.

#### Risk Profiles for General Managers

In 2012 risk profile for the General Managers were done. From among the multiple roles or tasks the General Managers do at Petromin five main tasks were identified against which risk profiles were created. Then from the five roles/tasks one important role/task was selected to be included in the Performance Management Contract in 2013 subject to Board approval.

#### Transportation Risk

Transporting of personnel to project sites covers all employees and visitors being transported to the project sites, whether they live on the camp site, or are travelling in from outside. This risk could cause human fatalities, injuries, environmental changes, or operational loss time. The Management ensures these risks are mitigated through having accidental insurance, rigid safety checks by operators and due diligence before contracting the service provider.

#### Environmental Risk

Petromin has a strong environmental policy that is based upon international environmental mining, oil and gas standards. We encourage periodical testing and public awareness. Petromin aims at mitigating environmental risk and encouraging world class standards for our projects.

#### Exploration Risk

The risk is apparent when reserves are insufficient to cover the sunk costs, which can only be recognised as capital expenditure if the reserves are economically viable. To mitigate the effects of this risk, Petromin conducts full appraisals, independent audits and periodical review of exploration stages.

#### Management Risk

Petromin ensures that its Management team adheres to their allocated budgets and does not over, or under spend by having strict guidelines for allocated divisional budgets. The Company's Financial Controller provides Management with quarterly reports on the status of the budget. In this way risk of overspending or underspending is managed.

#### Balance Sheet Risk

Petromin's corporate finance function:

- Monitors the services to the business
- Co-ordinates access to domestic and international financial markets
- Monitors and manages the financial risks relating to the operations of the Company.

These risks include market risk, currency risk, fair value interest rate risk, price risk, credit risk, cash flow interest rate risk and liquidity risk. Petromin is engaged in daily business with many overseas based companies and these financial risks.

“  
Before an investment decision is made Petromin would ensure all projects follow the approved project evaluation and approval process.  
”



Former MD & CEO inspecting an Adventist Youth marching band at the 2009 SDA Church Youth, Pathfinder and Adventurers Fair

“  
*Petromin, in the conduct of its business has gained the respect of investment partners and financial institutions.*  
”

## 20. Agreements/Contracts Relating to Petroleum & Mining Assets and Other Related Agreements.

Since inception Petromin has entered into numerous major transactions with multi-national entities to implement its mandate as the State mining and petroleum company either as State Nominee or on its own accord consistent with the provisions of its enabling legislation, the Petromin PNG Holdings Limited Authorization Act, 2007 (Petromin Act).

This has been consistent with government's policy to control and manage the country's petroleum and mining assets in various existing and new projects (Projects). In the existing projects certain State equity interest held by other state entities were transferred to Petromin whilst the new and upcoming ones where Petromin was nominated as the State through the Petromin Act or under the relevant mining and petroleum legislations. Petromin has also on its own merit applied for and was granted various exploration licences to hold and develop them as a commercial entity. In fact to date Petromin holds a large number of tenements in both the mining and the petroleum exploration licences in PNG. Petromin has also been able to enter into numerous strategic alliances with majors in both petroleum and mining industry to jointly explore and develop the tenements it holds with Shell, Harmony and Newcrest or held by others like Twinza; Horizon

and Talisman. These relationships have been documented through various legally binding documents such as the Joint Venture, Alliance, Joint Development; Definitive Agreements, etc. Other binding documents include Confidentiality Agreement and Non-Disclosure Deeds; Memorandums, Service and Consultancy Contracts, etc.

Apart from these assets (mining and petroleum) related agreements, Petromin has also entered into various corporate and financing arrangements for purposes of securing finance either as loans on long or short term basis, or giving guarantees for various financial transactions including the Project Finance arrangement it had entered into together with other State participants in the PNG LNG project. Petromin had also entered into various conveyances including the construction of its iconic building “Petromin Haus”; the staff home ownership through the Petromin Home Ownership Scheme assisting them to own their residential homes and vehicles purchase through Novated Lease arrangements with various banks in the country.

Other major Financial Agreements include the short term Corporate Facility arrangement with international bank BNP Paribas, the Corporate Loan Facility with ANZ; Equipment Lease Facility with Westpac Bank; Loan Facility for Petromin Haus.

The outline of the relevant legal documents that bound Petromin with its strategic partners or operators of the Project are categorised into four (4) categories- petroleum and mining projects, corporate and financing agreements. The full details of the various agreements are attached in Annexure 1.

## ANNEXURE 1

### Petroleum Projects Agreement

#### 1. PNG LNG Project (Operated by ExxonMobil)

Petromin through its wholly owned subsidiary Eda Oil Limited and its special purpose vehicle Kumul LNG Limited holds 0.244% interest in the PNG LNG project (Project). PNG LNG Gas Agreement was executed between the State and Project Sponsors on 22 May 2008. The project partners have jointly under relevant agreements agreed to develop the project as an integrated LNG project. The decision to integrate the interest has been recorded under the PNG LNG Coordinated Development and Operating Agreement (CDOA) executed on the 13 March 2008. Under the CDOA, the parties have agreed that it will govern their relationship as the owners of the Project and the conduct of operations to design, execution, operation and abandonment will be governed by it. The CDOA further defines each participant's interest in the Project consistent with their licences interest and provides the manner of calculating their interest. The Project required a legal entity to be created which each participating interest holders holding shares in it.

To achieve this purpose various GloCo documents were entered into including GloCo Shareholders Agreement; PNG LNG Sales, Shipping and Finance Administration; On-loan; LNG Supply and Sales Commitment; Liquids Supply and Sales Commitment; Project Gas Sale and Purchase; Liquid Sales, Head Charters; Chartering GloCo Finance Agreements.

The core finance documents include the Common Terms Agreement, Common Security Agreement, Completion Agreement, Transfer Restriction Agreement, On-Loan Agreement, Custody Agreement, CDOA Power of Attorney, State Direct Agreement, Kumul Escrow Agreement and others as required.

#### 2. PDL 5 – Moran Unit & Operating Agreement

MOUA was entered into between the parties to develop the crude oil reserves in the Moran fields; it would later be linked up to the CDOA that relates to the development of the PNG LNG project. Eda Oil interest was previously managed by MRDC until its shares were transferred to Petromin consistent with the government's policy on management and development of state interest in the petroleum and mining project and as expressed by the Petromin Act, 2007. Thus, Petromin subsequently replace the previous owner MRDC to manage and hold Eda Oil's participating interest in PDL 5 by way of accession to the MOUA and subsequent amendments and related agreements.

#### 3. Elk/Antelope Investment Agreement

The Investment Agreement was entered into between Petromin and Inter Oil whose subsidiary holds the exploration licences PPL 238. In anticipation of being nominated as the State Nominee, Petromin entered into this strategic agreement so that it could participate in the exploration and development of the Elk/Antelope Fields prior to being nominated as the State Nominee when the State decided to exercise its back in rights at the grant of PDL. The Investment Agreement was executed by the Parties on the 30 October 2008. As a result of the Agreement and consistent with its term, Petromin invested US\$3 million as part of the costs of acquisition of its interest, and has been contributing further towards the exploration and development costs of the project up to the grant of the PDL. The amount expanded would later be converted into the consideration for purchase of its interest in the Project. So far Petromin invested a sum total of US\$15, 435, 000 in the Elk/Antelope Project.

#### 4. Shell Alliance Agreement

One of the important relationships that Petromin has established was with Shell through the Alliance Agreement entered into on the 18 August 2011. The Agreement was entered into with view of implementing the State's objective in the Project Agreement between the State and Inter Oil to develop the PPL 238 and PRL 15 licenses (LNGL Project). Under the Project Agreement, Petromin was nominated as the State Nominee to hold and develop the State's interest in the LNGL Project. Petromin in anticipation of the project being developed

through a competitive bidding process secured Shell as the preferred partner and potential operator of the LNGL Project with internationally recognized expertise design, construction, completion and operation of world scale LNG liquefaction facilities and assets in the LNGL Project. Under the Alliance Agreement Petromin and Shell will have the opportunity also to explore the upstream sectors and also jointly conduct hydrocarbon study in PNG through a separate Joint Technical Study Agreement (JTSA) apart from investing and participating in the LNGL Project. Under the JTSA the parties have conducted numerous joint studies in various prospects around the Gulf of Papua.

#### 5. MISC Behard Shipping Joint Venture

Petromin entered into a incorporated Joint Venture Agreement (JVA) with MISC Behard with the intention of providing shipping solutions to meet the growing demand for shipping as a result of LNG business activities experienced in PNG including the recent PNG LNG Project and the proposed Elk/Antelope. Petromin's partner MISC Behard is a Malaysian entity whose principle business is owning and operation LNG ships and offshore floating facilities and also provides shipping services such as marine repair, conversion, engineering and construction with reputation for LNG Shipping and logistic acknowledge worldwide.

#### 6. PNG FLNG – Joint Development Agreement

The Joint Development Agreement (JDA) between Petromin, DSME E&R and Heogh LNG Limited that was entered into on the 10 November 2010. DSME E&R is a South Korean entity with expertise in providing total solution to oil and gas industry and is spearheading the development of the LNGFPSO technology. Heogh LNG is a Norwegian owned company registered in Bermuda and is involved in the shipping building and maintenance facilities. It owns fleets of LNG facilities and has the capacity to structure, development and implement the LNGFPSO, LNG and re-gasification facilities. The parties through the JDA were planning to introduce the LNGFPSO technology which is in its conceptual stage to PNG and help develop the stranded gas fields which would otherwise not be developed using conventional method due to high costs of extraction. It was anticipated that through

the JDA the parties would also be able to secure gas from amongst other fields the Elk/Antelope, treat and liquefy the gas using the LNGFPSO technology which would be located offshore of the Gulf of Papua and subsequently transport and on-sell the LNG to buyers. In terms of the Governments petroleum resources development wishes, this would have been the 3rd LNG project.

#### 7. Twinza

Petromin and Twinza Oil (PNG) Limited (Twinza), a Western Australia registered entity entered into a Joint Operating Agreement (JOA) under which they agreed to participate through an unincorporated joint venture arrangement to explore hydrocarbons within the PPL 238 area (PPL 238). The licence is held by Twinza but through the JOA Petromin has been invited and has accepted to participate in the joint exploration and development of PPL238 in its own capacity and not as the State Nominee. Petromin has been given a 10 percent interest in PPL 238. Through the JOA Petromin employees can be able to have access to training opportunities in the exploration and development of Petroleum products and also invest as a private investor into the project prior to the State exercising it's back-in rights.

#### 8. PPL

Petromin holds a total of ten (10) Petroleum Prospecting Licences as a sole operator and one hundred percent interest in these PPL's, which are located in the Gulf of Papua region and the New Ireland Basin. Petromin has been doing desktop seismic review on all these licences. It also holds a 10 percent interest in the offshore PPL 238 interest in partnership with Twinza through joint venture arrangements.

#### 9. Confidentiality Agreements

Numerous interested parties have entered into Confidentiality Agreements with Petromin to access and review confidential information and technical data's of the various licences that Petromin holds either as sole owners or through interest. Some of these parties are majors, financiers, potential operators and consumers from across the global. Some of these parties have gone ahead to enter into strategic or binding agreements.



*Petromin management present to witness SDA Youth, Pathfinder and Adventurers Fair*



*Construction of Petromin Haus*



*Sir Brown Bai & Former Prime Minister Sir Michael Somare*



*Pioneer Petromin staff*



*Opening Petromin Haus: Former shareholder & Prime Minister Sir Michael Somare with board members*

## ***Mining Projects & Related Binding Contracts***

### ***10. Tolukuma Gold Mine & Related Agreements***

Petromin purchased its first operating mine; the Tolukuma Gold Mine (TGM) through a Share Sale Agreement dated 5 February 2008 and began to operate the mine under its subsidiary, Tolukuma Gold Mines Limited (TGML). The operation of the mine has brought mixed results with few years of profitability but mostly losses since then. Despite the losses, it can be said that Petromin as the national mining company has been given the opportunity to own and operate a mine and from the perspective of the training and localisation plans the TGM operations has been a good experience. After having a number of expatriate mine managers, Petromin have been able to recruit experienced national mine managers to bring around the mine to profitability. Generating profitability has been a challenge yet recruiting nationals to do so have been a bold move for Petromin despite its future being short-circuited with the NEC directives to disband it. This can be considered an achievement.

To successfully operate the mine; TGML also has in place various service agreement with its service providers especially in the transportation, catering and security services. Various agreements have therefore been entered into between TGML and air transport providers particularly, helicopter services for passengers, cargo and exploration activities. Service for hospitality and catering and security had also been entered into with relevant entities consistent with the relevant policy on service contracts, security, human resources, etc established by TGML or as directed by Petromin Board as the shareholder of TGML.

Petromin is currently restructuring the mine operations to turn it into profitability which is an ongoing task it is continuing to move it forward.

### ***11. Solwara 1 Projects***

#### ***11.1 State Equity Option Agreement (SEOA)***

The SEOA was entered into between the Independent State of PNG and Nautilus on the 29 March 2009. The SEOA allowed for the State to exercise its right to take up equity in the Solwara 1 project (Project) consistent with the Mining Act. In exercising its right the State has nominated Petromin as its nominee to take up its portion of the equity in the project. The SEOA provide the timeline for the State to exercise its option and to purchase its option, as well as to have parties execute related ancillary agreements relating to the Project. The Project required new technology to be developed in order to access high grade gold/copper ore that were found under the sea-bed off the coast of New Ireland and East New Britain waters. This technology had to be developed; tested and commissioned prior to utilising it. The State was also acknowledged as an equity partner in the development of these technologies which if proved successful with the Project would use world over under the SEOA.

Since May 2012 the Project has not proceeded forward to achieve its targets as expressed under the SEOA including Nautilus as operator achieving Completion and Financial Close. There has since been a dispute on the interpretation of several important commercial terms in the SEOA and the dispute has since been registered for Arbitration per the provisions of the SEOA. The Arbitration proceeding is still on foot, yet the parties have also decided to on a “without prejudice” basis to engage in re-negotiation which is still continuing.

#### ***11.2 Financing the State Interest under the SEOA***

Consistent with the SEOA provision when Petromin was nominated as the Nominee in the Solwara 1 Project it was expected of Petromin to go out and secure funds to finance the 30 percent equity interest in the Project. The State was to provide the guarantee for Petromin in the financing arrangements. Petromin sought various financial institutions to put together financing packages to fund the project which was supported by the financial institutions including ANZ and BNP Paribas. Through the exercise Petromin’s management and senior officers where once again exposed to various project finance arrangements including issuance of bonds.

### ***12. Yandera project***

Petromin and Marengo through their subsidiaries have entered into a Project and Investment Cooperation Agreement (PICA) to allow Petromin early access to the Project not only as a State Nominee but as an investor. The strategy is to allow Petromin early access to participation and investment in the project as a private investor.



*Petromin accounts team*

### ***13. EL’S***

Petromin holds a total of eight (8) mining Exploration Licences on its own merit as a developer and has been conducting exploration activities on these tenements. Two of these exploration licence are at the advanced stages of drilling, EL 1352 (Ipi River prospect) and EL 580 (Saki prospect) and even had several majors showing interest in it including Harmony. The other 6 Exploration Licences are undergoing the routine exploration work in compliance with the relevant mining legislations and regulations and various development parties have entered into Confidentiality Agreements with Petromin to review the technical data that it holds concerning the licences. Petromin by far holds a large number of tenements by any one entity and this in itself is an achievement for the national mining company.

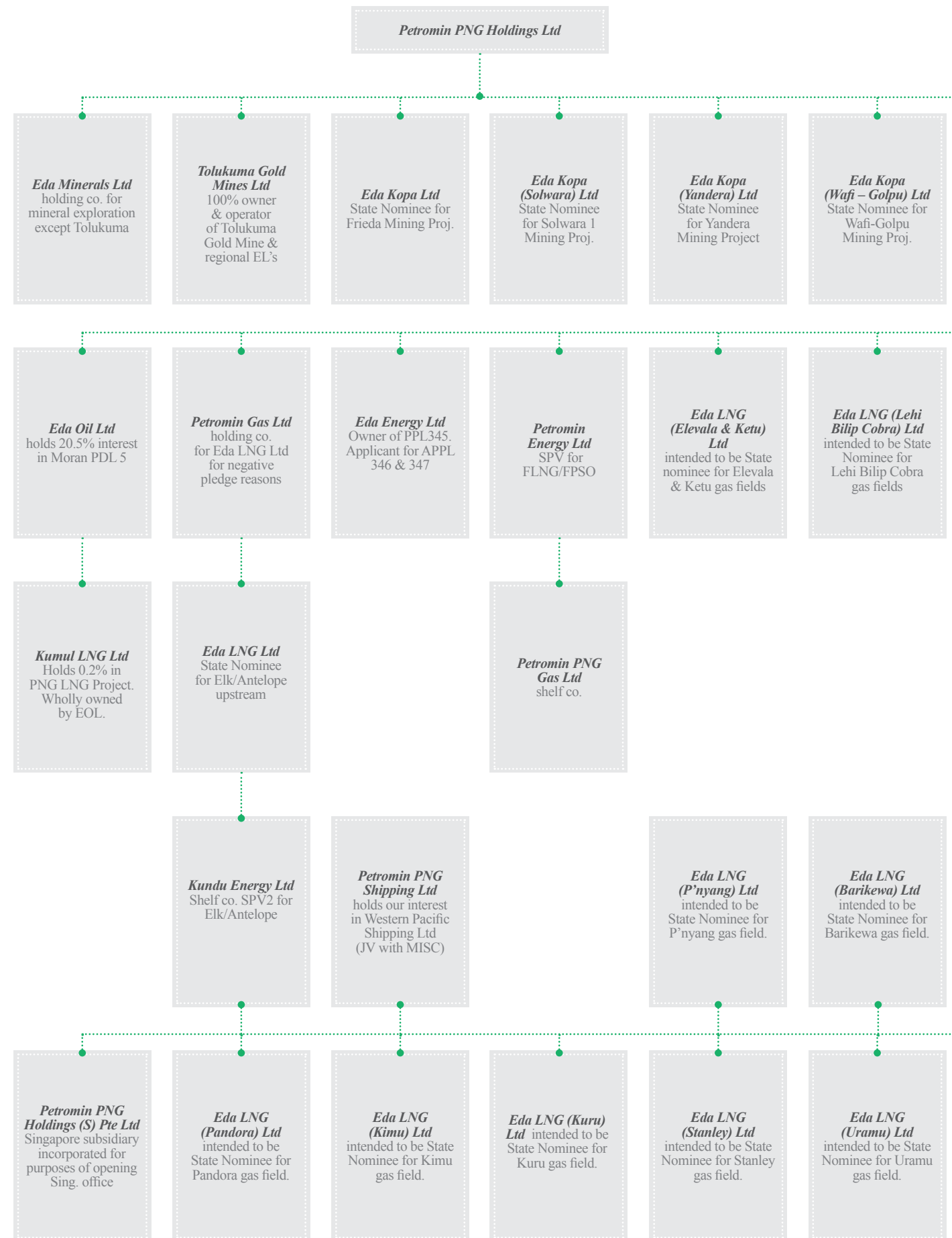
### ***14. Confidentiality Agreements/Deeds***

Numerous interested parties have also entered into Confidentiality Deeds/ Agreements in order to have access to technical data’s and other confidential information relating to various exploration tenements that Petromin holds over various EL’s and/or over EL’s Petromin is an interest holder as the State Nominee. Petromin also had as the potential State Nominee been in discussions with the holders of various EL’s that have been making news of having large resources with potential of world class mining development activities such as the Frieda River Prospect, Wafi-Golpu and Yandera prospects. The holders of the tenements have been signed CA’s with Petromin for Petromin to review the data’s and making informed decision of itself the potential to venture into these projects either as a State Nominee or on its own merit.

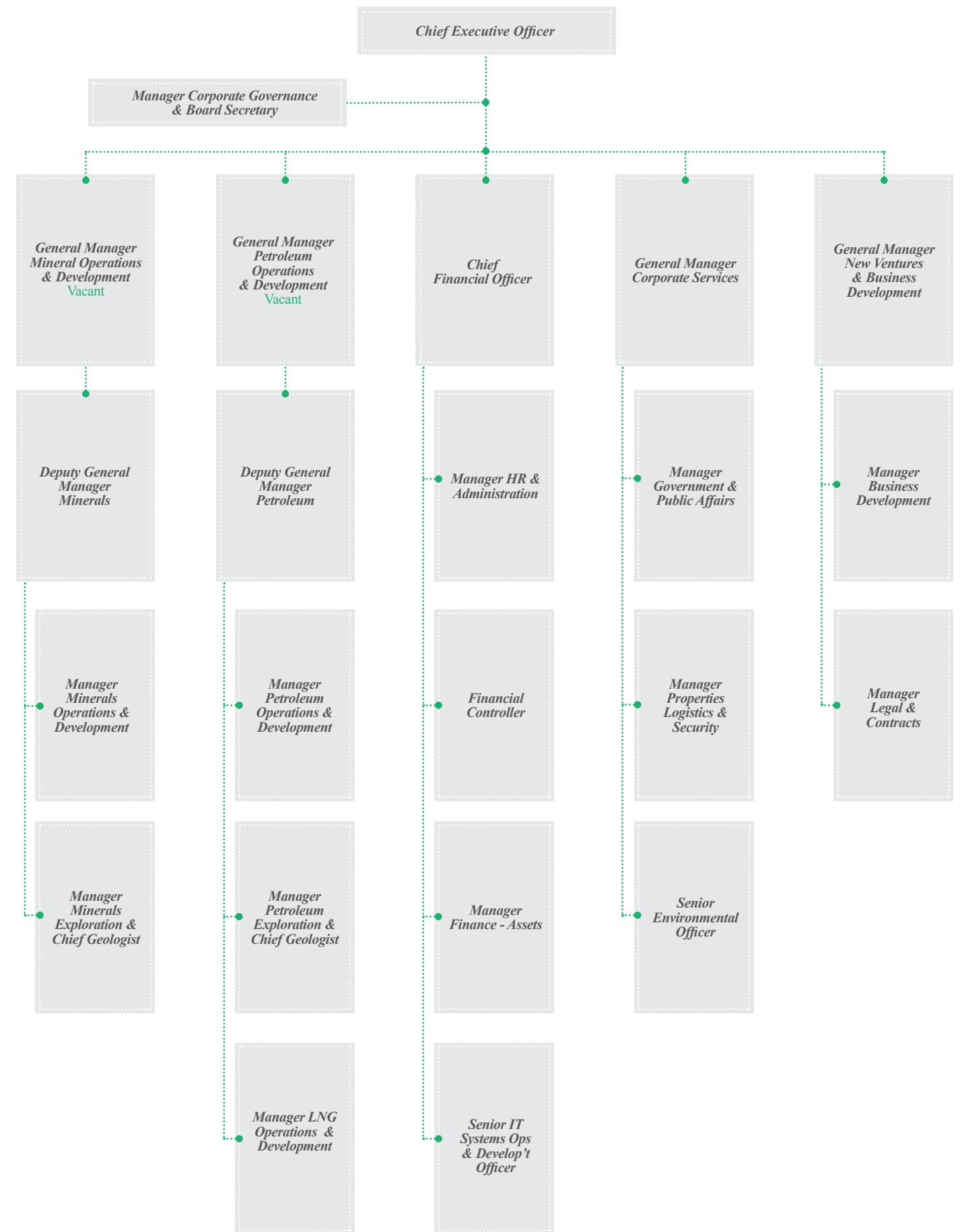
### ***15. Corporate Facility***

Petromin had successfully negotiated and secured long to short term loans from local and international financial institutions and commercial banks including the US\$15 million short term corporate facility arrangement with BNP Paribas, the corporate loan facility with ANZ Port Moresby to the value of US\$30million, the Lease Agreement for Tolukuma Mine Equipments Hire with Westpac, the K15 million ANZ Building Facility; the Corporate Guarantee for Staff Home Ownership Scheme with Maybank and K1 million Corporate Guarantee for the Managers Vehicle Novated Lease arrangement with ANZ.

## PETROMIN GROUP OF COMPANIES AS AT 23RD OCTOBER 2012 / ANNEXURE 2



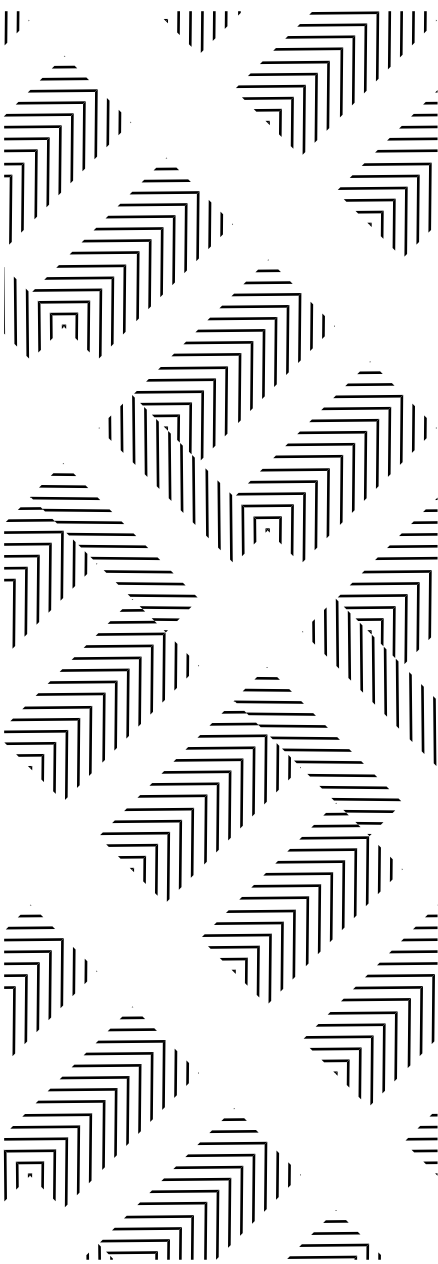
## MANAGEMENT STRUCTURE AS AT 15TH APRIL 2013 / ANNEXURE 3





# PART 2

## PETROMIN'S PETROLEUM PROJECTS & ACTIVITIES



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### 1. Introduction

Petromin PNG Holdings Limited's (Petromin) Business Plan classifies projects within the Petroleum sector into three categories:

- Projects which have been approved by the Board and for which expenditure has been committed;
- Projects which the Board considers should be pursued as financial resources become available; and
- Projects which might emerge as priorities in coming years but for which resources have yet to be approved.

The prioritisation reflects largely the lack of capital provided to Petromin and the consequent limitations on its activities. The priorities also reflect the failure of InterOil and its partners to deliver the Elk/Antelope project as described in the Project Agreement of December 2009. The absence of a PDL application by InterOil meant that Petromin was unable to use the Elk/Antelope PDL as collateral for much-needed financing.

### PRIORITY 1 PROJECTS COMMITTED & APPROVED PROJECTS

As at end-2012 Petromin's Board had approved the following projects and approved Management allocating financial and technical resources to them.

### 2. Moran – PDL 5 Project

Eda Oil Ltd holds Petromin's 20.5% interest in Moran PDL 5. Eda Oil is the Company's sole source of revenue at this time. Resources are allocated to monitor the Operator's (Oil Search) performance in order to provide accurate forecasts of quarterly and annual revenues. Petromin is a passive participant and since acquisition has not declined to participate in some associated developments, as the Operator has effectively managed the Moran field exceptionally well.

Oil production in the Moran field during 2011 averaged a rate of 12,708 barrels of oil per day which was marginally over forecast. This was achieved despite the natural decline in production. The Operator continues to maintain effective reservoir management practices to ensure production targets are met or exceeded if possible.

Oil production in the Moran field during 2012 averaged a rate of 10,270 barrels of oil per day

(bopd) which was marginally below budget rate of 10,545 bopd. The Operator continues to maintain effective reservoir management practices to ensure that production is maintained at acceptable rates despite natural field decline and unplanned down-time-.

In 2013, oil production has been forecast to be at an average rate of 11,608 bopd. The actual rates to end of April was below 10% of budget forecast, but is expected to increase with additional development drilling in 2013.

Reserves report from end of 2011 indicates Original Oil In-Place (OOIP) of 226 million barrels of oil, and that 71.214 million barrels were produced to 31/12/011. The remaining 2P reserves were 37.429 million barrels. Oil production rates are expected to be below 5,000 bopd after 2020. The Original Gas In-Place (OGIP) was about 411.8 billion cubic feet (bcf) of gas, and the 2P gas reserves are estimated to be about 206 bcf.

Petromin has no ability to affect the progress of outcome of this project and resource allocation will reflect this position. The CFO or his alternate attend Finance Committee meetings when they are held but no other resources are to be allocated to this passive investment. Similarly, Deputy General Manager Petroleum or his alternate attend the Technical Committee and the Owners Committee meetings.

The location of the Moran project is located in the figures shown below.

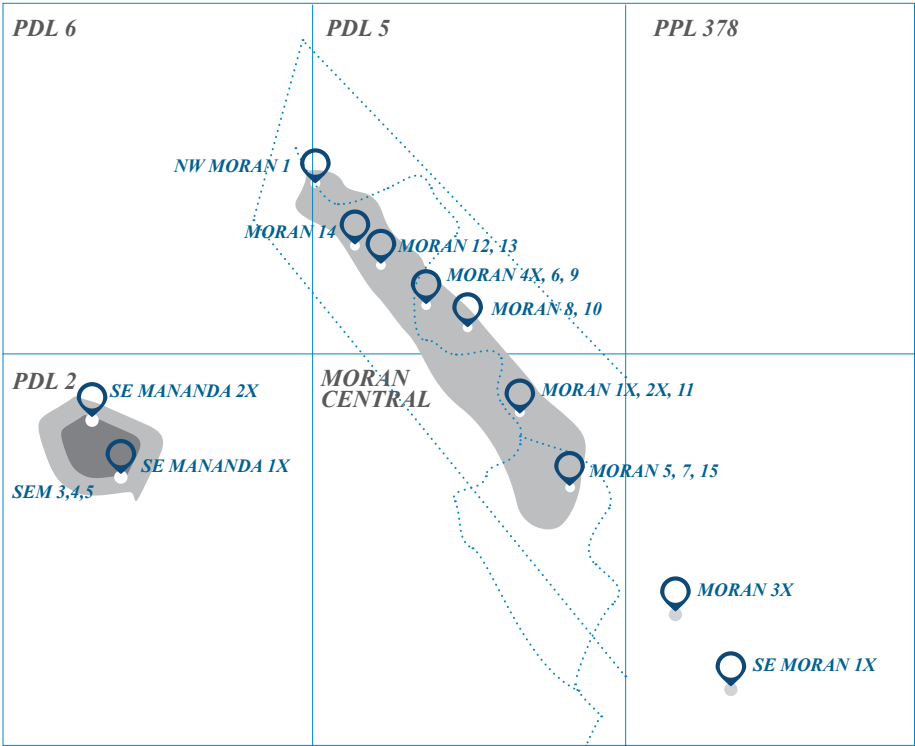


Figure 3: Greater Moran unit block boundary

Project Economics:

Petromin’s interest in Moran through Eda Oil Ltd is essentially passive with the Operator (Oil Search Limited) taking the lead on decision-making. Petromin monitors costs and revenues on an on-going basis.

Financing Plan: No financing for Moran is required.

Project Status: Production on track but oil is declining fast due to natural depletion in discovered oil reserves. The remaining recoverable 2 P reserves as at 31 December 2012 is 32.11 million barrels and Petromin’s share equates to 3.63 million barrels.

3. PNG LNG Project

Petromin’s minority interest in the PNG LNG Project is held through its subsidiary company Kumul LNG which is wholly owned by Eda Oil. The PNG LNG Project which is led by the developer ExxonMobil is expected to ship first cargo in 2014. Petromin has a small equity position of about 0.0203% in the project. The projected net revenue is minimal but nonetheless important from a financial capability viewpoint.

At Project Sanction the project was estimated to cost US\$16.280 billion but this cost has increased by US\$3.104 billion to US\$19.384 billion. This cost overrun represents US\$608 million for the State’s 19.6% interest in the project. PNG LNG project is on schedule but slightly over-budget due largely to landowner issues. Management takes a high degree of comfort from the fact that ExxonMobil (Exxon) is the overall manager of the project. Exxon has managed more difficult projects than this in the past (Sakhalin Island being a good example) and has a strong track record on being able to accelerate development in the final phases of projects and achieve targeted completion dates at the expense of project costs.

The overview of the PNG LNG project is illustrated Figure 4.

It is not possible at this stage to project what the financial outcome will be but it is reasonable to expect cost overruns especially for the State which is in the order of US\$600 million. Petromin is on track in financing its share of the cost in the project.

Petromin has no ability to affect the progress of outcome of this project and resource allocation will reflect this position. Senior management represent Petromin in the Owners Committee Meetings (OCM) and the other technical meetings. The current projections for this project are summarized Table 5.

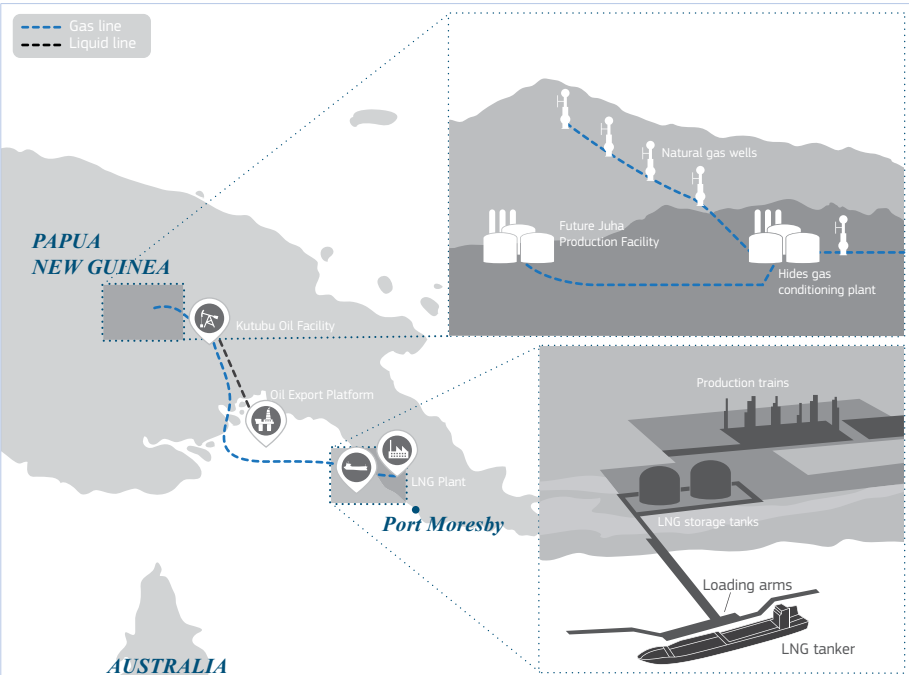


Figure 4: PNG LNG Project Overview

| PNG LNG            | Total  |
|--------------------|--------|
| Sunk Cost          |        |
| Petromin Sunk Cost |        |
| Project Capex      | 19,384 |
| Petromin Capex     | 39     |

Table 5: PNG LNG Project Cost Projections (US\$ million)

The above figures are based on project information/data supplied by the project developer ExxonMobil and Petromin’s own desk top studies. The figures are subject to change as new project information/data becomes available.

Projects Economics:

The PNG LNG Project is a robust project with multiple benefits envisaged to be generated. The Project will bring direct and indirect benefits through employment creation, infrastructure development, government revenue and other benefits that will have a positive impact on the country’s economy.

Financing Plan:

The Project is being financed through a project debt of 70% financial by a syndicate of banks and MLAs the developer ExxonMobil arranged. The 30% equity is being met by the project participants. Petromin has contributed all of its equity contribution amounting to US\$8.2 million (K23.2 million).

Finance is in place for the total project including a significant contingency for cost overruns. At this time it is considered that Petromin is not exposed to any financial risk but, given the vagaries of the project’s relationship with landowners, for example, Petromin cannot consider itself risk free at this time.

Project Status:

The Project has made a steady progress and by August 2013 it was 90% complete with expenditure of around US\$13 billion already spent. Petromin is participating in various project meetings and ensures the project is developed as planned with first cargo expected 2014.

4. Stanley Condensate Stripping Project

The Stanley Condensate project remains a priority project especially because of the progress made by Talisman Energy and Horizon Oil Limited in identifying the resource at PRL- 4. Work is in progress to complete all aspects of the Application for a Petroleum Development License which was submitted in Q3 2012.

Petromin, as State Nominee, maintains a dialogue with the two project sponsors in order to monitor the timing of any requirements for Petromin including contributing to its share of the sunk costs and capital expenditure. Eda LNG (Stanley) Ltd is to hold the interest in the Stanley project.

PRL 4 is located in the western foreland of the Papuan Basin where wet gas has been discovered. Adjacent gas and condensate discoveries include Elevala-1 and Ketu in PRL 21, and Ubuntu in PRL 28. It is 50% owned by Horizon Oil Limited, 40% by Talisman Energy Limited and 10% by Mitsubishi Corporation.

The project Operator, Horizon Oil Limited, has submitted an amended Environment Impact Statement (EIS) to the Department of Environment and Conservation for assessment as required under the Environment Act 2000.

Petromin is currently assisting Horizon Oil with the environmental assessment process for the Minister of Environment & Conservation to grant an Approval in Principle (AIP) and

issuance of the Environment Permit by the Director of Environment as prerequisites for the grant of a PDL.

| Stanley Condensate& Gas | Total |
|-------------------------|-------|
| Sunk Cost               | 115   |
| State Sunk Cost         | 26    |
| Project Capex           | 331   |
| State Capex             | 74    |
| Total State Cost        | 100   |

Table 6: Stanley Condensate and Gas Project Cost Projection (US\$ million)

The above figures are based on project information/data supplied by the project developer Horizon Oil and Petromin’s own desk top studies. The figures are subject to change as new project information/data becomes available.

Project Economics:

Investment in the Stanley Project includes the payment of Petromin’s share of the sunk costs, the development capital expenditure and the operating expenditure for year-1 of production. The preliminary pre-audit Sunk Cost provided by the Operator is US\$115 million. The State share at 22.5% is US\$26 million.

Based upon Condensate sales alone (i.e. gas being reinjected) the Stanley project

is marginal at best. However, with the inclusion of gas sales to Ok Tedi mine which Horizon is targeting, the economics are greatly improved.

The marketing of the gas sales contract to Ok Tedi mine will need to be confirmed. The marketing of the condensate to InterOil or on the open market will need to be confirmed as well. Horizon is finalising its negotiation of both Condensate and Gas Sales Agreements with InterOil and Ok Tedi Mining, respectively.

SCP should be a highly attractive investment to Petromin as it is for the project sponsors. However, as noted above, when the model is run on a condensate only basis, it shows marginal returns to Petromin.

The reason for this is that Petromin enters projects on a sunk cost basis which is a capital investment for Petromin funded generally by debt but revenue for the project participants. Those other participants “write off” the income from Petromin against accumulated exploration costs (sunk costs) which Petromin does not. Accordingly, returns from investments are distorted because of the manner in which Petromin participates in most projects.

More importantly, in many cases the Board of Petromin might be disposed to reject an opportunity as State Nominee on commercial grounds because project investments do not yield a commercial return and therefore are not justifiable.

Of particular relevance however is that most companies use equity which is raised on the basis of an understanding of risk. Investors, particularly in the smaller companies, invest on the basis that it will take time for any return to materialise. This “risk capital” is therefore patient equity. Petromin’s equity is not patient and requires a (capitalised) return: it is not satisfied with an equity rate of return.

The options are for Petromin to seek an injection of equity from the State which would enable it to fund a reasonable proportion of the costs from the Balance Sheet and the balance through project finance.

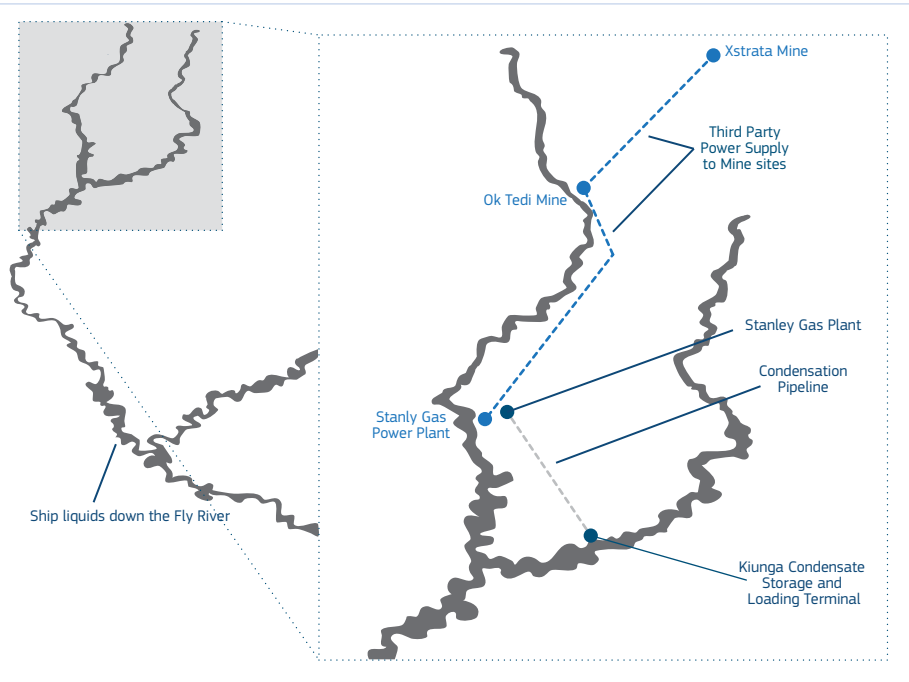


Figure 5 : Location of the Stanley Condensate and Gas Project

Financing Plan:

The project operator has indicated that each party in the project will be responsible for financing its share of the cost of the project. Petromin will be required to raise 100% of its cost including the sunk cost amount. The total financing requirement based on current information for Petromin is approximately US\$100 million.

Upon confirmation with the Operator on certain aspects of the tentative information provided thus far, Petromin will be discussing the project with a number of project finance banks and reviewing other financing options.

Assessment:

Based upon sketchy information and estimates of costs the Condensate project will yield a zero return on investment. Its meagre returns are boosted by the planned commencement of gas sales in the third year of operation. The Operator and its joint venture partners (Talisman and Mitsubishi) are prepared to take the risk of the gas sales eventuating.

Petromin could not justify taking this risk and it would seem necessary to find a mechanism which would permit Petromin to commit to the project only upon the finalisation of gas sales agreements. This matter is under discussion.

Current Project Status:

Horizon and Talisman are seeking to confirm gas or gas-to-power contracts with the OK Tedi mine and Xstrata. At that time definitive data will become available upon which project modelling may be concluded. When that is done, the financing arrangements will be discussed with Treasury and the Shareholder. Project Agreement is also being negotiated between the State and project developer with a Petroleum Development License (PDL) yet to be issued pending the project operator/developer meets all the requirements of a PDL.

5. Shell/Petromin Strategic Alliance

The Shell-Petromin Strategic Alliance is an on-going project with the initial stages of staff training and joint assessment of the offshore Gulf of Papua. A number of exploration opportunities were identified during the study. The definition of any major development will take some time and revenue source is unlikely to occur within the current Business Plan timeframe.

The execution of the Shell/Petromin Strategic Alliance Agreement in August 2011 was one of the important achievements for Petromin. Shell is a wholly owned subsidiary of Royal Dutch Shell plc, which is well established international oil major, the world’s leading Exploration Company and the world’s largest LNG producer with substantial resources, management and technical expertise in the industry.

The Strategic Alliance Agreement allows the Parties to jointly undertake the exploration and exploitation of petroleum upstream opportunities in PNG. Under a Joint Technical Study Agreement Petromin and Shell agreed to identify two priority areas for evaluation and this joint study of the Gulf of Papua and New Ireland Basin is in progress.

The Agreement also provides for training assistance from Shell for Petromin technical officers. Petromin meets its own travel and accommodations costs to avoid the dilution of the Shell contribution of US\$250,000 which goes directly to training.

Petromin’s alliance with Royal Dutch Shell (Shell) saw our petroleum geoscientists undertake a joint major regional study of the Gulf of Papua with Shell this year. The study involved the interpretation of over 12,000 kilometres of 2D marine seismic data that used Shell’s petroleum exploration technology. The petroleum Geo-Science skill set and knowledge within Petromin was significantly enhanced through this joint study and the broader alliance.

PRIORITY 2  
PETROLEUM PROJECTS  
APPROVED BUT SUBJECT  
TO RESOURCING

6. PNG Floating LNG Project

Petromin’s interest in the project is held through Petromin Energy Ltd - a SPV created for the FLNG Project. The PNG Floating LNG Project was approved by NEC in December 2010. The Project Partners (Petromin, Höegh and DSME) have consolidated the partnership through incorporation of PNG FLNG Ltd.

The LNG FPSO technology processing facility, which would be capable of producing up to three (3) million tons of LNG annually (mtpa), which is to be located in Gulf of Papua. The 3 MTPA LNG produced equates to a reserve quantity of 3.0 trillion cubic feet (tcf) of gas. The proposed LNG FPSO will have 3 mtpa capacity for a 20-year period. The total capital cost is estimated to be around US\$3.5 billion. The facility has been designed to produce both LNG and Condensate and Petromin to be involved in the facility construction, environment and local socio-economic issues and PNG compliance matters.

The Partners are currently engaged in discussions with upstream gas licensees located mainly in the Gulf and Western Provinces to secure feed stock gas for the Floating LNG Project. Progress in securing feedstock may be difficult with one of the potential gas suppliers InterOil (Elk/Antelope) having a dispute with the State over its development plans.

Once upstream gas has been secured the three partners in the floating LNG project will be able to move to FID and then construction which will take a minimum of 4 years. At this stage, first cargo looks to be possible in 2018 if upstream feed stock gas is secured.

| PNG FLNG           | Total |
|--------------------|-------|
| Sunk Cost          |       |
| Petromin sunk cost |       |
| Project Capex      | 3,493 |
| Petromin Capex     | 1,188 |

Table 7: PNG FLNG Project Cost Projections (US\$ million)

The above figures are based on project information/data projected by project partners including Petromin, DSME and Höegh LNG. The figures are subject to change as new project information/data becomes available.

Project Economics

While this project has a long way to go, it would appear particularly robust in economic terms for the three partners. Because Hoegh has spent a lot of time on FEED already, project technical risk is low relative to any similar “Greenfield” project.

It is not possible to predict returns on this project if only because the state of the gas market in 2018 is impossible to predict. Our current “best guess” is that the project will yield at least a utility–type rate of return.



Figure 6: Shows flow test of Antelope 2 in 2009



Figure 7: PNG FLNG Project Vessel (Floating Production Storage and Offloading)

7. Elk/Antelope Gas Field –  
PRL 15 (InterOil/LNGL)

Petromin’s interest in the Elk/Antelope project is held through Eda LNG Ltd. The Elk/Antelope Gas Field remains an important project for Petromin as it was in the initial Business Plan in 2008. Petromin is the State Nominee through the same NEC Decision that approved the Project Agreement between the State and LNGL in November 2009.

Petromin also signed an Investment Agreement with InterOil, through which it has contributed about US\$16 million to the exploration activities which has resulted in further discovery of gas in the Elk/Antelope Gas Fields.

InterOil and partners have however, deviated from developing the project described in the Project Agreement. They have been advised by the Government that its proposed “Gulf Project” is not acceptable and that the parties are moving towards repudiatory breach of the Project Agreement with the State. InterOil/LNGL and State have been in negotiations since September 2012 regarding the 50/50 sharing proposal put forward by InterOil. Whether this deal will come to fruition is not known and InterOil has been in the process of selecting its partner for the project.

The 2009 Project Agreement has expired in June 2013 and the Petroleum Minister has issued a Notice to Terminate the agreement. While it is not possible to predict what will eventuate, LNG revenue from the Elk/Antelope fields is unlikely before 2017. The figures are based on project information/data supplied by the project developer and Petromin’s own desktop studies. The figures are subject to change as new project information/data becomes available.

| Elk Antelope     | Total |
|------------------|-------|
| Sunk Cost        | 200   |
| State Sunk Cost  | 45    |
| Project Capex    | 7,323 |
| Petromin Capex   | 1,648 |
| Total State Cost | 1,693 |

Table 8: Elk Antelope Project Cost Projections (US\$ million)

Project Status:

Petromin as a nominee is participating in the 50/50 sharing arrangement which is being negotiated between InterOil and the State but it is not clear what form the Elk/Antelope project will take particularly when InterOil has finalised its partner. Given that Petromin’s Investment Agreement with InterOil has expired the parties are currently negotiating a Field Cooperation Agreement.



Signing of Shell Alliance Agreement



Bernard Pawih & Ken Vei



Petromin minerals team on Nautilus ship



TGM logistics officer Port Moresby



TGM mine site worker

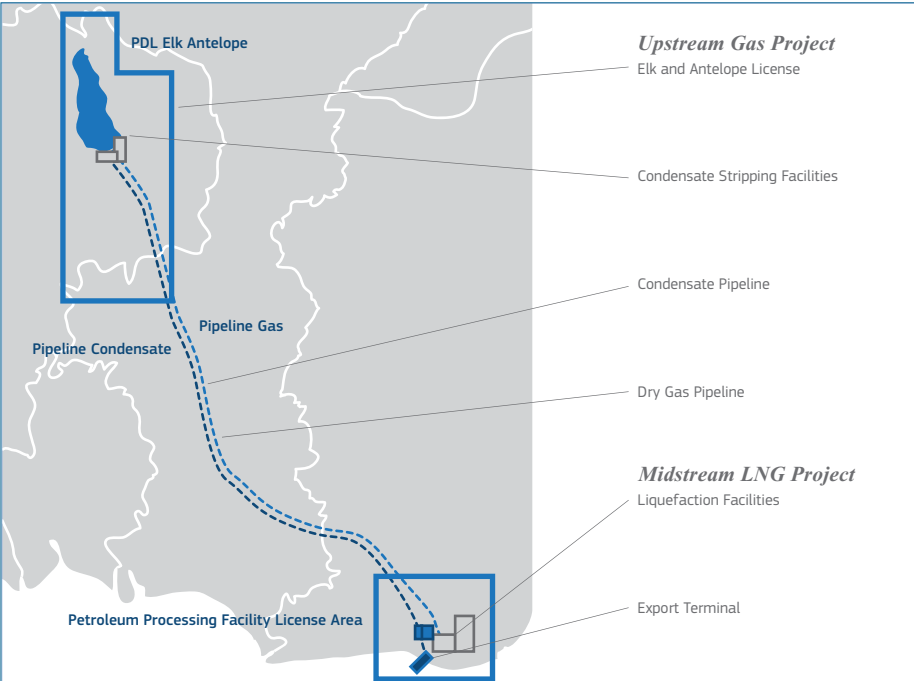


Figure 8: InterOil/Mitsui Condensate Stripping Project Proposal

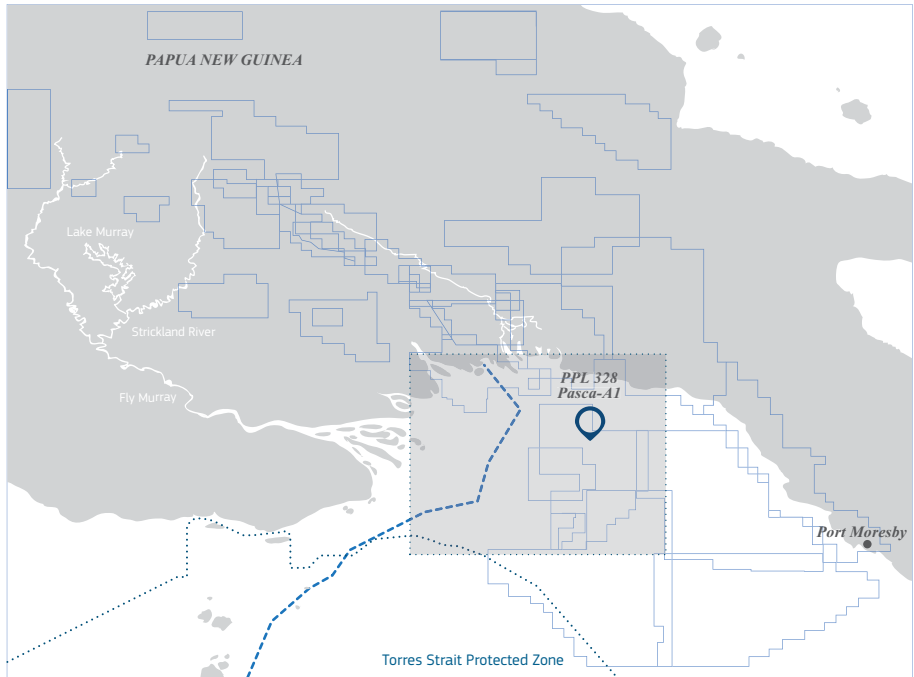


Figure 9 : Map showing Pasca gas field

8. Mitsui Condensate Plant

The Mitsui Condensate Plant has been an important project for some time as it represents a faster means of monetizing the Elk/Antelope gas field. InterOil and Mitsui have an arrangement in place where the latter plans to strip condensate (liquids) from gas at Elk/Antelope and transport it to the InterOil refinery in Port Moresby and purchase the end product for shipment to Japan or elsewhere.

The project may be delayed while InterOil/LNGL resolve the current dispute with the State over InterOil’s apparent repudiation of the Project Agreement signed with the State on 23rd December 2009. However, it is possible that a PDL could be granted to facilitate liquid stripping as planned with the dry gas re-injected into the wells until the dispute with the State over the form of the LNG Project is resolved. Under this scenario, Petromin could expect condensate revenues from mid-2014 and the Company will continue to monitor as development unfold.

9. PPL 328 PASCA (Joint Venture with Twinza)

PPL 328 has been ranked as a Priority 2 project following Petromin’s acquisition of a 10% interest in the Pasca gas field which is offshore in the Gulf of Papua. Petromin and Twinza are committed to implementing the work program and necessary expenditure implementation program. The parties will investigate the prospect through a JV agreement which was executed in February 2013 by the parties.

Constrained resources on the part of the joint venturers suggest that progress in evaluating the potential for recovery of oil and/or gas from the field might take some time. The Pasca field was blown out in 1983 and may not hold sufficient resources to constitute a project by itself. From initial assessments, Petromin and Twinza anticipate that there may be some hydrocarbon resources of some value which, if aggregated with other known resources in the area, could play an important role, for example, with supply for PNG FLNG.

10. Petroleum Retention Licenses (PRL’s)

Petromin, as part of its investment strategy, has considered nomination or farm-in arrangements with the operators of the existing Petroleum Retention Licenses (PRLs). The retention licenses have been issued to the licensees for retaining discovered gas resources whilst efforts are being made to develop and market the resources. Petromin understands that the Government has recently made a policy decision to ensure PRL operators do not sit on the licenses for longer period. Petromin has been reviewing and evaluating all the existing PRLs with the view to working with the operators of the discovered gas fields to commercialize the gas resources.

In December 2011 Petromin was nominated under the Petromin Act in all PRLs mostly located within the Papuan Basin. The nomination is in addition to Petromin’s earlier nomination through the same Act for the Elk/Antelope gas field in PRL15. Petromin will exercise the State’s legal right to acquire 20.5% equity in the gas fields at the issuance of Petroleum Development Licenses. Petromin’s interests in each of the PRLs are held through subsidiary companies. The ten nominated licenses and their estimated resources are set out below.

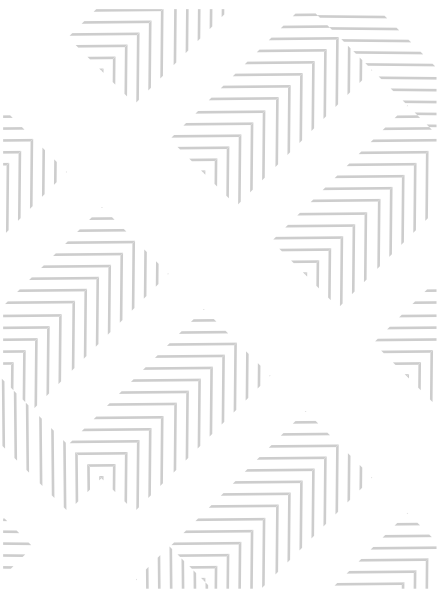
Since the nomination Petromin has commenced the process of dialogue with the current operators and Joint Venture Partners of the Retention Licenses with the view to fostering cooperation with the licensees. It is envisaged that through this process Petromin will be able to understand and evaluate the projects and prepare itself to fully participate at the granting of the respective PDLs.

The figure 10 shows the PRL location map. These licenses are held by various licensees contemplating developing these resources.

Petromin will also have a 20.5% interest in PRL 28 following its nomination in the license. PRL 28 is operated by Eaglewood which is proposing to develop a Mini-LNG using the discovered gas resources at Ubuntu gas field located in the Western Province.

Project status:

Petromin has commenced the process of establishing dialogue and cooperation with each of the PRL operators.



| Field                   | OGIP – Estimated Bcf | OCIP – Estimated Mmbbl |
|-------------------------|----------------------|------------------------|
| PRL 1 Pandora           | 1,110                | 182                    |
| PRL 3 P’nyang           | 3,439                | 23                     |
| PRL 4 Stanley           | 350                  | 9                      |
| PRL 8 Kimu              | 800                  |                        |
| PRL 9 Barikewa          | 759                  |                        |
| PRL 10 Uramu            | 178                  |                        |
| PRL 13 Kuru             | 124                  |                        |
| PRL 14 Iehi/Bilip/Cobra | 104                  |                        |
| PRL 15 Elk/Antelope     | 4,500*               | 194                    |
| PRL 21 Elevala/Ketu     | 2,204                | 35                     |
| PRL 28 Ubuntu           | 100                  |                        |

Table 9: Petromin Nominated Petroleum Retention Licenses

\*IOC/LNGL claim 11,200 but this has not been independently certified by world class reservoir engineering company. Gaffney Cline & Associates confirm 2C resource of 4.5 tfc (approx) only.

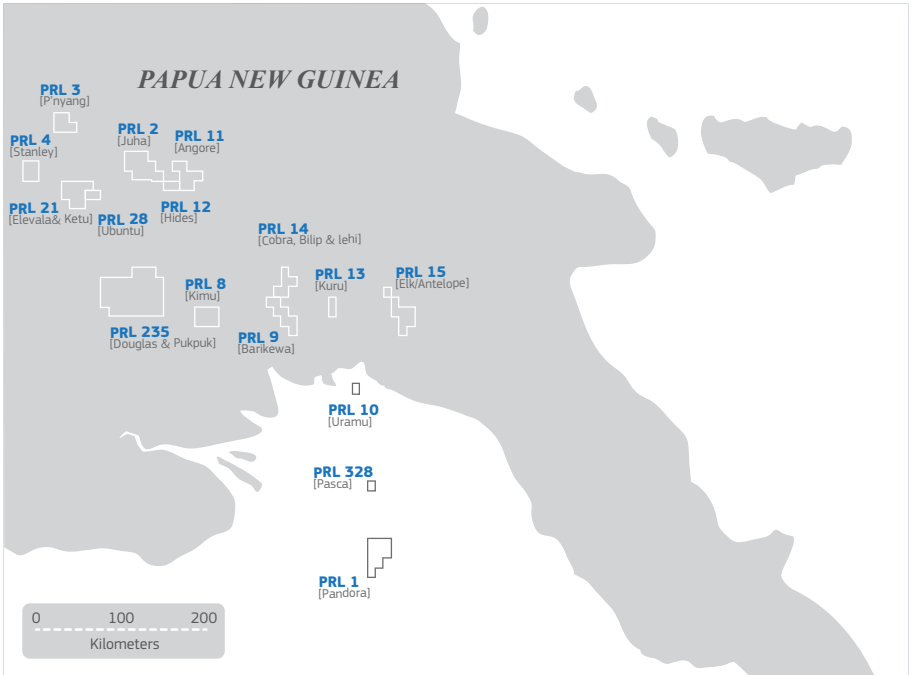


Figure 10 : PRL Location map

11. New Ireland & Papuan Basin Exploration

Petromin has sought exploration licenses over currently unoccupied acreage especially in the New Ireland Basin. Acquisition of exploration acreages should complement Petromin’s long term vision for exploration.

Petromin has been awarded a Petroleum Prospecting License (PPL 345) in 2011 over the New Ireland Basin. PPL 345 is under Eda Energy Ltd, a wholly owned petroleum

exploration subsidiary of Petromin PNG Holdings Ltd. Following the award of PPL 345 Petromin commenced initial geological and geophysical review of the South East New Ireland Basin as part of the license condition.

Further 9 PPLs over the New Ireland Basin were subsequently awarded to Petromin.

Petromin Board has put a stop to further applications for new petroleum prospecting licenses until Petromin has the necessary funds available to meet the substantial costs associated with exploration under PPLs.

Project status:

Petromin is compliant with the license work programs and expenditure commitments in the initial term of the licenses. Shell has partnered with Petromin to evaluate the potential of the New Ireland Basin, particularly to explore Miocene reef and associated carbonate reservoirs. Work planned for late 2013 is to conduct geological and geochemical sampling, and to commence planning for new seismic data acquisition in 2014.

12. PRL 28 – Eaglewood (Mini-LNG Project Proposal)

PRL 28 has been elevated to Priority 1 status (previously Priority 2) because of plans by the Operator to develop mini-LNG with a view to supplying power to mines in the region and Port Moresby. Assuming a PDL is issued this year, this project could provide a revenue stream to Petromin commencing in 2014. Eaglewood have yet to provide cost estimates for production, liquefaction, transportation and sales prices. Accordingly, net revenue estimates are not available at this time. However, there is indication that Eaglewood is trying to farm out to interested parties.

Proposed project concept can be a foundation for a transformational approach to the use of LNG in Papua New Guinea in urban, industrial and rural environments. Risks and sensitivities that will need to be looked at, however until a specific customer is identified it is difficult to run risk assessments and sensitivity analysis with any degree of reliability. It is therefore proposed that if the concept is endorsed, specific discussions should be commenced with PNG Power and other potential end users to define an end user and the specifics of their demand, and pricing needs.

The proposed Ubuntu Micro LNG project will facilitate the production of LNG from Ubuntu well in PRL 28. Design capacity of up to 200 tonnes per day of LNG, and transported by road to Drimdenasuk. The gas developed from this field is envisaged to be used solely for the domestic market in the country. LNG would be transported in twenty tonne ISO tanks delivered to power generation facilities and LNG re-gasification units. Gas reserve of 100bcf in-place is estimated on the basis of a single well at Ubuntu 1.

The plant will have the following configuration; Modular plant design - Gas treatment, power generation and liquefaction modules constructed on individual skid mounted units for transportation by a regular 40 ft trailer.

- LNG storage tanks adjacent to the plant and for 2 days of production.
- Plant size of 200 tpd, equates to about 10 MMSCFD of gas production which is sufficient to generate 40 MW.
- 10 MMSCFD of gas production to yield 500 barrels per day of condensate would be produced.

The LNG plant will be located on the existing Ubuntu-1 well location close to the village of Gasuke and midway between Drimdenasuk and Nomad which is about 75 kilometres east

of Drimdenasuk in the Western Province of PNG. The very small footprint of the plant means that it can be constructed on the existing Ubuntu well site location.

Delivery of gas is significantly cheaper electricity to the Western Province and other parts of PNG including Port Moresby. Individual components have been proven and in operation in Europe, Asia and North America. It is anticipated that there is no significant technical risk associated with this approach. The project is also dependent on the re-opening of the Drimdenasuk to Nomad Highway.

Western Provincial Government indicated that it intends to commit to funding the re-opening of the road in the very near future. Recently, Western Provincial Government provided funding for Eaglewood Energy to complete feasibility study on the re-opening of this road. Study findings now with Provincial Executive Committee for consideration.

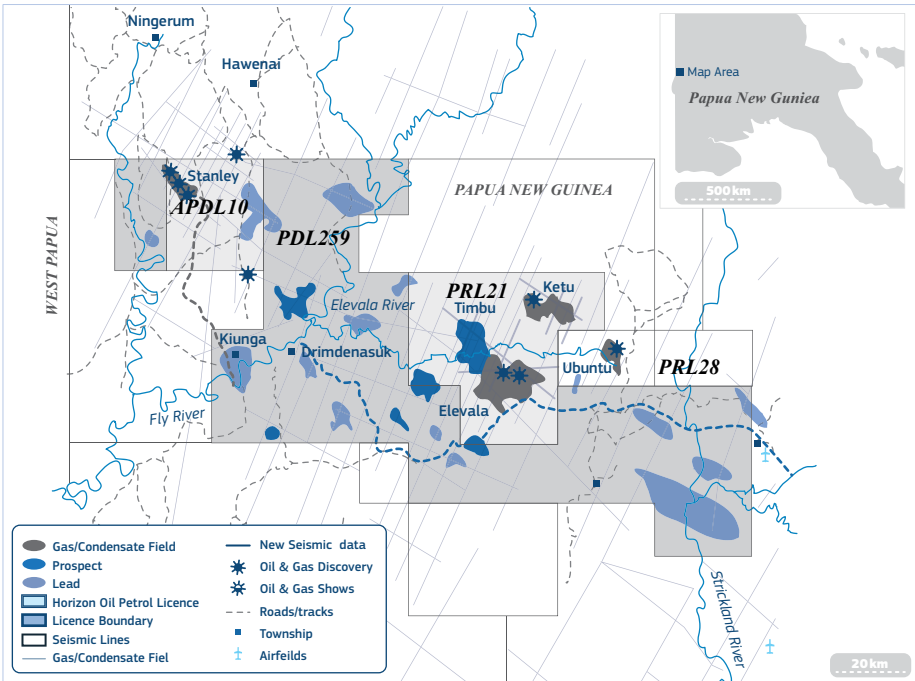


Figure 12 : Eaglewood Mini LNG Project location map

The current projections for this project are summarized in the table below:

| Mini LNG       | Total |
|----------------|-------|
| Project Capex  | 598   |
| Petromin Capex | 135   |

Table 10: Mini LNG Cost Projections (US\$ million)

The above figures are based on project information/data supplied by the project developer Eaglewood and Petromin’s own desk top studies. The figures are subject to change as new project information/data becomes available.

Project Status:

The proposal to develop the project is still being driven by the developer and Petromin is maintaining its dialogue with the developer of the project.

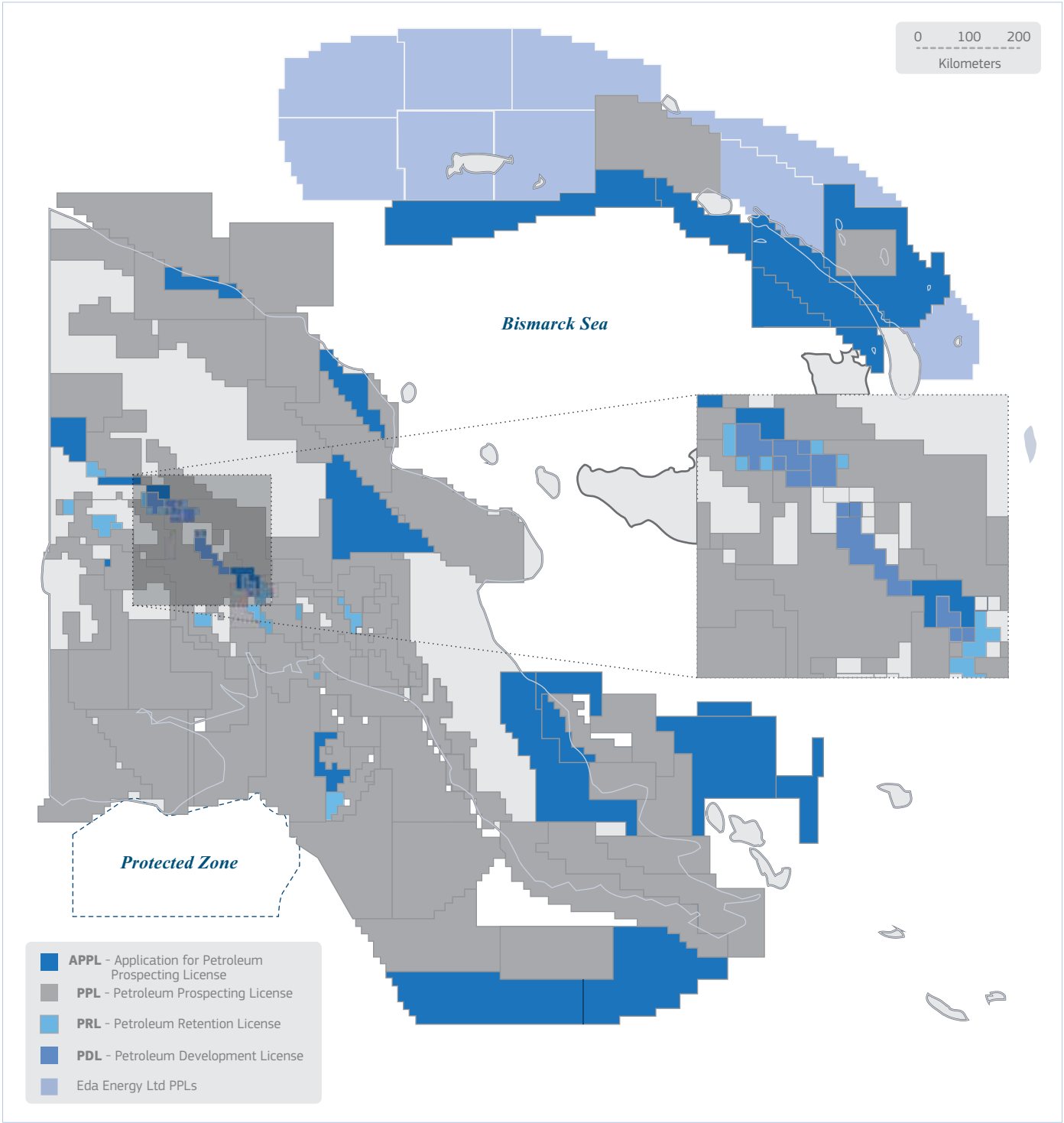


Figure 11: Petromin Petroleum Prospecting Licenses Location

“

*Petromin has through its Business Plan identified and outlined its investments in the petroleum sector going forward.*

”

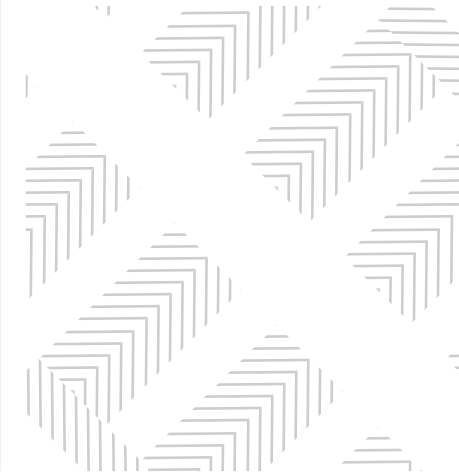


Figure 13 : PNG LNG - Loading Arms Coast of Port Moresby

13. State’s Capital Requirements For Petroleum Projects

Petromin has through its Business Plan has identified and outlined its investments in the petroleum sector going forward. The Company has identified six priority petroleum projects which are being developed or expected to be developed in the next five to seven years. Among these projects include Stanley Project, PNG LNG Project, Eaglewood Mini LNG Project, Elk/Antelope and PNG Floating LNG Project. Moran is an operating Project which Petromin must ensure the project is performing as expected.

The State’s funding requirements for the Petroleum projects are given in the table 7 below.

| Petroleum Projects                 | Project Capex | Project Sunk Cost | Total Project Cost | State Share Capex 22.50% | Debt Funding Required 70% | Equity Funding Required 30% | Total Funding Required |
|------------------------------------|---------------|-------------------|--------------------|--------------------------|---------------------------|-----------------------------|------------------------|
| 1. PNG LNG Project                 | 19,384        |                   | 19,384             | 39                       | 19                        | 8                           | 39                     |
| 2. Stanley Condensate/Gas Project  | 331           | 115               | 446                | 100                      | 70                        | 30                          | 100                    |
| 3. PNG Floating LNG                | 3,493         |                   | 3,493              | 1,188                    | 832                       | 356                         | 1,188                  |
| 4. Elk/Antelope Gas Project        | 7,323         | 200               | 7,523              | 1,693                    | 1,185                     | 508                         | 1,693                  |
| 5. Eaglewood (Umbuntu) Gas Project | 598           |                   | 598                | 135                      | 94                        | 40                          | 135                    |
| Total                              | 31,129        | 315               | 31,444             | 3,155                    | 2,200                     | 943                         | 3,155                  |

Table 11: Total cost of all petroleum projects (US\$ million)

It is important to note that the above figures are based on project information/data supplied by the respective project developers and Petromin’s own desk top studies done internally. The figures are subject to change as new project information/data becomes available.

PRIORITY 3: PETROLEUM PROJECTS IF/WHEN RESOURCING PERMITS

14. Strategic Pipeline

Petromin has considered an option to develop, own and operate a natural gas pipeline system which could capture the value of marginal natural gas resources in the Papuan Basin and hinterland.

This project would aggregate the stranded gas from undeveloped marginal gas/ condensate fields within the Central and Western foreland of the Papuan Basin, as well as fields within the offshore Gulf of Papua and transport the gas to a LNG central processing facility such as the floating LNG (FLNG) for processing, storage and off-loading to export markets.

Petromin commissioned a reputable engineering company – Worley Parsons to undertake a conceptual study to evaluate technical and economic of the proposed pipeline project. The study was completed and submitted in late December 2011 with further work suggested.

The Worley Parsons desktop study was based on an available resource of 9Tcf of gas which is not yet in evidence. The largest gas source at this stage is P’nyang gas which is owned by ExxonMobil and appears destined for the third train of the PNG LNG project. The evaluation of options with the gas field license owners is being managed by the PNG FLNG Project.

The study recommends pipelines designed and built to class 900 pressure service levels. This pressure level is consistence with the PNG LNG pipeline currently under construction. Accordingly, the cost evaluation was done only on the Class 900 pressure service.

The study concludes that the pipe line transportation of natural gas and natural gas liquid each in a higher pressure barriers steel pipeline is viable. The basic technical and regulatory regime that applies to oil and gas pipelines in PNG is well established and the application of mature Australian Standard is proposed. The option considered is technically achievable.

The proposed next project step was to perform a Select Class 2 screening Cost estimate basis to +/- delivering a select class 2 screening Cost Estimate basis to +/- 30% accuracy.

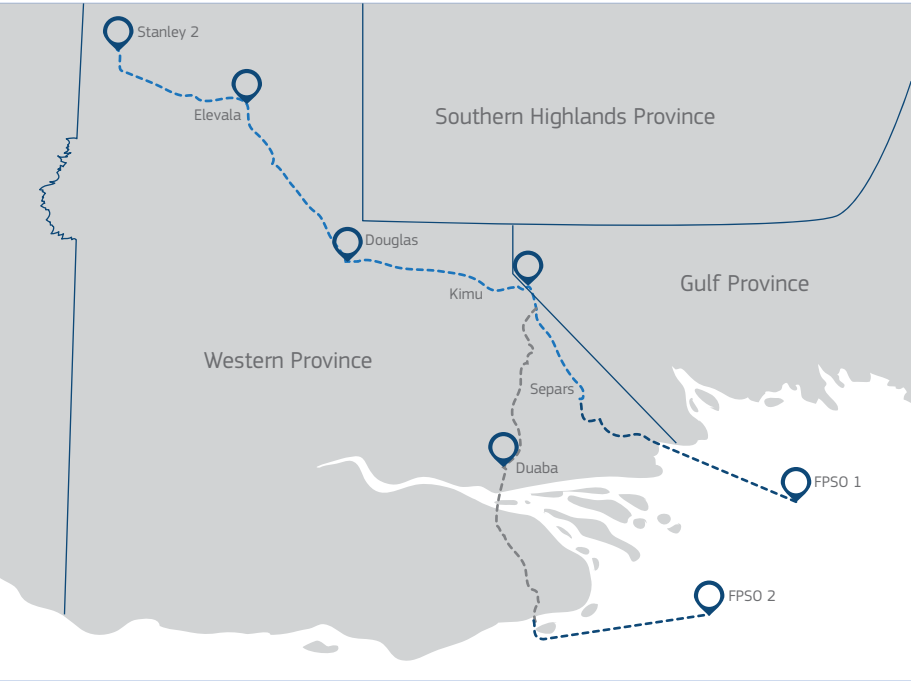


Figure 14 : Proposed pipeline routes

This would allow a detailed assessment of the selected route and system option. It is expected such a screening study will take in the region of 6 months to complete and it involves the following key features:

- An enhanced hydrocarbon production contribution basis to the required throughput capacity of the selected pipeline system at the appropriate nodes along the route;
- Significant dedicated GIS mapping data acquisition plus on-site over flights and preliminary geotechnical assessments and on- ground inspection to determine excavation and constructability conditions along the onshore route and
- A specific logistics sub study to select the preferred scenarios that will form the basis of all Early Works and Pipelines System evaluation.

Recent discussions with Xstrata, Talisman and Horizon suggest that the bulk of the available gas in the Stanley – Elevala/Ketu region will be allocated to supplying piped gas to the OK Tedi mine site and for power generation

at Stanley to supply transmitted power to Xstrata’s Frieda River project. In this regard it should be noted that to make the Frieda River project bankable, significant reserves will need to be quarantined to cover gas field production and fuel supply risks.

Assuming contracts with OTML and Xstrata’s Frieda River JV are executed, the bulk for the available gas in the foreland of the Papuan Basis which is more remote from the coast will be committed. Any remaining small gas fields in that region are likely to simply feed into the PNG LNG pipeline.

One final point is worth noting. Pipelines are utility – type assets and yield largely fixed vote of return once fully utilized. Ownership by a commercially driven entity would seem inappropriate and might better be left to institutions such as development banks which traditionally find fixed returns attractive.

**Project Status:**

Detailed feasibility work to begin subject to funding available.

“  
*Petromin  
continues to  
be compliant  
on all of its  
regulatory  
requirements.*  
”



*TGM Exploration officer*



*TGM mine site officer*



*Petromin/Shell Alliance Agreement signing: Joshua Kalinoe, Hon William Duma & Shell's Guy Outen*

15. Gas Aggregation Strategy

The PNG FLNG project provides a solution for the relatively early monetisation of gas in the Papuan Basin. Although potentially a solution for Elk/Antelope, the project has been focused on the smaller fields in the Papuan Basin which have no apparent market.

The aggregation of gas available in the Papuan Basin could provide a feedstock for the FLNG and it is for this reason that this project and the determination of the gas transportation solution are being evaluated.

Resource allocation to this will be through our interest in PNG FLNG Ltd and managed by its Managing Director.

Project Status:

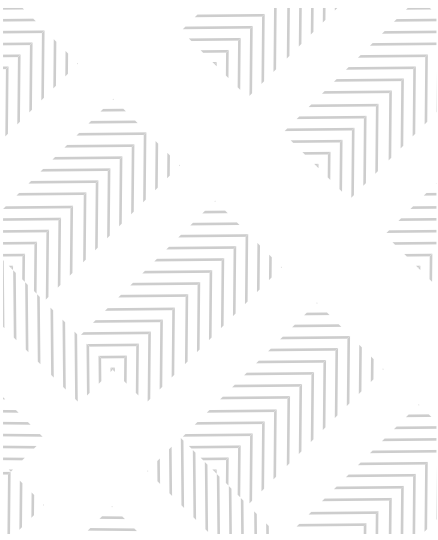
The proposal is still at conceptual study stage.

16. Shipping Joint Venture

Petromin is a Joint Venture Partner with MISC, a subsidiary of Petronas, through Western Pacific Shipping Limited. Petromin’s interest is held through its subsidiary Petromin PNG Shipping Ltd which holds interest in the Western Pacific Shipping Ltd. MISC was selected from a number of shipping companies which approached Petromin for a possible joint venture in LNG Shipping and other shipping opportunities.

The shipping venture is intended to provide revenues and other benefits to Petromin including building human resource capacity, transfer of skills and know how, employment opportunities, control of LNG transportation, secure the transparency of transportation cost, share investment risk with experienced partners and other benefits to the country.

The MISC and Petromin Joint Venture have to date not secured a business in the shipping sector. However, the parties continue to explore shipping business opportunities.



17. Gas Based Value Adding Opportunities

Oil and gas developments are generally associated with other industrial activities which rely on gas in particular as a feedstock. While the PNG LNG project is dedicated solely to export markets, thereby denying the opportunities for the country, the emerging developments in the Papuan Basin with Elk/Antelope and the exploration by Talisman, Horizon and Oil Search offer scope for developing gas-based industries such as fertilizer plants, methanol/DME plant, aluminium smelting plant, and petro chemical plant. The development of the gas resources should open up opportunities for gas based value adding opportunities in the country.

18. Risk Management

The Petroleum Division is responsible for all oil and gas projects that Petromin participates in. The Division takes responsibility in managing risks associated with each project.

The full Risk Management Register for all Petromin Projects is included in Part 1 Corporate – section 19 Risk Management Policy.

19. Senior Management Structure – Petroleum Division

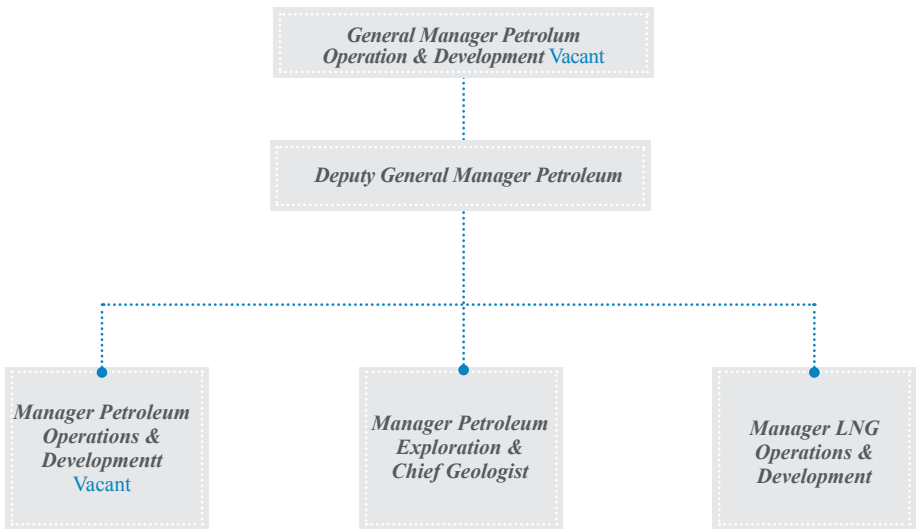


Figure 15: Petroleum Division Senior Management Structure

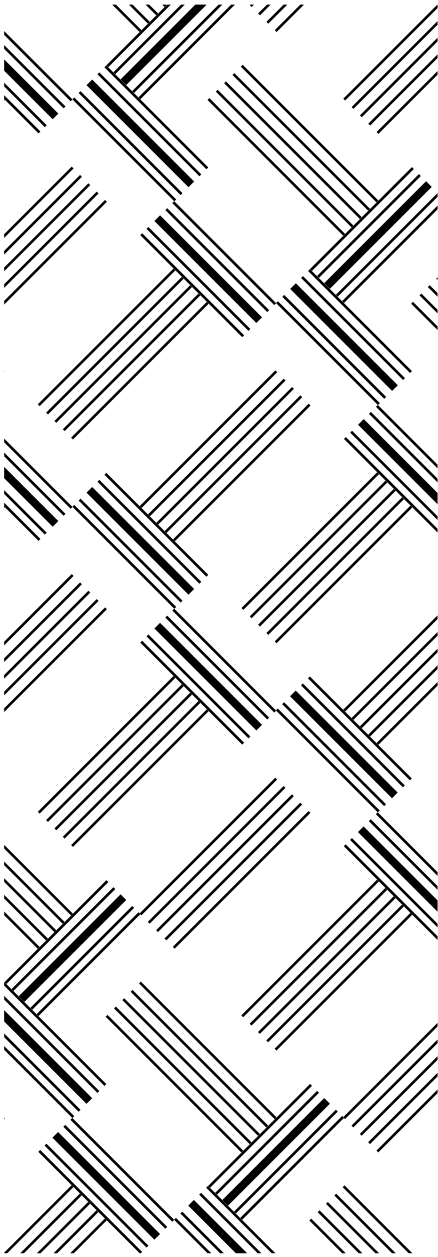


TGM Workers with mine truck



# PART 3

## PETROMIN'S MINERALS PROJECTS & ACTIVITIES



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Divisional meeting of Petromin mineral team

### 1. Introduction

Petromin PNG Holdings Limited's (Petromin) Business Plan classifies projects within the Minerals sector into three categories:

- Projects which have been approved by the Board and for which expenditure has been committed;
- Projects which the Board considers should be pursued as financial resources become available; and
- Projects which might emerge as priorities in coming years but for which resources have yet to be approved.

The prioritisation reflects largely on the lack of capital provided to Petromin and the consequent limitations on its activities. Therefore, in this section, the paper begins by introducing the priority projects in the minerals sector.

### PRIORITY 1 MINERALS PROJECTS COMMITTED & APPROVED PROJECTS

#### 2. Tolukuma Gold Mine

The Tolukuma Gold Mine requires a major capital injection which Petromin cannot provide at this time. As a result the Board was initially determined to divest a part interest in the mine but subsequently decided on a full divestment of the mine and it's near mine tenements. A small cash receipt was expected from the sale in 2012 although this would not be sufficient to cover losses sustained by TGM in the intervening period. However, the sale did not occur in 2012.

The focus now is to return the mine to profitability through a concentrated programme of cost reduction and efficiency improvement.

### Business overview

Petromin has made some significant investments with a view to improving the project's economics and the integrity of the mining operations since acquiring the mine in 2008. Some of the key investment highlights are;

Investment in new equipment and machinery under a recapitalisation program currently being implemented;

- An improvement in the mines safety record with 600 days without lost time injuries.
- Environmental management has been prioritized with no repeat of past incidents under previous ownership; and
- The planning of the construction of a road connecting the mine to the main arterial road has been advanced. This is anticiapted to improve the economics of the project significantly.

### Project Economics:

Considering TGM's high potential, the mine has received numerous expressions of interests from potential investors. Based on resource estimation work done to date the mine, on the conservative basis, has resource of 115,000 Oz of gold to be mined up to 2017 on estimate of 3,500 oz per month production rate. Further work is being done to confirm the resource especially in Zine (124,000 oz) which would increase the resource to 239,000 oz of gold.

The revenue projected from producing 115,000 oz of gold at US\$1,218 per oz before factoring cost amount is around K350 million. The revenue doubles to K727 million if the mine produces the total resource of 239,000 oz. However, in order to realise such revenue from the mine TGM requires substantial capital injection totalling K50 million from 2013 to 2017 with an initial capital injection of slightly above half of the total amount required, in 2013. TGM has the potential to be turned into a profitable mine. While periodically, the mine might cover its costs, or perhaps show a small profit, the mine is not able to do so, on a sustained basis without a major capital injection. Unfortunately, Petromin cannot possibly inject the capital required by TGM as it does not have such funds to capitalise the mine.

“  
*Petromin completely understands that the mine requires substantial investment. One way this could be achieved is through divesting part of the mine to a partner(s) which is capable of injecting the required capital or seek other options of financing the mine.*  
”

Resource potential

- Since its inception the mine has produced approximately one million ounces of gold. The mine produced 62.6 thousand ounces of gold in 2009, 51.6 thousand in 2010 and around 35.9 thousand ounces of gold in 2011. The remaining resource base is estimated to be in the range of 115,000 and 239,000 thousand inferred and indicated ounces of gold based on the preliminary study conducted by Snowden Consultants in early 2013.The six near mine tenements owned by the company remain underexplored but are believed to hold significant resources. Key aspects of the location of TGM’s tenements are;
- A well endowed area;
- Favourable transfer structure hosted within the New Guinea copper-gold belt; and
- Intrusive rocks date back 1 to 5 million years which is the same age as the large Copper-Gold deposit in the South West Pacific such as Grasberg, OK Tedi and Panguna.

Financing Plan:

Petromin recognises that the mine requires substantial investment. One way this could be achieved is through divesting part ownership of the mine to a partner which is capable of injecting the required capital or seek other options of financing the mine. It is envisaged that the current restructure the States mineral assets, might see the allocation of needed capital including building of the mine access road to the mine site.

Project Status:

There has been a significant decline in production and as a result a decline in sales and financial performance in 2011 and 2012. The decline in production was further exacerbated by a failure of the hydroelectric systems which provides electricity to the mine.

The mine requires a capitalisation in the region of K50 million in-order to be rehabilitated. It has to be noted that the decline in gold prices has contributed towards the mine’s negative performance.

However the mine is currently undergoing a maintenance program and is also in the process of acquiring and commissioning new mobile equipment and drills. With this it is expected that production will significantly increase from January 2014 onwards.

3. Solwara-1 Project

The Solwara-1 Project was elevated to priority 1 project because of the speed at which the Operator (Nautilus Limited) has secured a Mining Lease and completed technical development work.

Petromin was nominated as State Nominee in 2011. In the same year, Petromin commenced the process of securing necessary finance through a State Guaranteed facility. If all goes as planned, Solwara-1 represents another modest revenue stream for Petromin (after provision for debt servicing). The cost summary is indicated in the table below...

| Solwara 1         | Total |
|-------------------|-------|
| Project Sunk Cost | 78    |
| State Sunk Cost   | 23    |
| Project Capex     | 540   |
| State Capex       | 162   |
| Total State Cost  | 185   |

Table 12: Solwara 1 Project Cost Projections are summarised (US\$ million)

The above figures are based on project information/data supplied by the project developer Nautilus and Petromin’s own desk top studies to date. The figures are subject to change as new project information/data becomes available.

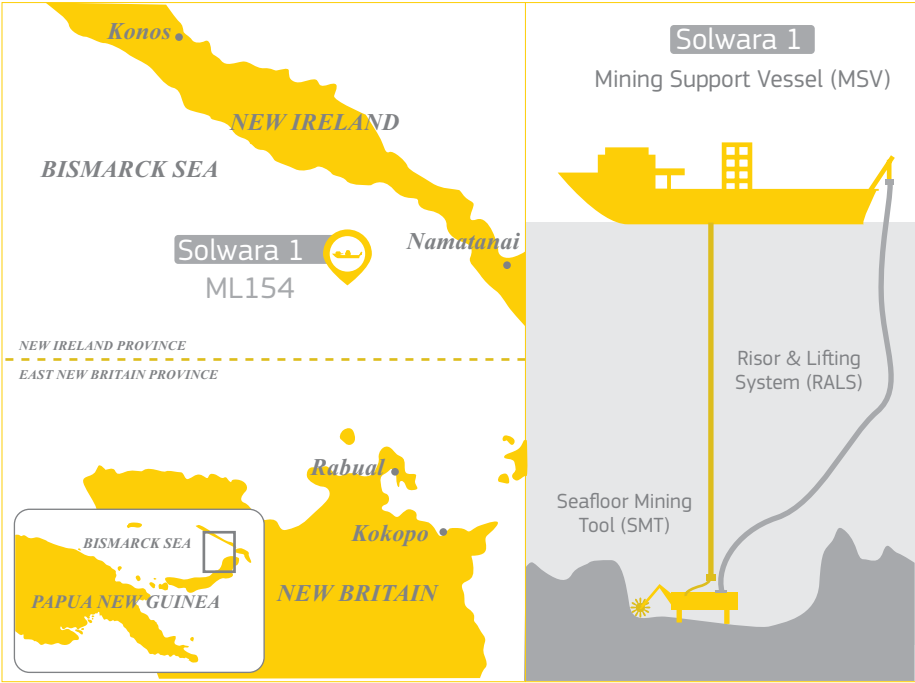


Figure 16: Solwara 1 Project Location and undersea mineral extraction and processing facility

Financing Plan:

Since the Solwara 1 project is assumed to be a high risk project, it does not attract project financing. Hence, Petromin will have to finance 100% of the State’s 30% equity. Funding for which the State through NEC has agreed to support by way of a sovereign guarantee.

**Project status:**

Currently, the State and the Operator are still in discussions.

4. Kula Gold

Kula Gold, previously a Priority 2 project, has been elevated because of plans to fast-track development with first production scheduled for 2014. The Operator is planning to lodge its application for a Mining Lease in the near future. In March 2012, the Mining Minister nominated Petromin’s wholly-owned subsidiary Eda Minerals (Kula Gold) as State Nominee in the project. Petromin will acquire a 30% participating interest in the Mining Lease when it is granted. Eda Minerals (Kula Gold) will take up 25% direct equity while 5% is to be managed by MRDC on behalf of the project impacted landowners.

Woodlark Mining Limited, a company incorporated in PNG, is 100% owned by Kula Gold Limited, an Australian listed company which owns Exploration Licenses (ELs) 1279, 1172, and 1465. The Woodlark Island Gold Project comprising of Kulumanadau, Busai and Woodlark King/ Boniviat prospect occurs within EL 1279. The Island is located 500 Km east of Port Moresby in Milne Bay Province and is accessible by air to Gusopa Airstrip or by sea to Kulumadau.

In February 2012, Kula Gold reported a JORC Ore Reserves estimated at 10.39 Mt at 2.1g/t for 700,000 ounces of gold in the Proved and Probable category. Assuming all work on the Environment Impact Studies (EIS), Definitive Feasibility Studies (DFS) and Social Agreement (SA) are completed as planned application and permitting of the Mine Lease (ML) would be during the last quarter of 2013 followed by construction in 2014 and production expected in 2015.

Kula Gold Limited has engaged Coffey International Environmental Consultants to commence work on the environmental baseline surveys and data collection as part of the Environment Inception Report (EIR) to be submitted to the Department of Environment and Conservation (DEC). The EIR is very important for the DEC to determine the option for mine waste management, especially the options for Tailings Storage facility (TSF) onshore or



Figure 17: Location of the Kula Gold Project

as a Deep Sea tailings placement. During the initial project investigation, Kula Gold Limited opted to discharge tailings into the deep canyon similar to the practices of the closed Misima Gold Mine, Ramu and Lihir Mines. The costs for waste management may be one of the financial constraints. Petromin will conduct its own environmental due diligence to determine the degree of ongoing environmental risks associated with project.

The project completed Definitive Feasibility Study (DFS) in 2012.

| Kula Gold                | Total |
|--------------------------|-------|
| Sunk Cost                | 126   |
| State Sunk Cost          | 38    |
| Project Capex            | 212   |
| State Capex              | 64    |
| Total State Project Cost | 101   |

Table 13: Woodlark Gold Project Cost (US\$ million)

The above figures are based on project information/data supplied by the project developer Kula Gold and Petromin’s internal desk top studies. The figures are subject to change as new project information/data becomes available.

Financing Plan

In financing the Kula Gold Project the developer is considering the following debt/ equity financing options;

- Debt at 60-70%; and
- Equity at 30-40%

The amount of leverage being sought appears somewhat optimistic in the current financial markets.

Assessment:

On the basis of 7 years of production (i.e. the extraction of the proven reserves) the project looks quite robust.

From a technical perspective, the project appears relatively straight-forward and Petromin’s Minerals Division anticipate no major technical difficulties with project execution.

Project status: The Definitive Feasibility Study has been released in the last half of 2012 with Mining Lease due to be awarded subject to the applicant meeting all the license requirements. Petromin has been working with the developer to fast track the development of the project.

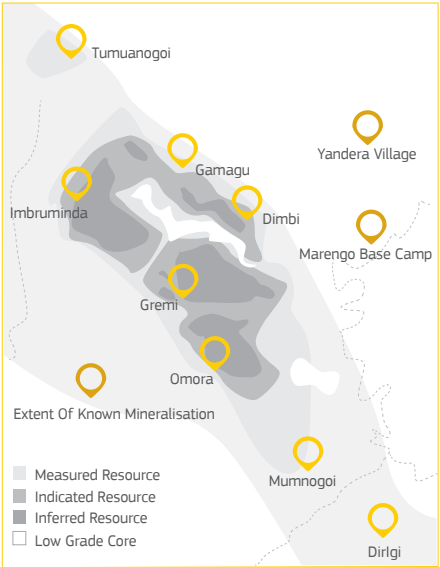


Figure 18: Location map of Yandera deposits



Ipi Camp site

PRIORITY 2 MINERAL PROJECTS - APPROVED BUT SUBJECT TO RESOURCING

5. Yandera Copper Project

Yandera Copper project is another important project for Petromin with the Operator, Marengo Mining Limited, now in the process of seeking a Mining Lease. A Cooperation Agreement with Marengo provides for Petromin’s Minerals staff to be actively involved in project planning and development which will be valuable experience for those involved.

| Yanderra         | Total |
|------------------|-------|
| Sunk Cost        | 200   |
| State Sunk Cost  | 60    |
| Project Capex    | 1,600 |
| State Capex      | 480   |
| Total State Cost | 540   |

Table 14: Yanderra Project Cost Projection (US\$ million)

Yandera’s resources estimate is now 6.5 billion lbs of copper, 204 million lbs of molybdenum plus gold, silver and rhenium. The current definitive feasibility study was due for completion in the fourth quarter of 2012, but is still being refined. Marengo is yet to finalise the Base Case economic model. Petromin will know its share of the cost in terms of sunk cost and capex once Marengo has completed the base case economic model.

The above figures are based on project information/data supplied by the project developer Marengo Mining and Petromin’s own desk top studies. The figures are subject to change as new project information/data becomes available

Project status:

Petromin has established cooperation arrangement with the project operator/ developer to advance the project forward.



Figure 19: Yandera Mining Project Location

“Most 2012 exploration activities were focused on EL 1352 drilling, simultaneously with geological mapping and sampling programs at Ipi River.”



Petromin's In-house team of geologists working on the samples

6. Ipi River Exploration

Ipi River Exploration Project has been accorded Priority 2 status because of Minerals Division's assessment that Ipi constitutes a large porphyry/gold/copper system which might become a major mine in the distant future.

The in-house team of geologists are pursuing an exploration program at Ipi and this will continue until the Company establishes certainty on the potential with likelihood of inviting a competent, technical and financial partner to further progress the exploration work on the acreage.

The current projections for this project are summarized below table.

Project status:

The Company has spent around K4 million on explorations and is currently in the process of farming out to bring in a partner to further explore the prospect.

| Ipi River Exploration | Total | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------|-------|------|------|------|------|------|
| Total project cost    | 8     | 2    | 2    | 2    | 2    | 2    |

Table 15: Exploration Cost Projection for the Ipi River Prospect (US\$ million)

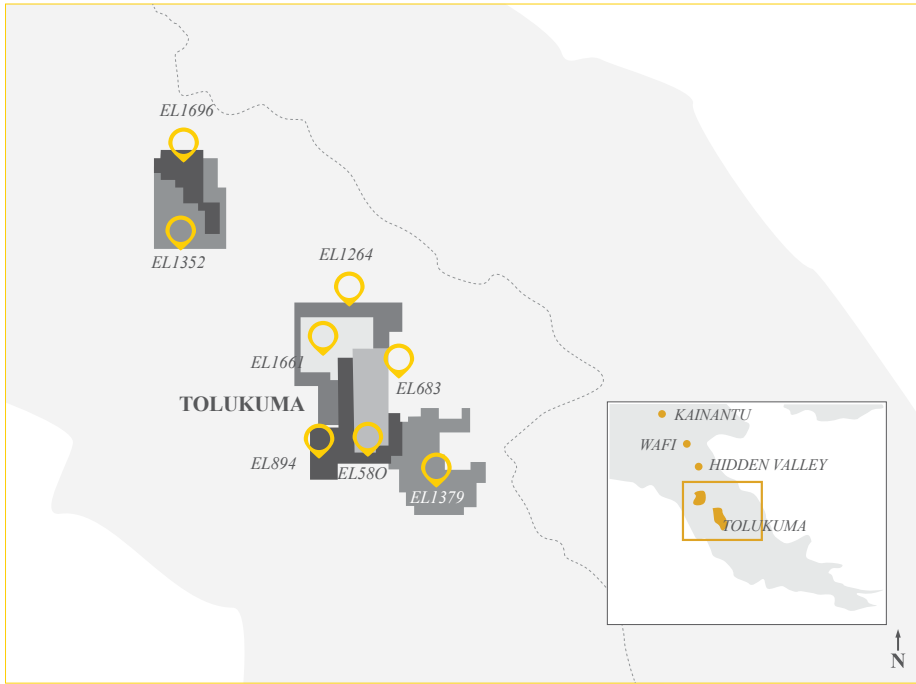


Figure 20: Regional Geology depicting Petromin Exploration licence

7. Frieda River Copper/Gold Project

Frieda River Copper/Gold project is being promoted by Xstrata with a view to having first production in 2018. Frieda River is one of the three major world-class potential mining developments for which Petromin was nominated as State Nominee during 2011.

Located about 200km from the northern coastline and 70km from the navigable Sepik River, the project is managed by the global copper producer, Xstrata Copper, and owned in a joint venture between Xstrata Frieda River Ltd (81.82%) and Highlands Pacific Ltd (18.18%).

Although Petromin has only a watching brief at this time, discussions are proceeding with Xstrata to place some of our Minerals Division personnel with the project to get first-hand experience on new mine development. The project is currently under bankable feasibility study stage due to completion in the last quarter of 2012.

The project is comprised of the Nena, Horse/Ival/Trukai and Koki deposits with as estimated overall resources of 2,090 million tonnes of ore , at grades of 0.45% copper 0.22g/t gold and 0.7g/t silver, using cut-off grade of 0.2% copper. The estimated capital cost is approximately US\$5.44 billion and Petromin's share is approximately US\$1.722 billion . The power requirement for the mine operation is likely to be addressed by Stanley gas development located in the Western Province.

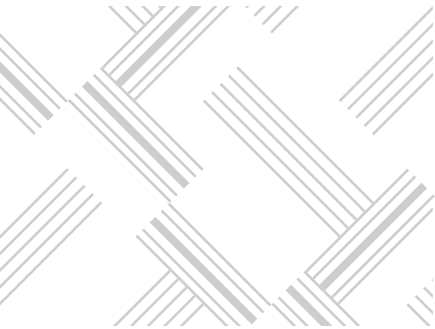
| Frieda River     | Total |
|------------------|-------|
| Sunk Cost        | 300   |
| State Sunk Cost  | 90    |
| Project Capex    | 5,441 |
| State Capex      | 1,632 |
| Total State Cost | 1,722 |

Table 16: Frieda River Project Cost Projections (US\$ million)

The above figures are based on project information/data supplied by the respective project developer and Petromin's own desk top studies. The figures are subject to change as new project information/data becomes available.

Project status:

Petromin has established cooperation arrangement with the project operator/ developer to advance the project forward.



Petromin exploration team

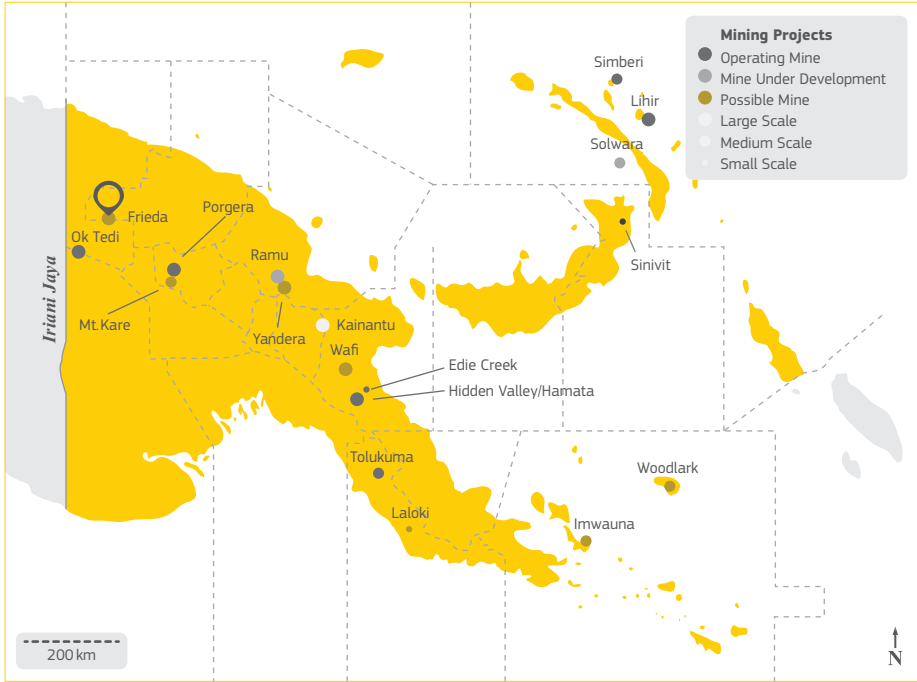


Figure 21: Frieda River Project Location



*Former Petromin shareholder & Prime Minister Sir Michael Somare receiving title of TGM from Emperor Mines representative*



*Worker watering down stockpile at Tolukuma*



*TGM worker*



*TGM officer performing social awareness*



*TGM logistics officer*

8. Wafi-Golpu

The Wafi/ Golpu Gold – Copper Project is another project for which Petromin has been designated as State Nominee. The prospect is situated 60 km SW of Lae and NE of Hidden Valley respectively. It is held under four contiguous licenses covering 996km2. The project is owned by Harmony Gold, a South Africa Mining Company and Newcrest Limited, an Australian-based company.

The prospect comprises a complex hydrothermal system that contains two separate ore systems: the Wafi epithermal gold deposit and the Golpu porphyry copper/gold deposit which are located adjacent to each other.

Harmony completed its pre-feasibility study in October 2007 which enabled technical feasibility and economical potential analysis. The Definitive Feasibility Study (DFS) will require a period of up to three years to complete.

Harmony’s mining plan includes upgrading existing ports, concentrates pumped in slurry to facilities in Lae and filtered for shipping, mine water being a major part of the slurry supply to minimise cost, power from Hidden valley or via HFP generation and building a new road from Wamit Village to the mine site.

While the mine will not be in production for the next five years, Petromin has been invited to join the Joint Venture on the basis that there will be no financial commitment on Petromin’s part until the Mining Lease is granted. The Joint Ventures have also discussed with Petromin a carry option until first production and the terms of this “carry” will be defined and negotiated as the project progresses further. The current estimated capital cost is approximately US\$10.2 billion and Petromin’s share is approximately US\$3 billion.

| Wafi-Golpu       | Total  |
|------------------|--------|
| Sunk Cost        | 300    |
| State Sunk Cost  | 90     |
| Project Capex    | 10,200 |
| State Capex      | 3,060  |
| Total State Cost | 3,150  |

Table 17: Wafi-Golpu Project Cost Projections (US\$ million)



Figure 22: Wafi-Golpu Mining Project Location

The above figures are based on project information/data supplied by the respective project developers Newcrest and Harmony and Petromin’s own desk top studies. The figures are subject to change as new project information/data becomes available.

Project status:

Petromin has established cooperation with the project operator/developer of the Wafi-Golpu project to advance the project forward.

9. State’s Capital Requirements For Mining Projects

Petromin has through its Business Plan has identified and outlined its investments in the mining sector going forward. The Company has identified seven major mining projects are expected to be developed in the next five to seven years. Among these projects the Tolukuma Gold Mine requires major capital injection in order to convert the mine into a profitable asset. The major projects include Wafi-Golpu Mining Project, Frieda River Mining Project, Yandera Mining Project, Solwara 1 Project, Kula Gold and Petromin’s own Ipi River Project and Tolukuma Gold Mine.

The State’s funding requirements for the projects are given in table 8 below.

It is important to note that the figures are based on project information/data supplied by the respective project developers and Petromin’s own desk top studies done internally. The figures are subject to change as new project information/data becomes available.

It will be a huge challenge on the part of the State Nominee to raise such a significant amount of finance to fund the State’s share of the project cost in the mineral projects.

10. Gold Refinery

Petromin has been looking at downstream processing of minerals and a number of interested refinery companies and investors have approached Petromin with a view to establishing a gold refinery and bullion trading in the country.

As a result of this interest (and that shown by the Mining Minister at the time), Petromin issued a Request for Proposals (RFP) to establish a precious metals refinery in PNG to certain interested parties and on receipt of various proposals, an assessment was done to select a suitable company. ISPA, a company established in Italy having a fully integrated business including trading precious metals (gold, silver, platinum and palladium), financial services, scraps & industrial recovery, smelting & sampling and physical gold investment was selected as the preferred developer.

“The Company has identified seven major mining projects are expected to be developed in the next five to seven years.”

ISPA and Petromin have an MOU in place for the former to develop a gold refinery project in PNG with Petromin securing 10% equity free in return for assistance in securing project approvals. Petromin will have the option to gradually acquire up to a total of 49% shareholding in the refinery entity during the first five (5) years from commencement of operations of the refinery and the parties will accordingly agree on a time schedule for the acquisition of the balance of thirty nine per cent (39%) equity.

Petromin has been advised that ISPA has abandoned its proposal.

Project status:

The project has been put on hold due to the project proponent, ISPA terminating the project.

| Mining Projects                     | Project Capex | Project Sunk Cost | Total Project Cost | State Share Capex 30%/ 22.5% | Debt Funding Required 70% | Equity Funding Required 30% | Total Funding Required |
|-------------------------------------|---------------|-------------------|--------------------|------------------------------|---------------------------|-----------------------------|------------------------|
| 1. Solwara 1 Project                | 479           | 78                | 557                | 167                          | 117                       | 50                          | 167                    |
| 2. Kula Gold Project                | 212           | 126               | 338                | 101                          | 71                        | 30                          | 101                    |
| 3. Yandera Mining Project           | 1,600         | 200               | 1,800              | 540                          | 378                       | 162                         | 540                    |
| 4. Ipi River Prospect (Exploration) | 8             |                   |                    | 8                            |                           |                             | 8                      |
| 5. Frieda River Project             | 5,441         | 300               | 5,741              | 1,722                        | 1206                      | 517                         | 1,722                  |
| 6. Wafi-Golpu Mining Project        | 10,200        | 300               | 10,500             | 3,150                        | 2,205                     | 945                         | 3,150                  |
| Total                               | 17,940        | 1,004             | 18,936             | 5,689                        | 3,797                     | 1,704                       | 5,689                  |

Table 18:Project Capital Cost Estimate and Funding Requirement - (US\$ million)

11. Wowo –Gap Nickel Cobalt Project

The Wowo-Gap nickel-cobalt prospect situated within EL 1165 is located on the Papuan Peninsular, at the eastern end of the Didana Range in the Oro Province and is about 200 km east of Port Moresby. Exploration drilling of the prospect is currently being carried out by the operator.

The Perth-based minerals explorer Resource Mining Corporation reported in June 2011 that it has recorded significant nickel and cobalt assay results from its latest drill program at its Wowo Gap Nickel deposit with the following being the highlights:

- Additional thick, high grade nickel Intercepts
- New exploration target identified to Southwest of existing mineral resource
- Higher grade mineralisation continues north and remains open
- 70 per cent of drill holes returned nickel grades of more than 1 percent in latest assay results.

The Wowo-Gap nickel-cobalt and Copper prospect was first identified in the 2008 Business Plan as a priority 3 project. As Wowo-Gap is an interesting prospect, Petromin will continue to monitor its development. Active participation by Petromin in the project will depend on the availability of resources.

12. Exploration Licences

On acquisition of Tolukuma Gold Mine Petromin also acquired 13 mineral exploration tenements located near the mine as well as regionally. Petromin has since continued to undertake exploration work on these tenements. Five of the exploration tenements have however been relinquished in 2013.

Below in table 9 is a summary of the prospects in each Exploration Licence boundary and the type of mineralization.

Project status:

Petromin is compliant with the license work programs and expenditure commitments.



Local at Tolukuma



TGM worker

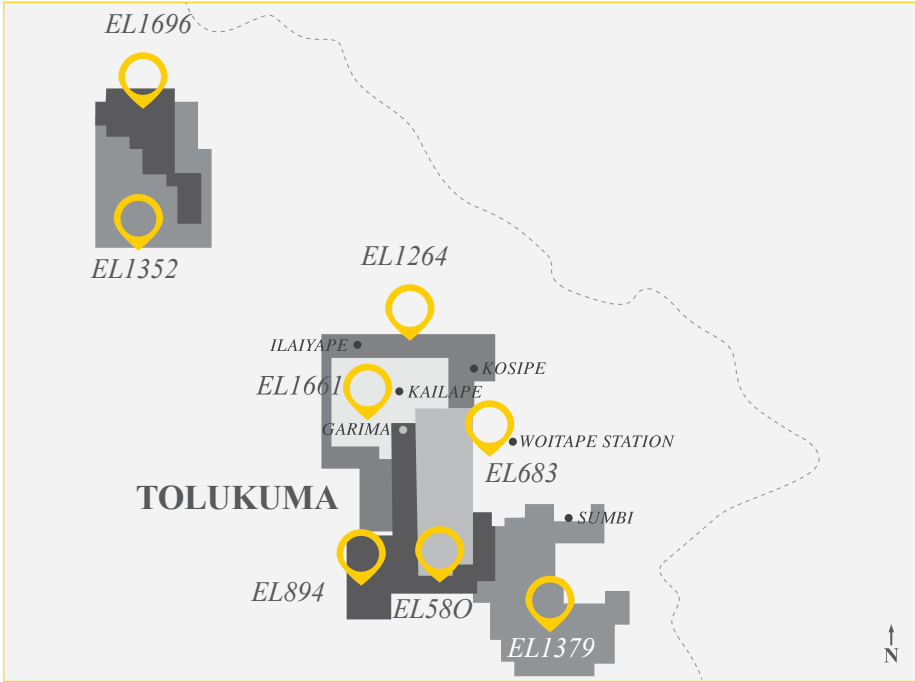


Figure 23: Location Map showing Petromin’s Minerals Exploration Tenements Refer to page 70, figure 5 larger scale map

| EL No. | License Situation                                                                                               | Prospects                               | Mineralization                                                          | 2012-2013 Exploration Program                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 580    | Now in Term 6 – Year 2). TGM (100%)                                                                             | Saki, Seriseri, Soju & Sindo            | Epithermal Gold<br>Good potential for Porphyry Copper - Gold            | Saki – Resource Study Completed by Golder & Associate indicate 40000-70000 oz gold<br>Sindo & Seriseri – Reprocessing of airborne magnetic and 3DIP data, 3D Inversion Study of geophysical data, soil and outcrop mappingand sampling                                                                                                                                                                                                                                                                                                                                                                                                |
| 683    | Now in Term 6 – Year 2). TGM (100%)                                                                             | Samanalan, Hoyu                         | Epithermal Gold                                                         | Detailed geological, structural and alteration mapping and sampling continuing into April 2013.<br>Reprocessing of airborne magnetic and 3DIP data, 3D Inversion Study of geophysical data to assist with porphyry targeting                                                                                                                                                                                                                                                                                                                                                                                                          |
| 894    | Now in Term 6 – Year 2). TGM (100%)                                                                             | Mt Tafa area, Etasi, Genga, Badim, Hula | Epithermal Gold, Porphyry Copper - Gold, Skarn                          | Stream sediment sampling, geological and alteration mapping, rock/soil sampling on porphyry copper-gold- molybdenum, and base metal veins continued through to March 2013.                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 1264   | Now in Term 6 – Year 2). TGM (100%)                                                                             | Minaru, Kosipe and Kailape              | Porphyry Copper - Gold                                                  | Field mapping and sampling of porphyry targets throughout EL area, in 2012 and 2013. Reprocessing of airborne magnetic and 3DIP data, 3D Inversion Study of geophysical data to assist with porphyry targeting                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 1661   | Now in Term 6 – Year 2). TGM (100%)                                                                             | Kone, Minaru, Gaiva, Belavista          | Copper-Pyrite, massive Sulphide, Quartz-Silver (Ag)-Lead (Pb)-Zinc (Zn) | Field mapping and sampling of porphyry targets throughout EL area, in 2012 and 2013. Reprocessing of airborne magnetic and 3DIP data, 3D Inversion Study of geophysical data to assist with porphyry targeting                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 1352   | Now in Term 6 – Year 2). EDA MINERALS (100%) JVA with Harmony Gold being finalized                              | Ipi River, Bulls Eye, Varisa            | Porphyry Copper - Gold                                                  | Geologic mapping and sampling, 3D inversion study using EU airborne magnetic data, 3DIP study to complete subsurface study of deposit, drilling.Exploration drilling undertaken for Ipi River copper-gold-molybdenum prospect in EL1352 has intersected broad anomalous porphyry intercepts in limited drilling provide impetus for further drill target generation.<br>• PDH001, 412m @ 0.1g/t Au, 0.15% Cu and 114ppm Mo from 13m (NB. Hole ends at 427m in 0.19%Cu and 124 ppm Mo)<br>• PDH002: 419m @ 0.12g/t Au with 0.12% Cu and 65ppm Mo from 10.0m<br>• PDH003, 68.4m @ 0.15g/t Au, 0.03% Cu and 13 ppm Mo from 89.0 to 149.0 |
| 1696   | Now in Term 2 – Year 2). Successor tenement to EL1352 EDA MINERALS (100%) JVA with Harmony Gold being finalized | Ipi River, Bulls Eye, Varisa            | Porphyry Copper - Gold                                                  | 3D inversion study using EU airborne magnetic data generated good porphyry targets. Field mapping and sampling suspended due to landowner ship disputes in the area.                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 1379   | Now in Term 6 – Year 2). TGM (100%)                                                                             | CChirema & Ebie Anomalous zones         | Epithermal Gold, Porphyry Copper - Gold                                 | Comprehensive stream sediment sampling, outcrop and mapping and sampling to end of 2012. Reprocessed airborne magnetic and 3D inversion study of geophysical data, Porphyry copper-gold, and base metal vein targets at Irutumu.                                                                                                                                                                                                                                                                                                                                                                                                      |

Table 19: Project Status Summary of Petromin Exploration Tenements

“  
The mineral  
exploration  
division works  
towards generating  
ownership and  
participation in  
the minerals  
resource sector for  
Papua New Guinea.  
”



Dr Wilfred Lus studying core samples



TGM miner



TGM officer



TGM miners

“  
Petromin maintains a risk management profile on priority mineral projects the Company has been nominated or participates on its accord in the projects.  
”



Ipi River core sample

13. Risks and Mitigation Summary of Priority 1 Minerals Projects.

The Minerals Division is tasked to manage project specific risks that Petromin is exposed to. The full Risk Management Register for all Petromin Projects is included in *Part 1 Corporate – section 19 Risk Management Policy*.

14. Minerals Division – Management Structure

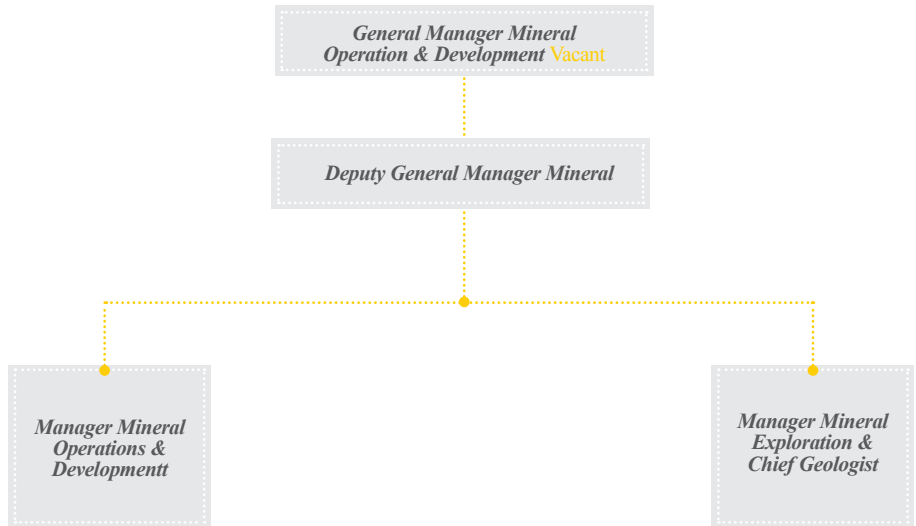


Figure 24: Minerals Division Senior Management Structure



Saki campsite dwellers



***Roger Kewa Avinaga***  
***Author***

Hailing from Okapa, Eastern Highlands, Roger has come far by graduating at the University of Papua New Guinea with Honours in the field of International Relations, to completing his Masters in Petroleum Finance & Taxation from the University of Dundee, United Kingdom. While at the University of Dundee, Roger wrote a dissertation titled ‘‘Lenders Risks & Risk Mitigation in Project Financing of Petroleum Projects: A Comparative Study of the Experiences in the UK North Sea and Papua New Guinea’’. He also wrote the following articles ‘‘Papua New Guinea Embarks on the First Ever Petroleum Licensing Round’’, ‘‘Papua New Guinea Introduces New Petroleum fiscal Incentives Rates’’ and ‘‘Petroleum Sector Update’’ published in Oil and Gas Law Intelligence (OGEL) Journal, Petroleum Taxation Review Journal and Mining and Petroleum Profile Magazine respectively. He recently contributed to London based Chatham House (the Royal Institute of International Affairs) sponsored project, ‘‘Guidelines for Good Governance in Emerging Oil and Gas Producers’’. His work represents the depth of knowledge and understanding he has over 18 years with regards to the petroleum and mineral sectors.

He began his career in the Department of Petroleum & Energy where he worked his way to Assistant Director of Petroleum Policy. After serving over ten years at the Department he was recruited by Petromin in 2008 as the commercial and industry expert for its new business ventures & developments. He currently is the Deputy General Manager New Ventures & Business Development Division.



***Lyndsay Israel Abal***  
***Co-Author***

Lyndsay began his career as a graduate trainee with Petromin PNG Holdings Limited. He completed his Bachelors in Commerce at the University of Queensland (Australia) majoring in Finance and Accounting. Originally a commercially trained professional, from Enga province, he has the ability to collate and present information for publication. He has worked on the Petromin Annual Report’s 2010, 2011 and 2012. He has also co-authored an article with good friend Darren Ninkama, which was published in the Islands Business magazine October 2011 edition, ‘Exciting Times ahead for Petromin - But can it withstand political interference?’ . His other articles can also be seen in magazines from time to time under the alias ‘‘Peter Masi’’.

He is currently an accountant with the Finance division at Petromin PNG Holdings Limited.

***Special Acknowledgements***

The Authors would like to make a special mention of the two Petromin Directors who have assisted in this project.

During their tenor as Petromin Directors they have served both Petromin and the people of Papua New Guinea with distinction. Their contribution towards this project is once again a show of their selfless ability to promote the Petromin structure and the culture that has developed over the years.

Authors also recognise the contributions made by Mathilda Namorong and George Karingal, who have assisted in both editing and sourcing of information for this project.

We also would like to acknowledge the skill and innovation of the Media Playground team that helped put this book together. In particularly Vivian Van Balen, Alexandra Kalinoe & Shane Johnston.

Our final acknowledgement goes to the staff and management of Petromin PNG Holdings Limited, who have assisted in the sourcing of information for this project. We wish them all the best in their future endeavours.

***End Notes***

***1. Current Petromin Management  
( page14-21 ).***

The following Staff and Mangers have left the Company; Mrs. Lyndah Brown-Kola, Mrs Serah Minak, Mr. Wayne Kasou, Mr. Daniel Patrick Katakumb, Mr. Chris Wamugl, and Mr. Jack Sari.

***2. Document Content***

The status of all mineral and petroleum projects mentioned in this document may have changed during the course of writing, editing and publishing this document. Hence, all information should be treated as relevant at the time of writing this document.



This annual report has been printed on 100%. chlorine free, carbon neutral stock that passes the ISO 14001 environmental management standard.