

# ACTIVITIES REPORT

## Dear Investor

NZOG is stepping up activity. The September quarter saw the announcement of new projects and a commitment to progress others that have been considered for some time.

We made a commitment to drill the Kakapo prospect off the South Taranaki coast when a suitable rig can be negotiated. Kakapo has the potential to be several times the size of the Tui field. NZOG has a 90% interest in Kakapo, and we have made the commitment to drill in the expectation that additional partners will join the venture.

To the east of Kakapo lies another permit we are excited about, Kaheru. Again, NZOG is the operator.

These Taranaki prospects are promising. If they produce they will make a game-changing difference for us as well as for the wider New Zealand economy, with many new jobs and substantially improved economic wellbeing.

While we increase activity off the Taranaki coast, we are also looking to diversify.

We carefully studied the government's 2012 blocks offer and bid for a number of prospects, including onshore opportunities.

Diversification is also behind NZOG's increased activity overseas. Drilling construction is underway now in Kisaran in Central Indonesia. At time of writing a contract for a rig was near completion and spudding is close.

NZOG has a good balance of a strong financial base and opportunities for growth, with increased exploration activity and our producing assets, Kupe and Tui, continuing to perform.

## Partner of choice

NZOG aims to be the NZ partner of choice for exploration, leveraging thirty years developing our capabilities as the only publicly-listed New Zealand-owned exploration company.

By becoming leaders in our relationship with the community, NZOG can build on the enormous contribution our industry makes to the wellbeing of the wider community.

New Zealand has always been home to explorers looking to make a better life. We are as isolated and remote as any country in the world. Only the intrepid, unique and determined made it here. Being the New Zealand exploration company means exploration in search of a better future is in our DNA.

## Change

Since I last wrote an activities report, Tony Radford has announced he is stepping down as our chairman from the date of our general meeting. Tony founded the company with a passion for creating a New Zealand oil and gas company. When he recruited me as chief executive, he sold me on this vision for who we are and what we need to bring to all our opportunities.

We now welcome Peter Griffiths as NZOG's new chairman. Peter joined the board in December 2009. He is a former managing director of BP New Zealand and he was previously involved in oil and gas field operations in Australasia, Malaysia and the UK.

We're moving into a new future, and as we do so, our objective is to build value for our shareholders and secure a prosperous future.



**Andrew Knight**  
Chief Executive

20 October 2012



## Production

### Kupe

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

NZOG interest 15%

For the September quarter Kupe produced 5.08 PJ of sales gas (NZOG's allocation 0.76 PJ), 20,813 tonnes of LPG (NZOG's share 3,122 tonnes) and 443,941 barrels of light oil (NZOG's share 66,591 barrels).

NZOG's revenue from Kupe in the quarter was NZ\$19.8m.

Kupe production in the month of July was restricted to 55-60 TJ/day on most days, with production being affected by equipment failure (degradation of the molecular sieves). There was a 6-day shutdown at the end of July for re-generation work which was successful, and plant capacity has been restored to the 70 TJ/day availability level.

A High Rate Trial was successfully completed at the end of August to test the ability of the Kupe plant to produce at 77 TJ/day and no significant issues were identified.

The 2012 annual maintenance turnaround began on 15 October and is scheduled to continue to 8 November, during which time there will be no production from the Kupe field.

### Tui

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

NZOG interest 12.5%

Total oil production at Tui for the September quarter was 482,414 barrels of oil, at an average rate of 5,244 barrels per day. NZOG's share of the oil production was 60,302 barrels.

NZOG's revenue from Tui in the quarter was NZ\$9.8m.

There was a tanker shipment of 261,482 barrels in August (NZOG share 32,685 barrels) and a further tanker shipment of 302,886 barrels in September (NZOG share 37,861 barrels). As at 30 September there were 112,916 barrels of oil in stock (NZOG share 14,115 barrels).

Tui oil production is tracking to budget; well tests indicate that reservoir performance continues to match the current 2P reserves forecast.

## Exploration

### Taranaki Basin

**PEP 51311 (Kakapo)**

NZOG 90% (Operator),

Raisama 10%

In September NZOG confirmed a commitment to drill an exploratory well in the Kakapo prospect once a suitable rig can be negotiated.

The Kakapo well site lies in about 98 metres of water 25 kilometres west of the Kupe gas/condensate field. The potential exists for Kakapo to be several times the size of the Tui field. It has prospective recoverable resources of 41 million barrels of oil in the "most likely" (P50) case for the main target sand alone; allowing for additional levels both above and below, and the possibility that the trap is filled all the way to its maximum spill point, there is potential (P10, "possible") for up to several hundred million barrels of oil in total.

ASX-listed Raisama Energy Ltd will earn a 10% stake in the permit by paying 20% of the first well costs, with the carry capped at US\$3 million. NZOG is seeking additional partners to join the venture ahead of drilling, and is confident enough to move forward with the commitment at its current equity level.

**PMP 38158 (Tui)**

NZOG 12.5%

AWE 42.5% (Operator)

Mitsui 35%

Pan Pacific Petroleum 10%

The Tui Joint Venture is evaluating the scope for further in-field and/or near-field drilling which might be undertaken when a suitable semi-submersible rig is available in New Zealand waters.

- Gas Field
- Oil Field
- Prospects and Leads
- NZOG Permits

PMP 38158  
(TUI)

PEP 51558  
(KANUKA)

NEW  
PLYMOUTH

PML 38146  
(KUPE)

PEP 51311  
(KAKAPO)

PML 52181  
(KAHERU)

## Canterbury Basin

### PEP 52181 (Kaheru)

NZOG 60% (Operator)

TAG Oil 40%

Kaheru is a structural prospect with 3D seismic control immediately to the south of the Rimu/Kauri oil and gas complex on the South Taranaki coast, and east of the Kupe field. At the time of preparing this Quarterly Report, a decision on a formal commitment to drill a test well in the Kaheru prospect is extremely close, with an announcement due on 30 October. NZOG is continuing to seek further partners in the venture to reduce exposure to the cost.

### PEP 51558 (Kanuka)

NZOG 50%

Todd Energy 50% (Operator)

This block is in the northern offshore Taranaki basin, west of the Pohukura gas/condensate field and northeast of the Maui and Tui oil and gas/condensate fields. A substantial portfolio of prospects in this block is being evaluated. Interpretation is expected in the final quarter of this year on re-processed 3D seismic data. Possible drilling in 2014 would be subject to a drill or drop decision in December 2013.

### PEP 38451 (Romney)

PEP 38451 is the first exploration permit granted over the deepwater extension to Taranaki Basin.

NZOG negotiated an agreement to acquire a 6.667 per cent stake in the permit (5 per cent carried), which was subject to a number of conditions. One of those was that existing partners had preferential rights to the assignment, which they exercised. As a result, NZOG will not proceed with the acquisition of an interest in the permit.

### PEP 38259 (Barque)

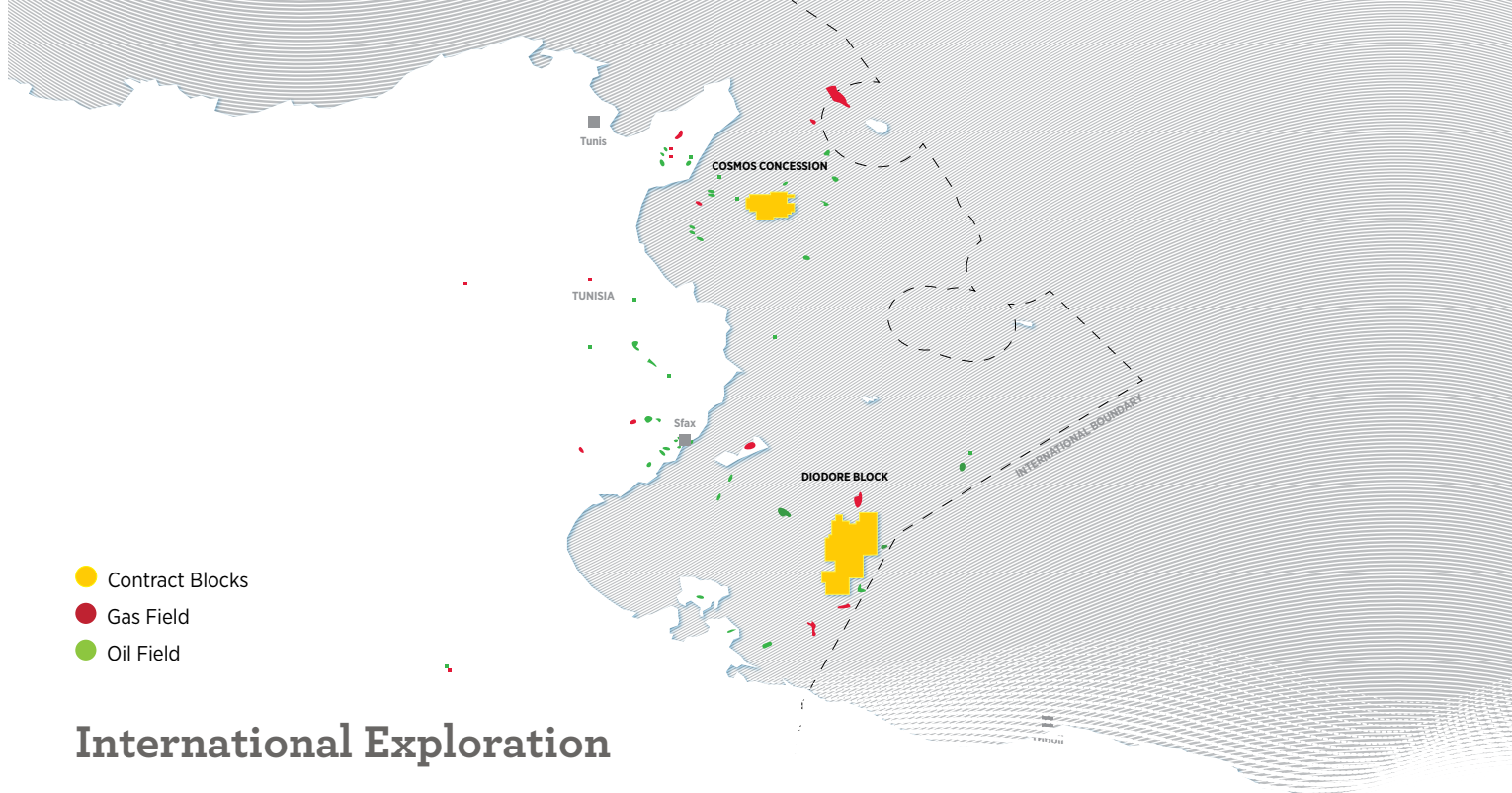
NZOG 40% (Operator)

Beach Petroleum (NZ) Pty Ltd 35%

AWE New Zealand Pty Ltd 25%

After an extensive technical review the joint venture partners concluded that it would not be feasible to drill a well to test the Barque prospect before the permit expiry in the next 12 months, and on 10 August relinquished the permit back to the Crown.





## International Exploration

### Tunisia

#### Cosmos Concession

NZOG 40%

Storm Ventures International 40% (Operator)

Entreprise Tunisienne d'Activités Pétrolières (ETAP) 20%

The concession contains an offshore oil discovery, Cosmos A, that is being assessed for development. Independently evaluated proved and probable oil reserves of 6.3 million barrels have been attributed to the main Cosmos A lobe, with upside potential from the adjacent lobes.

Front End Engineering Design (FEED) studies have been completed and are being independently assessed.

If the field is to be developed, first production would be expected to commence in mid-2014.

In addition to the Cosmos development area, the concession contains several other potential exploration targets.

#### Diodore Block

NZOG 100% (Operator)

The Diodore prospecting permit, granted to NZOG effective September 2011, extends over an area of 1,200 sq km and is surrounded by discovered and producing oil and gas fields.

A seismic survey was acquired in January 2012 and its processing has now been completed. Reprocessing of pre-existing 3D survey and selected existing 2D lines is about to commence. That work, and integrated interpretation to define and evaluate prospects, should be completed by early next year with the option to convert the block to a Production Sharing Contract to be decided by July 2013.





## Indonesia

### Kisan permit

NZOG 22.5%

Pacific Oil & Gas 55% (Operator)

Bukit Energy 22.5%.

Preparations are at an advanced stage for drilling the Parit Minyak-2 (PM-2) well in Sumatra before the end of the year, with site preparations due to be completed by the end of October.

The Kisan block is located in the Barumun Trough in the northern part of the Central Sumatra Basin – the most prolific oil producing basin in South East Asia.

The PM-2 well will appraise an undeveloped oil discovery made in 2003, and explore zones not present in that well. A second well, PM-3, will test a prospect up-dip of strong oil indications in the same well. PM-3 is expected to spud early in the new year, immediately following operations at PM-2.

### Bohorok Production Sharing Contract

NZOG 45%

Bukit Energy 45% (Operator)

PT Surya Buana 10%

A 200-250km<sup>2</sup> 2D seismic programme is being planned on this permit in the North Sumatra Basin. It's expected to take up to three years to acquire and process that data, reprocess existing 2D and fully define and evaluate prospects ahead of drilling.







## Financial update

NZOG's operating revenue for the September quarter was NZ\$29.6m. This included revenue from the sale of Tui oil (NZ\$9.8m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ\$19.8m).

During the quarter NZ\$7.0m was received from Pike River Coal Ltd in part payment of NZOG's secured debt, NZ\$16.9m was paid out in dividend payments and NZ\$4.0m was paid off NZOG's debt facility with Westpac. The balance borrowed currently stands at NZ\$42.8m and this will be repaid in full by March 2015.

As at 30 September 2012, NZOG's cash balance was the equivalent of NZ\$197.1m, with cash holdings held in both NZ and US dollar accounts. NZOG's net cash position as at 30 September 2012 was NZ\$154.3m.

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

## Share Buy-Back

In November 2011, NZOG initiated a new share buy-back to purchase up to 10 million of its fully paid ordinary shares. There were no shares acquired in the quarter to 30 September 2012 and the share buy-back is scheduled to conclude on 31 October 2012.

## Dividend

NZOG's results for the financial year ending 30 June 2012 were announced on 22 August 2012 and confirmed the payment of a fully imputed dividend of 6 cents per ordinary share.

The dividend was paid on 28 September 2012.

8,135,891 fully paid ordinary shares were issued at a cost of NZ\$ 6,591,838.

The total dividend cost was NZ\$24,565,017.

## Contact Details

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