PNG Chamber of Mines and Petroleum

Helping Papua New Guinea to Develop its Full Potential

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Executive Director Greg Anderson writes....

Even though commodity prices remain near recent lows with some falls in the price of crude oil, signs of optimism are emerging in PNG's resources arena. Most recently, Mining Minister Byron Chan has approved the Mining Lease for the Woodlark gold project of Kula Gold, the first onshore mining licence that has been issued in eight years.

Offshore there has been a settlement of outstanding issues with the National Government and Nautilus Minerals is now confidently looking at a 2017 start up for its Solwara 1 deep sea mining project, which will be a world first.

The Chamber understands Ramu Nickel is gradually overcoming technical challenges with good prospects it should be able to achieve its planned target of reaching 80% of plant capacity at Karumbukuri and Basamuk by the end of this year. Highlands Pacific reported in its quarterly that weekly production of 77% has been achieved on several occasions.

Nickel prices have made gradual recovery from the US$6 a pound lows it hit last year to reach around US$9, which is still considerably lower than previous peaks in excess of US$12.

Among the long established mining projects, the National Government has finally chosen to act on the law and order situation at the Porgera gold mine, where large numbers of illegal miners regularly invade the open pit, limiting production and often resulting in damage to equipment. This should ensure that despite lower gold prices improved production levels and profits will also increase corporate taxes paid to the PNG Government.

Contributing to rising levels of optimism has been the granting of a Petroleum Development Licence to Horizon Ltd for development of the Stanley gas-condensate project in Western Province and completion of an Environment Impact Assessment on the nearby Elevala-Ketu gas-condensate fields.

Equity partner Talisman Energy is looking at consolidation of these gas resources for a standalone LNG project, which would bring an additional dimension to development in Western Province.

Relative newcomer Cott Oil and Gas, which has a 40% stake in the offshore Pandora gas field, has commissioned studies which show the resource could support a viable Floating LNG (FLNG) project.

These developments are taking place in the wake of completion of PNG's first LNG project and commencement of exports to contract customers in China, Japan and Taiwan. LNG export earnings will overshadow other resource exports in the coming year and during the 20-year contractual period.

Some of the optimism is tempered by the continuing battle with high costs faced by PNG gold producers.

In a recently issued performance guidance, Newcrest said unit cost performance at Lihir remains "disappointing" with All-In Sustaining Costs (AISC) falling slightly to A$1,313 an ounce in the latest June quarter even though Lihir's gold output was up by 6%. High production costs have also been a problem at St Barbara Gold's Simberi mine.

CHAMBER COMMENDS 'PARLIAMENT PERFORMANCE REPORT'

Executive Director Greg Anderson has commended Transparency International, the Speaker of Parliament and the European Union for their collaborative report, "Parliament Performance Report by Open Parliament Project".

The report, which covered Parliament for the period from August 2012, following the election of the Government of Prime Minister Peter O'Neill, to August 2013.

Anderson noted that the 50-page report contained significant information about the performance of Parliament during the year, including Bills and Papers presented during the year and the work of various Parliamentary Committees.

In his message, Parliament Speaker Theo Zurenouc said he was aware that Parliament "has become increasingly remote and separated from our citizens that it is meant to serve. This remoteness and apparent lack of transparency can lead to suspicion, distrust and cynicism about the institution of leadership in our nation. This is a dangerous trend for our Constitutional democracy and needs to be proactively addressed. This is one reason for my wholehearted acceptance of, and participation in, the Open Parliament Project."

The Chairman of Transparency International (PNG), Lawrence Stephens, said the 'Open Parliament Project' "creates a unique opportunity to support parliamentary democracy and the Speaker's vision of a Parliament with strengthened integrity and effectiveness by providing better access to information on its work, challenges, opportunities and the efforts of its Members."

The report provided the attendance records of every Member of Parliament so members of the public can take note that Prime Minister O'Neill attended 45 out of the 49 days the Parliament sat, while Deputy Prime Minister Leo Dion only managed to attend 28 of the 49 sitting days.

The outstanding record was that of Mendi MP De Kewanu, who attended every session, while a number of MPs missed only one day's sitting - James Marape (Tari Pori), Joe Koim Komun (Anglimp South Wahgi), Gisuat Siniwin (Nawae), Loujaya Kousa (Lae), Solan Mirisim (Telefomin), Ronnie Knight (Manus) and Dr Puka Temu (Abau).

The poorest attendance of 13 days was recorded by Paul Teinstein, who was facing a court case, but this was followed by a number of MPs who only managed to be present on 20 of the 49 sitting days - John Hickey (Bogia), Ken Fairweather (Sumkar) and Belden Namah (Vanimo Green River).

CHAMBER NEWS

PNG PIONEERS LOCAL, AND LANDOWNER-OWNED, BUSINESSES

PNG's policy of using resource development projects to promote local business development is somewhat unique because "almost no country in the world has such a policy", industry consultant Richard Jackson told the Chamber of Mines and Petroleum Community Affairs and Business Development Workshop held in Lae from August 11 to 13.

Kicking off day-long discussions on landowner business developments, Jackson said many countries have policies requiring businesses to train the national workforce and to maximise the purchase of domestic goods and services.

Yet in Papua New Guinea significant attention has been paid to promotion of business among people around resource projects, almost since the nation had gained Independence with a section on 'local business development' contained in the 1976 Ok Tedi Act, Jackson said.

Jackson, a former Geography Professor at the University of Papua New Guinea, is currently undertaking a study of resource sector landowner companies in PNG on behalf of the PNG Chamber of Mines and Petroleum. Jackson has authored several books, including "Ok Tedi, The Pot of Gold".

The local business development concept was promoted through landowner business companies, and even though the general perception of such enterprises may not be entirely positive there are many highly successful landowner companies and new entrepreneurs.

"There are more people now employed at resource project landowner companies than at the mining or petroleum projects where they were originally established. Examples include, Anitua at Lihir and Porgera landowner companies, which each have more than 3,500 employees," Jackson said.

Jackson said that taken together, employment within mining and petroleum projects and landowner companies could make up the biggest jobs segment in the country. Resource contracts awarded to landowner companies appear to be worth well over K1.5 billion a year.

"Whatever its failings, mining has brought people living near resource projects a choice about how they can live their lives, which is the essence of development," he said.

"Business development is astonishingly popular in PNG. In Lihir there were more than 600 registered landowner companies in 2010. At Porgera, Barrick deals regularly with 300 companies and there are another thousand they rarely deal with. We are talking of some 4,000 companies directly related to resource projects.

"Local business development was originally conceived as fundamentally an investment in the community. It was never envisaged that companies as successful as IPI or Anitua would emerge."

Jackson said PNG had possibly established some other world firsts besides the arena for local business development. Other world firsts, of which all Papua New Guineans should be proud, included:

- The holding of development forums for community feedback and input prior to the granting of resource development licences. While this first occurred at Porgera in 1989 this has recently been presented by the World Bank as a major initiative in Peru.
- PNG's tax credit scheme was introduced 20 years ago while the Peruvian Mining Minister has now introduced it in his country as a "work for taxes" program.
- Close attention to mine training programs were first initiated in PNG by Bougainville Copper in the 1970s. This has led to many Papua New Guineans trained at the company's mines as being internationally competitive.

The three-day Community Affairs Workshop, an annual event organised by the PNG Chamber of Mines and Petroleum, was attended by senior Community Affairs personnel from all major resource projects.

Topics explored included - Social Mapping and Impact Monitoring; Community Engagement; Environmental Conflict Resolution; Social Environment; Strategic Planning and Specific Project Experiences. Plans for a revised version of the Chamber's Community Relations Manual were also presented and discussed.

INDUSTRY NEWS - MINING

NEWCREST ANNOUNCES A$2.35 BILLION IMPAIRMENT WITH LIHIR CONTINUING TO DISAPPOINT

Newcrest Mining has announced asset impairments totalling A$2.35 billion at Lihir, Telfer, Bonriko and Hidden Valley for a statutory loss of A$2.2 billion and a group underlying profit of A$432 million.

Of the total gross impairment charge of A$3.1 billion, A$2.65 billion was attributed to the Lihir mine for a net after-tax impairment of A$2.13 billion. This follows an impairment charge of A$3.49 billion last year.

Newcrest Mining said unit cost performance at PNG's Lihir gold mine remains "disappointing" with a major review underway to identify and accelerate initiatives to improve Lihir's operating and financial performance.

In its report for the June quarter, Newcrest said Lihir's June quarter production was 174,601 ounces at an All-In Sustaining Cost (AISC) of A$1,313 (US$1,225) an ounce compared with 164,359 ounces and AISC of A$1,344 (US$1,205) in the March quarter.

In the 12 months to June 30, Lihir produced 747,672 ounces at AISC of A$1,261 (US$1,159) versus production of 104,772 ounces at A$1,402 (US$1,288) an ounce at Hidden Valley.

Lihir's gold production was 6% higher in line with a 6% improvement in gold recoveries in the quarter, which went from 78.6% to 83.1%.

"In the context of unit cost improvement achieved elsewhere in the group, the unit cost performance of Lihir in the June quarter and the 2014 financial year was disappointing," it said.

Newcrest said an "embedded improvement team" was working on ways to improve the operating and financial performance. They would assist the newly appointed Lihir General Manager, Craig Jetson, and Executive General Manager responsible for Lihir, David Woodall.

Gold production in the current September quarter was expected to be lower than the June quarter as a result of lower grades, particularly at Gosowong in Indonesia, and a planned autoclave shutdown at Lihir. This is expected to raise production costs in the September quarter but gold production will improve in the second half of the 2015 financial year.

At the 50% owned Hidden Valley gold-silver operation, AISC in the June quarter was reduced by 2% to US$1,110 an ounce after production increased by 14% to 29,866 ounces of gold and 220,583 ounces of silver.

The announcement followed an earlier disclosure on the 2015 outlook for group All-In Sustaining Costs, which was anticipated to be in the range of A$2.3 billion to A$2.6 billion in the face of rising production costs particularly in the September quarter. This compares with A$2.33 billion in 2014.

On a brighter note, Newcrest said it anticipated to have positive cash flow in the 2015 financial year, subject to market and operating conditions.

Group gold production was anticipated to be in the range 2.2 to 2.4 million ounces with production at Lihir estimated at between 700,000 and 740,000 ounces and Newcrest's 50% share in Hidden Valley contributing an additional 100,000 to 120,000 ounces.

KULA GOLD GETS MINING LICENCE FOR WOODLARK MINE

The Minister for Mining, Byron Chan, has signed a Mining Lease for Kula Gold's Woodlark Island Gold Project, the first gold project approved in Papua New Guinea in the last eight years.

The lease agreement was signed on July 4 following a series of Development Forum meetings in Alotau that was attended by the Milne Bay Governor, Titus Philemon, senior executives from the Mineral Resources Authority and Milne Bay Provincial Government, representatives of the Woodlark Island Landowners' Association, company representatives and other stakeholders.

Kula Gold Chief Executive, Stuart Pether, said MRA has completed a detailed review of the development proposal, including an independent review of Woodlark's financial viability. The Mining Lease is for a 20-year term and can be extended for a further period not exceeding ten years.

Conditions imposed by the Minister include a requirement that construction and commissioning of the project should be completed within a 36-month period from the granting of the Mining Licence. Kula will have to report to MRA every six months on progress made against the Bankable Feasibility Study Implementation Schedule.

The developer is also required to prepare a detailed rehabilitation and mine closure plan at least five years prior to the mine closure. Kula Gold's 100% owned Woodlark Island Gold Project is located about 600km east of Port Moresby in Milne Bay Province.

The company said the feasibility study, completed in September 2012, had a defined resource of 2.1 million ounces and 766,000 ounces in ore reserves based on an optimised gold price of US$1,200 an ounce. "The 9-year project is based around three open pit mining areas and a 1.8 million tonnes per annum gravity and carbon-in-leach plant," it said.

NEWCREST WITHDRAWS FROM MANUS EXPLORATION VENTURE

Aurasian Minerals plc said Newcrest has withdrawn from its Manus Island Joint Venture with effect from July 16 this year and Aurasian has accounted for the 500,000 pounds sterling carrying value of the investment in its balance sheet.

The company's Chairman, Tony Shearer, said the company had also successfully sold its 8% interest in the Crater Mountain joint venture for a cash payment of A$200,000.

Aurasian also disposed of EL 1365 in Morobe Province to a subsidiary of Niuminco Group for a 3% net smelter royalty, which is net of any royalty Niuminco pays to Newmont on production from the tenement.

The transfer is conditional on registration of the transfer by the PNG Mineral Resources Authority and approval by the Minister of Mining.

Discussions are continuing with Barrick Gold on an offer to purchase for US$750,000 the company's 12.14% contributing interest in the Wamum project.

RAMU NICKEL PROJECT COST US$2.1 BILLION; PRODUCTION RAMP-UP PROCEEDING WELL

Highlands Pacific has disclosed that the final cost of building the Ramu Nickel project has risen to US$2.1 billion compared with the original estimate of US$1.2 billion prior to the extensive delays caused by environmental litigation.

The disclosure came in an ASX Spotlight Asia presentation by Highlands Pacific on 27 May 2014. Good news followed in the company's June quarterly report which noted that average production rate of 68% of nameplate capacity was achieved during the June quarter with the final six weeks averaging 74%. Weekly production at 77% of capacity was achieved on several occasions.

In a sign of growing confidence by the operator, nameplate capacity has been ramped up steadily from 17% in 2012 to 36% in 2013, 52% in the March quarter and 68% in the June quarter.

Ore mined during the June quarter increased to 1.45 million wet tonnes compared with 1.28 million wet tonnes in the March quarter with ore processed amounting to 579,906 and 454,466 dry tonnes in the two quarters respectively.

The mixed nickel-cobalt hydroxide production shipped during the June quarter totalled 18,940 tonnes with 7,030 tonnes of contained nickel and 711 tonnes of contained cobalt versus 5,433 tonnes shipped in the March quarter with 2,081 tonnes of contained nickel and 203 tonnes of contained cobalt.

Highlands said the operator, Metallurgical Corporation of China Ltd, continues to forecast 22,000 tonnes of nickel (70% of capacity) for the current year before reaching full production of 31,150 tonnes in 2015.

The company said LME nickel prices are up 35% on last year and have been holding firm over the last three months at just under US$9/lb or US$20,000/tonne.

"All major operating elements of the treatment plant are working as designed. Additional washplant capacity scheduled for completion in October at no cost to Highlands is expected to enhance production ramp up to nameplate capacity," the company said.

Meanwhile, Highlands also announced that discussions with potential joint venture partners for its Star Mountains copper-gold porphyry exploration venture were progressing well with hopes they would be concluded in the September quarter.

The EL1312 area is now 100% owned and controlled by Highlands Pacific. The company has identified 17 copper-gold targets with preliminary drilling conducted on six, with most of them intersecting porphyry style mineralisation.

YANDERA PROJECT DEFERRED INDEFINITELY

Development of the Yandera project has been postponed indefinitely after appearing to have been on the brink of development two years ago.

Following a comprehensive review of previous feasibility study work, the new management team at Marengo Mining has decided "the project would not currently yield the economics desired and, therefore, the feasibility work would not be completed at this time".

The company's quarterly report said that as a result of the review "a new structural model that controls mineralisation is becoming evident. This new understanding is being used to predict where new discoveries and an increase of grade are likely to occur.

"This new model has been used to great effect recently and has resulted in new discoveries of potentially higher grade outcrops at what is being called Rima Block. Extensive mapping and sampling in this new area has revealed potential wide zones of mineralisation and alteration that exhibit abundant bornite and chalcopyrite within both potassic and phyllic alteration zones."

The focus on high grades, as opposed to large potential open cut development, is a strategy that has also been adopted by Indochine Mining at its Mt Kare project and by Crater Gold at its Crater Mountain project followed the fall in copper and gold prices over the past two years.

The Marengo quarterly said the feasibility study has left uncertainty surrounding the areas of power supply and tailings disposal but substantial work had been undertaken in other areas, including resource definition and modelling and capital and operating cost estimates.

"Global resource markets have increasingly become more competitive with, among other things, the copper price falling, funding for exploration and development decreasing, and capital and operating costs escalating, bringing into question the economic viability of development of the 2012 resource," the report said.

The review followed a restructure of Marengo by majority shareholder Sentient Global Resources Fund and appointment of former non-executive director Pieter Britz as Chief Executive on April 23. Marengo's head office has been transferred to Toronto and the Perth and Port Moresby offices closed. The company retains an office in Madang.

BIG CHANGES UNDERWAY AT INDOCHINE MINING

Stephen Promnitz has resigned as Chief Executive of Indochine Mining following discussions with a substantial shareholder regarding future funding of the company and servicing of its creditors and loan providers.

These developments have created some uncertainty over the company's Mt Kare project, the company's flagship project. An earlier announcement by ASX-listed Capital Mining said it was holding discussions with Indochine Mining on acquisition of its Cambodian copper-gold assets. It made no mention of Mt Kare or PNG.

However, Indochine recently raised A$3.1 million from shareholders and the company said in its quarterly report that it has been approached by potential investors seeking a joint venture investment in Mt Kare aimed at funding the project into production.

Site work has been reduced until it becomes clearer whether a joint venture will eventuate or whether Indochine will continue to sole fund the project.

The resignation of CEO Promnitz also saw the departure of Hugh Thomas and Robert Thomson as company directors. Dermott McVeigh has been appointed as a director and company Chairman.

HAND-HELD MINING METHODS PLANNED AT CRATER MOUNTAIN

Crater Gold, which is commissioning a mining plant at its 100% owned Crater Mountain project in Eastern Highlands, intends to use hand held mining methods on a small scale but high grade underground mining operation, the company said. An application for a Mining Lease was lodged with MRA in early May.

"The high grade zone is earmarked to commence gold production subject to the outcome of the mining lease application. These submissions were based on the results of mapping and sampling of an underground development drive and associated crosscuts excavated to explore the high grade gold mineralisation," the company said.

Crater Gold Managing Director, Greg Starr, said the company has reported the results of 14 diamond drill holes at sufficiently close spacing to give confidence to geological and structural interpretation to enable modelling for a maiden resource and the conduct of detailed mine planning.

Rail and underground rail trucks are on site to be installed ahead of mining. The plant will involve gravity concentration through crushing and milling with a wet hammer mill and a centrifugal concentrator.

"The plant is of such a scale that in the initial phase it will be used for bulk sampling individual parcels of mineralised material currently stored on surface from rock extracted during development of the drive and cross cuts," he said.

MISIMA EXPLORATION GETS A$9 MILLION BOOST FROM WCB RESOURCES

WCB Resources has commenced an exploration program on the Misima prophyry to identify mineralised extensions to the former mine and to further define the potential resource at the historic Quartz Mountain area.

Mapping and channel sampling has already defined a significant south easterly extension to the prophyry measuring some 500 metres by 150m. The EL1747 Misima Project consists of 53 sub blocks covering an area of 180 sq km.

WCB can obtain up to 70% equity from Pan Pacific Copper by spending A$9 million within a staged timeframe subject to standard regulatory approvals.

MANAGEMENT RIGHTS TO SINIVIT MINE SOLD FOR US$5.25 MILLION

Niugini Gold has sold its PNG subsidiary, New Guinea Gold Ltd, to Kibush Capital Corporation, for US$5.25 million under a memorandum of understanding. KCC will assume responsibilities for some liabilities as at April 30, and take over management rights to the Sinivit gold mine from May 15, the company announced.

PEOPLE

NEW APPOINTMENTS AT NEWCREST

Industry veteran David Woodall has been appointed Executive General Manager International Operations as part of a new executive leadership team announced by Newcrest Managing Director and Chief Executive Sandeep Biswas.

Geoff Day, an executive with longstanding experience in PNG, is leaving his position as Executive General Manager, Sustainability and External Affairs, to take up an appointment as Chief Executive of Kingsgate Consolidated, a copper-gold miner in Thailand.

ST BARBARA GETS NEW CHIEF EXECUTIVE

Bob Vassie has been appointed Managing Director and Chief Executive of St Barbara Ltd, which owns and operates the Simberi gold mine and the Gold Ridge mine in Solomon Islands. Vassie, a mining engineer with 29 years international mining industry experience, previously served as MD of Inova Resources Ltd (formerly Ivanhoe Australia Ltd) and 18 years in senior positions with Rio Tinto. Vassie takes over from Tim Lehany.

INDUSTRY NEWS - PETROLEUM

INTER-OIL REFINERY AND RETAILING NETWORK SOLD FOR US$525.6 MILLION

InterOil has sold its downstream businesses, including the Napa Napa crude oil refinery and its oil distribution network, to the Singapore-based Puma Energy Pte for US$525.6 million.

In an announcement on June 30, the company said the sale included 52 service stations and 30 fuel depots, terminals and aviation sites.

InterOil's Chief Operating Officer, Jon Ozturgut, said the sale immediately provides additional capital to fund the company's upstream and LNG business. "We believe this is in the best interests of PNG and our shareholders," he said.

All staff employed at the 28,000 barrels a day refinery and downstream businesses will be retained by the new owner, Puma Energy.

Ozturgut said InterOil's upstream and LNG business had become core activities and its success in discovering and monetizing gas made it the right time to focus on this part of our business.

He said Puma Energy, which distributes petroleum products in more than 40 countries, would ensure that PNG has a world class business operator. "We believe Puma Energy is the right company to take over, invest in and grow the downstream and refining business for the long-term benefit of PNG."

Describing the sale as "a new chapter for InterOil", Chief Executive Dr Michael Hession said the sale represented a logical step in InterOil's growth as a major regional energy company. "It enables us to further strengthen our financial position and to focus on high value exploration and LNG development. This is our future; these are the opportunities to extract greatest value for our shareholders and the people of Papua New Guinea," he said.

Puma operates regional hubs in Australia, South Africa, South America and Europe. It employs more than 6,700 people and operates nearly 1,700 services stations, more than 60 terminals and a refinery.

Its major shareholders include Trafigura Beheer BV, a global Dutch commodity trading company, and Sonangol Holdings LDA, the state-owned Angolan oil and gas company.
The InterOil sale followed an unsolicited approach from Puma Energy and a strategic review by InterOil on its options for the best allocation of capital.

'WORLD-SCALE LNG PLANT FIRES UP TWO TRAINS AHEAD OF SCHEDULE'

Both Train 1 and Train 2 of the PNG LNG Project plant site near Port Moresby have commenced production ahead of schedule in April and May respectively this year.

In its June quarterly report, Oil Search said more than 194 million work hours had been completed since project construction began in 2010 involving more than 21,000 people, including more than 9,000 PNG nationals. Approximately US$4.4 billion was spent in PNG, including more than US$1.1 billion with landowner companies.

"Delivering this world scale project, ahead of schedule, was the culmination of many years of effort by the operator, ExxonMobil PNG Ltd, and its co-venture partners, with significant support from the PNG Government and local communities," noted Oil Search Managing Director Peter Botten.

The commencement of LNG production has provided a major boost to Oil Search production levels in the June quarter, compared with the March quarter, with output up by 120% to 3.69 million barrels oil equivalent. Revenue rose 100% to US$339.7 million during the quarter.

Production from the company's share of LNG during the June quarter was 1.87 million barrels with traditional oil and gas production providing an additional 1.82 mmboe, 8% higher than the first quarter of 2014. Production for 2014 is on target for the projected 17 to 20 mmboe.

The Kutubu-condensate blend fetched US$111.95 a barrel with the average LNG and gas price totalling US$14.41 per million btu. During the period seven LNG cargoes were loaded and five LNG cargoes and seven cargoes of Kutubu Blend were delivered.

P'NYANG FIRMS UP AS RESOURCE FOR PNG LNG PROJECT EXPANSION

The P'nyang gas field is firming as a potential development for the 3rd train at the PNG LNG Project with progress made during the June quarter on environmental and social fieldwork.

In its quarterly report, Oil Search said work will continue in 2014 in preparation for submission of a development licence application by early 2015, targeting P'nyang "as a resource for PNG LNG Project expansion".

Oil Search said the Minister for Petroleum and Energy had offered a new exploration licence, PPL 464, in Hela Province in a 50:50 partnership with ExxonMobil. Located next to the P'nyang field, the joint venture needs to conduct technical studies, field mapping and seismic in the first two years.

Oil Search has also entered into a conditional agreement with Strike Oil Ltd to acquire a 100% interest in exploration licence PPL 402, which is located adjacent to the Hides and Juha gas fields.

Drilling results from the Gulf of Papua are also being analysed and several high potential areas have been identified for further investigation.

Elsewhere in the Gulf in PRL 15 preparations are underway for two appraisal wells, Antelope 4 and 5, which are expected to commence drilling in the third quarter.

DECISION ON OIL SEARCH DISPUTE WITH INTEROIL BY 1ST QTR 2015

The arbitration process involving Oil Search and InterOil over PRL 15 is ongoing. In its quarterly, Oil Search said it "is disputing the validity of the sale by an InterOil subsidiary of a stake in PRL 15 to a subsidiary of the Total SA Group".

Oil Search said the sale was subject to various consent and pre-emptive rights under the Joint Venture Operating Agreement. "The arbitration instigated by Oil Search to ensure that JVOA rights are respected, is proceeding to a hearing in London in late November 2014. A decision from this arbitration is expected during the first quarter of 2015," it said.

PERTH EXPLORERS BUY OUT EAGLEWOOD ENERGY

The Perth-based Transform Exploration, which was set up two years ago with a distinguished board and management, has successfully taken over the Toronto-listed Eagleweood Energy Ltd.

The Chairman of Transform is John Akehurst, a former Chief Executive of Woodside Petroleum, with Dr Agu Kantsler, who previously headed up exploration and new ventures at Woodside, is the Chief Executive.

In March this year Eaglewood announced that the PNG Government had awarded it a strategic processing facility licence (APPFL 3) and a strategic pipeline licence (APL 9) for a gas-condensate facility close to the Ubuntu discovery in Western Province.

Stanley gas-condensate, which has received a Project Development Licence, extends into PPL 259 in which Eaglewood has a 45% stake. The company also has a 40% stake in the Ubuntu gas-condensate discovery (PPL 28) and 50% in PPL 430. It holds 100% equity in the Cape Vogel Basin (PPL 257) and in the Sepik Basin (PPL 258).

Transform Exploration has the financial backing of a global private equity firm specialising in the energy sector, Lime Rock Partners.

OFFSHORE PANDORA GAS FIELD COULD BE VIABLE

Cott Oil and Gas said a final LNG Concept Study for its 40% owned Pandora Gas Field has identified two feasible LNG development concepts, one involving a floating LNG (FLNG) vessel and another a near-shore vessel with storage and liquefaction capacity.

The offshore FLNG vessel would receive gas from a subsea gathering system for onboard processing, liquefaction, storage and offloading. It would incorporate two 0.5 million tonnes a year liquefaction modules.

It said a near shore LNG vessel that could produce up to 2.5 million tonnes annually would represent a "lower cost" solution because of reduced mooring and offloading costs. Additional costs would be incurred in offshore production facilities and pipeline. Such a vessel could also be used as an "LNG Hub" for gas from other fields.

Cott was awarded a 40% interest in Pandora in December 2013. It contains a 2C Contingent Resource of 792 billion cubic feet in water depths of 120 metres 200km west of Port Moresby.

Cott said the next step would be for the company to discuss the Concept Study with its joint venture partners - Talisman Energy 25% (operator), Kina Petroleum 25% and Santos 10% - and with the Department of Petroleum and Energy. It is also holding discussions with potential build-own-operate entities.

CUE ENERGY TO SELL PNG INTERESTS AND DE-LIST FROM POMSoX

Cue Energy has announced that the marketing of its PNG oil and gas asset portfolio "is well advanced" and the stock is expected to de-list from the Port Moresby Stock Exchange.

Cue's share of crude oil sales from the South East Gobe field totalled 3,409 barrels worth A$410,000 in the June quarter. This is from the company's 5.568892% interest in PDL 3 SE Gobe Field. It also holds 10.947% in PRL 14 and 14.894% in PRL 9, nearby exploration leases that are operated by Oil Search.

"The construction of facilities to process the associated gas and gas cap from SE Gobe continues. The gas will be exported to the PNG LNG gas pipeline and LNG processing plant from August," it said.

GOVERNMENT NEWS

MINING DOWNTURN CUTS GOVERNMENT REVENUE AND GDP

The government has revised downwards its total revenue and grants by K372.5 million to K12,316 million from the 2014 budget projection of K12,668.5 million with gross domestic product revised downwards from 6.2% to 5.4%.

The lowered forecasts was due to lower mine production and lower production from cocoa, coconut oil and coffee, according to Treasury's Mid-Year Economic and Fiscal Outlook report.

The report said: "One of the biggest concerns of most mines over the past year has been dealing with prospects of increasing production amidst the rise in cost of production.

"According to most mines, cost of supplies, including food, machinery and spare parts have increased significantly over the last twelve months and this has been attributed to the general increase in costs exacerbated by the weaker Kina. Despite commodity prices remaining at reasonable levels in the first half of 2014, returns have been eroded by growing costs.

"This has triggered mines to review operations whereby some began to scale back labour over the past twelve months. Recent data suggests that this exercise has continued in the first half of 2014 where mines have also scaled back production targets for the year in order to control costs.
"The downgrade in production has slowed down the growth in the mining sector to 6% from the 2014 Budget estimate of 13.8%."

Treasury's mid-term outlook report said while the contributions of mining and agriculture have diminished, the PNG LNG Project has continued to support the PNG economy, delivering the first cargo in May, well ahead of general expectations.

It said LNG was expected "to be half of full capacity in 2014" and it would have a phenomenal impact on the oil and gas sector with sectoral growth of 350% this year.

The report added: "Despite the huge gain in the oil and gas sector, the impact of the production phase of PNG LNG on the non-mining sectors of the economy remains small compared to the construction phase. Non-mining GDP in 2014 is projected to grow by 1.1%, which is very slow compared to the faster pace of 9% recorded during the construction phase."

Treasury said that with the completion of the construction phase of the LNG project the stimulus provided by construction would be hard to replace and growth was projected to decelerate in the non-mining sectors especially in those that benefitted from the indirect impacts of the construction phase, including community, social and personal services, finance and real estate and electricity, gas and water.

It said the construction sector was expected to contract as it had been one of the areas that benefitted most from the direct impacts of the LNG project.

“The construction sector is expected to contract as it was the one to have borne the bulk of the direct impacts,” the report said.

Treasury said total taxes on income and profits was revised down by K295.3 million to K6,821.9 million from Budget projections of K7,117.2 million, reflecting downward revisions to mining and petroleum taxes, dividend withholding taxes, gaming tax and interest withholding tax.

'PLANNING OCCURS IN 'DREAM WORLD' WITHOUT PROPER DATA'

The National Government faced significant criticisms at the two-day Consultative Implementation and Monitoring Council (CIMC) held at the Holiday Inn on July 16 and 17 with some serious soul searching by National Planning Minister Charles Abel.

PNG's development dilemma, according to Minister Abel, was due to a "lack of morals" among the nation's leaders. "Everybody is stealing; everyone has lost the sense of service," he said, speaking of double standards that are practiced since "everyone is spending time in church" while problems worsen in terms of incest, stealing, littering etc.

Abel told a questioner the process of getting funds into rural districts was very complex and a lot of funds allocated in Waigani "disappeared before it gets to the districts". The Minister said the current government was sending funds straight to the Districts and Provincial Government's were also better funded.

By contrast, he noted, the District Service Implementation Program was enabling him (Minister Abel) to deliver results through the length and breadth of his Alotau electorate. "Each district is getting K10 million a year. What is happening with the money?" he asked.

Paul Barker, Executive Director of the Institute of National Affairs, decried the lack of proper statistical data. He said that unless reliable and up-to-date data was collated by the National Statistical Office planning was occurring "in the dream world" with uncertainties about the size of the population, gross domestic product and economic trends.

He said that since it was established in 1998 most CIMC recommendations related to agriculture and livestock but not much had been implemented. "Planning is more about control. Farmers want an enabling environment rather than government bureaucrats trying to direct them," he said. The National Agricultural Development Plan was successfully put in place but its operations were turned into a "slush fund".

Sir Brown Bai, Chairman of the Rural Industries Council, said much of the government's focus was on non-renewable resources and LNG and "nobody is paying any attention to agriculture in a constructive way. Agriculture is going backwards with the volume of exports decreasing between 2011 and 2013."

Sir Brown told the conference the government had no concrete plans for agriculture; consultation between government and the private sector was not good with "no proper mechanism for consultation." He appealed to the National Government to consider the private sector "as partners, not enemies".

Urging the establishment of a mechanism for government-private sector consultation, he referred to the recent rate fixing of the Kina by the Central Bank, arguing that it was causing "a lot of problems for agriculture". He said the rubber industry alone would lose around K2.2 million in revenue as a result of that measure.

In a discussion on Small and Medium Enterprises, the Vice President of the Business Council of PNG, Ernie Gangloff, said the first SME policy had been drafted by the National Government in 1998. "From where I sit nothing much has happened since the first policy draft in 1998."

He said it has been two years since the current National Government said it wanted to promote the SME sector, but little or no consultation has taken place. How do we make policy when we have no adequate data and the National Statistical Office, which is meant to collect data, is not doing their job," he asked.

'LNG REVENUES COULD MAKE PNG THE 'GREAT COUNTRY' IT ASPIRES TO BE'

The PNG Government anticipates that average annual tax revenue from the PNG LNG Project would amount to around K1.5 billion annually over the 30-year life of the project.

The Acting Secretary for Treasury, Dairi Vele, told the CIMC meeting there would be "a huge transformation in the money" the National Government was going to receive as a result of the start-up of PNG's first LNG project.

The additional tax revenues, he said, "needs to be spent in the right way" with every effort also made "to think of the next generation as well".

Vele said Gross Domestic Product this year would grow by 6.2% to make it 14 years of successive growth with world record growth of 21% anticipated in 2015 as a result of a full year of LNG exports.

The Acting Treasurer reminded the audience that borrowing by the National Government during the 1990s had led to the creation of large budget deficits with the benefit of positive development results. "We borrowed heavily and almost went bankrupt," Vele said, adding that the challenge facing the government now was to "prudently manage revenues".

He said: "What's the point of money if kids are dying of malaria and roads are not being built. We need to use the money to build the economy. LNG gives us another opportunity to make PNG the great country it could be."

HELA PROVINCIAL GOVERNMENT TAKES OVER JUNI TRAINING FACILITY

The PNG LNG Project training facility at Juni has been transferred to the Hela Provincial Government, which has contracted a specialist training company, Orion, to manage the facility.

The Post Courier newspaper quoted Hela Governor Anderson Agiru as saying the province has allocated K1 million in this year's budget for the training of 120 school leavers. Recruitment and training will occur every six months.

Agiru said Orion will select students from Hela who have completed Grade 10 and 12 to undergo training in catering, agriculture, road maintenance, bricklaying, carpentry and other semi skilled trades to develop Hela's human capital.

The announcement was made when Agiru presented subsidies to UPNG (K150,000), Pacific Adventist University (K50,000), Institute of Business Studies (K50,000), Divine Word University (K50,000), Goroka University (K50,000) and University of Technology (K150,000).