



26 October 2006

**CHAIRMAN'S ADDRESS  
TO 2006 ANNUAL MEETING OF SHAREHOLDERS**

Attached is a copy of the Chairman's Address to the 2006 Annual Meeting of New Zealand Oil & Gas Limited shareholders.

**news release**

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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NZOG stock symbols: NZX shares - NZO options - NZOOD  
ASX shares - NZO options - NZOO

**NEW ZEALAND OIL & GAS LIMITED**  
**CHAIRMAN'S ADDRESS**  
**ANNUAL MEETING**  
11am 26 OCTOBER 2006

Ladies and Gentlemen

I am pleased to report to you on the progress of your company in achieving its key objectives. New Zealand Oil & Gas is currently the only home-grown public oil and gas exploration and production company listed on the New Zealand Stock Exchange and we value our unique position.

The past 12 months has seen very major progress towards NZOG becoming a substantial diversified energy company. It has been a very busy year during which the company embarked on the development phase of all three cornerstone projects.

On the Tui Project, November 2005 saw the final investment decision made to proceed with the development. In March 2006 the \$60 million bank financing was put in place and in the same month refurbishment commenced of the FPSO.

Turning to Kupe, the final investment decision was made in June 2006 and the Technip Alliance Agreement was signed in September 2006. We are now close to awarding the bank finance mandate.

On the Pike River Coal Project, the final investment decision was made in September 2005 and in the same month Saurashtra Fuels invested \$17 million. This was followed in August 2006 by Gujarat NRE Coke investing \$20 million. In September 2006 the tunnel construction commenced and the \$65 million bank financing mandate was awarded.

**Corporate Update**

I reported to you 12 months ago that there had been broadening of the shareholder base with approximately 8% of capital held by institutional investors. I am pleased to report that an even greater spread of investors has been achieved with 14% now held by institutional investors, partly resulting from the share placement made last November/December.

A free bonus issue of listed options was made to all shareholders in November 2005 at a rate of one new option for every two shares held. The options have a final exercise date of 30 June 2008 at an exercise price of \$1.50 share price. That's quite a lot higher than current market, but a feasible target if you look at where the company is tracking.

Although the share price has softened recently, we remain confident that the ingredients are in place to achieve a significant appreciation in share price in the medium term, particularly as revenues from the Tui development come on-stream in the year ahead. Our confidence is supported by the most recent analysis from reputable sharebroking firm ABN AMRO Craigs who cover NZ Oil & Gas for their clients. ABN recently increased their share valuation on the company by ten cents to \$1.60. While this valuation is sensitive to forward oil and coal prices and to the US dollar exchange rate, it is pleasing that these prices reflect the strong belief held by the Board that NZOG is an attractive opportunity and one that will reward the investment by its shareholders.

In late November 2005, 13.3 million shares were issued under private placement to mainly institutional investors to raise NZ \$12 million. The issue price of NZ\$0.90 cents per share represented a discount to the then market price of approximately 3%. The purpose behind the placement was to quickly raise funds to support the Tui project development costs, following the decision of the Tui Joint Venture parties to proceed, which was made on 21 November 2005. The placement was made to institutional investors. In accordance with NZX Listing Rules, none of the private share placement was made to directors, nor to their associates.

Later in the formal business of this meeting, we will be seeking ratification of this placement by ordinary resolution. Although the company's placement right is refreshed on 1 December, the Board considers it prudent as a matter of policy to ensure the company retains full flexibility at all times to raise equity as required.

The extent and manner of meeting NZOG's additional equity requirements will be established once the company has quantified a bank debt facility for Kupe which we are looking to settle in November.

### **Financial Result**

The financial results for the year ended 30 June 2006 were satisfactory, bearing in mind that the company has yet to bring its production projects on stream. As reported in the annual report, the company recorded a profit of \$2.3 million (after minority interests) on revenues of \$7.5 million, including a \$2.5 million accounting gain in respect of NZOG's shareholding in Pike River Coal and after writing off exploration costs of \$0.8 million.

During the financial year the NZOG group invested \$43 million in its three development projects – Kupe, Tui and Pike River.

### **Key Personnel**

Since last year's Annual Meeting we have continued to strengthen our talent base including within the management team. This includes the appointment of Dr Jonathan Salo as Senior Manager, Geology with accountability for the

geological focus of the company's activities. Helen Mackay joined us in July 2006 in the new position of General Counsel, and in addition to her legal role, has responsibility for enhancing our investor relations activities.

Our majority owned subsidiary Pike River Coal has also embarked on a significant recruitment programme which now sees Pike's management team in place and a total of 18 staff on board.

I would now like to overview each of our 3 cornerstone projects.

The Tui project has been fast tracked since the initial oil discovery was made, and first oil production remains on schedule to occur by mid 2007. The Ocean Patriot semi-submersible drilling rig has arrived in New Zealand and is currently drilling in the Canterbury basin. It will be moving into the Tui area in November 2006.

At present, the rig schedule indicates that the Tieke prospect should be drilled before the rig commences the four Tui development wells. Drilling Tieke first could impact favourably as the prospect shows potential to deliver up to a further 15 million barrels and such a discovery would significantly enhance the Tui project. A further satellite prospect, Taranui, will be drilled after the Tui development wells in the second quarter of 2007. The proximity of these prospects to the Tui development area wells - with Tieke being 7 kilometres and Taranui being 15 kilometres from the FPSO - would enable any discovery to be quickly brought to production by tying in to the FPSO, for relatively modest additional cost.

Financing for NZOG's interest in the Tui project was put in place in March 2006 with Commonwealth Bank of Australia to enable the company to fully fund its share of development costs. The Operator has recently recommended that due to increased construction and other costs, including provision for contingencies, the project budget be increased from US\$204 million to US\$225 million. NZOG is currently reviewing this revised budget proposal. It is notable that Tui production enjoys such an initial high flow rate, that the payback on NZOG's share of project costs will be in as little as 3-4 months from full production.

## **Kupe**

The decision in June 2006 to go-ahead with the Kupe project was significant in terms of New Zealand's ability to meet its own gas needs. When it comes on-stream, the Kupe development field will contribute 15% of New Zealand's current gas requirements. The project has a construction budget of \$980 million which includes a sizable contingency provision. A key element in NZOG's decision to proceed was a renegotiated gas supply contract with Genesis Energy which was executed in June 2006. Higher gas prices, together with higher condensate and LPG prices, as well as an upwards

revision of recoverable reserves, has largely offset the increased project capital costs.

Negotiations with short-listed banks to provide NZOG with bank project funding are reaching the final stage and an announcement can be expected very soon. Kupe production remains on target to commence by mid-2009. It is significant to note, that although the Kupe gas contract was key to making the development decision, the light oil (condensate) and LPG to be recovered, which commence at 1.9 million barrels and 90,000 tonnes per annum respectively, are likely to generate roughly the same revenues as the gas. The Kupe permit also has reserves upside, some of which will be determined through drilling the production wells. The facilities are being built with very substantial excess capacity so that increased volumes of product could be handled easily.

The bar chart shown on screen demonstrates NZOG's production profile commencing in the 2007 year and shown in millions of barrels of oil equivalent. The grey shading represents oil from Tui the light orange the Kupe light oil/condensate and the dark orange Kupe gas.

### **Pike River Coal**

The Pike River coal mine project was significantly advanced during the year with several positive events occurring. These milestones included introduction of major trade investors, construction works being kicked off in September 2005, the tunnel being commenced in September 2006 and the terms of a \$65 million debt facility being mandated to a major Australasian bank only two weeks ago. NZOG remains fully supportive of Pike River being listed as a separate entity on the New Zealand and Australian stock exchanges. Having determined the bank debt size we are now finalising plans for the balance of funds required of \$60 million. Whilst I indicated at last years Annual Meeting that a float in the first half of 2006 was anticipated, this has been necessarily delayed as we first bedded down the Gujarat investment in Pike, and then arranged the debt facility. An announcement on a float will be made no later than 15 November 2006.

The coking coal market remains firm. Our independent coal market consultants, AME Consultants Pty Limited, forecast a long term average price of US\$73/tonne for premium hard coking coal (2010 onwards), which compares to US\$65/tonne forecast last year. This shows that the coking coal market remains strong because of demand driven by the Indian and Chinese economies in particular, notwithstanding a recent "spot" coal sale by Rio Tinto at lower than expected prices.

I also wish to emphasise to you that the hold-off in listing Pike has not stopped us from going ahead with the project development which is proceeding well. The photos on screen demonstrate the excellent progress being made.

## **Exploration**

It is not only our development projects which are powering ahead.

New Zealand Oil & Gas is again stepping up its exploration programme with the aim of adding very significant value to the company in the period ahead. In addition to the attractive Tieke and Taranui prospects, being drilled as part of the Tui project, there are several other exciting opportunities. In particular, the Hector prospect is a tremendous prospect that could deliver substantial rewards and prove the existence of a new oil migration fairway within our permit areas. Hector has potential recoverable oil of 50-60 million barrels, or more, and discovery would trigger drilling of follow up targets. The Hector-1 well will be drilled using the Ocean Patriot following the Tui development drilling which necessarily takes precedence.

The Felix and Opito Updip area shown on the top right of this Taranaki basin map provides further opportunity, being located in the Kapuni sandstones which have proven so prolific in the Taranaki basin. NZOG completed a transition seismic survey in August 2006 to better delineate the structures and identify potential drilling locations. NZOG is operator of this permit and will make a decision on whether to drill an exploration well on these structures in the first half of 2007 following evaluation of the new seismic data. The Kupe permit also contains oil and gas prospects which are outside the area which is now being developed.

Overall, your directors consider that the company's focus on Tui, Kupe, & Pike River combined with drilling of high-potential prospects within the Taranaki Basin, represent an excellent package for the enhancement of value of your investment.

End of Chairman's address.