

14 November 2019

SPECIAL MEETING OF NEW ZEALAND OIL & GAS SHAREHOLDERS

IRC CHAIR'S REMARKS

Special meeting of New Zealand Oil & Gas shareholders

to consider a proposed scheme of arrangement with OG Oil & Gas.

10am Thursday, 14 November 2019

Oaks Hotel, Level 1, 89 Courtenay Place,
Wellington.

Good morning,

I'm Rosalind Archer. Alongside me, my fellow independent director, Rod Ritchie. Together, we are the Independent Response Committee.

I want to take a moment to comment on our independence and qualifications. I have been a director since 2014. I was on the board of the company when it acquired a controlling stake in Cue Energy. And I was part of the Independent Response Committee that responded to two takeover offers in 2017.

We are experienced in the process.

We are experienced in the substance, too. I'm the only Distinguished Member of the Society of Petroleum Engineers in New Zealand. I'm a chartered member of the Institute of Directors.

I mention this because we have come into this scheme with credible qualifications to independently assess the proposal before you.

So I want to talk about why we recommended this scheme.

You have had the chance to read the materials sent to all shareholders.

We believe that the company is at a cross-roads. The OGOG proposal offers the certainty of 74 cents per share. We recommended it because do not see another pathway that offers a comparable chance of achieving a similar return.

Knowing, as we do, that you have few other chances to achieve 74 cents per share, would you have preferred to not be presented this choice?

Without this offer coming forward, we think the share price would likely have remained trading in its previous range. It may return to a lower track. We believe it is prudent to give shareholders the chance to vote.

A scheme of arrangement does not function exactly like a takeover – there are some differences.

In a takeover, the bidder makes an offer, then the target company shareholders decide whether the offer is high enough to accept. Shareholders have the benefit of an independent adviser report and – usually – a recommendation from the independent directors.

In a scheme of arrangement transaction, shareholders vote on whether to approve the scheme. The usual framework is that independent directors recommend voting in favour of the scheme on the condition that the offer falls within or above the independent valuation range.

The absence of a superior proposal is another usual condition of the recommendation.

The scheme price is first negotiated by the independent directors. Then conditions for agreeing to it are captured in the Scheme Implementation Agreement.

Negotiations proceed on the basis that the price will be within a range identified by an independent adviser. The process is typical of every scheme of arrangement here and in Australia.

The Scheme Implementation Agreement says, in essence, if the offer is within the valuation range of the independent adviser it will be recommended, in the absence of a superior proposal.

We took commercial advice about what the range was likely to be, and the chance of an alternative coming forward. Our advice, and our own independent calculation pointed in one direction: No other pathway produced the same value at a reasonable risk profile:

- A 49.5 per cent premium to the closing price on 9 July 2019, the last trading day before the scheme was announced.
- Attractive value for existing cash, Kupe and Cue assets.
- Fair value for exploration assets given current market conditions.

Let us discuss the alternative.

Over the past two years the company has sought to grow. We have found attractive production opportunities. But we lacked the scale to participate.

We have looked at options for raising large amounts of capital. But commercial terms would not be realistic. Making our offers subject to capital raising puts us at a disadvantage. Capital would probably have to be raised at a discount.

Exploration is another potential route to growth. I personally feel excitement about pursuing company-making discoveries. Many investors feel the same way. But I have to be prudent. Deepwater frontier prospects have large upside. They also have a low chance of commercial success and a high cost of drilling.

Our Ironbark prospect in Western Australia is an example. We don't think Ironbark is a bad prospect. But we are recommending that you think carefully about the risk and return.

The New Zealand Oil & Gas share of the Ironbark well is a further \$24 million. Cue's share is approximately \$12 million. If Ironbark fails, the impact on company cash would be about 15 cents per share.

Farming-in helped us to preserve the value of our Cue subsidiary. Without our farm-in, it's unlikely that BP and Beach would have committed. The opportunity would have been lost. The \$3 million we

paid to farm-in is proportionately comparable to Beach's contribution. It's comparable to the implied value of the BP farm-in.

The independent adviser has been clear: The current value of Ironbark has been tested through a number of recent transactions.

We received complaints that the independent adviser's valuation is misleading or incorrect. The Takeovers Panel has reviewed those submissions.

We have tried to answer questions as they have been put to us, and made clarifying statements to meet any concerns arising out of the complaints.

It is possible to hold a fair opinion that the assets are worth more. You are welcome to that view. It is not unreasonable if you are realistic about the genuine risks inherent in valuations at the top of the range.

However, I reject the claims that the valuation range is defective. Let's work through all the elements that would need to be compromised for that to be true:

The independent directors would have to make a recommendation that we saw as unfair. But we have nothing to gain from doing so. We resign if our recommendations are accepted.

We took independent commercial advice. Our commercial advice gave a similar range to the independent adviser. The independent adviser is well-respected. Northington performed effectively the same role using consistent methodology in the two previous takeovers. The Takeovers Panel approved Northington as independent adviser, and provide regulatory oversight to the process.

So consider the people involved:

- The independent directors.
- The commercial adviser.
- The independent adviser.

None of whom have anything to gain.

Against this, you are being asked to believe the opinions of people who are trying to maximise the value they receive for their shares.

Look at some of their complaints:

They have complained that we didn't have a commercial adviser. We did.

They complained that Kupe's value did not reflect the project currently underway. It does.

Imagine if we drilled Ironbark, and it came in unsuccessfully. Then imagine that as a shareholder you discovered a report exists, from which a 5 per cent chance of success at Ironbark can be derived. And then imagine that you found out the independent directors knew about it, and had not alerted you to it.

I believe it is correct and prudent to put this choice in front of you. That's why there is a vote.

I am now going to invite questions from the floor.

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