26 August 2015

NZX Announcement

**Mosman advises proposed strategic acquisition**

Mosman Oil and Gas made the following announcement in London last night. This appears to be a really significant acquisition and a game changer for Mosman. It’s also good news for AOR as Mosman represents 38% of our portfolio.

Aorere Resources Limited holds approximately 5.3% of this AIM listed company, and our shareholding now has a present market value of NZD 578,000, based on the present market price of 3.12 pence.

Regards,

Chris Castle, Managing Director
Aorere Resources Ltd

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London - 25 August 2015

**Mosman Oil and Gas Limited**
(“Mosman” or the “Company”)

**Proposed acquisition of NZ producing oil and gas assets from Origin Energy Ltd**

Further to recent announcements on a potential acquisition, Mosman Oil and Gas Limited (AIM: MSMN) the New Zealand (“NZ”) and Australia focussed oil exploration and development company, today provides further information on the proposed acquisition being the proposed acquisition of NZ producing oil and gas assets which include the Rimu, Kauri and Manutahi fields from Origin Energy Limited (“Origin”) (the “Project” or the STEP Project”).

It is proposed that the Project will be acquired for a total consideration of NZ$10 million (approximately £4.2 million). Subject to funding Mosman is currently expected to own a 40% interest in the Project. Mosman expects to partner with a privately owned independent oil company, which will acquire the balance of the project interest.

The proposed acquisition remains subject to the Company entering into acquisition documentation and Mosman will provide further updates in due course.

**Proposed Acquisition Highlights**

Proposed Acquisition of onshore NZ oil and gas assets.
The Project is expected to be operated under a joint operating agreement ("JOA") and Mosman is expected to be the operator. The assets being acquired include the Rimu Production Station and two petroleum mining permits.

The Project is expected to be renamed the South Taranaki Energy Project ("STEP").

Total expected consideration of NZ$10 million (approximately £4.2 million) to be paid in two tranches, the first tranche of NZ$7 million is expected to be payable upon completion of the acquisition and the second tranche of NZ$3 million is expected to be due six months following completion. A 5% deposit will be paid by Mosman upon execution of the relevant SPA. Mosman’s total contribution towards the consideration for its currently expected 40% interest in the acquisition is expected to be NZ$4 million (approximately £1.68 million), the first tranche being NZ$2.8m (approximately £1.2m) and the second tranche being NZ$1.2m (approximately £0.5m). Mosman’s first tranche of consideration will be reduced by the deposit of NZ$0.5M (approximately £0.2m), which is expected to be paid by Mosman.

The Project assets include fully operational and established oil and gas processing facilities, equipment, permits, excellent infrastructure, assignment of key employee contracts and the assignment of relevant commercial contracts including oil and gas sales contracts. The facilities were the subject to a major refurbishment in 2014 and since restart in October 2014 have been producing an average 603 boepd. *

Origin is divesting the assets following a strategic review that the assets will be a better fit with a smaller Operator

STEP currently produces oil, condensate, gas, LPG and electricity, which deliver several revenue streams with payments being received in both US$ and NZ$. The Project also includes:
- 2P reserves of 1.9 Bcf gas and 1.4 MMbbl oil*
- 2C resources of 13.7 Bcf gas and 4.1 MMbbl oil*
- Prospective resources upwards of 179Bcf and 166MMbbls*

Historically the Project has produced over 10 Bcf (10.9 PJ) gas and 1.58 MMbbl oil*

Current production of 603 boepd *(average production from October 2014 to July 2015) generates revenue of approximately NZ$8m per annum at current oil price and exchange rates.

Mosman has identified 12 low-cost projects that are expected to initially significantly increase production at an estimated cost of NZ$ 2.6 million.

Mosman intends to finance the proposed acquisition through a combination of existing cash, sale of royalty on future production, and debt. In addition, equity may be raised for the acquisition or for working capital and to accelerate development of the Project.

The proposed acquisition, when agreed is expected to be conditional upon a number of conditions precedent including; Mosman providing reasonable assurance of its financial capability to pay the total consideration due for the Project assets on or before completion and the granting of certain approvals from the NZ Government before settlement.

*Represents numbers supplied by the vendor that have been subject to due diligence by Mosman. Prepared to be consistent with the Society of Petroleum Engineers definitions as set out in Appendix 2

The Board of Mosman is well aware of the current oil price; volatility of oil price; and general equity market conditions. The STEP Project is being pursued for the following reasons.

The oil price has made quality assets available at a good price. This is possibly the best time to acquire reserves and production, both of which are attributes of the proposed acquisition

The proposed acquisition is in NZ$, which has seen an overall fall against the Pound and the US$ recently.
The oil sale price from production from the STEP is linked to Brent oil pricing, whilst the recent reduction in Brent oil prices is large in US$; it is moderated in NZ$ terms by the weaker NZ$.

This project currently produces more gas than oil; and gas is sold in the domestic market priced in NZ$, offsetting NZ$ operating costs.

The proposed acquisition, following execution of the relevant documentation, will not be completed for some months, and should the oil price experience further volatility then the following effects/conditions apply: if the oil price increases, then revenues will be higher and focus will be on increasing oil production if the oil price falls below, and remains below, US$40/bbl for a period of 15 consecutive business days at any time between the date of execution of the agreement and the settlement, there is expected to be a requirement for parties to meet and discuss such an event.

In any event, following the initial 12 low cost projects, there is further potential in the short to medium term for production to be increased at low cost from existing wells funded from operational cash flow.

Larger production growth projects in future can be considered and funded from cash flow as/when oil prices increase.

**The Chairman of Mosman, John W Barr, said:** "The proposed STEP Project is expected to be a transformational deal for Mosman as it is expected, upon agreement of the relevant documentation and completion, to deliver immediate production, reserves, facilities and cash flow. Numerous opportunities to increase production in the short term post completion have been identified and there is also significant upside production growth in the further development of the producing Manutahi oil field that has an identified oil originally in place figure of 30 million bbls.*

"We look forward to providing a further update in the near term when the documentation for the proposed acquisition has been agreed."

**Historical Financial Information**

The STEP Project forms part of Origin’s NZ operations which in turn are part of Origin’s overall oil and gas operations. In addition, Origin applies a distribution of overheads to its various operations. Accordingly it has not been possible to isolate the STEP operations as a discrete financial reporting centre independent of the current corporate structure.

Mosman has prepared a ground up cash flow financial model taking into account current production; future production potential; oil and gas prices, exchange rates; fixed and variable costs; and operation development requirements such as the identified 12 low-cost projects that could potentially significantly increase production with an estimated cost of NZ$ 2.6 million following completion of the proposed acquisition.

The Mosman cash flow model is dependent on many variables including the matters referred to above. It will also be influenced by the final finance arrangements which include existing cash, sale of royalty on future production, and debt.

Given the planned reduction in current corporate overheads, and the anticipated operational success of the short term identified 12 low-cost upgrades referred to in this announcement, Mosman expects that the Project will be largely self-funding, apart from the NZ$2.6 million of investment referred to above.

**Joint Operating Agreement**

Mosman expects to enter into a joint operating agreement with its partner on the STEP Project. The JOA is expected to provide for the establishment of a joint operating committee (“JOC”), to provide for the overall supervision and direction of joint operations on the Project. Mosman and its partner will each appoint a representative to the JOC. All decisions, approvals and other actions of the JOC will require the representatives of both Mosman and its partner to vote in favour.

Mosman is expected to act as operator of the Project and will do so in accordance with the directions of the JOC.
Management and Operational Continuity Plan in Place

Upon agreement of the proposed acquisition, Mosman is expected to be appointed the operator of the JOA and as part of that process it expects to retain key operational staff. Mosman’s transition plans for the proposed acquisition provide it and stakeholders with the operational guidelines to manage the transition safely and efficiently and also addresses the following:

- Short term (three months) to full (six months) transition planning;
- Company resources and structure requirements;
- Scheduling and financial estimates;
- NZ regulatory health safety and environmental compliance;
- Plant integrity, PECPR requirements;
- Seamless production and revenue streams;
- Efficient transfer of all information.

Initial Production and Operational Upgrades

Having completed detailed due diligence, Mosman’s technical team has identified areas that would have the potential to significantly increase production levels within a reasonable time period.

As proposed operator, Mosman has prioritised and verified a list of opportunities that are expected to increase production, following completion of the acquisition, quickly and at modest cost, some of which are as simple as changing level sensors to avoid false alarms.

Initial potential production upside projects include:

- Restoring production to shut-in wells (workovers);
- Minor clean-up operations such as coiled tubing;
- Improving Manutahi D plant uptime by connecting additional (existing) tanks to increase retention time for solids settling, reducing the frequency of production shut down.

- In the medium term, Mosman, as operator, would Well projects targeting increased production at medium cost such as re-completions, water flood and facility de-bottlenecking.
- Larger investment projects, such as development drilling campaigns.

increase production via:

Subsequent Production Growth Opportunities

The oil in the Manutahi field is in a good quality reservoir at modest depth of 1,100m. The initial development wells were vertical wells. One of these has been a steady producer for more than ten years. Subsequent wells were completed with gravel packs, which was not successful as they became packed off with fine solids.

In a thermal water flood pilot containing one central oil producer and two water injector wells, Origin has also demonstrated that horizontal wells are effective producers flowing at several hundred of barrels of oil per day. This is a process known as Cold Heavy Oil Production with Sand (“CHOPS”) which allows for the both the viscosity of the 17 degree API oil and brings the fine solids to surface with the produced oil. Origin also demonstrated the benefits of re-injection of the hot produced water, which is expected to increase the recovery factor.

As proposed operator, Mosman’s current plans following agreement and completion of the proposed acquisition are to increase water injection (voidage replacement to maintain reservoir pressure) and to develop the Manutahi oil field with further horizontal wells. Whilst further work is required, initial studies confirm the Origin mapping and target recoverable oil of 4 million barrels (approximately a 10% recovery factor).

Facilities and Production Infrastructure*
The facilities and production infrastructure were the subject of a major health and safety and environmental review in 2014 when operations were closed for more than 6 months.

**Agreement of Proposed Acquisition, Completion and Risk**

Once the relevant acquisition documentation has been agreed, completion of the acquisition would be anticipated to occur within a few months but would remain conditional on a number of factors including financing, various NZ Government approvals (and other regulatory approvals that are normal for the transfer of petroleum permits of this kind including the change in operatorship). In addition to the purchase consideration, at completion the proposed acquisition will require initial working and development capital.

The proposed acquisition remains subject to the Company and its partner entering into formal acquisition documentation.

**Existing Mosman Portfolio**

The proposed acquisition does not alter the previously announced operational plans for Mosman’s extensive portfolio of existing exploration permits.

**Details of STEP Project Mining Permits**

The STEP Project include two petroleum mining permits, further details of which are as follows:

**PMP 38151 (Rimu)**
- Granted: 30 January 2002
- Term: 30 years
- Expiry: 29 January 2032
- Area: 18.42 sq. km
- Permit: to explore for, develop and produce Petroleum, including gas, LPG, oil and condensate.

**PMP 38155 (Kauri)**
- Granted: 14 April 2005
- Term: 30 years
- Expiry: 13 April 2035
- Area: 35.24 sq. km
- Permit: to explore for, develop and produce Petroleum, including gas, LPG, oil and condensate.

**Competent Person’s Statement**

The information contained in this announcement has been reviewed and approved by Andy Carroll, Technical Director for Mosman, who has over 35 years of relevant experience in the oil industry. Mr Carroll is a member of the Society of Petroleum Engineers.

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