

# ACTIVITIES REPORT

For the quarter  
ended 31 December  
2012

## NEW PROSPECTS

Two new permits in 2012 Block Offer.

3 new offshore Taranaki permits.

## EXPLORATION

Kaheru prospect farmed out, drilling intention confirmed.

Drilling in Matuku to begin 2013 – 2014.

## INDONESIA

Drilling due to begin in Sumatra.

## DIVIDEND

Changes considered.

Reinvestment plan updated.

## Dear Investor

Exploration is the core of New Zealand Oil & Gas's activities. In the last quarter, our exploration activity moved ahead strongly in our traditional area of strength, the waters off Taranaki, while we added a return to onshore activity there.

Australian listed explorer Beach Energy has farmed into the Kaheru prospect off the South Taranaki coast. The Kaheru joint venture has resolved to drill when a suitable rig can be negotiated, which I hope will be later this year.

We acquired interests in three offshore Taranaki permits from ASX-listed Octanex NL. They give us exposure to the developing Western Fairway in the Taranaki basin, where we believe exciting discoveries will be made.

In one of the permits, Matuku, the joint venture announced an intention to drill in the second half of 2013.

NZOG is 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.

At the same time, we're diversifying overseas and onshore in New Zealand because, if we stick to only offshore New Zealand, we would not be able to build a business with a sustainable and consistent investment profile. We would be in a make or break situation dependent on the schedules of drilling rigs coming to New Zealand. NZOG has sought new opportunities to make sure we have balance in the risk and investment profile of our portfolio.

The first well NZOG has been involved in drilling outside New Zealand is expected to spud around publication date in onshore Sumatra. Indonesia has experienced an unusually wet rainy season, which has resulted in road washouts, and therefore delayed work beyond the target December start date. Indonesia remains a challenge with considerable promise.

The other element in our diversification strategy is a return to onshore exploration activity. We were successful in picking up two new exploration permits from the New Zealand Government's 2012 Block Offer. One of them was a permit for

exploration in a hundred square kilometres on the South Taranaki Coast where we will be conducting 2D seismic exploration in a joint venture with an established operator there, NZ Energy Corp. The investment is a return to onshore New Zealand activity for NZOG for the first time in many years.

The new blocks leverage NZOG's New Zealand exploration expertise. We now have a very strong portfolio of opportunities around the productive Taranaki basin to complement our diversification.

## New arrivals

We began a new era with Peter Griffiths taking over as Chair of the company's Board. Directors have indicated an intention to move to paying the dividend in interim and final stages, although a decision will only be made when half-year results are available. Directors have also resolved to remove the discount for the dividend reinvestment plan.

Also this quarter, our acting CFO Andre Gaylard has been appointed permanently to the position. And with NZOG taking on more work as a permit operator, Andrew Jefferies has joined NZOG as Vice President and General Manager Operations and Engineering.



**Andrew Knight**

Chief Executive

21 January 2013

# NZOG News

## BLOCK OFFER: NZOG RETURNS TO ONSHORE TARANAKI



CEO Andrew Knight (second from left), NZOG Chairman Peter Griffiths (right), with then Energy Minister Hon Phil Heatley (second from right) at the 2012 Block Offer award.

NZOG was awarded two new exploration permits in the New Zealand Government's 2012 Block Offer.

The Block Offer was the first in an annual process where exploration companies bid a work programme over prospective acreage. In 2012 more than 40,000 km<sup>2</sup> of offshore seabed and 3300 km<sup>2</sup> of onshore land were offered. Of the ten exploration permits awarded, two were awarded to NZOG.

In PEP 54867, covering just over 100 km<sup>2</sup> in central South Taranaki, NZOG has partnered with established onshore Taranaki company NZEC to return to onshore exploration in Taranaki as part of a strategy of diversifying the exploration portfolio.

NZOG was also awarded an offshore permit in the Block Offer. PEP 54857 covers 525 km<sup>2</sup> north of NZOG's Kakapo prospect in PEP 51311.

## ADVANTAGE NZ: 2013 PETROLEUM CONFERENCE



The focus of the 2013 Petroleum Conference in Auckland will be the advantage of New Zealand's oil and gas resources to investors and the wider community.

New Zealand Oil & Gas is a major sponsor of the conference and trade show, which will be held at SKYCITY Auckland Convention Centre from 28 April to 1 May.

The event, hosted by New Zealand Petroleum & Minerals, will highlight petroleum exploration opportunities and reflect on the advantage of New Zealand's oil and gas resources to investors, industry, regional economies and New Zealand.

You can find out more on the conference website: [www.advantagenz.com](http://www.advantagenz.com)

## SKILLS DEVELOPMENT



Ministers Hon Steven Joyce and Hon Pita Sharples listen to NZOG's Andy Knight at the Beehive launch.

NZOG has partnered with New Zealand's largest export industries in a skills analysis designed to provide advice that will better assist young Maori into future employment opportunities.

Export earners working on the analysis include Te Ohu Kai Moana, Dairy NZ, Beef + Lamb NZ, the Tourism Industry Association, Seafood NZ and Business NZ.

NZOG's ceo, Andrew Knight, said at the launch of the strategy at parliament that New Zealand's oil and gas resources have enormous potential to make a difference for New Zealand communities.

*"I want to see more young New Zealanders gaining world-class skills the industry needs, from geology and geoscience, to operations and commercial leadership. Bringing more New Zealanders into the industry will help to build understanding and support for our exploration."*

## CONTACT DETAILS

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For information about your share holding or to change your address please contact the share registrars as follows:

**NZOG stock symbols**  
NZX Shares – NZO  
ASX Shares – NZO

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## Production

### KUPE

NZOG's revenue from Kupe in the quarter was NZ\$11.4 million

#### Kupe oil and gas field (PML 38146)

NZOG interest 15%

In the three months to the end of December, Kupe produced 3.56 PJ of gas (NZOG's allocation 0.54 PJ), 14,675 tonnes of LPG (NZOG's share 2,201 tonnes) and 309,232 barrels of light oil (NZOG's share 46,385 barrels).

NZOG's revenue from Kupe in the quarter was NZ\$11.4 million.

There were no recordable or significant safety or environmental incidents during the reporting period; a good result given that the reporting period included the planned turnaround period.

The Kupe facilities were taken out of service on 15 October for the scheduled maintenance turnaround and statutory inspection. As a result of the turnaround, there was no light crude lifting during October. The turnaround works were completed on time and under budget and gas export re-started on 8 November. Lloyds Register completed the annual Wellhead Platform survey audit in mid-November. No significant issues were identified during the survey.

#### NZOG's Share of Production

PRODUCT	OCT - DEC 2012
<b>Kupe:</b>	
Kupe sales gas	0.54 petajoules
Kupe LPG	2,201 tonnes
Kupe light oil	46,385 barrels
<b>Tui:</b>	
Tui oil	53,772 barrels

### TUI

NZOG revenue from Tui was \$6.9 million

#### Tui area oil fields (PMP 38158)

NZOG interest 12.5%

Total oil production at Tui for the three months to the end of December was 430,175 barrels of oil, at an average rate of 4,676 barrels per day. NZOG's share of the oil production was 53,772 barrels.

NZOG's revenue from Tui in the quarter was NZ\$6.9 million.

There was a tanker shipment of 400,516 barrels in December (NZOG share 50,065 barrels). As at 31 December there were approximately 142,600 barrels of oil in stock (NZOG share 17,800 barrels).

In November, production was shut-in for 5 days to allow repairs to be carried out.

## New drilling in Tui in 2013-14

#### Tui (PMP 38158) - Oi prospect

NZOG 12.5%, AWE 42.5% (Operator), Mitsui 35%, Pan Pacific Petroleum 10%\*

— Mid-range estimated recoverable oil resources from Oi 10.6 million barrels

The Tui Joint Venture has resolved to drill an exploration well to test the Oi prospect in the northern part of the Tui mining permit. Together with a new extended-reach development well, Pateke-4H, Oi-1 is expected to be drilled using the Kan Tan IV semi-submersible drilling rig during the 2013-14 season.

The operator's mid-range estimate for recoverable oil resources from Oi in the success case is 10.6 million barrels of oil.

\*Pan Pacific Petroleum will increase its participation in the Oi well to 50 per cent under the sole risk provisions of the Tui Joint Operation Agreement. AWE and Mitsui have elected to participate in the Oi exploration well at reduced equities of 25 per cent and 12.5 per cent respectively, with the option to restore their full equities in any development. NZOG will participate at 12.5 per cent.



# Exploration

## TARANAKI BASIN

### NEW PERMITS

#### In November 2012 NZOG secured interests in three new offshore Taranaki Permits.

##### **Matuku (PEP 51906) (Conditional on regulatory approval)** **NZOG 12.5%, OMV 65% (Operator), Octanex 22.5%**

NZOG acquired a 12.5 per cent interest in the Matuku permit from Octanex for US\$12.5 million. The transaction remains conditional on Ministerial consent which will trigger the first of three payments to Octanex; the subsequent triggers occur when all regulatory consents for drilling are in place, and when the drilling rig is in place at the Matuku-1 well location and ready to commence operations.

OMV is meeting the full cost of drilling Matuku-1 under the terms of their agreement with Octanex. OMV has contracted the Kan Tan IV semi-submersible drilling rig to drill this well in the second half of 2013.

The operator has publicly estimated mean recoverable resource for the Matuku prospect at around 65 million barrels. If Matuku-1 is successful, NZOG or Octanex can exercise an option to increase NZOG's interest by a further 5 per cent, to 17.5 per cent. NZOG would then pay Octanex's share of the appraisal well, which would then be 17.5 per cent. The contract for the Kan Tan IV allows for the possibility of a Matuku appraisal well while the rig is in New Zealand.

##### **Takapou (PEP 53473) (Conditional on regulatory approval)** **NZOG 50% (Operator), Octanex 50%**

PEP 53473 is adjacent to the north of the Tui oil field and has two previous unsuccessful wells, Takapou-1 and Kopuwai-1. Interpretation of reprocessed 2D seismic data has identified a number of prospects and leads across the 853 square kilometre block, including the "Kokako" prospect which is a structural closure at the "F Sands" level productive in the Tui area fields.

NZOG is negotiating a contract for acquisition and processing of a 3D survey covering about 600 square kilometres, mainly within PEP 53473, to provide for thorough evaluation of the Kokako prospect and other structures mainly at Cretaceous levels elsewhere on the block. The seismic survey is expected to be undertaken in about March-April 2013, well in advance of requirements under the work programme for the permit.

##### **Taranga (PEP 52593) (Conditional on regulatory approval)** **NZOG 50% (Operator), Octanex 50%**

PEP 52593 covers 3509 square kilometres in offshore Taranaki, to the north of PEP 53473. Previous exploration wells include Moa-1 and Wainui-1 in the extreme north of the block, and Taranga-1 in the central area. Several undrilled structures have been identified from existing 2D seismic coverage. NZOG is refining the work programme which provides for either 2D or 3D seismic acquisition and will pay 60 per cent of the cost of the seismic programme for its 50 per cent interest. At least some of the programme is expected to be completed in conjunction with the 3D survey in the adjacent PEP 53473.

##### **Kakapo (PEP 51311)**

**NZOG 90% (Operator), Raisama 10%**

— Efforts to farm down continue.

The Kakapo prospect is ready to drill and NZOG is evaluating rig options, including the semi-submersible Kan Tan IV which will be in Taranaki waters for Matuku-1, Tui and other wells, and various jack-up rig alternatives which may prove more suitable. Efforts continue to farm down NZOG's level of interest in this permit.

##### **Kaheru (PEP 52181)**

**NZOG 35% (Operator), TAG Oil 40%, Beach Energy 25%**

— Farmed out; JV gets ready to drill

Preparations are ongoing to drill an exploration well in the Kaheru prospect. The mean recoverable reserves (unrisked) are estimated at 45 million barrels (mmbbls) of oil in an oil case; or 200 billion cubic feet (bcf) of gas and 7.5 mmbbls of condensate in a gas case.

NZOG farmed out a 25 per cent interest in the permit to Beach Energy in October 2012, and the Joint Venture in the permit made a commitment to drill when a suitable rig can be negotiated. Kaheru-1 will utilise a jack-up drilling rig.

##### **Kanuka (PEP 51558)**

**NZOG 50%, Todd Energy 50% (Operator)**

Detailed work on reprocessed 3D seismic data has been completed. The next stage of exploration work in the Kanuka permit (subject to JV and regulatory agreements) includes a small 3D seismic survey, and further studies within the existing 3D coverage to advance the evaluation of the Mensa prospect, a potentially significant oil prospect.

##### **PEP 54857**

**NZOG 100% (Operator)**

This block, awarded to NZOG in the 2012 New Zealand Block Offer, is offshore Taranaki's south coast covering around 525 square kilometres adjacent to the north of NZOG's Kakapo prospect in PEP 51311. While there is moderate 2D seismic coverage, no wells have been drilled in this permit. The block lies within the source kitchen for the Maui and Maari oil and gas fields.

Work has been initiated to re-interpret the extensive existing seismic data and design a 400 km<sup>2</sup> 2D seismic survey which is scheduled to be shot within the first two years of the permit term. A well is to be drilled within five years.

## ONSHORE TARANAKI

##### **Manaia (PEP 54867)**

**NZOG 40%, New Zealand Energy Corp. 60% (Operator)**

This block covers just over a hundred square kilometres in the central part of South Taranaki adjacent to the coast. Operator NZEC has established itself as an effective onshore Taranaki operator. There has been only limited previous exploration in PEP 54867 and no wells have been drilled in it. The first 18 months of the permit's duration will see the joint venture acquiring 70km of 2D seismic data.

# Maps

## INDONESIA

### Kisaran Production Sharing Contract

NZOG 22.5%, Pacific Oil & Gas 55% (Operator), Pacific Oil & Gas (Sumatera) Inc (a subsidiary of Bukit Energy) 22.5%

— Drilling due to begin

Logistical arrangements for the 2-well drilling programme were ongoing through the final quarter of 2012 in the face of difficult wet weather at the site. At year end the drill site was fully prepared and mobilisation of the rig and related equipment was under way, with the first well, Parit Minyak-2 expected to spud around publication date.

### Bohorok Production Sharing Contract

NZOG 45%, Bukit Energy 45% (Operator), PT Surya Buana 10%

Good progress continues on the 2012 and 2013 work programme for this interest. A seismic survey is to be conducted toward the end of 2013. Planning for this survey has been initiated.

## TUNISIA

### Cosmos Concession

NZOG 40%, Storm Ventures International 40% (Operator), Entreprise Tunisienne d'Activites Petrolieres (ETAP) 20%

— Decision expected in March

The concession contains an offshore oil discovery, Cosmos South, which is being assessed for development. Proved and probable reserves of 9.2 million barrels of oil have been attributed to the Cosmos South 'A' lobe, with additional potential contained in adjacent lobes.

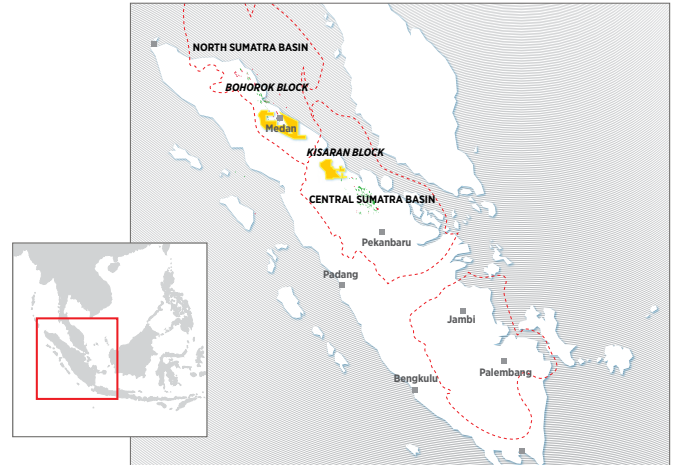
Subject to a positive FID, the joint venture will consider a 3D seismic survey to more fully assess the development potential in adjacent structures.

Front End Engineering Design (FEED) studies have been completed and development economics are being independently assessed. The Final Investment Decision (FID) is expected to be made in March 2013. If the field is developed, first production would be expected to begin in late 2014.

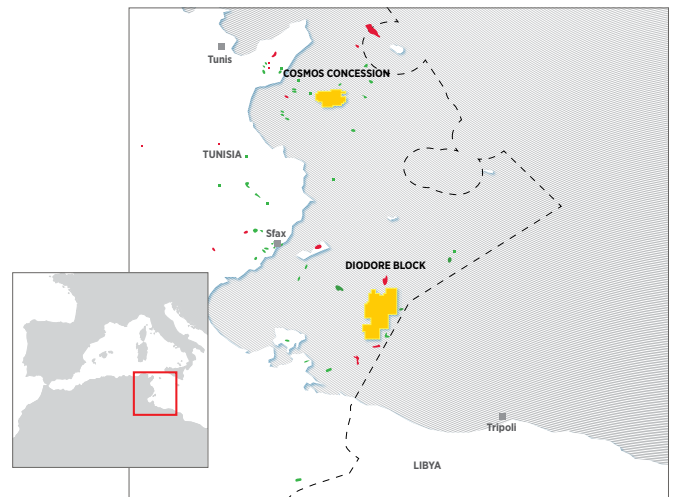
### Diodore Prospecting Permit

NZOG 100% (Operator)

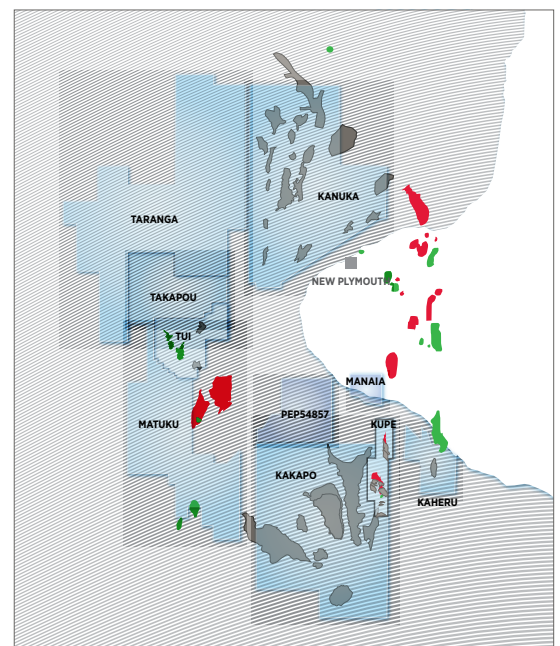
An extensive seismic reprocessing project has been initiated and the results will be integrated with completed work (including the 2D seismic survey undertaken in early 2012, and a range of geological studies). This work will finalise the prospect and lead inventory within the block. A decision would then be anticipated in the middle of this year about whether to proceed from the two year prospecting permit to the exploration stage of a production sharing contract. Proceeding would require an exploration well to be drilled within three years.



Indonesia



Tunisia



Taranaki







# Financials

## FINANCIAL UPDATE

Operating revenue  
NZ\$18.3m  
Cash balance NZ\$209m

NZOG's operating revenue for the December quarter was NZ\$18.3m. This included revenue from the sale of Tui oil (NZ\$6.9m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ\$11.4m).

As at 31 December 2012, NZOG's cash balance was the equivalent of NZ\$209m, with cash holdings held in both NZ and US dollar accounts.

NZ\$4.8m was paid off NZOG's debt facility with Westpac during the quarter. The balance borrowed currently stands at NZ\$38m and this will be repaid in full by March 2015. NZOG has no other debts.

NZOG's net cash position as at 31 December 2012 was NZ\$171m.

More financial information is contained in the December 2012 Quarterly Cash Flows Report, which has been released to the NZX and ASX.

## DIVIDEND 2013

No decision has yet been made on a dividend for this year, but the NZOG Board is considering whether an interim dividend is possible this year.

The Board will make a decision when it considers the half year result, due for release on 1 March.

### Dividend Reinvestment Plan

New shares issued under the Dividend Reinvestment Plan will no longer be issued at a 2.5 per cent discount as in the past.

The dividend reinvestment plan will remain in place, but shares will be issued at their full market price.

You can find out more about the plan at [nzog.com/drpf](http://nzog.com/drpf)

Join or leave the plan by contacting Computershare.

## SHARE BUY-BACK

With NZOG increasing its exploration activity, it is no longer proposing to buy back shares in the near future because for much of the time the company would possess material information that prevented it buying its own shares.

In November 2011, NZOG initiated a buy-back of ordinary shares. The year-long buy-back concluded on 31 October 2012. 2.89 million shares were purchased. A number of buying halts were required while the company held material information.

## ADDITIONAL SALES

During the quarter NZOG successfully concluded an agreement in which additional gas sales are to be made from the Kupe field during the 2013 calendar year. We anticipate selling an additional (approximately) 0.37 PJ of gas, 30,000 barrels oil and 1,600 tonnes of LPG. Additional earnings before tax from these sales is expected to be around \$6.7m in total, with around half that benefit to impact the June 2013 financial year.