

# NZ Exploration & Production in a Global Context

Gas Industry Summit  
15 September 2008

Chris Roberts  
Public Affairs Manager

New Zealand Oil & Gas Limited



# Outline

---

- *What influences exploration and production decisions for a New Zealand-based upstream player?*
- *What are the international influences that govern behaviour in the oil and gas sector?*
- *Where does NZ fit in a global context?*



# New Zealand Oil & Gas Ltd

A diversified upstream energy player:

- Production - Tui Area Oil Fields
- Development - Kupe Field
- Exploration - Taranaki permits
- Investment - Pike River Coal
  
- Listed NZX and ASX - Market cap ~NZ\$600m
- Positioned for Growth - \$285m in cash



# 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

- Discovered by NZOG and partners in 2003/04
  - Investment decision Nov 2005
  - First production July 2007
- NZOG a 12.5% JV partner
- Exploration & Development costs \$52m
  - Project payback in 4 and a half months
- Sales Revenue to date: approx \$270m
- Share of remaining 2P reserves
  - approx 4.2 mmbbls



## NZOG Success Story 2 - Kupe

- Kupe Project:
  - Discovered by NZOG in 1986
  - Investment decision June 2006
  - First commercial production mid-2009
- NZOG's a 15% JV partner:
- Economics of Kupe have improved
  - Expected development costs are up 20%
  - Expected revenues are up over 50%
  - Three-quarters of value in the liquids



# NZOG's Plans for the Future

- Tui cashflows + Kupe development + Capital Raising + Pike River investment = solid/diversified base for NZOG
- Looking to grow by the drill-bit and by acquisition
  - Thoroughly assessed NZ opportunities
  - Some opportunities remain live but in total not enough to meet NZOG's requirements
  - Actively looking overseas



# Global Outlook

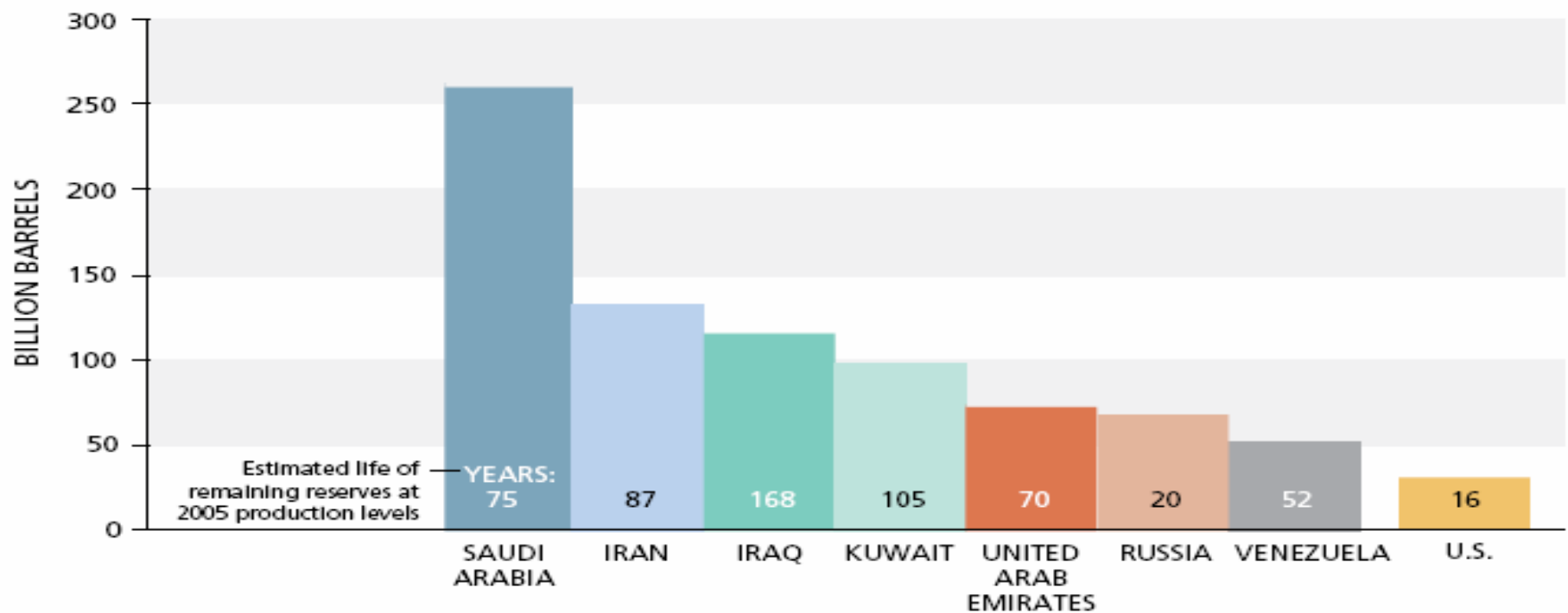
---

- 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?



# Supply Side Assessment

- Increasing concentration of resources
- OPEC's share of world supply will increase from 42% now, to 52% in 2030
  - Growing power of National Oil Companies



# Supply Side Assessment

---

- 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



# What does this mean for oil prices?

---

- Economically disruptive supply shortfalls likely to occur
- Increased demand will amplify effects of short-term events
- World is moving from demand-driven to supply-constrained system

*In the medium term, unless the world economy collapses, there will be strong upward pressure on oil prices*



# 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
  - Gas market risk remains a key investment risk
- Reputation as highly litigious
  - Legal action used as standard business approach
- A lot of acreage is currently unavailable
  - Drip-feed approach needs to be reconsidered



# Where does NZ fit?

- Significant regulatory uncertainty
  - ETS
  - Thermal moratorium
  - Section 41 of Petroleum Act
- New Zealand has to work hard to get attention
- International players want depth, liquidity, accessibility, transparency, familiarity
  - NZ not near the top of the list
- The Goal: find and produce hydrocarbons as quickly as possible
  - Not concerned with NZ's energy needs



## On the bright side...

- NZ relatively under-explored
    - Further resource potential in Taranaki
    - Other identified basins with good potential
    - Big potential in frontier basins but high risk/costs
  - NZ offers a safe, secure location
- = Good prospects for further NZ exploration
- Oil the preferred target
    - Gas less valuable and more difficult to monetise



# Summary

---

- Tui and Kupe show that with perseverance E&P can be highly profitable for a NZ-based and focused company
- NZ has good remaining prospectivity
  - But much of the resource is unavailable
- A local partner has much to contribute
- Oil, not gas, is now the target in NZ
- NZOG resourced and pursuing an active growth path – both in NZ and overseas

