

# Activities Report

for the quarter ended 31 December 2009

## Dear investor

In 1986, NZOG and its partners discovered the Kupe gas and light oil field, 30kms off the south Taranaki coast. 20 years later, in 2006, the investment conditions were finally right to go ahead with development of the field. On 4 December 2009, the first raw gas stream was brought ashore, effectively signalling the start of an expected 15 years of Kupe production.

NZOG's first income from Kupe was also generated from early December, with gas entering the North Island gas pipeline system to be supplied to Genesis Energy. The first sale of LPG occurred on 31 December and the first shipment of light oil occurred in mid January.

The income generated during the early phase of commissioning until plant reliability is achieved is not recorded as revenue, but is capitalised and offset against the cost of the development. NZOG therefore does not show any Kupe revenue in its accounts for the December quarter.

The commissioning process has gone well so far with the production station being tested under a variety of operating conditions. The commissioning period will continue until the Operator is ready to declare that the plant is available for permanent production. This is currently expected to occur in March.

NZOG now owns interests in two producing fields, giving the company not only increased revenue, but also revenue and cash-flow diversity from the two fields and four product streams.

NZOG's summer drilling programme got off to a disappointing start. The Albacore-1 wildcat exploration well in the northern Taranaki Basin was drilled in December by the ENSCO-107 jack-up rig. The well was non-commercial, with only traces of oil and gas found. Wire-line logs and down-hole tests were carried out and the information gained is being used to build a better understanding of the prospectivity of the area.

The ENSCO-107 has now left New Zealand waters and the remainder of this summer's drilling programme will be carried out by the Kan Tan IV semi-submersible rig. The Kan Tan IV has had success drilling in Australia and this has delayed its arrival in New Zealand. It is currently anticipated that the Hoki exploration well (in which NZOG has a 10% stake) will be spudded in late February.

Hoki is a large potentially oil-bearing prospect on the western margin of the Taranaki basin. Following Hoki, the Kan Tan IV will move on to drill at least two wells near to the producing Tui area oil field.

In this report we introduce you to some of our employees, focusing on our technical team. In a knowledge-based capital intensive industry, the quality of our technical advice is vital for success, and we have built a high calibre team working hard on your behalf.



**David Salisbury CEO**  
20 January 2010

## KEY POINTS

- **Kupe production starts**
- **First sales of Kupe gas, LPG and light oil**
- **Summer drilling programme underway**

# Production

## Kupe

**Kupe Oil and Gas Field**  
(PML 38146, NZOG interest 15%)

**A major milestone in this \$1.3 billion project was achieved on 4 December 2009, when the first raw gas stream (containing gas and liquids) was piped ashore from the offshore Kupe field, to the processing plant near Hawera in south Taranaki.**

Since that date the Kupe production system has been bedded down through a commissioning period, with variable quantities of sales gas, LPG and light oil produced during this commissioning process.

By the end of December, NZOG had supplied Genesis with 110 TJ (terajoules) of gas. This commissioning gas is sold at a discounted rate because the volumes are variable during commissioning and the customer has to accept whatever amount of gas is provided.

On 31 December, the first 50 tonnes of NZOG's LPG allocation was uplifted by Vector at the Kupe production station for

trucking to Vector's supply outlets. And on 19 January the first tanker containing 151,000 barrels of Kupe light oil (NZOG's share 22,650 barrels) left Port Taranaki for Australia.

Once in permanent production, Kupe will supply 10 to 15 percent of New Zealand's annual gas demand and around half of the country's LPG requirements. For NZOG, it will provide long-term income from three revenue streams.

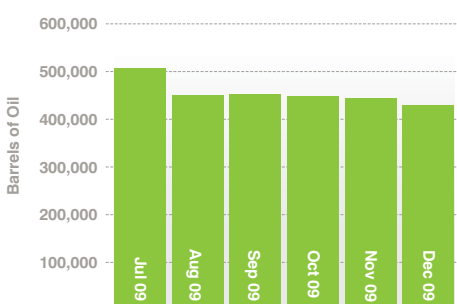
An official opening is being planned for mid-March.



## Tui

**Tui Area Oil Fields**  
(PMP 38158, NZOG interest 12.5%)

**TUI AREA OIL FIELDS -  
FY10 FIRST HALF PRODUCTION**



Total Tui production for the quarter was over 1.3 million barrels (mmbbls) at an average rate of 14,200 barrels of oil per day. Production for the first six months of the financial year was over 2.7 mmbbls – NZOG's share 340,000 barrels. Total Tui production since July 2007 reached 26 mmbbls on Boxing Day.

The wells continue to perform in line with expectations but there are some technical modifications required to the facilities to maximise oil recovery rates. The Operator has advised that because of these modifications, the original production target for the full financial year of 5.1 mmbbls (NZOG share 0.63 mmbbls) may not be achieved. Production for the full year is expected to be between 4.7 and 5.1 mmbbls.

Shell in Australia has extended its initial contract and will now take all of Tui's oil production in 2010.

The Tui joint venture has committed to sponsor a new water safety campaign developed by the New Plymouth District Council. The project will start with a pilot scheme in February 2010 and within 12 months, 1200 Taranaki school children will have attended a 5 week water safety programme run at local pools and beaches. The Tui joint venture has also provided further sponsorship for the new Cape Egmont Rescue Vessel which is expected to be launched in February 2010.

# Exploration

## TARANAKI BASIN

### PEP 38491 (Albacore) NZOG interest 40%

The Albacore-1 well was spudded by the ENSCO-107 jack-up rig on 5 December. Drilling proceeded ahead of schedule and the well reached total depth on 13 December. Only traces of hydrocarbons were found. The results are being evaluated to help assess remaining prospectivity of the permit area and northern graben region of the Taranaki Basin.

### PEP 51988 (Mangaa) NZOG interest 100%

NZOG's Permit in Time (PIT) application for a block immediately to the north of PEP 38491 was granted on 15 January. The permit work programme requires NZOG to undertake technical studies during the first 24 months of the the permit term.

### PEP 38401 (Hoki) NZOG interest 10%

The wildcat well Hoki-1 is now expected to be drilled with the semi-submersible rig Kan Tan IV in February/March 2010. The objective is late Cretaceous sands encountered in Tane-1, which was drilled by Shell BP and Todd in 1976, about 15km to the SE of the Hoki prospect. Hoki-1 will be further from

shore than any previous offshore Taranaki well and located on the steep upper continental slope in water depth of over 300m. It is a relatively high risk prospect, which has the possibility of containing significant recoverable oil resources.

### PMP 38158 (Tui) NZOG interest 12.5%

The Tui joint venture has refined its interpretation of the Tui mining permit including a comprehensive reprocessing of the 3D seismic survey data. Evaluation of undeveloped prospectivity will culminate in the drilling of at least two wells, using the Kan Tan IV following completion of Hoki-1 in the first half of 2010.

### PEP 38483 (Aihe and Bahamas) NZOG interest 18.9%

In December 2009, application was made to Crown Minerals for a change of conditions to allow more time to complete the evaluation of the Bahamas gas play and make a decision in relation to drilling.

### PEP 51321 (Kahurangi) NZOG interest 18.9%

Mapping and evaluation of prospects and leads in this block awaits the completion of an extensive seismic reprocessing project.

### PEP 51311 (Gamma) NZOG interest 100%

New and newly-reprocessed seismic data acquired by NZOG in 2009 has been comprehensively interpreted and a number of leads and prospects have been mapped. Continuing evaluation of these features is directed at identifying any further geological and geophysical studies required to support a drilling decision which is due in January 2011.

## CANTERBURY BASIN

### PEP 38259 (Barque) NZOG interest 40%

Processing of the 2009 seismic survey was not completed during the quarter as expected and consequently mapping and prospect evaluation has been deferred until early 2010. A drilling commitment is required by August 2010.

## ROMANIA

A decision has been taken to withdraw from a study group which was considering bidding for acreage in Romania. NZOG was not satisfied with the progress being made by the study group and concerned that Nexus Energy had withdrawn. NZOG continues to look for new investment opportunities, in both New Zealand and overseas.

# Investments

## PIKE RIVER

### Pike River Coal Limited (PRC) (NZOG interest 29.6%)

Production from the mine has been slowed by a faulted zone of rock just in front of the pitbottom development. PRC has had to drill and blast roadway tunnels through this rock to get back into the coal seam. This work is currently expected to be completed by February.

Some production has been possible during the quarter and the first export shipment of hard coking coal from Port Lyttleton to India is anticipated in February.

International prices for coking coal have risen strongly. However, as a result of the production delays, PRC has short-term working capital requirements, which are currently being addressed.

Further details on Pike River Coal are available at [www.pike.co.nz](http://www.pike.co.nz)

## PAN PACIFIC

### Pan Pacific Petroleum (PPP) (NZOG interest 14.9%)

There was no change during the quarter to the shareholding in PPP that NZOG acquired in December 2008.

PPP has minor interests, subject to final approvals, in permits in Vietnam and the Timor Sea. Drilling took place in both permits during the quarter, with mixed results. Consequently, PPP's share price has retreated from earlier highs.

PPP is also a 10% partner at Tui, where at least two wells will be drilled in the coming months.

Further details on Pan Pacific Petroleum are available at [www.panpacificpetroleum.com.au](http://www.panpacificpetroleum.com.au)

# Financial update

NZOG's operating revenue from Tui for the December quarter was US\$11.4m (NZ\$15.6m). The average price per barrel received for oil sold during the quarter was US\$73.

During the start of the commissioning period of Kupe the income and expenditure from the production of gas, LPG and light oil is capitalised. The operating revenue and

expenditure will be recorded in the profit and loss account once the plant is operating within its maximum and minimum daily gas design parameters.

During the quarter NZOG spent NZ\$9.8m on exploration, which was mostly Albacore-1.

At 31 December 2009, NZOG's cash balance was the equivalent of NZ\$176.4m.

Approximately 80% of this cash is held in US dollar denominated accounts with major NZ-based banks.

More financial information is contained in the December 2009 Quarterly Cash Flows Report, which has been released to the NZX and ASX.

# Technical Team

NZOG is able to pursue a strategy of sensible growth, thorough evaluation of new opportunities and active involvement in our business interests, because we have put together a strong, accomplished and experienced staff.

At the core of the company is our technical team – our geologists, geophysicists and reservoir engineer. Between them they have over 200 years of worldwide industry experience.

We have recently engaged two senior explorationists from the UK and Canada to act as our Northern Hemisphere scouts – identifying and investigating new investment opportunities. Several potential investments identified by these scouts are already under active consideration.



**Standing (from left to right):** Mark Wallis, *Geoscience Co-ordinator*; Jeff Beckett, *Staff Geophysicist*; Markus Schuh, *Reservoir Engineering Manager*; Hugh Steed, *New Ventures Manager*; Jonathan Salo, *Chief Geologist*; Mac Beggs, *Exploration Manager* **Seated (from left to right):** Nick Johnston, *UK Consultant*; Tim England, *Canada Consultant*; Sam Bowler, *Staff Geologist*; Paul Wagenhofer, *Chief Geophysicist*. **Absent on Maternity Leave:** Bernice Herd *Staff Geophysicist*

## Government's Petroleum Strategy

In November 2009, the New Zealand Government released a proposed Action Plan for petroleum exploration and production, along with a number of detailed reports. Submissions were called for, with a response deadline of the end of January 2010. This is the first major review of the industry rules in two decades being undertaken by a supportive Government.

NZOG welcomes the opportunity to comment on the strategy and we have put considerable time and thought into our submission (which will be made available on our website [www.nzog.com](http://www.nzog.com))

Action Point 1 in the Government's proposed 7-point Action Plan is to "Explicitly position Government as pro-active and pro-

development of petroleum resources."

As an active upstream participant (since 1981), NZOG applauds this Government's enthusiastic attention to a sector which is already a major contributor to the country's wealth and has enormous potential for further wealth creation. The Crown is the resource owner in this strategic industry and a major beneficiary, so strong Government leadership is very important.

The Crown directly receives approximately 44% of the revenue generated by an oil or gas field development, in royalties and taxes. There are a range of measures the Government can and should take to improve the investment environment for explorers and producers. The Government can target its

resources better and there are a number of legislative and regulatory 'tweaks' that can be easily made to improve efficiency and increase activity. We have outlined our detailed thinking on these issues in our submission.

Worldwide there is more money chasing oil and gas opportunities than there are sensible opportunities available. If the Government improves the framework in New Zealand, further investments will be made here. NZOG itself is positioned to benefit from improved investment opportunities and excited by New Zealand's petroleum potential with a supportive Government and improved regulatory environment.

### For further information please contact:

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