KINA PETROLEUM LIMITED
HALF YEAR REPORT

COMPANY NO. 1-63551 ARN 151 201 704

FOR THE HALF YEAR ENDED 30 JUNE 2012

The Directors present their half year report on the Company and its controlled entity for the half year ended 30 June 2012.

DIRECTORS

The names of Directors in office at any time during or since the end of the half year are:

John Prendiville, Non Executive Chairman appointed 31 May 2011

Mr Richard Schroder, Managing Director appointed 31 May 2011

Dr Ila Temu, Non-Executive Director appointed 31 May 2011

Barry Tan, Non-Executive Director appointed 1 March 2009

<u>Half year report to the stock exchange</u>

Kina Petroleum Limited (ASX: "KPL") currently maintains working interests in 5 exploration licences in PNG. Results of operations for the year involve mainly exploration activities on these licenses. Income during the comparative periods presented pertains solely to interest income earned from cash and cash equivalents.

Highlights for the half year ended 30 June 2012:

- Successful drilling of Elevala 2 & 2 ST1
- Confirm a gas water contact at Elevala Field
- Resource upgrade for Elevala Field
- Successful drilling Ketu 2 delivering a gas column of 50+m
- Three fold resource upgrade for Ketu Field
- Updated mapping of PPL 338 delivers a number of promising leads and prospects in PPL338
- Oil Search and KPL commit to Nipa seismic program in PPL 338
- Oil Search and KPL to follow up Triceratops 2 success in PPL 338

Petroleum Retention Lease (PRL) 21

KPL currently maintains a 15% working interests in PRL21.

The half year ended 30 June 2012 saw 2 successful appraisal wells drilled on the Elevala and Ketu Fields and a significant upgrade of the resource numbers for Elevala Field.

BGP Exploration (PNG) Limited completed acquisition of 105km (representing firm Work Program requirements for Year 1 and Year 2 of 60km and 45km respectively) of seismic within PRL 21. Mobilisation commenced in August 2011; recording was completed by 10 February 2012; de-mobilisation was completed on 23 February 2012; and processing of the acquired data was complete and made available to the PRL 21 Joint Venture in April/May 2012.

Elevala 2 well was spudded on 14 November 2011 and reached total depth of 3,293m on 21 December 2011. A sidetrack was initiated on 1 January 2012 to better identify the gas water contact and thereby providing additional information to define the total field size.

The Ketu-2 well spudded on 6 March 2012 and as of time of reporting Ketu 2 had reached a total measured depth of 3,787 m in granitic basement with mud logs and logging-while-drilling indicating a gas/condensate zone, which was subsequently confirmation by further logs and sampling. The testing and sampling of the Elevala sandstone recovered liquids-rich gas with no water. At the time of reporting Ketu 2 was being completed for future service as a producer or gas re-injection well.

Market analysis for potential gas sales from PRL 21 is being conducted in parallel with similar work being undertaken in connection with PRL 4.

A highlight for the June 2012 half year for KPL was the significant resource upgrade for Elevala and Ketu fields. The higher than expected intersection of Elevala Sandstone at Elevala 2 and the recognition of a velocity anomaly at Elevala 1 caused a significant upwards readjustment to the northern flank of the Elevala Field and the possibility that the Tingu and Elevala have a common gas water contact at 3,045m sub sea depth. Table 1 below captures the revised resource range for Elevala & Tingu Fields reflecting an Elevala Tingu combined resource in the event of a common gas water contact.

Probability	Gas	Oil
	BCF	MMBBLS
P90	319	18
P50	523	30
Pmean	554	32
P10	845	49

Table 1: Elevala & Tingu Field Contingent Resource Estimate

The assessment of the Elevala & Tingu Contingent Resources has been based on the Elevala 2 SSt depth MSL Map supplied by PRL 21 Horizon Oil (Papua) Limited.

A highlight for the June 2012 quarter for KPL was the significant resource upgrade for Ketu Gas field. The unexpected intersection of a full gas column at Ketu 2 some 9km east of Ketu 1 caused the upwards readjustment.

Table 2 below outlines the revised contingent resource range for Ketu Field

Probability	Gas	Oil
	BCF	MMBBLS
P90	213	12.3
P50	362	21.1
Pmean	375	21.8
P10	558	32.6

Table 2: Ketu Field Contingent Resource Estimate

The assessment of the Ketu Contingent Resources has been based on the Elevala 2 SSt depth MSL Map supplied by PRL 21 Horizon Oil (Papua) Limited.

Petroleum Prospecting License (PPL) 337 (Kina Interest 100%)

Original License Awarded Date 2 September 2009

Mapping of the Banam Seismic Survey supports the presence of the Banam Anticline in PPL337. The Banam structure is covered with hundreds of gas seeps that are composed of 98% methane and 2% ethane. The structure is dominated by thrusts faults with associated hanging wall anticlines, footwall synclines and duplexes. These provide potential traps for a giant accumulation of petroleum. In place resource estimate for the full trap volume of Banam Anticline is huge at 36 to 37.5 TCF. Net reservoir estimates of 113m and 21% are supportable based on Tsumba 1. The trap is complex and recovery will be affected by compartmentalisation caused by thrusting and associated back faulting. Also multiple reservoir seal pairs are observed in Tsumba 1 in the Anungum, Josephstaal and Urisiki Formations.

The filled resource estimate is unrealistic considering the column height required to achieve such a volume but the prospect is considered to retain giant capacity. A footwall target is also recognised on the northern flank of the anticline. On its own this represents a target that could easily supply local Madang and mining demand.

Several regional seismic surveys have been located in the area to the north of the licence and these data are being integrated with The Banam seismic data to improve seismic interpretation confidence over the prospect. The reinterpretation of the data has been integrated into a farm out effort which commenced during the half year.

Petroleum Prospecting License (PPL) 338 (Kina Interest 100%)

Original License Awarded Date 2 September 2009

Oil Search Limited acquired the Iviri Seismic Survey in 2011 with a total of 57km acquired at a cost of US$3,973,560. KPL was free carried through the acquisition and processing and Oil Search has earned the right to take up 30% in the licence. Oil Search has a right to move to 70% in the licence by carrying KPL through a well capped at US$30m. In the event final well cost reaches the cap and KPL elects to stay at 30% KPL will contribute US$2.28m towards the cost of the well.

The new seismic control has enhanced the potential of the Nipa Prospect but weak control to the south leads to some uncertainty as to the height of closure at Nipa. A follow up seismic program is scheduled for Nipa Prospect in Nov/Dec 2012.

The Nipa Prospect lies some 25 km from the Uramu Gas field and 75 km from Elk Antelope Field. Ini and Iviri wells also intersected good reefal facies so the likelihood of picking up reef development at Nipa Prospect is high. Nipa Prospect is developed on an up thrown block which forms part of the Uramu Trend which extends to the south outside PPL 338. Based on current mapping the P10 estimate of gas for place in place is 4.5TCF.

Remapping of the seismic data has identified eight further leads or prospects north of Nipa Prospect the most interesting being Triceratops. Triceratops 2 was a successful appraisal well on the Bwata Triceratops structure north and west of the giant Elk Antelope Gas Field. Mapping by Interoil suggests the structure climbs to the west and north into PPL 338 an area where there are 2 gas seeps identified. KPL and Oil Search intends to carrying out further work to confirm fault orientation and assess the potential for Triceratops to extend into PPL 338.

Petroleum Prospecting License (PPL) 339 (Kina Interest 100%)

Original License Awarded Date 2 September 2009

Oil Search Limited acquired Wulai Seismic Survey in 2011 with a total of 38km acquired at a cost of US$ 4,989,928. KPL was free carried through the acquisition and processing and Oil Search has earned the right to take up 30% in the licence. Oil Search has a right to move to 70% in the licence by carrying KPL through a well capped at US$30m. In the event final well cost reaches the cap and KPL elects to stay at 30% KPL will contribute US$2.28m towards the cost of the well.

All vintage seismic data has been purchased and integrated with the Wulai Seismic Survey. The Wulai program comprised 2 lines in an area of rough steeply dissected ridges in the southern part of PPL 339. Interpretation of Wulai Seismic Survey has been difficult due to complex geology and complicated structure.

The main objectives in PPL 339 are Miocene and Eocene carbonates. These units may be limestone and dolomites, and traps may be developed in biothermal build ups, thrust structures or a combination of both. Preliminary interpretation of the new seismic data shows a thrust related uplift running northwest southeast towards the Elk Antelope Field. Weakly defined closures are identified and bear some similarity to the Wahoo/Mako reef prospects mapped by Interoil in PPL 236. Cassowary Prospect/Lead is the area of most interest to KPL.

Oil Search has high graded an area in the east of the licence with potential for Eocene reef development. Oil Search intends undertaking an aeromag/aerogravity survey in this area to identify if it warrants seismic follow up.

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

Original License Awarded Date 2 September 2009

Offshore seismic control has been jump correlated to onshore seismic data. Well correlations are from Oroi-1 and Kaufana 1. Old pre Tertiary faults can be mapped offshore and are seen to be uplifted by recent tectonism to tie into onshore structure. Oroi-1 is a crucial tie into gas bearing Upper Miocene Chiria Formation. Although the top basement time structure map currently has a low degree of confidence the structural grain when tied to the outcrop control suggests potential for Chiria and carbonate type gas plays extending into southern PPL 340 close to Port Moresby.

KPL sees the next step is to acquire aerogravity over the southern part of PPL 340 and subject to favourable outcome follow up with seismic acquisition.

CONDENSED CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
For the half year ended 30 June 2012

	2012 US$	2011 US$
Revenue	**81,454**	-
Share-based payments	**(249,398)**	-
Administration expenses	**(52,992)**	-
Consultancy fees	**(296,358)**	-
IPO expenses	**-**	(92,715)
Permit write off	**-**	(4,330)
Loss before income tax	**(517,294)**	(97,045)
Income tax expense	**-**	-
Loss after income tax	**(517,294)**	(97,045)
Other comprehensive income		
Other comprehensive income (loss) for the period, net of tax	**(6,486)**	204,898
Other comprehensive income for the period	**(6,486)**	204,898
Total comprehensive income/(loss) for the period attributable to members of the Parent Entity	**(523,780)**	107,853

Earnings per share	**In US cents**	
From continuing operations:		
Basic loss per share	**(0.30)**	(0.09)
Diluted loss per share	**(0.25)**	(0.09)

The above condensed consolidated statement of total comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	As at 30 June 2012 US$	As at 31 December 2011 US$
CURRENT ASSETS		
Cash and cash equivalents	**5,052,687**	11,734,701
Trade and other receivables	**1,262,474**	2,730,299
TOTAL CURRENT ASSETS	**6,315,161**	14,465,000
NON-CURRENT ASSETS		
Exploration and evaluation expenditure	**10,541,789**	3,014,297
TOTAL ASSETS	**16,856,950**	17,479,297
CURRENT LIABILITIES		
Trade and other payables	**4,350,728**	4,698,692
NET ASSETS	**12,506,222**	12,780,605
EQUITY		
Issued capital	**13,211,776**	13,211,776
Reserves	**355,660**	112,748
Accumulated losses	**(1,061,214)**	(543,919)
TOTAL EQUITY	**12,506,222**	12,780,605

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 30 June 2012

	Ordinary Issued Capital	Accumulated Losses	Reserves	Total
	US$	US$	US$	US$
For the period 31 December 2011 to 30 June 2012				
Balance at 31 December 2011	**13,211,776**	**(543,920)**	**112,748**	**12,780,604**
Loss for the year	**-**	**(517,294)**	**-**	**(517,294)**
Other comprehensive income				
Foreign currency reserve movement	**-**	**-**	**(6,486)**	**(6,486)**
Total comprehensive income	**-**	**(517,294)**	**(6,486)**	**(523,780)**
Transactions with owners in their capacity as owners:				
Options issued under Employee Incentive Plan	**-**	**-**	**249,398**	**249,398**
Balance at 31 June 2012	**13,211,776**	**(1,061,214)**	**355,660**	**12,506,222**
For the period 31 December 2010 to 30 June 2011				
Balance at 31 December 2010	375,000	-	-	375,000
Loss for the year	-	(97,045)	-	(97,045)
Other comprehensive income				
Foreign currency reserve movement	-	-	204,898	204,898
Total comprehensive income	-	(97,045)	204,898	107,853
Transactions with owners in their capacity as owners:				
Shares issued during the year	765,808	-	-	765,808
Balance at 30 June 2011	1,140,808	(97,045)	204,898	1,248,661

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 30 June 2012

	2012 US$	2011 US$
CASH FLOW FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	**(356,413)**	(92,715)
Interest received	**82,031**	-
Net cash used in operating activities	**(274,382)**	(92,715)
CASH FLOW FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure	**(6,407,632)**	(184,690)
Net cash used in Investing activities	**(6,407,632)**	(184,690)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of borrowings	**-**	(122,281)
Cash acquired from Kina Oil and Gas Ltd	**-**	970,706
Net cash provided by financing activities	**-**	848,425
Net (decrease)/increase in cash and cash equivalents held	**(6,682,014)**	571,020
Cash at beginning of year	**11,734,701**	20,526
Cash at end of period	**5,052,687**	591,546

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 30 June 2012

Note 1 - Basis of preparation

The half year financial statements are general purpose financial statements that have been prepared in accordance with IAS 34 – Interim Financial Reporting and PNG Companies Act 1997. The half year financial statements also comply with International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee.

The half year financial statements do not include all of the information required for full-year financial statements. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2011.

The accounting policies applied by the Company in the consolidated financial statements for the year ended 31 December 2011 has been applied consistently with the half year financial statements.

Comparative information has been presented in the financial statements to enable an understanding of the results and financial position for the half year ended 30 June 2012. As the Company was not required to prepare half year financial statements for the period ended 30 June 2011, the comparative information has not been subject to review.

Note 2 - Segment information

(a) Identification of reportable segments

The consolidated group has identified its reportable segments based on the location of its exploration assets within Papua New Guinea.

- Petroleum Prospecting License (PPL) 337 – located in the North New Guinea Basin
- PPL 338, 339 and 340 – located in the Southern Papuan Basin
- Petroleum Retention License (PRL) 21 – located in the Western Province of PNG

(b) Segment information

	PPL 337	**PPL 338**	**PPL 339**	**PPL 340**	**PRL 21**	**Total**
As at 30 June 2012	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
Exploration phase						
Balance at beginning of the year	**286,224**	**146,100**	**186,260**	**272,320**	**2,123,393**	**3,014,297**
Exploration costs capitalised	**92,921**	**75,770**	**75,258**	**86,482**	**7,197,061**	**7,527,492**
Balance at end of the period	**379,145**	**221,870**	**261,518**	**358,802**	**9,320,454**	**10,541,789**
As at 31 December 2011						
Exploration phase						
Balance at beginning of the year	113,751	109,313	131,813	118,128	3,750	476,755
Exploration costs capitalised	172,473	36,787	54,447	154,192	2,119,643	2,537,542
Balance at end of the year	286,224	146,100	186,260	272,320	2,123,393	3,014,297

Note 3 – Controlled entities
Controlled Entities Consolidated

		Percentage Owned (%)		Contribution to net loss	
Subsidiaries of Kina Petroleum Limited	**Country of incorporation**	**As at 30 June 2012**	**As at 30 June 2011**	**For the half year ended 30 June 2012**	**For the half year ended 30 June 2011**
Kina Oil and Gas Limited	Australia	**100**	100	**(3,932)**	(27,087)

Kina Oil and Gas Limited was acquired on 24 May 2011 through the issue of 10,035,801 shares at a cost of US$765,808.

Note 4 - Joint operations

The Company has entered into a joint operations agreement for PRL 21 in relation to the exploration, appraisal development, product and disposition of petroleum covered by PRL 21. The Company has a 15% participating interest in this joint venture and accounts for its interest by recognising its share of the jointly controlled assets and liabilities, the liabilities it has incurred in its own right and any expenses it has incurred in respect of its interest in the joint venture. The Company's net assets in the joint operations are shown on the table below:

	As at 30 June 2012 US$	As at 31 December 2011 US$
Current assets		
Trade and other receivables	**1,892,596**	1,730,230
Non current assets		
Exploration and evaluation expenditure	**9,175,154**	2,119,643
Total assets employed in the joint operations	**11,067,750**	3,849,873
Non current liabilities		
Trade and other payables	**4,165,073**	4,204,940
Total net assets employed in the operations	**6,902,677**	**(355,067)**

Note 5 - Earnings per share

	For the half year ended 30 June 2012 US$	For the half year ended 30 June 2011 US$
Operating loss after income tax used in the calculation of basic and diluted loss per share	**(517,294)**	(97,045)
	Number	**Number**
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	**173,196,376**	103,240,500
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted loss per share	**208,956,531**	107,476,611

Note 6 – Subsequent events

The Company announced on 30 August 2012 that it completed a capital raising to sophisticated investors through the issue of 22,857,142 Shares at AUD$0.35 (K0.8) per share to raise AUD$8 million. In addition the Company seeks to raise an additional AUD$1.5 million through the offering of 4,285,714 shares at an issue price of AUD$0.35 (K0.8) per share via a Shareholder Share Purchase Plan.

Note 7 - Company details

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C\- HWL Ebsworth
Level 14, Australia Square
264-278 George Street
Sydney NSW 2000

PAPUA NEW GUINEA REGISTERED OFFICE
Portion 359
Scratchley Road
Badili, National Capital District
Papua New Guinea

PRINCIPAL PLACE OF BUSINESS
Australia
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49-53 North Steyne
Manly NSW 2095

PAPUA NEW GUINEA
Portion 359
Scratchley Road
Badili, National Capital District
Papua New Guinea

In accordance with a resolution of the Directors of the Company, the Directors declare that:

1. the attached condensed financial report and notes thereto of the consolidated entity, as set out on pages 5 to 11, are in accordance with the Papua New Guinea Companies Act 1997 and:

   (a) give a true and fair view of the financial position of the Group as at 30 June 2012 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

   (b) comply with International Financial Reporting Standards IAS34: Interim Financial Reporting, other generally accepted accounting practices in Papua New Guinea, and ASX listing rules relating to half yearly financial reports;

2. the Managing Director and Chief Financial Officer have each declared that:

   (a) the financial records of the Company for the half year ended 30 June 2012 have been properly maintained in accordance with the Papua New Guinea Companies Act 1997;

   (b) the condensed financial report and notes comply with International Financial Reporting Standards IAS34: Interim Financial Reporting, other generally accepted accounting practices in Papua New Guinea, and ASX listing rules relating to half yearly financial reports;

   (c) the condensed financial report and notes and give a true and fair view of the financial position of the Group as at 30 June 2012 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date..

3. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Dated this 6th day of September 2012

Richard Schroder
Managing Director

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Independent auditor's review report to the shareholders of Kina Petroleum Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Kina Petroleum Limited Group (the consolidated entity) which comprises the condensed statement of financial position as at 30 June 2012, the condensed statements of total comprehensive income, changes in equity and cash flows for the half-year ended on that date and other selected explanatory notes for the consolidated entity. The consolidated entity comprises both Kina Petroleum Limited (the Company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Kina Petroleum Limited are responsible for the preparation and presentation of the half-year financial report that presents fairly in accordance with International Financial Reporting Standards (including generally accepted accounting practices in Papua New Guinea) and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not presented fairly, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. As the auditor of Kina Petroleum Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kina Petroleum Limited does not present fairly, in all material respects, the consolidated entity's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* and generally accepted accounting practices in Papua New Guinea.

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Other matters

As this is the first year for the Company to prepare interim financial information, the comparative information for the period ended 30 June 2011 has not been subject to review.

This report, including the review conclusion, has been prepared for and only for the Company's shareholders as a body in accordance with the *PNG Companies Act 1997* and for no other purpose. We do not, in giving this review report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers

By: Jonathan Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby
6 September 2012