NEW ZEALAND OIL & GAS

16 December 2016

Kupe Special Meeting 2016, Chairman's address

Ladies and gentlemen

A quorum is present and we can commence this special meeting of shareholders of New Zealand Oil & Gas.

Thank you for taking the time and travel to attend.

The business before the meeting is to discuss the proposed sale of our major asset, the Kupe field, to Genesis Energy for $168 million.

There are two specific Resolutions for you to consider, an ordinary resolution and a special resolution, to satisfy the various regulatory requirements.

Resolution 1: Approval of Kupe Sale Transaction (ordinary resolution)

THAT, subject to Resolution 2 being passed, the Kupe Sale Transaction, as described in the Explanatory Notes contained in the Notice of Special Meeting, be approved for the purposes of rule 9.2.1 of the NZX Main Board/Debt Market Listing Rules.

Resolution 2: Approval of Kupe Sale Transaction (special resolution)

THAT, subject to Resolution 1 being passed, the Kupe Sale Transaction, as described in the Explanatory Notes contained in the Notice of Special Meeting, be approved for the purposes of section 129 of the Companies Act 1993, rule 9.1.1(b) of the NZX Main Board/Debt Market Listing Rules and all other purposes.

I will speak to these two resolutions, and then open the floor. Following discussion, a vote will be taken by poll.

You will be asked to complete your voting forms and lodge them with the Computershare scrutiners.

Ladies and gentlemen, the sale of an asset that New Zealand Oil & Gas has nurtured for thirty years is an occasion for mixed emotions and rigorous analysis.

The company has long taken pride in attracting partners, seeing Kupe through development and bringing it into production in 2009.

More recently, we have provided much of the impetus over the last two or three years that led to upgrades in field reserves of around 50 per cent.

As I said at our annual meeting in October, the reserves upgrade at Kupe which we helped to bring, means more gas, with a plateau lasting longer, and costing less to access.

This transaction allows us to capture the full value of this upgrade.

But while we believe it is a quality asset, our responsibility is to ensure that we create as much value for our shareholders as possible.

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The very favourable price Genesis has offered allows our shareholders to crystallise the reserves upgrades at a healthy premium reflecting of its status.

When Genesis approached us with an offer, we stressed the need for a premium that reflected the quality we see in it and its potential for development, and – most importantly – the asset's status in our portfolio.

We set a price that recognised Kupe as our major revenue earner.

When Genesis met our expectations, we were minded to accept it on the basis that shareholders expect us to maximise value.

I invite you to consider an alternative history, where we declined a premium offer for cash, an offer greater than our entire capitalisation and decided to not put the option in front of our shareholders.

Kupe dominates our asset portfolio.

For all of its qualities as an asset, its position in our portfolio means our company is highly dependent on a single umbilical to shore from the platform 30 kilometres out to sea.

Our main revenue stream is therefore fully exposed to potential maintenance interruptions and outages, not to mention repair costs should there be a need.

But instead of that uncertainty, the divestment will turn the future cashflows from Kupe into cash today while eliminating the investment risk of having a single large asset dominating our portfolio.

The Board believes the offer from Genesis is very fully priced.

It is at the higher end of our valuation range.

It exceeds the high end of the independent valuation range calculated by Northington Partners.

This is why the Board is recommending that you vote in favour of the transaction.

We will shortly have time to discuss your questions, but I would like to take a moment to rehearse some of the more common questions I have been asked.

The first that comes to mind is: What do we intend to do with the proceeds of the sale?

We will have around $200 million of cash at hand, along with our ongoing interest in exciting New Zealand deepwater exploration, Cue Energy, Indonesia and Tui. While we are looking to create more value from those interests, there are two important new considerations as a result of the Kupe transaction:

First, the Board intends to return $100 million of cash to shareholders. Several options for returning capital are being considered.

We will initiate work on a capital return immediately. We have already sought tax advice and arrangements will be in place early in the new year, and I expect to have completed the work by May of next year.

Second, we will pursue value-enhancing opportunities in a way that improves diversification.

Some high quality assets are coming to market.

We have seen high profile examples in New Zealand, where both Shell and Origin Energy have announced their entire New Zealand portfolios are to be realised.

We are aware of further quality assets in markets we understand. The same team that delivered the Kupe reserves upgrades is screening opportunities that work for a company of our size.

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We believe our team can create similar performance enhancement elsewhere. We think we can see ways to add value to some assets, in partnership with others who have aligned interests.

We will only pursue those where we see a clear path to increased shareholder returns.

What we won't do is sit on piles of cash.

And so the sale allows our company to diversify our future income.

Another common question is – how do we know what the future value of Kupe will be when the oil price could return to its former levels?

We use a forward price of oil based on the Bloomberg consensus curve. This is an industry standard way to forecast future prices, that more or less averages the predictions of analysts. Further, the bulk of revenue is fixed price gas.

The oil price in future may go up – but it might also go down.

We have to put a value on the uncertainty – whether we keep the asset or sell it.

The Northington Report provides an independent view. It looks at a range of possible future oil prices, including high and low cases.

It is interesting to see that the price in this transaction is 16 per cent above the mid range of the Northington valuation, and – as I mentioned earlier - even exceeds the high case.

We need to think about the uncertainty associated with our partners' views about the timing of development, and the gas market in which Genesis is our main customer.

The sale allows us to achieve the present value of the future cashflows without this risk.

Finally, I would like to highlight rights that exist for minority shareholders.

The Notice of Meeting sets out minority buyout rights that are conferred by section 110 of the Companies Act.

If the Kupe Sale Transaction is approved, 'Resolution 2' on our agenda is a special resolution relevant to this matter, as it approves a major transaction.

For a shareholder to exercise minority buy-out rights, the shareholder must have cast all of their votes against resolution 2. If resolution 2 is nevertheless passed, the Notice of Meeting sets out a process by which the company may be required to purchase that shareholder's shares at a fair and reasonable price.

And so in summary, the transaction is an opportunity for shareholders to get a return of capital while not diminishing our financial capability.

It allows us to better diversify.

Our acquisition activities will be re-energised with an enhanced financial capability.

The market has to-date agreed. In trading since the announcement the share price has risen from around 50 cents per share to around 62-63 cents.

If the resolutions were not approved, there would be a risk that the share price could revert to the pre-announcement price.

So I urge you to support this proposal.

I would like to now invite questions and comments from the floor.

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