

news release

29 October 2015

Chief Executive's Address, New Zealand Oil & Gas Annual Meeting 2015

**Te Wharewaka Function Centre, Odlins Square, Jervois Quay, Wellington,
10:00am Thursday, 29 October 2015**

Ladies and gentlemen,

A year ago, our chairman addressed our annual meeting and set out a revised strategy for the company responding to our current context of lower oil prices and the prospect of opportunities in the market that the context has created.

At that time, New Zealand Oil & Gas had held a substantial cash balance on our books for several years.

With the oil price in sharp decline we could see that we would not be needing the cash to fund further exploration. Instead, we would need to concentrate on optimising our existing assets, trimming our costs to the times and looking for opportunities to take advantage of value dislocation.

The past year, therefore, has been about the execution of our strategy. As a result, your company is in a sound position for the year ahead.

Overall during the year, the company continued to generate cash as increases in volumes offset lower prices.

We started out the year by returning over \$62 million in cash to you. What that cash result shows you is that if we need to come to you for cash to finance expansion plans in future, you will know that we don't hold on to your money when we don't have a near term use for it.

One reason we were able to return capital was that we could see that we would rebuild our reserves quickly as the Pateke-4H well came into production in the Tui field.

Around the same time as the capital return we took a strategic stake in Cue Energy, and then grew that to a controlling interest. Cue has been working through its strategy review and I expect to see cost savings, as well as further cash being generated from its Maari asset as that comes back into production.

One of the most important pieces of work we have performed during the year has been in the Kupe joint venture. We were able to announce last summer that we expected Kupe reserves to increase as a result of down hole work which showed the reservoirs performing better than expected.

This week we were able to confirm that, following our review, we have increased the company's share of 2P developed Kupe reserves by 34.7 per cent above those carried at 30 June 2015, from 4.4 million barrels of oil equivalent to 5.6 million barrels today.

This reserves increase not only provides additional volume from within the existing development but it's likely that contracted volumes can be met without the need for

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NZOG stock symbols:
NZX shares – NZO
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significant additional capital spending that had been anticipated in previous calculations of Kupe reserves.

In addition to the upgrade in Kupe developed reserves, the joint venture is still looking at opportunities around undeveloped resources. That work is expected to be completed in the second quarter of next year.

This is a very pleasing improvement in our top asset, and a pleasing reward for shareholders after a difficult year.

The other pleasing announcement we made in recent months was the size of the prospect we are looking at in the Clipper permit off the Canterbury coast.

This was announced in June 2015 as having a mid-range estimate of prospective resource equivalent to 530 million barrels of oil.

To put this into perspective, the Barque prospect could hold at least 2 times the amount of producible gas as the Maui discovery originally contained offshore Taranaki if it comes in as estimated.

We are working hard to bring in farm out partners who would have the scale and expertise to drill a well in 800 metres of water, where Barque is located about 30 kilometres out to sea from Oamaru. The global companies we have been talking to have been impressed with the quality of our technical work. This is not an easy time to be farming out as oil companies everywhere pull back on exploration activity, so the fact we have been able to attract interest is exciting.

We have a lot more work to do, but I am excited by this progress.

The increase in Kupe reserves and the more long-term Barque prospect help to provide some offset to the impact of declining oil prices.

One of the most obvious impacts in the past year was the effect on our carrying valuation for the Tui field.

Revenue from oil sales at Tui was actually up last year - by 54 per cent - mainly because the new Pateke-4H well began production in April. The well is performing better than expected.

But Tui is in its decline phase and the lower oil price has the effect of bringing forward the date when it is estimated that it will be no longer economic. So the impact of the lower price is two-fold - both lower revenue from production, and a shorter period for production.

The \$36 million write-down in our Tui valuation for the full year pushed the company's headline net result for the year into negative.

Overall for the business for the year, higher sales volumes from our assets offset lower oil prices and cashflow into the business remains strong.

Ebitdax (earnings before interest, tax, depreciation, amortisation and exploration) was \$77 million, up from \$75 million the previous year.

Looking ahead, the company has pulled back on costs.

Exposure to exploration is being carefully managed to match the reduced risk tolerance in this part of the pricing cycle.

We surrendered low priority permits, and we no longer expect to drill at Kaheru early next year.

We are carefully managing corporate admin costs as well, with head office staff numbers down from over 30 at the time of this meeting last year to 26 today.

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We are in a position to use our cash flows and balance sheet to acquire more assets if we see opportunities to buy barrels of oil that present value.

While we are actively screening opportunities, I am prepared to be patient to ensure shareholder value is enhanced.

So in summary, our major asset, Kupe, is in good shape, with a recent large increase in reserves and the prospect of more coming in the new year. Costs are being controlled, we are managing our exposure to exploration. We are looking for further assets. And our acquisition of Cue is set to generate synergy gains and further returns from production.

There is a lot of room for upside and growth in our valuation. We have adapted to a tough environment and we can prosper from the opportunities available.

I first joined the board of New Zealand Oil & Gas in 2008, about three years before I became CEO. That makes me the longest serving board member. During the year our board undertook a review as part of our normal cycle of best practice in corporate governance. One issue we identified is that it's not best practice for the chief executive to be part of the board to which I report, and therefore I have withdrawn from my role on the board. My position as CEO is unchanged. So I would like to close by thanking you for the considerable privilege of continuing to serve.

In the coming year I expect to continue weathering the global downturn with good cash flows and increased production, keeping tight control of costs and positioning to capture further value for shareholders.

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