

news release

4 November 2014

Annual Meeting, CEO's Address

Andrew Knight

Chief Executive, New Zealand Oil & Gas

InterContinental Hotel, 2 Grey St, Wellington at
9.30AM Tuesday, 4 November 2014

Operational performance over the last year has been excellent.

This is reflected in the strong production and operating cash-flow results.

Overall, revenue for the year was up by 4.7 per cent, from \$99 million to \$104 million.

The major contributors to that revenue were production from Tui and Kupe, offset by some foreign exchange losses caused by the strength of the New Zealand dollar.

Sales from Tui would have declined much more this year as the reserves in the field deplete, but in fact Tui performance was a success after we increased our share from 12.5 per cent to 27.5 per cent by buying some of Mitsui's interest.

The cost of that extra share has already been recovered in increased revenue compared to the revenue we would have achieved.

Production from Kupe was steady in the year, which lifted the result compared to the previous year, when there was a maintenance shut-in.

In addition, gas sales contracts were accelerated, which also helped to grow returns.

There was also a positive impact of just over ten million dollars from the settlement of the Kupe overriding royalty.

We recognised around \$10 million at year end from the settlement and it will add about \$1-2 million a year to the company's revenue in future.

The Kupe settlement dates back to agreements made when the permit was farmed out in the 80s to pay a certain share of future production.

Kupe is a fantastic asset for us, and it will continue to produce for many years. Only the gas and light oil prospects in the permit are producing, but we are still looking in the permit for oil as well as further gas and gas condensate. This will be a focus for us in the coming year.

The Kupe story highlights what an uncertain business exploration can be. Kupe-1 was first drilled in 1975 by Shell, BP and Todd. They had some hydrocarbon shows, but Kupe-1 was assessed as sub-commercial and plugged and abandoned, and the licence was handed back.

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NZOG stock symbols:

NZX shares – NZO
ASX shares – NZO

Later, in the 80s, oil and gas reserves were estimated at about ten per cent the size of the currently proven reserves.

So we can learn from Kupe that you have to keep investing in exploration to succeed. Kupe would not have become the valuable producing asset it is today without investment patience.

This is why, in the past year, we recorded a high level of investment in exploration and evaluation - up 77 per cent from the previous year, to just under \$75 million, and up from \$9 million in 2012.

There were two exploration successes.

The Pateke-4H well will be tied back to the Tui FPSO in the new year, and begin producing before the end of the current financial year.

The size of the reservoir there is still to be determined. The joint venture hasn't come to a shared view yet but we will report our figure when we have the level of certainty required by the stock markets.

We also had drilling success at Kisaran, in Indonesia, and a plan of development is progressing towards a final investment decision there.

In the quarterly activities report last week we were able to disclose for the first time that we have encountered a 1300 foot oil column, albeit one that is in stacked sands and shales. What this means is that a series of multiple wells will be required in to reservoirs that are disconnected and discontinuous, with varying quality.

We would expect to start out by completing the three wells already drilled, and three new ones. Then there would be an ongoing programme of development over five to ten years where new wells would be drilled and come into production at rates of hundreds of barrels a day for a year or two, then tapering off for later years.

Some wells will be more profitable than others, and the field would be expected to have a life of fifteen to twenty years.

The Indonesian fiscal regime is very good for this sort of development. It allows you to recover your costs (and a margin). Then, once costs are recovered, the model works the other way and you recover a profit share at a lower rate.

Another advantage of this model is that it protects the investment against a fall in the oil price because - if the oil price falls - you get a greater share of production until the costs and margin are recovered.

The other news we have been able to release about Indonesia has come from the Bohorok field to the north of Sumatra, where a 2D seismic survey has been completed this year.

This field is next to the city of Medan, where prices for gas are strong because the city has pinched gas supplies. The infrastructure is mainly in place because Bohorok is next to the Wampu gas field, which has produced at 6 to 9 million cubic feet of gas a day in the past.

We still need regulatory approvals, but we expect to drill a US\$12 million well over an attractive prospect there next year.

What we can see from the Indonesia portfolio is that it compliments our New Zealand activity. The Kisaran development offers the potential to bring through new production, then there are opportunities at each further stage of exploration maturity: drilling at Bohorok, more seismic in South Sumatra and our new unconventional interest.

In New Zealand we are positive about the acreage we have.

Interest in New Zealand's deep water basins is elevated. It's a matter of time before someone has some success. I want us to be positioned to be part of success when it comes.

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But operating in deepwater requires considerable expertise and careful management of our portfolio to ensure we don't get over-exposed.

So our portfolio in deepwater looks full for now, while we are moving ahead to drill in Kaheru next year, and continuing to progress work in both Taranaki and offshore Canterbury to work up new prospects.

As different prospects get churned out of the portfolio we will look to add new exploration acreage in places where our New Zealand identity and values can provide a strategic opportunity.

We need to keep exploring across a range of geological, jurisdictional and investment risk-types.

In particular, there is more to do in Kupe.

We are always looking for further opportunities to grow our production - as we did when we bought more production at Tui.

At the moment the market is undervaluing some attractive producing assets, and as Peter mentioned, if we find further opportunities to buy assets at value, and they fit our portfolio, we will take them.

I believe we are well-positioned, with a strong balance sheet, and a value set that makes communities and commercial partners want to work with us.

The next year will be about leveraging these advantages.

Ends

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