30 October 2017

CEO's Address, Annual Meeting

Andrew Jefferies,

Chief Executive

Te Wharewaka Function Centre,

109 Jervois Quay, Wellington

10am on Monday, 30 October 2017.

Thanks for coming along today, and thanks for this opportunity to talk to our historic year.

This has been a busy year of things getting done, which has been reflected in the share price and the Takeover Offers that Rodger talked to you about.

Twelve months ago when I spoke to you, I discussed the company's headline loss of more than $50 million due to asset write-downs across our industry. This year that loss turned around, into a net profit of more than $52 million.

Twelve months ago I told you that my highlight of that year was the work that our team had done to increase the reserves at Kupe, which was then our major asset. This year, that increase is the main element in the net profit we were able to announce because we were able to crystallise all that future value in a single, profitable transaction.

Twelve months ago we had a cash balance of around $100 million. A year on, we have given back to shareholders $100 million of cash, and we have a cash balance of $122 million.

And when our agreement to buy back into the Kupe asset gets regulatory, then our cash balance will still be close to $90 million. And you will still have your $100 million capital return in your pockets.

I want to talk for a bit about our plans to utilise that cash in the business in a way that creates value for you as shareholders exceeding other options that you have available. That is a very high hurdle for investment, and we have been working hard to screen new assets that clear that hurdle.

We have looked at markets we understand and where our expertise allows us to sniff out the hidden value. We have not restricted the search to New Zealand, but excluded countries on the other side of the world, or where the risks are too high. We have concentrated on jurisdictions that are: a plane flight from Auckland, so we can apply control at reasonable cost; that have good markets, so we can sell what we produce; a decent financial and legal system, so we can make and keep a profit; and geological potential, so we can find and produce oil and gas.

One reason we look outside New Zealand is because it's important to spread our geopolitical risk. New Zealand is a great country to do business, but we have just seen the government change, as governments will change in every democracy. The new prime minister announced a change in block offer exploration policy that is on its way. That policy change shouldn't adversely affect our current portfolio, but it reminds us that even in stable, well-governed countries, the policy environment can alter. From an investment point of view, it is smart to maintain involvement in other jurisdictions, so that when national policies change our investment direction can change in response.

We have a preference for gas. We see rising demand for gas as a transition fuel during the decades long adjustment to a low-carb world.

Numerous assets we have looked at have fallen short of our standards, but we have also discovered some that have a strong economic case, development upside, and that suit our size and scale.

We have made bids on several that went a long way towards being realised.

Twice we were gazumped by someone making a higher offer that, in both cases, we decided was too high for the risks and opportunities involved.

Due to the commercial sensitivity of current deals I can't share a lot of detail, but what I can say is that: last week we agreed non-binding terms on an onshore exploration asset that could be drilled in the new year in a market where we see gas supply constrained; and we are negotiating on a bid for a producing asset that has development upside.

We are in advanced talks over several others, but we are prepared to walk away if the deals can't clear our demanding investment hurdles.

In another year we want to have a portfolio of assets that are producing sound returns and offer development upside that will provide growth to complement the income flow - that is, a set of assets right for our size that will grow with us.

These will probably look a bit like Kupe: mostly gas, something we understand well; with development potential; at a size that is worthwhile for us without exposing our entire balance sheet to the risk of a single umbilical pipeline, single market or single regulatory regime.

All of these opportunities have in common potential that you cannot access outside this company - that is why it makes sense for us to hang onto cash and develop the opportunities we see ahead.

We have been aligning our Indonesia portfolio with this strategy. You have seen us exit the unconventional exploration assets to re-focus on opportunities that have a faster pathway to profit.

And we have also retained our exposure to the transformational deep water assets.

We have three in our portfolio - Barque in the Clipper permit, Toroa in the Great South Basin, and Ironbark off West Australia's north west coast.

All of them are promising, two ranked in the global top 10. Any would be a company-maker if successfully drilled.

Today we are releasing the details of an independent study into the economic impact of a discovery at our Barque prospect off the Canterbury coast. It was undertaken by consultants MartinJenkins. They talked to potential industrial partners, like dairy firms, methanol manufacturers, fertiliser firms, and the port, to analyse what a gas discovery would mean; with a focus on two areas:

- Market – as that is where we earn the money to make our investments pay, and
- Economic impact- one key question people ask me when I visit the communities where we are active is "what is in it for us"

The study found enormous benefits would flow to the regional economies of South Canterbury and Otago from a successful discovery.

Thousands of jobs would be created locally as economic activity booms.

For further information please contact:

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If that gas was brought to shore and used for industries in New Zealand, the modelling paints an appealing outlook for the region.

The 12-year construction phase would generate $3.7 billion in regional GDP, and 37,000 jobs.

Over 20 years of operations some $269 million in GDP would flow to the region annually, with 1,980 permanent high paying jobs. This is like adding 500 farms with 300,000 dairy cows to the local economy.

Then there are the wider, national benefits. A commercial Barque discovery would generate vast tax and royalty revenues, along with billions of dollars in GDP and export revenues. Trade balance issues would be fixed -overnight.

This revenue has meaning - we have just seen a change of government, and the new government is promising to make a priority of ending child poverty, of lifting wages, and growing New Zealand's exports. Those are welcome goals, that any New Zealander can get behind. But they are tough goals that cost real money.

A major discovery in any south island field will provide the government with revenue to achieve those goals. We would do this by producing energy from clean, ethically-produced natural gas, instead of from much higher-carbon emitting energy sources.

Everyone benefits from a boost to national wealth, as the country is better able to provide the social services and infrastructure that improves our standard of living. Norway did not achieve their standard of living exporting kippers.

We are by no means ready to commit to drilling in Clipper, and if we do the chance of success is about one in five.

So success is uncertain. But the potential gains from a discovery in the south island would be similar for any of the south island prospects, and there are four others looking worthwhile: two in the Caravel permit neighbouring Clipper, one in Toroa which we hold with Woodside, and Shell has one further off the coast.

Any one of those would be a game changer.

I would be very proud to make that difference for New Zealand. I came here a decade ago with the dream of unlocking the new North Sea in the South.

Some individuals have been saying we shouldn't access new natural gas resources despite the potential gains because of the carbon emitted in using these fuels. My response to those claims is that we can help: gas is an ideal transition fuel for an energy hungry world.

The transition to a low carbon economy is good for the world. But it is going to take decades. Even Greenpeace refuels its boats using diesel. Low carbon policy-makers fly to conferences in planes that burn oil. That's because right now there is no practical, economic alternative.

But we can choose between fuels, that exist today. Gas is low carbon, abundant, increasingly transportable, and economically competitive.

The Barque study shows, for example, that the dairy industry could switch from coal to gas. That would significantly reducing carbon emissions. Local gas would enable fertiliser and methanol plants to be built here instead of overseas, reducing transport emissions and providing energy for export.

Natural gas from New Zealand is better than alternatives such as Canadian tar sands, Venezuelan bitumen, Australian Coal Bed Methane and fracked US shale gas. This is where the energy will come from that we have to use to sail, fly and transport our goods in the absence of local sources.

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So when policy-makers ask us whether we should use our natural resources or not, we say we should. We should also minimise carbon emissions, and care for the world. The way to do that is not to pick winners, by banning some fuels arbitrarily and subsidising others. That only risks increasing the costs of the transition - which are going to be high; and risks perversely increasing the volume of emissions. If you ban exploring and producing gas in New Zealand: you will use more coal elsewhere; rob the developing world of a supply of clean, lower-emission, ethically-managed fuel; and rob ourselves of the means to grow and transport produce using locally derived energy.

The better policy is to set a carbon budget and then use a single price instrument to achieve it. Put a price on emissions that fairly reflect the externalities, and then allow the markets to allocate carbon to its most efficient economic uses.

I can give you one further example of how we can contribute to positive change. We have the ability to separate carbon dioxide from produced natural gas, and re-inject it into mature oil fields extracting more from these existing developments, and sequesting the carbon - burying it forever. That is not a fantastic technology that is far off in the future. It is technology that exists today and is used in the US and other countries.

We have run some indicative numbers and found that in the right oil field, we could make carbon capture and sequestration economic for as little as $18 per tonne of carbon - that's about the current carbon price.

So I want to close by suggesting that sorting the regulatory environment to allow us to sequester carbon in producing fields, and earn the same carbon credits as forests from doing so, could help achieve the government's goal of becoming carbon zero.

As I said - our industry can help with the transition. We can help create spectacular economic returns for New Zealand, the regions, and you our shareholders. So paraphrasing JFK - I say: Let's find a new North Sea in the South by the end of this decade and do the other things.

Thank you.

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