26 October 2011

Chairman's Annual Meeting Address

Chairman Tony Radford
NZOG Annual Meeting, Intercontinental, Wellington
Wednesday 26 October 2011

Ladies & gentlemen, I trust you have found David Salisbury's presentation helpful in describing the company's activities during the last financial year and up to the present.

What I am now going to do, is to highlight some of what has been presented to you by David and also comment about the company, as I see it, more from the perspective of you and other shareholders who are the investors, the owners of the company.

Company performance
Our aim is to provide value to shareholders through success in activities which strengthen our profit base and which are therefore reflected by a higher share price.

We have not achieved this basic objective in the past 12 months, for both internal and external reasons. The general factor has been a softening of demand for shares in small-medium companies which operate in the traditional oil/gas sector - this factor is evident when you look at the listings on the ASX, with many shares in this sector now selling at a discount to the value ratings attributed by investment analysts. David has shown you a graph which makes it clear we are not alone in sustaining price falls in this period, because of the mood of the market.

However, there were additional reasons for our share price performance over the past 12 months which are specific to NZOG:-

- firstly, there was the major loss in value of our share investment in PRCL –this loss was a major blow which we have had to "take on the chin" financially and arose from what I consider was an unforseen disaster at the Pike mine.
- secondly, the oil reserves in the Tui project were reduced – while that does not significantly affect near-term production, we and our three jv partners in Tui have all had to recognise that, with more accurate information now available, the amount of producible oil that remains is less than previously thought.

Also, it is acknowledged that NZOG has not drilled any successful wells for some time, and we have yet to conclude any value-enhancing asset acquisitions. This has reduced market interest in the company in recent times.

On the other hand (as you will have gleaned from David Salisbury's presentation to this meeting) there is a lot of activity afoot, by our own staff and selected consultants, which has led to the acquisition and/or further development of our exploration prospects.
These include the Kakapo and Diodore licences, which were successfully acquired 100% through direct application. In the case of Tunisia, this process took around 12 months to bring to fruition. By holding such large equity positions at the outset then gives us the opportunity to bring other companies into the venture on terms favourable to NZOG, ahead of drilling.

Geographical expansion
NZOG's stamping ground is New Zealand. This is where our production is and we hold some excellent prospects and permits within New Zealand. We would also like to expand our position in this country, including in principle by increasing our interests in the Kupe and Tui projects. We want to make and develop new discoveries in New Zealand.

But we also need to be drilling exploration wells and chasing up on reserves acquisitions at a greater rate than can be achieved by focusing solely on NZ. So we have supplemented these local interests with exploration concessions in Tunisia and Indonesia. This broadening of our activities will increase the frequency with which we drill worthwhile prospects, which I'm sure you would all like to see happen.

Dividends
Especially in the current circumstances, where the company's share price has suffered so much, the distribution of a reasonable portion of annual profits has become more relevant for many of the company's shareholders.

As you already know, as NZOG incurred a major loss in the past financial year because of PRCL, the dividend amount paid this year was reduced. However, since January 2011 and into the current financial year, with the profits and cash generated from Kupe and Tui continuing at very healthy rates, the application of our dividend policy, which remains unchanged – that we will pay a reasonable proportion of our available profits as dividends – should lead to the resumption of payment of dividends consistent with those of past years.

Strong cash position
The company has held a substantial portion of its assets as cash for some three plus years. During that time, this cash buffer enabled us to make substantial investments without calling on shareholders to come to the party again. This financial strength has also enabled us to seriously evaluate reasonably sizeable acquisitions, which we could not have otherwise been in the running for – and this evaluation process continues.

Therefore, at this point at least, your directors see this cash strength as a valuable tool for progressing the business.

New CEO
As you already know, David Salisbury, will be leaving his position as CEO in December. His decision to move on was announced early in July at which point I took the opportunity to publicly acknowledge the efforts and contributions David has made during his four plus years in that position. Recruitment of a new CEO is at an advanced stage and will be announced as soon as an appointment is firm.

Summary
To conclude, events over the past 12 months have combined with market sentiment and knocked the share price badly, in fact to ridiculously low levels, when you compare it to the core strengths of NZOG's excellent asset base, including strong profit generation from Kupe and Tui, the high-quality exploration prospects we already hold and the potential for new and profitable endeavours.

The value of our Kupe interest alone exceeds NZOG's present market capitalisation.
As is evident from statements in this year's annual report and the range of activities described to you here today, the directors of the company are committed to maintaining, in fact enhancing, our exploration and other activities to achieve profitable growth and restore market value for you the shareholders.

Tony Radford
Chairman

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