

30 October 2014

## **Activities Report for the quarter ended 31 March 2014 and the quarter ended 30 June 2014**

International Petroleum Limited (NSX: IOP) (“International Petroleum” or the “Company”), an oil and gas exploration company is pleased to present its quarterly activities report for the quarter ended 31 March 2014 and the quarter ended 30 June 2014.

### **UPDATE ON KEY ISSUES**

- US\$121k cash at bank at 31 March 2014 & US\$10,540k cash at bank at 30 June 2014
- Sale of Russian Assets and update on Kazakhstan Assets
- Sale of Non-Core South African Assets
- Conversion of Loans Outstanding
- NSX suspension from official quotation

### **CORPORATE**

#### **Sale of Russian Assets and update on Kazakhstan Assets**

The Company received Shareholder Approval in 2013 for the sale of its Kazakhstan Assets and Russian Assets to a Hong Kong company for gross proceeds of approx. US\$60m. During Quarter 1, 2014 the Company continued its negotiations with this buyer to determine proof of financial capacity and confirmation of its completion of due diligence, however unfortunately this transaction was unable to be settled.

The Company has since held discussions with a number of additional potential purchasers of the Kazakhstan Assets and/or the Russian Assets that had been introduced by its corporate advisors Strand Partners. On 9 May 2014, the Company (through its wholly owned subsidiary) entered into a share purchase agreement with a third party (the “Buyer”) for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) (“IPL Siberia”) and International Petroleum Company LLC (a company incorporated in Russia) (“IPL Russia”) for proceeds of US\$13million (the “Transaction”).

IPL Siberia indirectly holds the Yuzhno-Sardakovsoye Block Licence, the Yanchinsky Block Licence, the Zapadno-Novomolodezhnoye Block Licence, the Krasnoleninsky Block Licences and the Druzhny Block

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Licences in Russia (together, the “Russian Assets”). These licenses comprise all of the Group’s interests in Russia.

A summary of the key terms of the share purchase agreement are set out below:

- the Company (through its wholly owned subsidiary) will transfer 100% of the issued shares in IPL Siberia and IPL Russia to the Buyer for US\$13million (“Acquisition”)
- as part of the Transaction, International Petroleum Limited (a company incorporated in the Cayman Islands) (“IPL Cayman”) will novate to the Buyer, any and all debts owed to it or the Company by IPL Russia or IPL Siberia, including debts owed by IPL Siberia’s subsidiary companies (“Novated Loans”)
- as part of the Transaction, the Buyer, with such reasonable assistance as may be requested from IPL Cayman, shall use reasonable efforts to negotiate and settle other third party debts of IPL Siberia and IPL Russia (and their subsidiaries) (“Third Party Debts”) within 4 and a half months after Acquisition. If the Buyer fails to achieve any settlement agreement in respect to any of the Third Party Debts which exceed US\$80,000 or are in respect to salaries of employees of Russian subsidiaries within 4 and a half months after Acquisition, the Buyer agrees to promptly pay such non-settled Third Party Debts. All remaining Third Party Debts below US\$80,000 are to be settled no later than 6 months after Acquisition.
- IPL Cayman provided warranties to the Buyer in respect to the status of IPL Siberia and IPL Russia and its assets and liabilities, including in respect to the total debts owed by IPL Siberia and IPL Russia as at 31 March 2014.
- following the claims process outlined in the share purchase agreement the Buyer has the right to lodge financial claims with the Seller, not later than the second anniversary of the date of Completion, in respect of undisclosed Third Party Debts as at the date of the transaction. The aggregate liability of the Seller in respect of all claims is limited to the consideration amount of US\$13 million.

The Transaction was approved via General Meeting resolution on 8 September 2014.

The proceeds of US\$13 million was received during Quarter 2, 2014. The company will apply the funds received from the Transaction towards repayment of creditors, general working capital and future exploration expenditure. As at the date of this quarterly update no financial claims have been lodged by the Buyer.

In August 2014 the Group received notification from the Kazakhstan Ministry of Oil & Gas (“MOG”) that its rights to the Alakol licence have been withdrawn by MOG unilaterally. The Group does not accept this as being justified and has written to MOG requesting that the licence be reinstated. At the date of approval of this update the dispute has not yet been resolved.

### **Sale of Non-Core South African Assets**

During October 2009, the Company entered into a sale agreement (the “Sale Agreement”) with Nkwe Platinum Limited (ASX: NKP) (“Nkwe”) relating to the Company’s interest in a South African platinum project (“Tubatse Project”).

Owing to the continued delays to the settlement of the dispute about the ownership of two of the three mineral farms that comprise the Tubatse Project and the negotiations with suitable joint venture partners, Nkwe had not been able to pay the A\$45 million consideration to the Company by the revised agreement date of 31 December 2012. The Directors are currently seeking legal advice on how to proceed.

Hoepakrantz 291 KT, together with prospecting licenses Nooitverwacht 324 KT and Eerste Geluk 327 KT, were known as the Tubatse Project (a South African platinum project). Hoepakrantz 291 KT now forms part of the Garatau Project, with 2 other prospecting licences in which the Company has no interest.

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During Quarter 4, 2013, NKWE announced the formation of a strategic partnership with Zijin Mining Group (“Zijin”), in respect of the development of Nkwe’s South African PGM assets and a A\$20m investment by Zijin into Nkwe, all of which has been advanced.

### **Potential strategic merger with Range Resources Limited**

During Quarter 1, 2014 discussions with Range Resources Limited (“Range Resources”) confirmed that they would not be proceeding with the original merger proposal and although the companies had considered a range of corporate alternatives, the delayed sale and clarity over the sale of the Company’s assets, had meant that Range had elected not to pursue with a merger.

The Company has drawn approximately US\$8m under an unsecured loan facility provided by Range. Amounts drawn under the loan have been used to pay the Company’s trade creditors and meet working capital requirements. On 2 October 2014 the Company issued shares, options and later that month paid US\$500,000 in satisfaction of the loan amount, including interest, owed to Range Resources. Refer details below.

### **Conversion of loans**

On 8 September 2014, a General Meeting was held whereby shareholder approval was obtained for the conversion of loans to fully paid ordinary shares of the Company. A summary of the loan conversions approved is set out below:

- US\$13,184,231 of loans, associated commitment fees and interest, payable to African Petroleum Corporation Limited (“African Petroleum”), into 233,890,450 fully paid ordinary shares at a deemed price of A\$0.06 per share
- US\$8,331,560 of loans and interest, payable to Range Resources, into 147,803,270 fully paid ordinary shares at a deemed price of A\$0.06 per share
- US\$5,200,000 of loans, payable to Varesona Participation Corporation (“Varesona”), into 79,070,457 fully paid ordinary shares at a deemed price of A\$0.07 per share
- US\$6,000,000 of loans, payable to Varesona, into 42,576,400 fully paid ordinary shares at a deemed price of A\$0.15 per share

The loan conversions to fully paid ordinary shares, as detailed above, were completed on 2 October 2014.

In addition to the loans converted, 5,000,000 options exercisable at A\$0.06 per Option were issued to each of African Petroleum and Range Resources on 2 October 2014, and both companies will be entitled to nominate one person to the Board of the Company.

As part of the agreement with Range Resources the Company paid US\$500,000 on 21 October 2014, as final settlement of the borrowings owed to Range Resources.

Following the cash settlement with Range Resources and the conversion of the loans and interest payable to African Petroleum, Range Resources and Varesona, the Company does not have any outstanding loans payable.

### **NSX suspension from official quotation**

Since 27 March 2013, the Company’s shares have been suspended from trading on the NSX market, at the Company’s request, and suspension from trading is not expected to be lifted until the Company has filed its audited financial statements for the half years ended 30 June 2013 and 30 June 2014, and for the year ended 31 December 2013, which is expected to occur during Quarter 4, 2014.

Yours faithfully

Tony Sage  
**Non-Executive Chairman**

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### **About International Petroleum**

International Petroleum is an oil and gas exploration and production company. The Company is listed on the National Stock Exchange of Australia (**NSX: IOP**).

The Company owns:

1. a 50% interest in an early stage project covering 24,649 km<sup>2</sup> in eastern Kazakhstan (the “**Alakol Project**”), which borders the western boundary of the People’s Republic of China. *In August 2014 the Group received notification from the Kazakhstan Ministry of Oil & Gas (“MOG”) that its rights to the Alakol licence have been withdrawn by MOG unilaterally. The Group does not accept this as being justified and has written to MOG requesting that the licence be reinstated. At the date of approval of this update the dispute has not yet been resolved.*
2. a 100% interest in four production sharing contracts and four Exclusive Exploration Authorisations relating to four blocks in the Republic of Niger known as Manga 1, Manga 2, Aborak and Ténére Ouest (the “**Niger Project**”).

## Quarterly Report

Name of entity

INTERNATIONAL PETROLEUM LIMITED

ABN

76 118 108 615

Quarter ended ("current quarter")

31 March 2014

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter	Year to date (3 months)
	\$US'000	\$US'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(49)	(49)
(b) advertising and marketing	-	-
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital	(30)	(30)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Income taxes paid	-	-
1.6 Other (provide details if material)		
(a) business development	-	-
(b) VAT/GST refunded	22	22
(c) rent deposit received	36	36
<b>Net operating cash flows</b>	<b>(21)</b>	<b>(21)</b>

	Current quarter \$US'000	Year to date (3 months) \$US'000
1.7	<b>(21)</b>	<b>(21)</b>
<b>Cash flows related to investing activities</b>		
1.8		
Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
(f) exploration and evaluation expenditure	(69)	(69)
1.9		
Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.10	-	-
1.11	-	-
1.12		
Other (provide details if material)		
(a) performance bonds put in place	-	-
(b) performance bonds relinquished	-	-
(c) security for facilities put in place	-	-
(d) security for facilities relinquished	-	-
(e) cash subjected to restrictions	-	-
	<b>(69)</b>	<b>(69)</b>
<b>1.13</b>	<b>(90)</b>	<b>(90)</b>
<b>Cash flows related to financing activities</b>		
1.14		
Proceeds from issues of shares, options, etc (net of costs)	-	-
1.15	-	-
Proceeds from sale of forfeited shares	-	-
1.16	-	-
Proceeds from borrowings	-	-
1.17	-	-
Repayment of borrowings	-	-
1.18	-	-
Dividends paid	-	-
1.19	-	-
Interest and other costs of finance paid	-	-
1.20	-	-
Other (provide details if material)	-	-
	-	-
	<b>(90)</b>	<b>(90)</b>
	<b>(90)</b>	<b>(90)</b>
	<b>211</b>	<b>211</b>
1.22	-	-
Exchange rate adjustments	-	-
1.23	<b>121</b>	<b>121</b>
	<b>121</b>	<b>121</b>

**Payments to directors of the entity and associates of the directors****Payments to related entities of the entity and associates of the related entities**

		Current quarter \$US'000
1.24	Aggregate amount of payments to the parties included in item 1.2	10
1.25	Aggregate amount of loans to the parties included in item 1.11	-

## 1.26 Explanation necessary for an understanding of the transactions

US\$27,535 has been paid to directors during the quarter for the provision of their services as directors, of which US\$17,622 is included in item 1.8 (g) within investing cash flows and \$9,913 is included in item 1.2 (a) within operating cash flows.

**Non-cash financing and investing activities**

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

N/A

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

N/A

**Financing facilities available**

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$US'000	Amount used \$US'000
3.1	Loan facilities	6,971 <sup>1</sup>	29,239
3.2	Credit standby arrangements	-	-

<sup>1</sup> Excluding loan facilities drawn down.

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$US'000	Previous quarter \$US'000
4.1	Cash on hand and at bank	121	211
4.2	Deposits at call	-	-
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>121</b>	<b>211</b>

## Acquisitions and disposals of business entities

		Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	N/A	N/A
5.2	Place of incorporation or registration	N/A	N/A
5.3	Consideration for acquisition or disposal	N/A	N/A
5.4	Total net assets	N/A	N/A
5.5	Nature of business	N/A	N/A

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to NSX.
- 2 This statement gives a true and fair view of the matters disclosed.

Print name: Jason Brewer

Date: 30 October 2014



## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. **Accounting Standards.** NSX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

## Quarterly Report

Name of entity

INTERNATIONAL PETROLEUM LIMITED

ABN

76 118 108 615

Quarter ended ("current quarter")

30 June 2014

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter	Year to date (6 months)
	\$US'000	\$US'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(72)	(121)
(b) advertising and marketing	-	-
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital	(525)	(555)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Income taxes paid	-	-
1.6 Other (provide details if material)		
(a) business development	-	-
(b) VAT/GST refunded	7	29
(c) rent deposit received	-	36
<b>Net operating cash flows</b>	<b>(590)</b>	<b>(611)</b>

	Current quarter \$US'000	Year to date (6 months) \$US'000
1.7	<b>(590)</b>	<b>(611)</b>
<b>Cash flows related to investing activities</b>		
1.8	Payment for acquisition of:	
	(a) businesses (item 5)	-
	(b) equity investments	-
	(c) intellectual property	-
	(d) physical non-current assets	-
	(e) other non-current assets	-
	(f) exploration and evaluation expenditure	(919)
1.9	Proceeds from disposal of:	
	(a) businesses (item 5)	11,503
	(b) equity investments	378
	(c) intellectual property	-
	(d) physical non-current assets	-
	(e) other non-current assets	-
1.10	Loans to other entities	
	-	-
1.11	Loans repaid by other entities	
	-	-
1.12	Other (provide details if material)	
	(a) performance bonds put in place	-
	(b) performance bonds relinquished	9
	(c) security for facilities put in place	-
	(d) security for facilities relinquished	11
	(e) cash subjected to restrictions	-
	<b>Net investing cash flows</b>	<b>10,982</b>
<b>1.13</b>	<b>Total operating and investing cash flows</b>	<b>10,371</b>
<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc (net of costs)	
	-	-
1.15	Proceeds from sale of forfeited shares	
	-	-
1.16	Proceeds from borrowings	
	-	-
1.17	Repayment of borrowings	
	-	-
1.18	Dividends paid	
	-	-
1.19	Interest and other costs of finance paid	
	-	-
1.20	Other (provide details if material)	
	-	-
	<b>Net financing cash flows</b>	<b>-</b>
	<b>Net increase (decrease) in cash held</b>	<b>10,371</b>
1.21	Cash at beginning of quarter/year to date	211
1.22	Exchange rate adjustments	(42)
1.23	<b>Cash at end of quarter</b>	<b>10,540</b>

**Payments to directors of the entity and associates of the directors****Payments to related entities of the entity and associates of the related entities**

		Current quarter \$US'000
1.24	Aggregate amount of payments to the parties included in item 1.2	201
1.25	Aggregate amount of loans to the parties included in item 1.11	-

## 1.26 Explanation necessary for an understanding of the transactions

US\$201,403 has been paid to directors during the quarter for the provision of their services as directors, all of which has been included within item 1.2 (e) within operating cash flows.

**Non-cash financing and investing activities**

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

N/A

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

N/A

**Financing facilities available**

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$US'000	Amount used \$US'000
3.1	Loan facilities	6,971 <sup>1</sup>	29,239
3.2	Credit standby arrangements	-	-

<sup>1</sup> Excluding loan facilities drawn down.

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$US'000	Previous quarter \$US'000
4.1	Cash on hand and at bank	10,540	121
4.2	Deposits at call	-	-
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>10,540</b>	<b>121</b>

## Acquisitions and disposals of business entities

		Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	N/A	IPL Siberia Limited and International Petroleum Company Limited
5.2	Place of incorporation or registration	N/A	IPL Siberia Limited (a company incorporated in the Cayman Islands) and International Petroleum Company Limited (a company incorporated in Russia)
5.3	Consideration for acquisition or disposal	N/A	<p>A summary of the key terms of the Agreement are set out below:</p> <p>(a) the Company (through its wholly owned subsidiary) will transfer 100% of the issued shares in the Subsidiary Companies to the Buyer for US\$13million (<b>Acquisition</b>).</p> <p>(b) As part of the Transaction IPL Cayman will novate to the Buyer any and all debts owed to it or the Company by any of the companies within the Company Group (<b>Novated Loans</b>).</p> <p>(c) As part of the Transaction, the Buyer, with such reasonable assistance as may be requested from IPL Cayman, shall use reasonable efforts to negotiate and settle other third party debts of the Subsidiary Companies (and their subsidiaries) (<b>Third Party Debts</b>) within 4 and a half months after Acquisition. If the Buyer fails to achieve any settlement agreement in respect to any of the Third Party Debts which exceed US\$80,000 or are in respect to salaries of employees of Russian subsidiaries within 4 and a half months after Acquisition, the Buyer agrees to promptly pay such non-settled Third Party Debts. All remaining Third Party Debts below US\$80,000 are to be settled no later than 6 months after Acquisition.</p> <p>(d) IPL Cayman provided warranties to the Buyer in respect to the status of Subsidiary Companies and its assets and liabilities, including in respect to the total of debts owed by the Subsidiary Companies as at 31 March 2014.</p>
5.4	Total net assets	N/A	US\$11.4m

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5.5 Nature of business

N/A	IPL Siberia indirectly holds the Yuzhno-Sardakovsoye Block Licence, the Yanchinsky Block Licence, the Zapadno-Novomolodezhnoye Block Licence, the Krasnoleninsky Block Licences and the Druzhny Block Licences (together, the Russian Assets). IPL Siberia through its respective subsidiaries holds the licences for the Russian Assets and MNSK and IPL Russia acts as the operators for the holders of the licences for the Russian Assets.
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### Compliance statement

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Print name: Jason Brewer

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