

# New Zealand Energy Corp.

## Investor Business Update

November 2016



# CAUTIONARY NOTES

## FORWARD-LOOKING INFORMATION

This document contains certain forward-looking information and forward-looking statements within the meaning of applicable securities legislation (collectively "forward-looking statements"). The use of any of the words "will", "objective", "plan", "seek", "expect", "potential", "pursue", "subject to", "can", "could", "hopeful", "contingent", "anticipate", "look forward", and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such forward-looking statements should not be unduly relied upon. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. This document contains forward-looking statements and assumptions pertaining to the following: business strategy, strength and focus; the granting of regulatory approvals; the timing for receipt of regulatory approvals; geological and engineering estimates relating to the resource potential of the properties; the estimated quantity and quality of the Company's oil and natural gas resources; supply and demand for oil and natural gas and the Company's ability to market crude oil and natural gas; expectations regarding the Company's ability to continually add to reserves and resources through acquisitions and development; the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the Company's ability to raise capital on appropriate terms, or at all; the ability of the Company's subsidiaries to obtain mining permits and access rights in respect of land and resource and environmental consents; the recoverability of the Company's crude oil, natural gas reserves and resources; and future capital expenditures to be made by the Company. Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in the document, such as the speculative nature of exploration, appraisal and development of oil and natural gas properties; uncertainties associated with estimating oil and natural gas resources; changes in the cost of operations, including costs of extracting and delivering oil and natural gas to market, that affect potential profitability of oil and natural gas exploration; operating hazards and risks inherent in oil and natural gas operations; volatility in market prices for oil and natural gas; market conditions that prevent the Company from raising the funds necessary for exploration and development on acceptable terms or at all; global financial market events that cause significant volatility in commodity prices; unexpected costs or liabilities for environmental matters; competition for, among other things, capital, acquisitions of resources, skilled personnel, and access to equipment and services required for exploration, development and production; changes in exchange rates, laws of New Zealand or laws of Canada affecting foreign trade, taxation and investment; failure to realize the anticipated benefits of acquisitions; and other factors. Readers are cautioned that the foregoing list of factors is not exhaustive. Statements relating to "reserves and resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources described can be profitably produced in the future. This document includes references to management's forecasts of future development, probability of success, production and cash flows from such operations, which represent management's best estimates at the time. The forward-looking statements contained in the document are expressly qualified by this cautionary statement. These statements speak only as of the date of this document and the Company does not undertake to update any forward-looking statements that are contained in this document, except in accordance with applicable securities laws. More information is available in the unaudited consolidated financial statements and the associated MD&A of the Company dated 30 September 2016 as publicly filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## CAUTIONARY NOTE REGARDING RESERVE & RESOURCE ESTIMATES

The oil and gas reserves calculations and income projections were estimated in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH") and National Instrument 51-101 ("NI 51-101"). The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six Mcf: one bbl was used by NZEC. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates. Proved Reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Revenue projections presented are based in part on forecasts of market prices, current exchange rates, inflation, market demand and government policy which are subject to uncertainties and may in future differ materially from the forecasts above. Present values of future net revenues do not necessarily represent the fair market value of the reserves evaluated. The report also contains forward-looking statements including expectations of future production and capital expenditures. Information concerning reserves may also be deemed to be forward looking as estimates imply that the reserves described can be profitably produced in the future. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause the actual results to differ from those anticipated. Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters, or a lack of markets. Prospective resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from undiscovered accumulations. The resources reported are estimates only and there is no certainty that any portion of the reported resources will be discovered and that, if discovered, it will be economically viable or technically feasible to produce. More information is available in the Company's Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information dated 28 April 2016, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

# Investor Update 2016

## 1. 2016 Performance Review

- HSE
- Production
- Infrastructure and Services
- Financial

## 2. 2017 Outlook and Growth Plans

- Waihapa-Ngaere field
- Copper-Moki field
- Appraisal and Exploration
- Services

# 2016 Performance Review

## Reminder: Key 2016 Business Imperatives

- **Safety**
  - Maintain harm-free operations
  - Safely execute plant maintenance & re-certification shutdown
- **Production Growth**
  - Overall Production decline reversed in Q4 2015
  - Grow Production through re-developments in 2016
- **Positive Operating Cashflow**
  - Material reduction in Operating Costs in H2 2015
  - Delivered further cost reductions through 2016
  - Price and exchange rate volatility are likely to continue

# 2016 Performance

## HSE - Strong HS&E Culture Maintained:

### Refreshed HS&E Management System, Policies and Procedures

- Ensures compliance with new NZ Health & Safety at Work legislation

### Excellent safety performance

- Nil Recordable Workplace Injuries or Reportable Incidents
- Average ~7000 person-hours spent on sites each month
- WPS plant maintenance (~1400 person-hours) completed with zero harm
- Reduced total trucking distances by ~70% by routing Copper Moki oil through WPS

# 2016 Performance

## HSE - Best Practice:

### Health – Annual Check Ups

- Preventative work-place health checks and follow-up
- Skin cancer monitoring programme

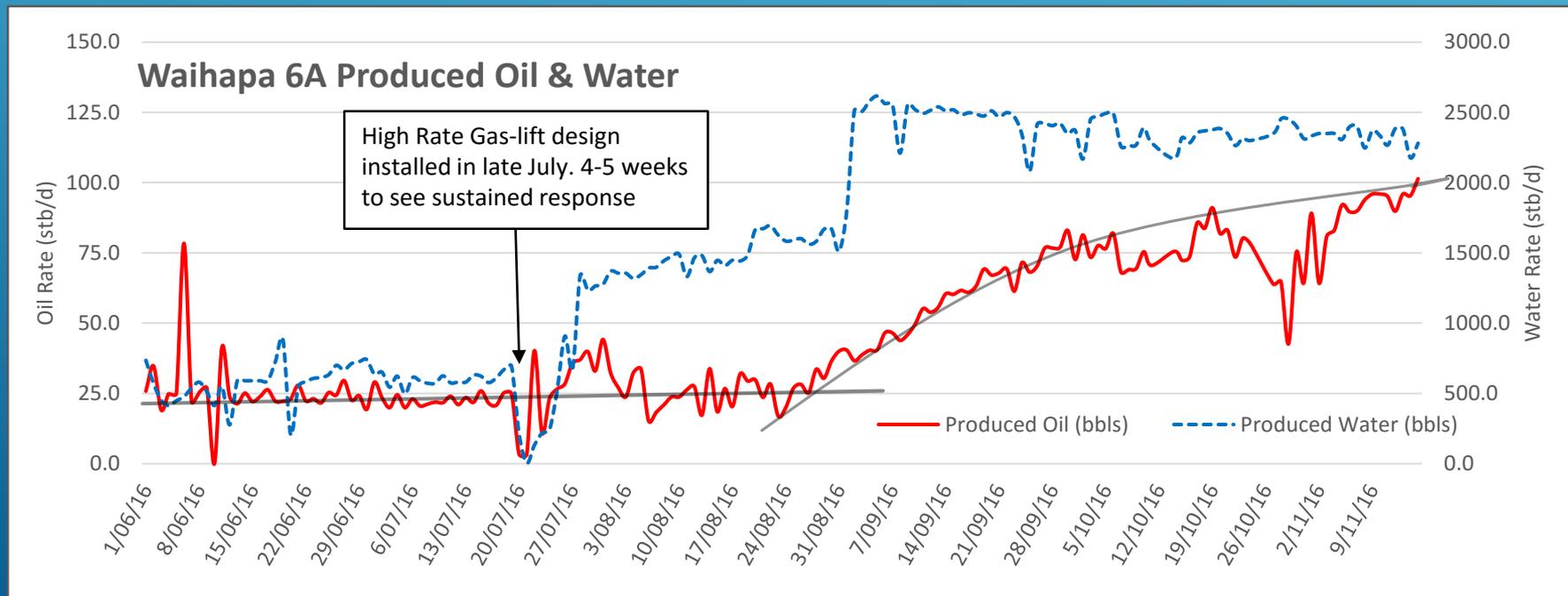
### Environment - Taranaki Regional Council Monitoring

- NZEC operated sites awarded highest rating for operational and emission compliance, including noise, light, and discharges

# 2016 Performance

## Delivered on Production Growth:

- **Waihapa/Ngaere: Tikorangi reservoir re-development**
  - Stage 1 of Enhanced Oil Project (in pilot well Waihapa-6A) successfully implemented
  - Sustained increase in oil cut & production: ~25 bopd in July to November 2016 ~100 bopd

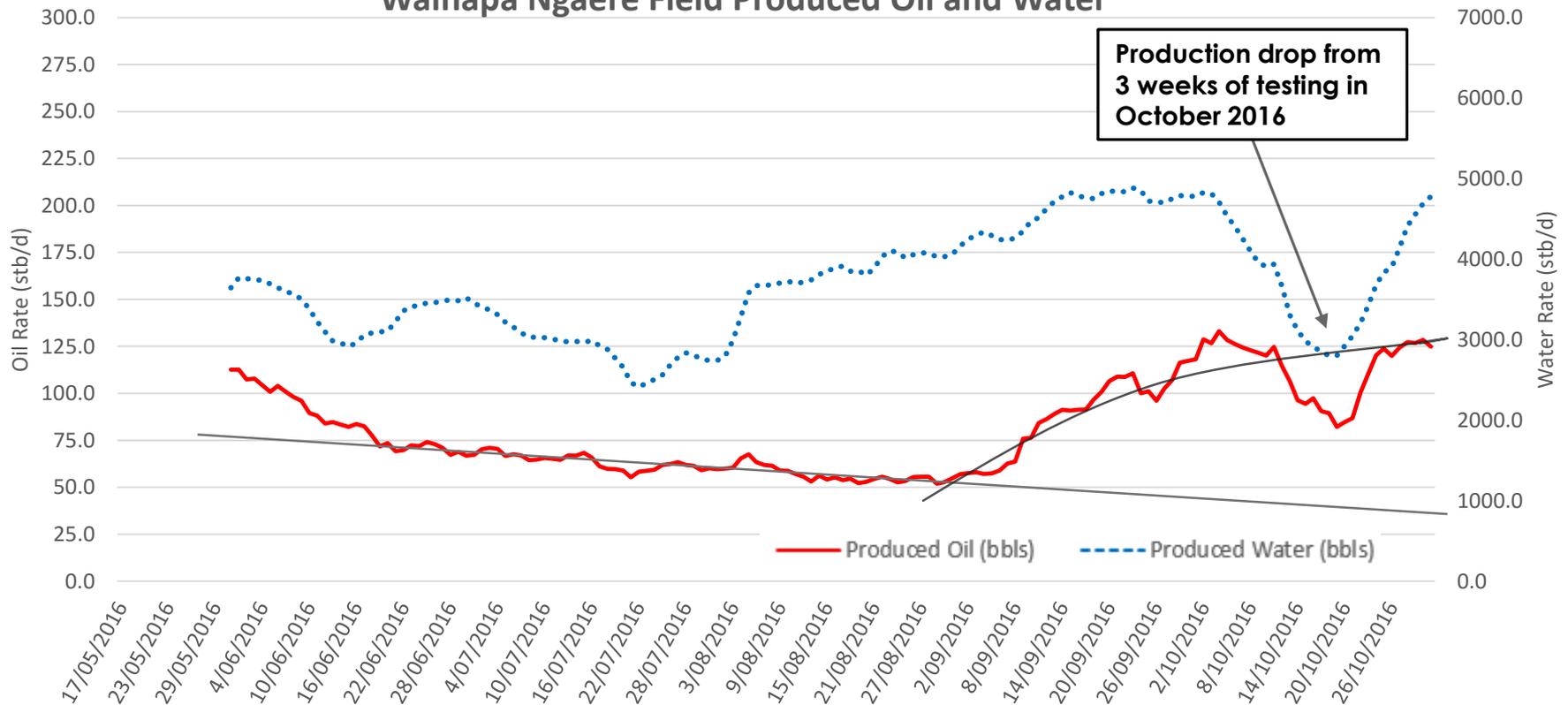


# 2016 Performance

## Delivered on Production Growth:

- **Waihapa/Ngaere: Tikorangi reservoir redevelopment**
  - Pilot project has reversed overall field production decline

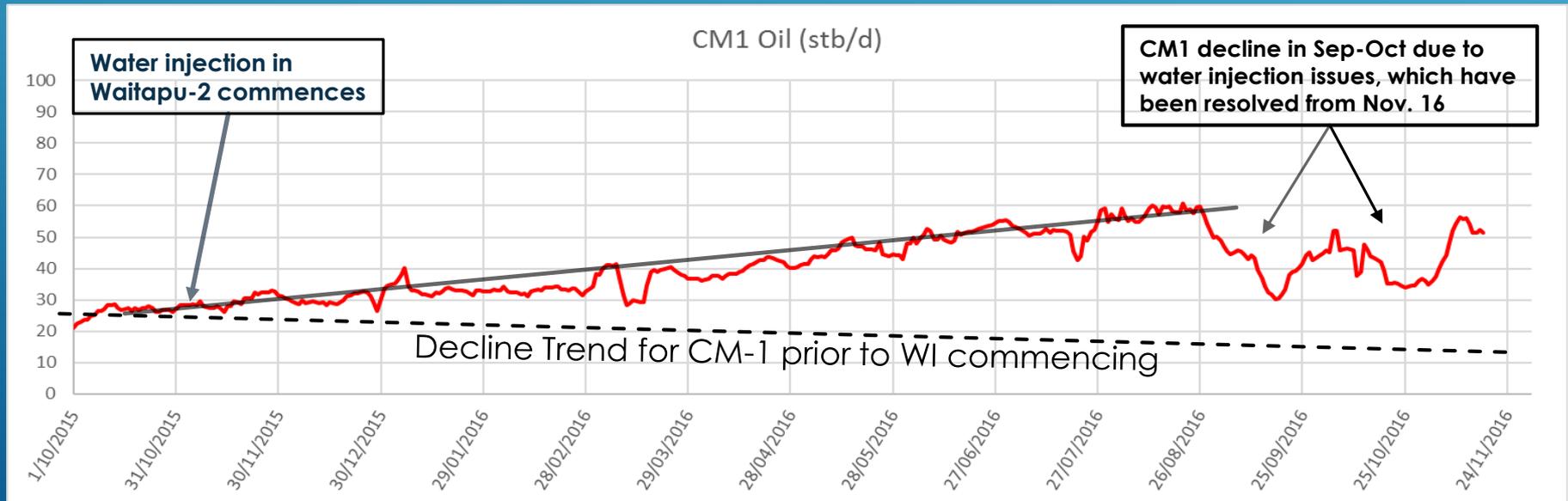
**Waihapa Ngaere Field Produced Oil and Water**



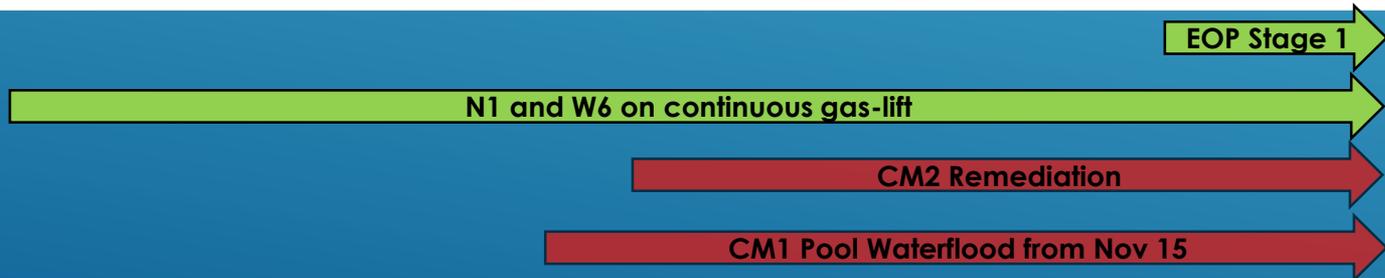
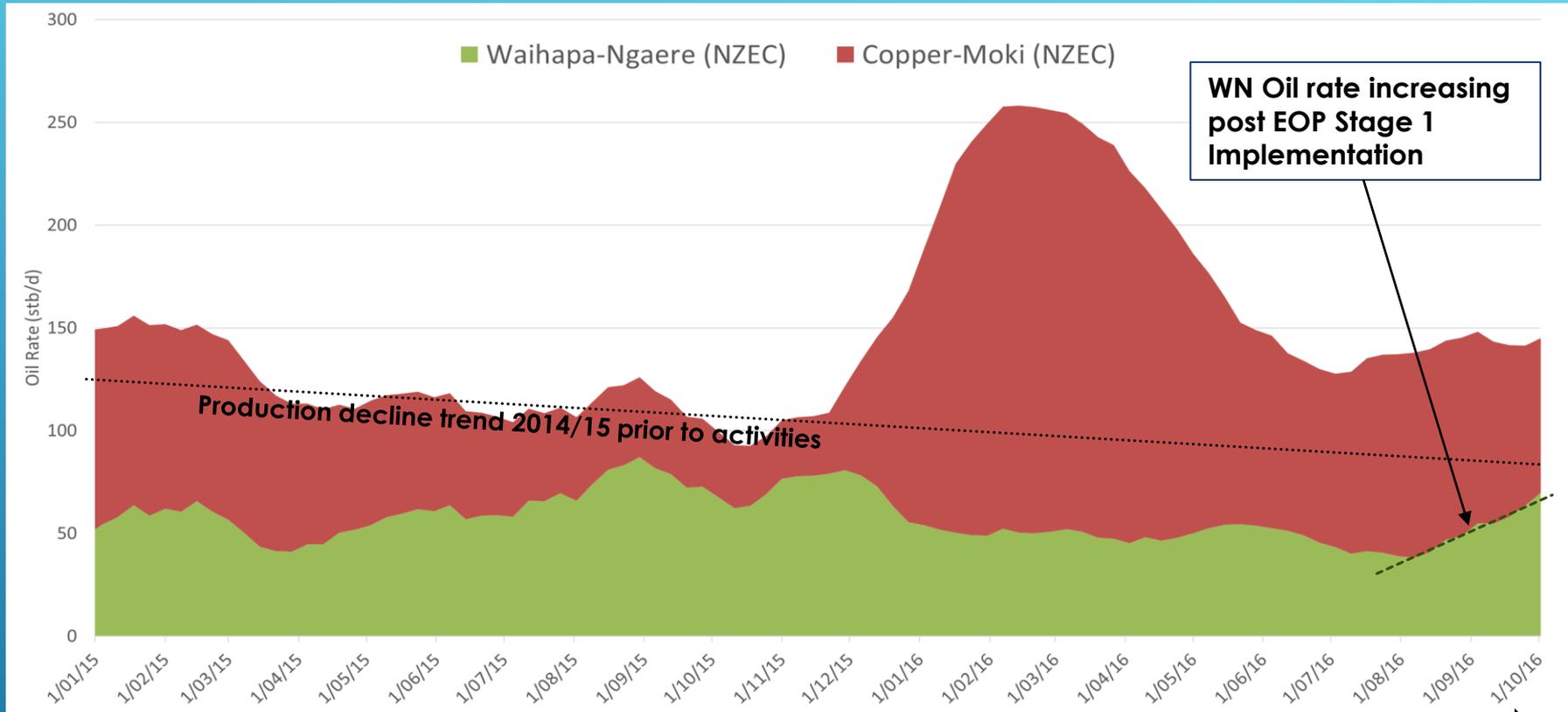
# 2016 Performance

## Delivered on Production Growth:

- **Copper Moki: Mt Messenger reservoir - waterflood**
  - CM1 pool waterflood has driven increase in oil rate from ~25 bopd to ~60 bopd by August
  - CM1 decline in Sep-Oct due to multiple factors including water-injection pump issues. These have been addressed
  - CM2 pump replacement had large impact early in the year, i.e. a 55% production increase over 2015 (YTD Q3)



# Net Production Jan-15 to Nov-16



Notes:

1. Copper-Moki production includes Mt. Messenger pool oil from Copper-Moki-1 and 2
2. TWN production includes production from 6 Tikorangi and 1 Mt Messenger wells in the Waihapa/Ngaere licences

# 2016 Performance Review

- **Achieved Positive Operating Cashflow:** “Cash used in Operating Activities” has significantly reduced and is close to breakeven in Q3, i.e. -\$132k. Cashflow was positive in Q2.

Period Ended	Year to Date	30 September	30 June	31 March
2016	(131,768)	(84,143)	5,563	(53,188)
2015	(1,351,631)	(227,264)	(464,003)	(660,364)

- **Production increase mitigated effects of low Oil Prices through Q1**
- **Increased revenues from third-party use of Processing & Transportation Infrastructure. New party using services from Oct 2016**
- **Overdraft Facility to manage Working Capital**
- **Relinquished non-commercial Alton exploration permit**

# Financials – Q3 YTD 2016 Results

## All in C\$

9 months ended 30 September	2016	2015
Prod. Rate NZEC Share (bbl/day)	175	122
Field Net Back (\$/bbl )	20.6	34.9
Oil Price (\$/bbl )	49.96	63.91
Production Costs (\$ million)	1.2	0.8
Processing Costs (\$ million)	0.7	0.7
G & A Expenses (\$ million)	3.1	3.4
Capital Projects (\$ million)	0.4	0.2

### Key messages :

- Production is substantially increased (+43% oil) and decline rates arrested
- Controllable elements have been ongoing focus through 2016
  - Decrease in unit Processing and G&A costs
  - Production costs increase due to water trucking for Copper-Moki Water Injection and periodic fuel gas purchases
  - Capital costs increase due to May 2016 Oil Plant Inspection and for in-well optimisation and appraisal activities

# 2017 Outlook

## Production Growth:

- **Waihapa-Ngaere Enhanced Oil Project**

- Stage-2 Scope being finalised. Likely to include ESP installation and/or additional high rate gas-lift installations
- Q1 2017 implementation target

- **Copper Moki Pools**

- Water-flood expansion underway – increased water injection rates from late November 2016 from new pump at Waitapu
- CM-1 Pool - increase oil production by increasing water-injection (WI) rates from ~380 bwpd to ~500 bwpd in December 2016
- CM-2 Pool - production trends indicate positive effect from Waitapu WI. If studies confirm connection then injection rates may increase to ~800-1000 bwpd

# 2017 Outlook

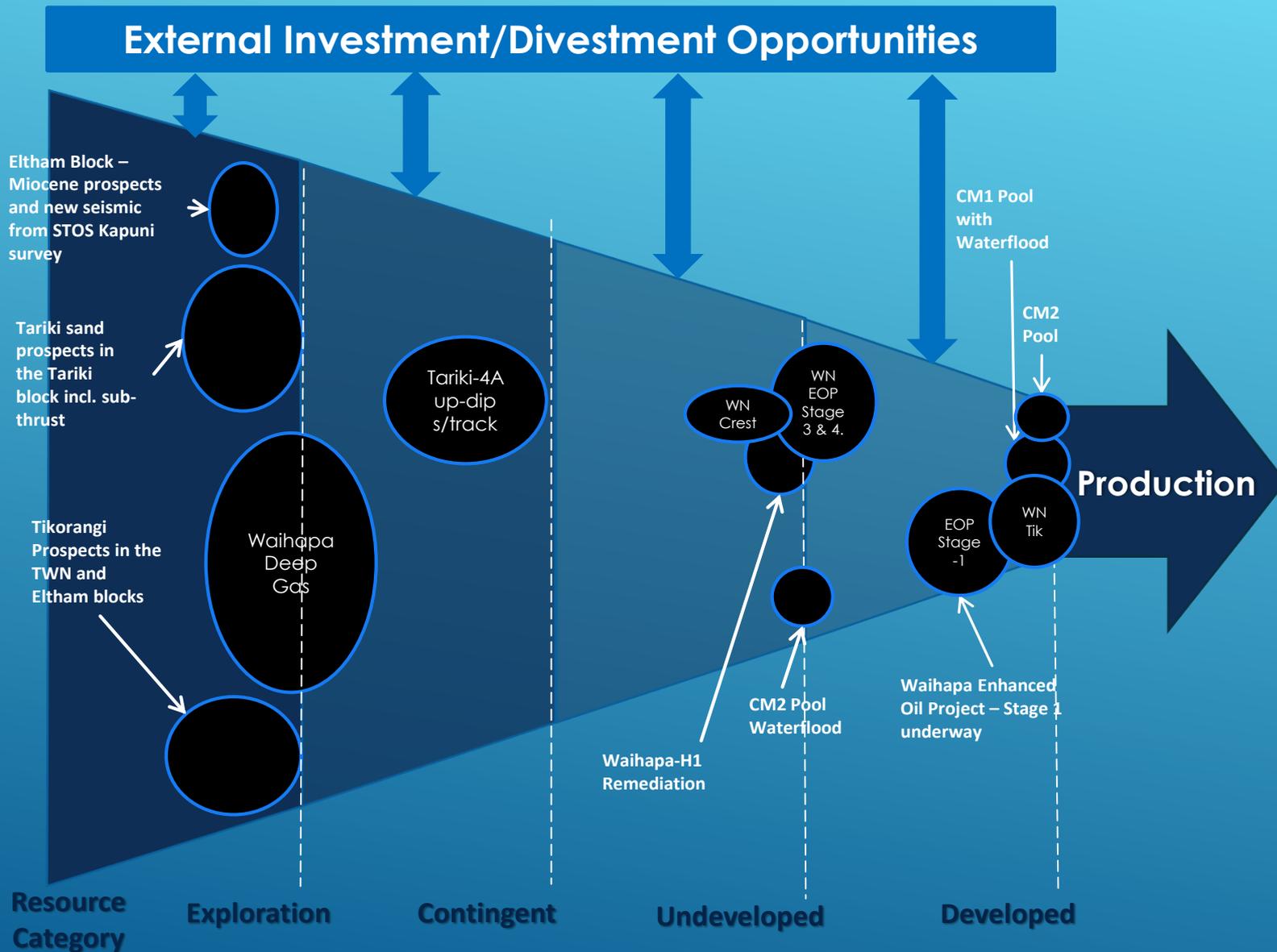
## Appraisal & Exploration:

- Appraisal focus on near field resources in TWN Licences and CM Permit due to infrastructure proximity and detailed available dataset
- Exploration focus on Eltham Permit where very high quality 3D seismic data has been acquired over 60% of the permit by adjacent permit operator Shell-Todd. This data will be provided to NZEC in Q1 of 2017

## Leverage Infrastructure:

- Plans to optimise operated Gas Transportation Network in 2017. This will open up multiple gas sales routes to different buyers & access cheaper gas supplies
- Possible increase in 3<sup>rd</sup> party processing & sales in Q1 2017
- Pursue further 3<sup>rd</sup> party processing revenues

# YE 2016 Growth Strategy - Resource Maturation View



Notes:

1. Bubble sizes are qualitative only & should not be considered accurate

# Summary

1. NZEC has demonstrated strong Technical, Operating & Commercial capabilities through 2016
2. Delivered increased oil and gas production from very low capital spend activities in 2016, notwithstanding low oil prices. NZEC needs to be “fit at US\$40”
3. Re-Development concept for the Tikorangi Reservoir has been tested and proven: pilot well W6A oil rate increased by > 250%

Scaled-up implementation is planned for 2017: a material increase in W/N oil and gas production rates is anticipated

4. Copper Moki Water-Injection project has successfully arrested production declines: oil rates at CM1 have been increased by >120%. Water injection volumes and area will be expanded in 2017

