12 April 2018

Market update on Government policy announcement

New Zealand Oil & Gas wishes to address the potential impact of the New Zealand Government's announcement today about the future of offshore exploration.

The government's announcement will not have any immediate material impact on the operations or financial position of the company. Potentially transformational New Zealand Oil & Gas exploration prospects in the Canterbury and the Great South Basins are unaffected by today's announcement and the company is continuing to market these world-class prospects.

New Zealand Oil & Gas also intends to manage the risks associated with the government's policy change by investing in exploration and production assets in other jurisdictions. We are focusing on assets where our New Zealand capability can add value, with a preference for gas assets because gas is seen in most jurisdictions as a vital energy source for the transition to a lower carbon world.

We note that the announcement is a sudden change of policy, which has not been consulted on and appears to conflict with the government's pre-election promises.

New Zealand Oil & Gas chief executive Andrew Jefferies commented, "Renewable energy can provide almost all our electricity needs in a year of normal rainfall. But another two thirds of our national energy use is industrial and transport related, for which complete renewable alternatives are not currently economically viable. Therefore the choice for New Zealand is whether we use our own resources for our own benefit, or New Zealanders rely on overseas energy sources benefitting those economies."

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Environmental effect of ban on new exploration

The ban on new exploration may mean carbon emissions in New Zealand and globally will be higher for longer.

This is because petroleum resources in New Zealand are likely to be gas and gas condensate. Gas is a lower carbon alternative to coal for uses such as industrial heating, where no economically viable renewable alternative exists.

If new gas supplies are unavailable then coal will continue to be used domestically for purposes such as dairy drying plants. Globally, ethically-produced natural gas from New Zealand produces far fewer emissions than alternatives such as Canadian tar sands or Venezuelan bitumen. Therefore, if natural gas from New Zealand is not permitted then the world will use more high-carbon fuel sources.

Economic effect of banning new exploration

A study produced last year by independent economic consultancy MartinJenkins found that a discovery in the Barque prospect, offshore from Oamaru in the Canterbury Basin, could increase regional GDP by up to $15 billion and earn the New Zealand government $32 billion in royalties and taxes over the life of the field.

In total, up to 5,740 full-time equivalent jobs per year could be created during construction, and around 2,000 enduring jobs in the region.

The study was co-funded by the permit joint venture and New Zealand Trade & Enterprise. It was undertaken by consultancy MartinJenkins, which drew on data from Beca, Methanex, Coogee, Ravensdown, Fonterra, PrimePort Timaru and others.

While exploration and development related to the Barque prospect will not be impacted by today’s announcement, opportunities to develop similar sources of royalties, taxes and regional development will be lost.

New Zealand Oil & Gas Business Update

New Zealand Oil & Gas this week acquired a 25% interest in an onshore exploration opportunity in Taranaki, which will be drilled in the fourth quarter this year (subject to regulatory consents).

The company has already locked in international marketing for our potentially transformational offshore South Island prospects. The Barque prospect in the Canterbury basin has a work programme agreed with the government and a drill-or-drop decision due in April 2019. A decision on the Toroa prospect in the Great South basin is due before April 2020.

Work will continue on these prospects as they are not impacted by today’s announcement.

The company will seek to increase its investment focus in oil and gas exploration and production in other jurisdictions.

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