

# Experiences of a NZ-based Explorer & Producer

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# Outline

- NZOG's recent experiences
- The global outlook
- Where does NZ fit?
- NZOG's plans for the future

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# NZOG

A diversified upstream energy player:

- Production
  - Tui Area Oil Fields
- Development
  - Kupe Field
- Investment
  - Pike River Coal
- Exploration
  - Taranaki permits
- Listed NZX and ASX
  - Market cap ~NZ\$340 million



# NZOG's Experiences

- Typical for small/mid-cap E&P companies
- Exploration led: Kupe, Tui
  - Sell down to fund investment
- Funding the early stages is challenging:
  - Exploration is risky
  - Development costs high, especially for offshore
  - Regulatory, business partners, market perception challenges
- Key to success: participation in production phase
  - e.g. Kupe, Tui
- And success can be **very** rewarding



# NZOG Success Story -1

## Tui Area Oil Fields:

- Discovered by NZOG and partners in 2003/04
- Investment decision Nov 2005
- First production July 2007

## NZOG's role as a 12.5% JV partner:

- Exploration & Development costs approx \$52m
- Project payback achieved in 4 and a half months
- Share of production to date – 1.2 million barrels
- Share of 2P reserves – 5 million barrels
- Average net price per barrel over US\$90
- Expected lifetime IRR (internal rate of return) 47%



# NZOG Success Story - 2

- Kupe Project:
  - Discovered by NZOG in 1986
  - Not economic during Maui era
  - Investment decision June 2006
  - First production mid-2009
- NZOG's role as a 15% JV partner:
  - Share of development costs approx \$160m
  - Share of 2P Reserves: 38PJ gas, 165,000 tonnes LPG, 2.2 mmbbls light oil
- Kupe expected value has improved
  - Two thirds of value in the liquids



# Global Outlook

- Upstream sector is Very Hot
  - Worldwide hunt for oil & gas
- Global oil demand predicted to increase by between 40% and 70% by 2030
  - In a “Green future” oil demand still 23% higher
- Capacity of E&P industry to respond is uncertain
  - Investment of US\$4.3 trillion needed by 2030
- The world is still well-endowed with hydrocarbons
  - The resource is there – can we use it?



# Global Outlook

- The risks to supply are accumulating:
  - Nationalism or protectionism
  - Concentration of existing reserves in a few hands
  - New oil & gas sources more difficult to access
  - Technology requirements increasingly complex
  - Human resources stretched
  - Massive infrastructure investment needed
  - Environmental constraints indeterminate
- New Zealand looking a better and better option...



# Where does NZ fit?

- Small fry on a global scale:
  - Small production, market, labour pool
  - NZ producing 0.2% of world oil supply
  - Low activity = loss of scale benefits available elsewhere
- Geographically isolated
- Few industry participants and experts
- Limited infrastructure
  - Nothing outside of Taranaki



## Where does NZ fit?

- Not on radar screen of most big players
  - Only a few represented in NZ e.g. Shell, Exxon, OMV, Mitsui, PTTEP
- NZ previously considered gas prone
- Reputation as highly litigious
- International players want depth, liquidity, accessibility, transparency, familiarity
- New Zealand has to work hard to get attention



## Where does NZ fit?

- NZ relatively under-explored
    - Identified basins with good potential
    - Further resource potential in Taranaki
    - Bigger potential in frontier basins but high risk/costs
  - Circumstances changing rapidly
    - Marginal production costs have risen
    - No 'easy hits' left
    - Technology advances open up new opportunities
  - NZ offers a safe, secure location
- = Excellent prospects for further NZ exploration

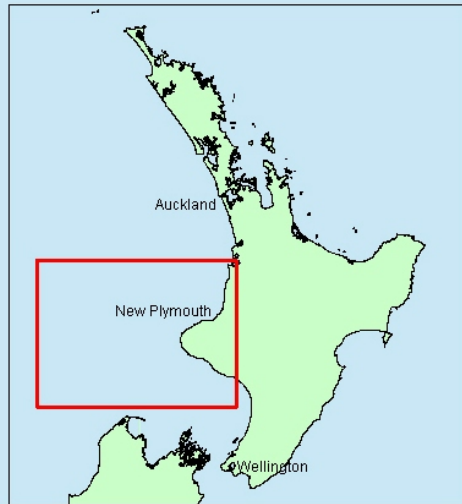
# NZOG's Plans for the Future

- Tui cashflows + Kupe development + Pike River investment = solid/diversified base for NZOG
- Looking to grow partly through the drill-bit and acquisition:
  - Have existing exploration opportunities and looking for more
  - Taranaki immediate focus but other basins have potential

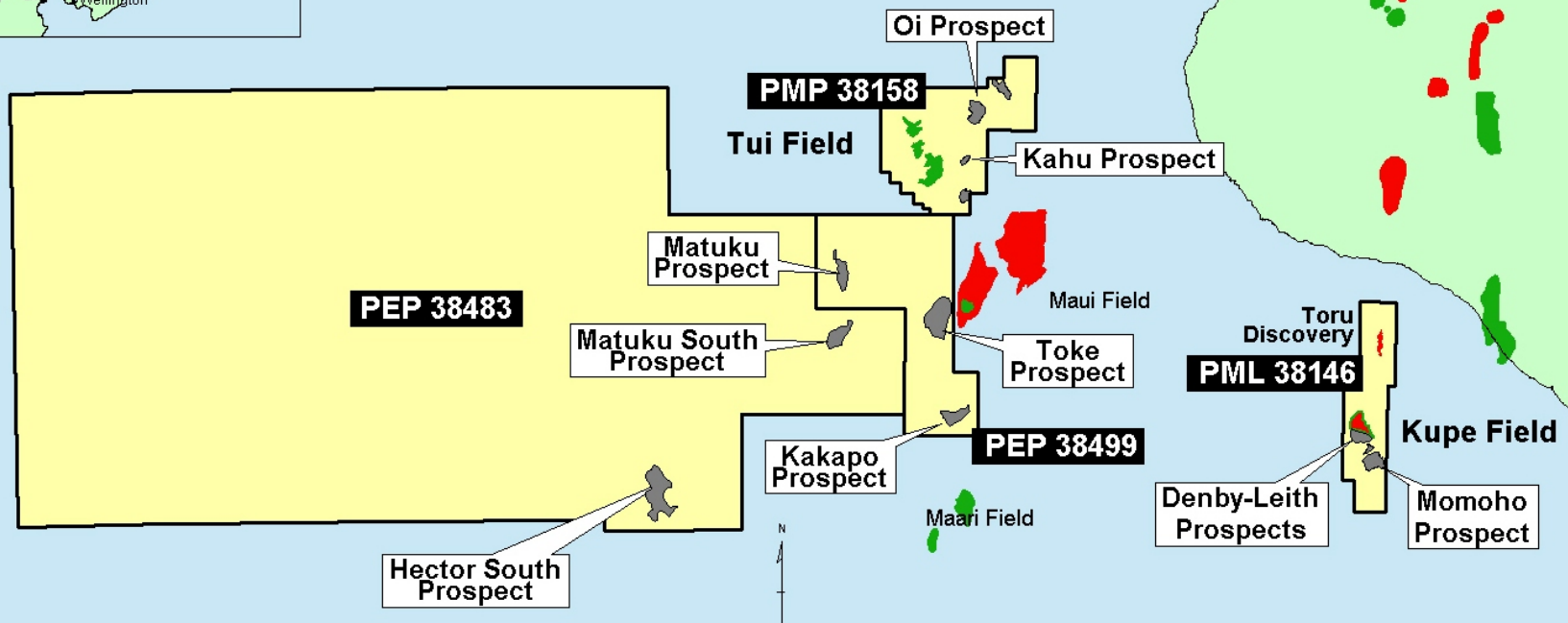




# NZOG Taranaki Basin Permits



- NZOG Permit
- Gas Fields
- Oil Fields
- Prospects and Leads



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# NZOG's Plans for the Future: Exploration

- Permit PML38146 (Kupe Area)
  - Momoho prospect expected to be drilled May/June 2008
- Permit PMP38158 (Tui Area)
  - Seismic data being remapped to better define leads such as Oi and Kahu. Drill-mature prospects could be targeted in 2009
- Permit PEP38499
  - Between Tui and Maui fields. Targeting Tui 'look-alike' opportunities



# NZOG's Plans for the Future

- Board approved growth strategy
  - Ambitious but achievable 2012 targets:
    - Increase reserves to at least 25 mmbbl
    - Increase production output to at least 2 million barrels per yr
- Staffed and funded for growth
  - Six-strong technical team with over 100 yrs combined experience
- Looking for opportunities: exploration, asset purchase, corporate acquisition



# Summary

- Tui shows that E&P can be highly profitable for a NZ-based and focused company
- Worldwide hunt for oil & gas in 'benign' environments ensures interest in NZ
  - A local partner has much to contribute
- NZ has good remaining prospectivity
- NZOG resourced and ready to pursue a NZ-based growth path

