

KUPE Q & A

What are details of the transaction?

New Zealand Oil & Gas has agreed to purchase Mitsui E&P Australia's 4 per cent interest in the Kupe gas and light oil field for NZ\$35 million. The effective date of the transaction is 1 January 2017.

New Zealand Oil & Gas will pay NZD\$35 million in cash on completion of the transaction, once all conditions have been satisfied.

The effect of the transaction is that New Zealand Oil & Gas assumes all of Mitsui's revenue, and costs associated with Kupe from 1 January 2017.

What conditions is the transaction subject to?

As New Zealand Oil & Gas has previously been a 15% shareholder in Kupe, the company anticipates it will be able to obtain necessary approvals.

The approval of joint venture partners and regulators is required.

The joint venture agreement provides for a right of first refusal process.

A waiver is required from NZX for a transaction with a related party unless shareholder approval is obtained. Mitsui is a related party because it has been in a joint venture with New Zealand Oil & Gas within the past six months - namely, in the Kupe joint venture.

What due diligence has been performed?

New Zealand Oil & Gas knows the Kupe asset well, having been involved in every stage of its life from discovery to development and ongoing production since 2009. New Zealand Oil & Gas undertook due diligence to satisfy itself of the condition of the asset during 2017, when the company has not been participating in joint venture management; and to examine the Mitsui gas supply agreements.

What resources will the Mitsui transaction add to NZO's reserves?

2.6 million barrels of oil equivalent, made up of 11.27PJ of gas, 0.37mmboe of condensate, and 47,564 tonnes of LPG. See the reserves statement below.

How do Mitsui sales contracts compare to those New Zealand Oil & Gas had previously?

The conditions of gas supply arrangements are commercially confidential. Conditions of the contracts are reflected in the purchase price.

What revenue does New Zealand Oil & Gas expect from Kupe?

Kupe is a quality asset and we expect it will continue to produce at levels consistent with its past performance. We believe the outlook for gas prices is firm over the life of the asset, and therefore with sound prices and production we expect sound revenue that materially adds to the company's value.

Why is New Zealand Oil & Gas buying Mitsui's 4% interest in Kupe?

This transaction provides us with ongoing income from a quality asset located in our heartland. The transaction provides a better return on capital than cash. The addition of a profitable New Zealand investment allows New Zealand Oil & Gas to claim some costs against tax.

Kupe is an asset we know well, and the Mitsui transaction suits our scale and appetite for sensibly diversified risk.

The transaction provides NZO with rights in the joint venture and optionality should more of Kupe come to market in the future.

We believe there is more undeveloped potential in Kupe.

If NZO likes Kupe enough to buy 4%, why did it sell 15% on the same effective date?

The sale of 15% and acquisition of 4% of Kupe has allowed us to maintain exposure to a quality asset while we are moving to diversify our portfolio. Previously, the company's entire market capitalisation was reflected in the Kupe asset. Reducing this exposure to a single asset and returning \$100 million of capital to shareholders allows the company to diversify our risks and creates opportunities to pursue growth for shareholders alongside Kupe's ongoing returns.

How will this acquisition affect NZO's previously announced plans to acquire new assets?

New Zealand Oil & Gas is actively seeking acquisitions suitable for our size, with a preference for gas in markets we understand.

The company is in advanced negotiations over other assets, and is reviewing further opportunities. Announcements are made immediately if the company commits to transacting in a material asset.

What are your plans for Kupe?

New Zealand Oil & Gas takes an active involvement in management of our permits and health and safety performance.

We believe further potential exists to increase Kupe resources and well performance but we have not had a recent discussion with JV partners about likely further development of the asset's potential.

What does this mean for your involvement in the Taranaki community?

New Zealand Oil & Gas engages closely with the communities where we are active. We have relationship agreements with many in the Taranaki community, and we have supported a community panel to provide a perspective for us on our activity and advise us on our social investment. We anticipate renewing our positive relationships with our Taranaki community partners.

BACKGROUND

Kupe (Petroleum Mining Licence 38146)

50% Origin Energy (Operator)

46% Genesis Energy

4% New Zealand Oil & Gas ((From 1 January 2017 and subject to approvals)

HISTORY

New Zealand Oil & Gas held the Kupe licence through the 1980s and 1990s.

In the early-2000s the New Zealand gas market changed as the previously-dominant Maui field entered its decline phase and a final investment decision for the development of Kupe was made on 29 June 2006. By then, New Zealand Oil & Gas held a 15% interest in the permit.

The initial plan of development comprised three wellheads, an unstaffed offshore platform connected to shore by a 30 kilometre pipeline, an onshore production station near Hawera, and oil storage facilities at New Plymouth.

In 2007 the ENSCO-107 drilling rig arrived from Singapore to drill the three Kupe development wells and install the offshore platform. 30 kilometres of offshore pipeline was welded together at a base in Picton and in early January 2008 the specialist vessel Apache arrived to lay the pipeline and associated umbilical, which supplies power and chemicals to the platform.

Kupe entered production in December 2009. Following a commissioning period, permanent production was declared on 22 March 2010.

The onshore production station processes raw gas to meet the specification for the main North Island gas transmission system and separates out the light oil/condensate and liquid petroleum gas (LPG). The condensate is transported to Port Taranaki (New Plymouth).

Kupe light oil/condensate is generally exported, while the LPG is sold into the domestic New Zealand market.

KUPE PRODUCTION: NEW ZEALAND OIL & GAS SHARE*

Financial Year Ended	Gas (Tj)	Oil (bbls)	LPG (tonnes)
June 16	3,595	206,770	13,584
June 15	3,640	242,417	15,391
June 14	3,500	257,700	14,400
June 13	2,750	233,450	11,610
June 12	2,860	269,380	12,500
June 11	2,640	274,790	11,230
June 10	1,450	156,810	4,770

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* Production figures are approximate and are provided as a guide only. Actual gas allocation varies as it is based on daily nominations from the gas buyer. New Zealand Oil & Gas had a 15% share of Kupe production from 1 July to 31 December 2016.

NET RECOVERABLE 2P (PROVEN AND PROBABLE) RESERVES FOR THE KUPE CENTRAL FIELD AREA.

(Developed + Undeveloped) Reserves (NZO Share)

Reserves Date	Gas (PJ)	Oil (mmbbls)	LPG (tonnes)	Million Barrels of Oil Equivalent
January 2017*	11.27	0.37	47,564	2.60
June 16	44.09	1.49	183,971	10.20
June 15	31.60	1.31	135,320	7.58
June 14	35	1.6	151,000	8.5
June 13	38.7	1.8	165,100	9.5
June 12	48	2.7	205,200	10.2
June 11	36.8	2.4	151,000	9.6
June 10	41	2.8	167,000	10.2
June 09	38	2.2	159,000	9.6

* Reserves effective 1 Jan 2017 are adjusted for change in equity and production from 30 June 2016. New Zealand Oil & Gas to 31 December 2016. Its interest is 4% from 1 January 2017.

Reserve calculations vary from year to year. The variation is attributable to multiple factors including but not limited to; revised reserves reviews, production performance and field depletion.

Reserves are quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward; that are judged to be discovered, recoverable, commercial and remaining. Probable (2P) reserves have a 50 per cent chance or better of being technically and economically producible.

Developed reserves are expected to be recovered from existing wells and facilities. Undeveloped reserves are quantities expected to be recovered through future investments (e.g. new wells, compressors, and other facilities). Total reserves are the arithmetic sum of developed and undeveloped reserves at a given level of certainty. The Kupe reserves estimate at 1 Jan 2017 is based on six years of production data and a full probabilistic uncertainty analysis of reservoir simulation models provided by the field operator with deterministic cases selected as appropriate. All reserves and resources reported refer to hydrocarbon volumes post-processing and immediately prior to point of sale. The volumes refer to standard conditions, defined as 14.7psia and 60°F .

For the conversion to equivalent units; standard industry factors have been used of 6Bcf:1mmboe, 1Bcf:1.05PJ, 8.15 tonnes of LPG to boe and 163.4TJ of gas to boe..

This resources statement is approved by, based on, and fairly represents information and supporting documentation prepared by New Zealand Oil & Gas Senior Reservoir Engineer Daniel Leeman. Daniel is a Chartered Engineer with the Institute of Professional Engineers of New Zealand and holds Masters degrees in Petroleum and Mechanical Engineering as well as a Diploma in Business Management and has over 8 years of experience. Daniel is also an active professional member of the Society of Petroleum Engineers, Association of International Petroleum Negotiators and the Royal Society of New Zealand.

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GEOLOGY

The Farewell Formation sandstone reservoirs are interpreted as being deposited in dominantly interbedded fluvial (river) and lacustrine (lake) sandstones.

The reservoir sandstones of the Farewell Formation are predominantly medium to coarse grained quartz and feldspar, with good porosities and permeabilities, ranging to over 1 darcy permeability in places. The sandstone members are compositionally immature and feldspar-rich, making them an arkosic to subarkosic sandstone reservoir.

After deposition and burial by overlying shales, the sandstone reservoir and shale seal in the Kupe field area were inverted (i.e. uplifted), and bounded by faults acting as lateral seals.

The hydrocarbons in the field were derived from Late Cretaceous to Paleocene, organic-rich, sedimentary source rocks which were thermally cooked in the basin kitchen areas after deep burial, and then migrated updip into the shallower sandstone units within the structural traps. This geological evolution has created one of New Zealand's richest condensate fields.

The output from this geological structure is waxy condensate and an untreated crude at a pour point of around 18 degrees C.