

NEW ZEALAND OIL & GAS LIMITED
CHAIRMAN'S ADDRESS
ANNUAL GENERAL MEETING
28 OCTOBER 2005

Ladies and gentlemen,

Your company has made great progress towards becoming a substantial energy company over the past 12 months. As envisaged at last year's AGM, this progress has led to some broadening of the shareholder base with approximately 8% of capital now held by institutional investors. NZOG is also now in the NZX top 50 Index. We certainly aim to see this greater spread of investors continue.

NEW ISSUE OF BONUS OPTIONS

The company announced to the stock exchange this morning that it will make a free bonus issue of listed options to all shareholders (the record date being 18 November 2005). The listed options issued to shareholders (and option holders) in 2002 added significant value for investors and in June this year delivered \$43 million to the company at a very opportune time.

Shareholders will be entitled to acquire one new option for every two shares held. A prospectus will be mailed out over the next month. These new options will have a term of about 2½ years with a final exercise date of 30 June 2008. The exercise price for the new options will be \$1.50, which reflects directors' minimum value aspirations for the company over the next couple of years.

KEY PERSONNEL

Since last year's AGM, a number of key appointments have been made. These include the Pike River Mine Manager, Mr Peter Whittall, and NZOG's Manager Geophysics, Dr Stefan Kleffman, both of whom are in attendance today. Also present are our General Manager, Gordon Ward, and Reservoir Engineering adviser, Mr Paul Ettema, who is deeply involved in the Tui and Kupe developments.

TUI OIL DEVELOPMENT

The various contracts and other elements supporting the Tui Area oil development are proceeding in a very positive fashion. One major contract, for drilling the four development wells, is firmly in place. Other contracts, including the leasing of an FPSO (Floating Production Storage and Offloading vessel), are either nearly in final form or will be negotiated by the operator in short order. I expect all the ingredients needed for the joint venture parties to "push the button" for Tui, to come together within just two to three weeks from now.

The investment budget for the Tui Oil development is now US\$200m and some financial guarantees will also be involved in getting all contracts in place. While the development cost is substantially above last year's initial estimates, the expected initial rates of oil production have also increased and we are now looking at an initial rate of 50,000 barrels/day. There are increasingly strong views that the oil price will stay around the higher prices of recent times for quite a lot longer than was predicted some months ago. A price of US\$50+ per barrel when Tui starts up in early 2007 is now seen as quite on the cards. One bank, CIBC World Markets, is actually predicting US\$90 in 2007. Even at US\$40 per barrel the investment will be recouped in the first 4 months of production.

Tui proven and probable reserves are within the 20-30 million barrel range previously announced.

Importantly, there is opportunity to add to those reserves. As mentioned in the company's annual report, there are several as yet undrilled oil prospects in the vicinity of the Tui Area oil fields, each of which may contain 10-20 million barrels of oil. Any discoveries here would be tied into the Tui development. While drilling costs have escalated dramatically (up threefold over the past year) the value of the prize makes such increases affordable.

KUPE GAS AND OIL DEVELOPMENT

The Kupe Joint Venture announced this morning that all onshore regulatory approvals for the Kupe development have been granted by the Taranaki Regional Council and the South Taranaki District Council and that the final impediments to achieving the offshore consents have been resolved. The Kupe venture will now request granting of the offshore consents from the Minister for the Environment. This concludes one fundamental pre-requisite for the approval of the project.

The Kupe project comprises:

- normally unmanned offshore platform situated over the Kupe Field in 30 metres of water approximately 30km offshore in south Taranaki
- pipeline and umbilical connecting the platform to the onshore facilities
- new onshore production station to be located near Hawera producing sales quality gas, LPG and condensate
- tie-ins to the existing south Taranaki infrastructure.

It is anticipated that the project will be ready for the Kupe partners to make the Final Investment Decision sometime during the first quarter of 2006, with an anticipated on-stream date in 2008.

The project operator (Origin Energy) is currently in detailed discussions with a number of onshore and offshore contractors. Latest estimated project costs are approximately NZ\$800 million which is considerably higher than originally anticipated, but now includes the cost of the onshore production station. These increases are due to surging commodity prices, particularly steel, and the unprecedented level of activity in the oil and gas market around the world which has occurred as a result of high oil prices. These costs are, however, partially offset by the higher revenues now anticipated from the light oil and LPG's to be produced from the field.

The Kupe project is important to New Zealand's future security of gas supply and there is significant potential for additional gas resources close to the initial development.

PIKE RIVER COAL DEVELOPMENT

In September 2005, we made a very positive announcement, with the decision to proceed with the Pike River coking coal mine. This followed introduction of Indian coking coal company Saurashtra Fuels Private Limited, as a major new investor into Pike River Coal Company.

Saurashtra are acquiring a 10.6% stake in PRCC by investing \$17 million. NZOG and existing minority shareholders in PRCC are committing \$23 million. NZOG's shareholding in PRCC will be approximately 65% after the \$40 million funding is concluded (based on PRCC minority shareholders taking up their entitlements). Remaining mine development costs are intended to be funded by debt and up to \$30 million equity from an IPO.

Planning is in progress for an Initial Public Offering ("IPO") by PRCC by March 2006. At this stage a significant portion of any shares offered to the public will be reserved for NZOG shareholders.

As a substantial trade investor, Saurashtra are seen as a good strategic fit with PRCC. A substantial portion of mine production has now been sold under contract. Saurashtra will purchase at least 150,000 tonnes per annum of Pike coal for the entire mine life, adding to existing preliminary four year sales contacts with two Japanese steel mills for 450,000 tonnes per year.

Preferred contractors for the road, bridge and tunnel construction have been appointed with construction expected to commence in the December 2005 quarter. Finalisation of a contract for the transport of coal to point of export is nearing conclusion, following extended negotiations.

MAJOR OIL PROSPECTS

- Hector
Just this week, the partners in permit 38483 have signalled their intention to drill the Hector prospect during 2006, after having reviewed the results of 3-D seismic carried out earlier in the year. Importantly, a drilling rig slot is available for this well, which is something not easily achieved in the very tight rig market that now exists. Hector would be drilled into the Kapuni C sands with the primary target being clearly delineated by the recent 3D seismic. Hector is a structural closure at the Kapuni C sand level and in a similar setting to Tui. The Hector structure has in the order of 50 million barrels potential. If the structure does contain oil, and is filled to “spill point” then the prize could be very much greater than that.

- Taitapa
The company announced earlier in the year, its decision to drill the Taitapa prospect, some 21 kilometres from the Kupe central field and 14 kilometres south of the oil discovery made by the Kupe South-5 well in 1990. A major challenge at the moment is to secure a drilling rig but our efforts continue in that regard, as do talks with several potential partners.

IN SUMMARY

The outlook for NZOG is very promising. The substantial investments we will make in Tui, Kupe and Pike should produce substantial earnings for the company once they are in production in two years or so, from now. In addition, drilling of our high quality oil prospects could add another dimension to the company’s growth and value.

RA Radford
Chairman