

30 October 2012

CEO's presentation, NZOG Annual Meeting

Andrew Knight
NZOG CEO
Intercontinental Hotel, Wellington
9.30 AM Tuesday, 30 October 2012.

Thank you Tony,

Ladies and gentlemen

It's a pleasure to have the opportunity to talk to you as ceo.

This is my first Annual Meeting as ceo, and so in addition to giving you an overview of what the company is doing, I would like to spend some time today talking about where I see NZOG going.

I would like to start by acknowledging Tony Radford, who is stepping down as chairman today.

Tony was one of the original founders of New Zealand Oil & Gas in the early 1980s.

When he recruited me, he sold me on the vision he had for a New Zealand oil and gas company.

There were two insights behind the vision of the company's founders.

First, they saw the potential for oil and gas discoveries both offshore and onshore in New Zealand.

Those reserves remain under-explored.

Let's take a moment to contemplate the scale of them.

If you look at a map, of this part of the world over tens of millions of years, you see profound changes.

What has become the land mass of New Zealand started out as a much larger land formation. As time went by, continental areas of land were buried, and the sea washed over it all to the east, west and south.

What was land disappeared beneath hundreds of metres of rock formation, then ocean. Life forms were trapped, and as they decomposed they formed hydro-carbons that turned, over millions of years, into oil and gas reserves.

We have only just begun to appreciate how vast the reserves are around New Zealand.

And thirty years ago, the founders of New Zealand Oil & Gas saw this potential, and saw the need for a New Zealand company to seek it out and harness it for our shareholders.

Their second observation when they set up this company was that those oil and gas reserves can make an enormous difference to the well-being of New Zealanders.

New Zealanders expect a high standard of living; including a good education system, superannuation, and a good health system. Achieving it requires an economy capable of paying its way in the world, and our oil and gas reserves are one of the key opportunities.

NZOG has had some success: Kupe and Tui have provided strong cashflows into the business and will provide shareholders with solid incomes for years.

But geologists believe there is vastly more out there. Just waiting for us.

This was the future Tony Radford perceived when NZOG was formed.

If we can find another Tui, another Kupe - if we can be part of bigger discoveries, and unlock the unexplored - then we will help to drive the health and strength of the whole country.

We are proud of being part of that.

NZOG is well placed to move to a new stage of exploration.

Our financial position is strong.

We have around \$160 million in the bank having rebuilt from \$50 million in December 2010.

In Kupe and Tui, we have producing assets that, every day, produce strong returns.

In the last full financial year they have produced more than a hundred million dollars in revenue.

Kupe

The Kupe gas and oil field continues to underpin NZOG's financial performance.

Kupe generated over \$74 million in revenue for the year.

NZOG's share of production for the year was 2.8 PJ of sales gas, 12,500 tonnes of LPG and 269,000 barrels of light oil.

There was good news from the field with - a significant increase in proved and probable reserves in Kupe with 2P reserves increased by 13.4% to 82.2 million barrels of oil equivalent.

They are now more than 25 per cent greater than the pre- production estimate.

Tui

The Tui field continues to perform in line with expectations.

In the last financial year Tui produced 2.2 million barrels of oil - NZOG's share of that was 276,000 barrels, helping generate revenue for the year from Tui of over \$42 million.

There is more work going on to assess whether there are additional volumes of oil from the existing Pateke field, and exploration targets within the licence area.

Tui and Kupe are our producing assets and they are delivering sound returns.

But over time even those assets need to be replaced by new discoveries.

Exploration

We are an exploration company whose job is to discover and develop new reserves.

We are stepping up activity in three important areas:

We are moving strongly ahead in our traditional area of strength, in the waters off Taranaki.

We are diversifying overseas.

And we are reorganising ourselves to be the partner of choice for exploration in New Zealand, so that we can access more of the resources New Zealand has to offer.

We have set an exploration target of 3-5 wells each year with an expected cost in the order of \$35 million US dollars. This is an ambition for 2017 rather than a firm boundary and some years we will be able to invest more some years less.

Earlier this month we confirmed our intention to drill in the promising Kakapo prospect off the South Taranaki Coast when a suitable rig can be found.

Our geologists have had a good look at the prospect and assessed the potential to be several times the size of the Tui field.

Kakapo is in 95 metres of water about 25 kilometres to the West of Kupe.

We have been expressing our interest in the prospect, since before I came on board as CEO; What's new is that we are now looking for a semi-submersible rig to drill it.

We are working with a 'rig club' - a consortium of other operators looking to bring a similar rig to New Zealand for their own offshore drilling prospects.

Today we have a 90 per cent interest in the Kakapo prospect.

We are continuing to farm it out further.

Our commitment to go ahead when we had a drill or drop decision will help persuade others that they should get on board.

Kakapo looks attractive for overseas companies looking to enter New Zealand, some of which have held back because a new country entry can take some time to mature.

Then yesterday, we were able to make another significant announcement.

We have farmed out our Kaheru prospect and the joint venture confirmed its intention to drill - again when a suitable rig can be negotiated.

Kaheru fits well into our portfolio.

It's in 25 metres of water 8 kilometres from shore, east of Kupe, and adjoining the onshore Rimu and Kauri fields.

The un-risked mean recoverable reserves are estimated at 45 million barrels of oil – or, in a gas case, 200 billion cubic feet of gas and 7.5 mmbbls of condensate.

We are welcoming Beach Energy as a partner.

Beach will have a 25 per cent interest. Tag Oil will have 40 per cent, and we will have 35 per cent.

As with Kakapo, NZOG is the operator.

Taken together, the commitments to drill in both Kaheru and Kakapo, show our strategy of stepping up exploration activity is swinging into action.

But while New Zealand is our focus, if we stick to only offshore New Zealand our portfolio is unbalanced. This is our key strategic challenge, as we are unable to build a business with a sustainable and consistent investment profile if we are only active every three years when a rig comes to New Zealand.

Essentially we will be in a make or break situation every three years. That is clearly not acceptable and that's why NZOG has sought opportunities in onshore New Zealand and in other countries, which can help to give us a more balanced investment and risk profile.

We have looked to Indonesia and Tunisia where we can use our expertise, honed in New Zealand.

In Indonesia we are targeting opportunities that are more likely to be oil than gas in proven basins and generally onshore, and therefore lower cost.

I'm pleased to be able to tell you that our interests in Indonesia are moving to a new phase, with exploration, starting in the Kisaran prospect in Sumatra.

As we meet today, drill site construction is underway. A drilling rig has been identified and a drilling contract is near to being signed.

The well will spud soon - before the end of the year.

Because this is the first well NZOG has been involved in drilling since 2009, we want to tell you a little bit more about it.

So we have made a video that is going up on our website, and I'd like you to see it first.

[Kisaran video].

So Kisaran is about to spud and we're moving forward with Kakapo and Kaheru.

This shows we are stepping up our exploration activity because the only certainty in exploration is that if we don't drill wells, we won't discover, and we won't develop any new assets.

While we are getting drills into the ground in Indonesia, we continue to view our Tunisia prospects with cautious confidence.

Seismic interpretation work is underway.

A year ago, we were encouraged by the democratic reforms in Tunisia, and the prospects for a settled political outlook. The headlines have been bumpier in recent weeks, and it's likely to remain that way for some time.

But for all that, our offshore opportunities have been unaffected.

Our involvement there is based on the same reasoning as our involvement in Indonesia: diversifying to make sure we have balance in the risk and investment profile of our portfolio.

Growth

But in addition to our diversification overseas, and our activity in the familiar Taranaki offshore theatre, I want to look forward to how we intend to grow in future.

The New Zealand Government this month took bids on its 2012 blocks offer.

This is a positive process that has resulted in exploration blocks coming up for tender, instead of through the old 'first in - first served' method.

We have bid on a variety of blocks in this year's round including offshore and onshore to build our diversification.

We will find out as soon as December how we've done.

But alongside the bidding process, we are also looking to make ourselves the partner that other exploration companies want on their team as they search new prospects in New Zealand.

Our strategy for being that partner is to leverage our uniqueness as the largest publicly-listed New Zealand-owned exploration company.

Our history of thirty years exploration in New Zealand has taught us a lot about the geology and unexplored prospects of our country.

And you our 15,000 shareholders give us something more - it means the New Zealand tradition of exploration is part of our intrinsic make-up.

New Zealanders have always gone exploring in search of a better life.

The very first explorers that came here, flew, or swam, and made it here because they were the most determined and intrepid.

The first Pacific explorers to arrive here were also looking for undiscovered promise.

And it was true of the European ships when they sailed here too: The country is sewn from explorers' fabric.

New Zealanders understand that this country is full of buried treasure and undiscovered resource. It's in our nature to search for it.

That's why it matters that our company is New Zealand's oil and gas company.

There are some very large explorers being welcomed to New Zealand today, looking in places where no one has ever drilled before - in deepwater off Taranaki, the East Coast, Canterbury and the Great South Basin.

Some exposure to those prospects suits our exploration profile.

But these are not easy prospects.

And, drilling exploration wells in them is expensive and consequently requires a spread of financial risk.

We will only access those opportunities as partners with others – and in deepwater only with others who have the necessary expertise in deepwater operations.

What we can add to those opportunities is our unique New Zealand identity and expertise in New Zealand exploration, a strong reputation and superior connections to our community.

So we are working on developing greater strength to support this positioning. We can leverage our New Zealand values by becoming leaders in the industry's relationship with the community.

Conclusion

I've set out for you today, a vision for how the company is to grow into the future.

While we are in a strong financial position, we also have promising new prospects coming - either being drilled within weeks, as in Indonesia, or due to be drilled when we can secure the right rigs in Taranaki.

And we are building ourselves to become New Zealand's exploration company.

We've moved on from the Annual Meeting here a year ago.

You have a new CEO; a new chairman is taking office to build on Tony Radford's vision. Two new directors have joined the board and our management team has been significantly strengthened.

This company can be proud of the contribution it makes.

Well-run businesses are critical to the wellbeing of New Zealanders.

They create jobs, pay taxes, and deliver incomes through salaries, profits and dividends that in turn fund the hospitals and schools, imports and lifestyles that New Zealanders aspire to.

Our unexplored oil and gas reserves provide the pathway to increased shareholder returns.

Thank you for this opportunity to set out, my vision for your company.

I have today focused on an explanation for why we are pursuing our strategy.

My experience is that shareholders need to know more than what we are doing - our reasoning is just as important.

We are stepping up activity, with Kakapo, Kaheru and Kisaran announcements all coming in recent weeks while our team worked on our blocks offer bids.

Your company is in a sound financial position, we have strong producing assets and prospects to grow.

I look forward to talking to you more in question time and after the meeting.

Thank you.

Andrew Knight
CEO