



National Petroleum Company
Papua New Guinea

MINUTES OF MEETING

SPECIAL BOARD OF DIRECTORS MEETING No.2 OF 2014

SUNDAY 9th March 2014, commencing at 11:00 a.m. PNG Time,
Convened via teleconference from the NPCP Office, level 7, Deloitte Tower,
Douglas Street, Port Moresby, NCD, Papua New Guinea

| AGENDA ITEM | LEAD PRESENTER | PURPOSE OF PAPER |
|--|-------------------|------------------|
| 1.0 HEALTH AND SAFETY | | |
| 1.1 Safety Moment | Chairman | Noting |
| <p>Chairman declared the Board Meeting open at 11:16am PNG time.</p> <p>With the unanimous agreement of the Board, Chairman waived item 1.1 and proceeded straight to the matters under item 2.</p> | | |
| 2.0 STATUTORY/PROCEDURAL MATTERS | | |
| 2.1 Quorum | Company Secretary | Noting |
| <p>Where the quorum requirement is for a simple majority, and there being four (4) of the seven (7) Directors present, the Co. Sec confirmed that the quorum requirement has been satisfied.</p> | | |
| 2.2 Attendance | Company Secretary | Noting |
| <p>A. Directors Present:</p> <ul style="list-style-type: none"> ➤ Frank M Kramer – Chairman (“Chairman”) ➤ Wapu Sonk –Managing Director (“MD”) ➤ Dr. Benedict Yaru – Director (“Dr. Ben”) ➤ Larry Andagali – Director (“Director Larry”) <p>B. Others Present:</p> <ul style="list-style-type: none"> ➤ Rogen Wato – Company Secretary (“Co. Sec”) | | |
| 2.3 Adoption of Agenda | Chairman | Noting/Approval |
| <p>The Agenda with only one item was adopted unanimously.</p> | | |
| 2.4 Apologies | Company Secretary | Noting |
| <p>The Board noted apologies from Dr. Ila Temu. The Board noted further the logistical difficulties with contacting Director Mathias and Director Mark Soipang and enabling their participation in this Board Meeting.</p> | | |

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| 2.5 Disclosure of Interests by Directors | Chairman | Noting |
| Not Applicable | | |
| 2.6 Common Seal Register | Not applicable | Not applicable |
| Not Applicable | | |
| 2.7 Circular Resolution Register | Not applicable | Not applicable |
| Not Applicable | | |
| 3.0 MINUTES OF THE PREVIOUS MEETING | | |
| 3.1 Minutes of previous Board Meeting | Not applicable | Not applicable |
| Not Applicable | | |
| 3.2 Summary of Action Items from previous Board Meeting | Not applicable | Not applicable |
| Not Applicable | | |
| 4.0 DECISION PAPERS | | |
| 4.1 The State's proposed acquisition of shares in Oil Search Limited and Endorsement of NPCP's involvement in the related Financing | W. Sonk | Noting and Approval |

A. PRELIMINARY REMARKS

Chairman reminded the Board that there was only one paper to consider.

He then made the point that he had not received any formal instructions from the State and expressed concern about the manner in which the State had bulldozed the transaction without regard for due process and without giving each State party including NPCP, sufficient time to understand nature of the transaction, for NPCP to be able to have foresight of its and the full extent of its exposure. He also expressed concern about the consequences of such behaviour by the State for integrity of NPCP and its Board and for the fact that such behavior erodes and undermines the independence and credibility of a Board comprised of esteemed private persons with hard-earned integrity in the business and wider community. In addition, the Board were unanimous on the view that NPCP was directed to deal with this matter by the State as ultimate shareholder, and that despite the irregularity in due process, NPCP Board was obligated to follow the direction or instruction issued to it.

He then acknowledged that the Management has been proactive in the immediate past days and have been positioning themselves (although without formal invite or notification from the State or IPBC) to be able to protect the interest of NPCP and to advise the Board accordingly.

He further acknowledged, with the unanimous assent from the Board, that the Board had also been proactive and have been on standby since the immediate past Wednesday to assist the State. He also acknowledge and thanked the Directors present for convening at such short notice and acknowledged and thanked MD and Co.Sec for working around the clock to get the Board to meet.

He then allowed Co.Sec to explain the reason for calling the Special Board Meeting via teleconference

taking into account the fact that a Circular Resolution on the same resolutions was circulated yesterday (Saturday). Co.Sec explained that the Special Board Meeting had become necessary because of the limited time NPCP has been given and most importantly because the NPCP Constitution does not recognize a Circular Resolution as valid and effectual if all of the Directors have not participated in the approval or otherwise of the resolutions. Where the participation of Directors Mark and Mathias could not be obtained within the time given for Directors to return the Circular Resolutions, a Special Board Meeting via teleconference became necessary.

Chairman then directed the attention of the Board to the Board paper.

B. DISCUSSIONS

Chairman led discussions, acknowledging that the Board had been provided with copies of the relevant draft resolutions and related information and documents during course of the week. He also acknowledged that the Board has also been provided with an information pack for the Circular Resolution (comprising an Explanatory Note, a copy of the Payments Direction Deed, draft Board Resolutions and draft Power of Attorney) which has been withdrawn as of 9am this Sunday, and that that information pack is now relevant and applies to this meeting.

Chairman then sought the confirmation of MD and Co.Sec that the Board has only two action items for this meeting, and these were:

- (1) Consideration and approval of the draft resolutions including appointment of members of Management as holders of Power of Attorney to execute the relevant documents to effect the proposed transaction ; and
- (2) Approval of the draft Power of Attorney.

Same was confirmed by MD and Co.Sec.

The Board noted that the draft resolutions and Power of Attorney have been drafted by UBS' lawyers and needed to be revised in relevant areas to reflect NPCP's views.

Chairman then asked that Management remove from the draft resolutions the reference "Each director present confirmed that he was of the view that the Transaction Documents and the transactions contemplated by them are directed to the greatest advantage of the people of Papua New Guinea in accordance with Schedule 4 Part 2 of the constitution of the Company". Chairman emphasized here that he did not believe that the proposed transaction is "... directed to the greatest advantage of the people of Papua New Guinea". The Directors present unanimously assented with this view and Co.Sec noted same for revision.

The Board noted significant revisions in the draft resolutions in the first un-numbered paragraph of Part E under sub-paragraphs (1), (2), (4) and (5). The Board also confirmed the appointment of MD and Co.Sec as holders of Power of Attorney under the second un-numbered paragraph of Part E.

Chairman then, with the unanimous assent of the Board, expressed that despite the negatives of the proposed transaction, NPCP will support the proposed transaction and provide the required backstop/guarantee; that NPCP will do all these on the understanding that NEC has decided to vest the OSL Shares in Petromin because of existing encumbrances under the IPIC Exchangeable Bonds and also as an interim measure to protect NPCP from any resulting liabilities, direct and potential.

Chairman emphasized that it be made clear and put on record that it is the Board's desire and understanding that as consideration for NPCP supporting and guaranteeing this transaction, the OSL shares will vest in NPCP/NPCP Holdings and ultimately in Kumul Petroleum Holdings once the loan under the transaction has been fully repaid and related liabilities have been resolved (by which time, NPCP will have been free from encumbrances of the IPIC Exchangeable Bonds).

Chairman then invited comments from the directors.

Dr. Ben then asked if UBS was aware of the proposed resolutions. MD responded advising that Ashurst who are lawyers for UBS, have prepared the draft resolutions together with the other transaction related documents and Co.Sec advised that UBS are only concerned about getting the NPCP Board's approval on the resolutions for the payment direction and therefore will be the least concerned if NPCP Board wants to be frank enough to capture in the background/minutes its concerns about the inadequacies or otherwise of the premises on which it is going to approve the resolutions.

Dr. Ben then asked if implications for dividends and related policies and the Sovereign Wealth Fund ("SWF") have been taken into account. MD advised that these separate issues but related and relevant; that dividends will be declared by the NPCP Board and from these, payments will be made to the SWF as well as the consolidated revenue fund depending on the final dividends policy; that whilst that is the case, the proposed transaction will have a first preference take in reducing NPCP's revenue before the revenue reaches NPCP. MD added that as a mitigating measure for NPCP and to avoid allowing the State from double dipping into NPCP's revenues and NPCP's strategic plan, NPCP will strive to obtain State/Treasury undertaking to treat any payments made by NPCP under the Payment Direction Deed as foregone dividends to the State/SWF.

Dr. Ben then impressed that IPBC needs to be aware of the implications of the transaction on NPCP and NPCP's thoughts. MD agreed advising that Management will document the process for purposes of IPBC as well as Treasury.

Chairman then directed management, as action items of this meeting, to document and to communicate in clear and firm terms to IPBC and Treasury the desire of NPCP Board that:

- (a) any payment made by NPCP under the Payment Direction Deed or other obligation pursuant to the proposed transaction be treated as foregone dividends to the State; and
- (b) the OSL shares once clear of any encumbrances and adverse interests, should vest in NPCP or such other entity controlled by NPCP, and ultimately vest in Kumul Petroleum Holdings.

Dr. Ben added that these are in line with NPCP's strategic plan to which Chairman agreed and directed management to note same also as an action item of this meeting, and to write to Treasury and IPBC in the strongest possible terms advising them about the above two requirements and to ensure it is understood by IPBC and Treasury that these are an integral aspect of NPCP's strategic business plan.

Dr. Ben then raised concern that the trigger for NPCP becoming liable under the Payment Direction Deed is such that the interest payable (which escalates at two sets of repayment periods when the State fails to sell the bonds) will make the prepayment significantly higher than the Bridge Facility amount. He suggested, therefore, that NPCP works with the State from the outset to ensure that the State sells the bonds during the first repayment period at the then applicable interest rate which is fair. This was noted by Management as an action item.

Chairman then reiterated, with the unanimous assent of the Board, that this transaction was rushed and the Board and Management had to pass the relevant resolutions in the interest of time consistent with directions from the State as the ultimate shareholder. In that regard, Chairman directed Management to note as an action item that the minutes of this Board Meeting be prepared and circulated for further discussion at the next Board Meeting and that a definitive legal review be undertaken of the transaction and implications for NPCP and same be presented to the Board also at the next Board Meeting.

Chairman then asked the Board to consider the relevant resolutions as follows:

RECOMMENDATION

It is recommended that the Board:

- (1) Approve the draft resolutions with amended background and including appointment of Mr. Wapu Sonk (MD) and Rogan Wato (Co.Sec) as holders of Power of Attorney to execute the relevant documents to effect the proposed transaction; and
- (2) Approve the draft Power of Attorney.

The motion to accept the recommendations, was moved Director Larry, seconded by Dr. Ben and carried unanimously by the Board.

ATTACHMENT

- A copy of the draft Resolutions that were approved by the Board is attached as Appendix "A".

C. SUMMARY OF RESOLUTIONS

- As noted in the approved recommendations above.

D. SUMMARY OF ACTION ITEMS ARISING

- Management to document and to communicate in clear and strongest terms to IPBC and Treasury that:
 - (a) any payment made by NPCP under the Payment Direction Deed or other obligation pursuant to the proposed transaction be treated as forgone dividends to the State;
 - (b) the OSL shares once clear of any encumbrances and adverse interests, should vest in NPCP or such other entity controlled by NPCP, and ultimately vest in Kumul Petroleum Holdings;
 - (c) these are consistent with NPCP's approved strategic business plan.
- Management/Board to work closely with the State from the outset to ensure that the State sells the bonds during the first repayment period at the then applicable interest rate which is fair.
- Management to circulate the minutes of this Board Meeting for further discussion at the next Board Meeting;

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|---|----------------|------------------|
| <ul style="list-style-type: none"> ➤ Management to procure a definitive legal review by external counsel of the transaction and implications for NPCP and same be presented to the Board also at the next Board Meeting. | | |
| 5.0 INFORMATION PAPERS | | |
| 5.1 Nil | | |
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| 6.0 BOARD AND COMPANY POLICIES | | |
| 6.1 Nil | | |
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| 7.0 BOARD COMMITTEE REPORTS | | |
| 7.1 Nil | | |
| | | |
| 8.0 ANY OTHER BUSINESS | | |
| 8.1 Nil | | |
| | | |
| 10.0 CLOSE OF MEETING | | |
| | Chairman | Noting |
| The Meeting was declared formally closed as 12:10pm PNG time. | | |

FRANK M KRAMER
BOARD CHAIRMAN