

Notice is hereby given that a special meeting of shareholders of New Zealand Oil & Gas Limited (the **Company**) will be held at the offices of Minter Ellison Rudd Watts, Level 18, 125 The Terrace, Wellington at 10am (NZ Daylight Saving Time) on 28 August 2015.

Resolution for approval of buyback

The business of the Special Meeting is to consider and if thought fit pass the following resolution as an Ordinary Resolution for the purposes of NZX Listing Rule 7.5.1, section 63 of the Companies Act 1993, and clause 4 of the Takeovers Code [Class Exemptions] Notice [No. 2] 2001]:

“**THAT** the Buyback as explained in the Explanatory Notes contained in the Notice of Special Meeting be approved.”

Voting restrictions

Zeta Resources Limited, Zeta Energy Pte Limited, Utilico Investments Limited, Somers Limited and Bermuda Commercial Bank Limited, ICM Limited, Permanent Investments Limited and Duncan Saville [together, the **Zeta Associates**] between them hold or control 66,942,296 shares in the Company, which are held on their behalf by New Zealand Central Securities Depository Limited and Leveraged Equities Finance Limited [the Custodians]. Under NZX Listing Rule 9.3.1 and the Takeovers Code [Class Exemptions] Notice [No 2] 2001, the Custodians are disqualified from voting on the resolution with respect to the shares they hold for the Zeta Associates. A person appointed as a proxy who is disqualified from voting on a resolution may vote in accordance with the directions of the shareholder giving the proxy, but may not exercise a discretionary vote where directions are not given.

Attendance and voting

Your rights to vote may be exercised by:

- **Attending and voting in person;** or
- **Postal voting:** The Board has determined that postal voting is permitted. Postal voting instructions are included in the Voting Card which accompanies this Notice of Special Meeting. You can cast a postal vote online, or complete and send the Voting Card by post, email [as a scanned attachment] or fax so that your vote is received by Computershare Investor Services Ltd no later than 10am on 26 August 2015; or
- **Electronic Voting:** Electronic or online voting instructions accompany this Notice of Special Meeting. Shareholders wishing to vote electronically must do so no later than 10am on 26 August 2015; or
- **Appointing a proxy [or representative] to attend and vote in your place:** The proxy need not be a shareholder of the Company. The form of appointment of a proxy and voting instructions accompany this Notice of Special Meeting. You can appoint a proxy online or complete and send the Voting Card by post, email [as a scanned attachment] or fax so that it is received by Computershare Investor Services Ltd by no later than 10am on 26 August 2015.

On behalf of the Board:



Ralph Noldan
Company Secretary
29 July 2015

See Explanatory Notes on pages 4 to 6 of this document and the additional information set out below.

IMPORTANT INFORMATION

Contents

In this document we have included:

- A **letter from the Chairman** on page 3.
- **Explanatory Notes** on pages 4 to 6. This contains an explanation of the Buyback and its effect.

This document will assist you, as a shareholder of New Zealand Oil & Gas Limited, to decide whether to vote to approve the on-market buyback programme.

The directors¹ of New Zealand Oil & Gas Limited unanimously recommend that you vote in favour of the Buyback.

If you do not plan to attend the Special Meeting you are urged to use the electronic or online voting facility or to complete and return the Voting/Proxy Card as soon as possible.

IF YOU HAVE ANY QUESTIONS, OUR SHAREHOLDER INFORMATION LINES ARE:

In New Zealand [contact Mr Noldan - Company Secretary]

- Telephone: [+64] [04] 495 2424
- or e-mail to: enquiries@nzog.com

Defined Terms

In this document certain defined terms have been used as follows:

ASX means Australian Stock Exchange Limited.

Board means the board of directors of New Zealand Oil & Gas Limited. Where the context requires, this excludes Mr Duncan Saville, who is an associated person of the Zeta Associates, and therefore did not vote on any relevant resolution.

Buyback means the on-market buyback programme set out on page 4.

Company or New Zealand Oil & Gas means New Zealand Oil & Gas Limited, and its wholly owned subsidiary companies as the context requires.

NZX means NZX Limited.

Ordinary Resolution means a resolution of shareholders requiring the support of a simple majority of votes cast by the shareholders entitled to vote and voting on the resolution.

Special Meeting means the special meeting of shareholders, and any adjournment of that meeting, to be held to consider and, if thought fit, approve the Buyback.

Zeta Associates means Zeta Resources Limited, Zeta Energy Pte Limited, Utilico Investments Limited, Somers Limited, Bermuda Commercial Bank Limited, ICM Limited, Permanent Investments Limited and Duncan Saville.

¹ Mr Duncan Saville abstained from voting on the relevant resolutions because of his association with the Zeta Associates.

CHAIRMAN'S LETTER



Peter Griffiths

Chairman

29 July 2015

Dear shareholder,

Enclosed with this letter is a Notice of Meeting for a Special General Meeting of the Company which is required so that shareholders can consider, and if thought fit, approve the Buyback which the Board announced on 17 December 2014.

The proposed resolution authorises the Board to carry out the Buyback at any time during the 4 year period following the meeting and to purchase up to 64 million shares on-market.

The Board considers that having a long-term approval in place provides the maximum flexibility for the Board to respond at times when it considers that the market price of the Company's shares is lower than is justified by the underlying value of the Company's assets and therefore that all shareholders would benefit if shares are bought and cancelled by the Company.

Shareholder approval is required because the Board does not want the Buyback to affect those shareholders who do not participate. As set out in the Notice of Meeting, the Company's major shareholder group, the Zeta Associates, would be affected if the Company was to buy back and cancel shares even if the Zeta Associates did not participate and simply held on to their shares.

This problem arises because the cancellation of other shares results in a proportional increase in the Zeta Associates' shareholding which would soon increase past the 20% threshold for shareholders under the NZ Takeovers Code. Without the approval of the proposed resolution, the Zeta Associates would be forced to sell-down their shareholding. The Board (other than Mr Saville who is associated with the Zeta Associates and therefore abstained on the relevant board decisions) consider that this result is unfair on any shareholder and are satisfied that the potential increase in the voting rights held or controlled by the Zeta Associates will not change to a significant extent. Furthermore, if a shareholder were forced to sell down as a result of the Buyback, the effect would be to defeat the purpose of the Buyback by creating downward pressure on the share price at a time when the Company believes its share price was already undervalued. The Board therefore recommend that you vote in favour of the resolution.

I urge you to read the Notice of Meeting in full and also the accompanying Independent Adviser's Report from Simmons Corporate Finance which concludes that the proposal is positive for the Company and is fair to the shareholders other than the Zeta Associates.

Finally, I note that if approval is given, that does not mean that the Company will immediately take action to buyback any shares. Any purchases will occur as and when the Board considers appropriate and in limited volumes so that the Company's purchases do not unduly affect the general market for the Company's shares.

Yours sincerely

Peter Griffiths

Chairman

EXPLANATORY NOTES

Resolution for Approval of On-Market Buyback

1. DETAILS OF BUYBACK

On 17 December 2014 the Company announced, subject to shareholder approval, a programme to buy back up to 64 million of its shares by on-market transactions over a 4 year period [the **Buyback**]. Shares that are bought back will be cancelled.

The Buyback will occur over time through on-market purchases of shares at prevailing market prices.

The Company may cancel any shares acquired under the Buyback. If the shares are cancelled, there will be fewer shares on issue following the Buyback. If the shares are not cancelled, they will not carry voting rights while they are held by the Company. As a result, any shareholder that does not participate in the Buyback will increase the percentage of voting rights that it holds or controls.

A consequence of the Buyback may therefore be that, if the Zeta Associates do not participate, then the number of shares the Zeta Associates hold or control will represent a greater percentage of all shares on issue – even though they do not acquire any more shares. This raises compliance issues under the Takeovers Code [the Code], the NZX Main Board Listing Rules [the Listing Rules] and the Companies Act [the Act], which are set out below.

The Annexure sets out the percentages of shares held or controlled by the Zeta Associates as at the date of this Notice of Meeting and the maximum percentages that may result from the Buyback contemplated by the resolution, assuming the Zeta Associates do not participate in any of the Buybacks.

The resolution seeks the approval of the shareholders of the Company by ordinary resolution of those entitled to vote [being all shareholders other than those that hold shares on behalf of the Zeta Associates] to implement the Buyback, providing for acquisitions by the Company of up to a further 64 million of its own shares over a period not exceeding 4 years from the date of this Meeting.

Buyback in detail

Full particulars of the Buyback are set out in this Explanatory Note including in the Independent Adviser's Report and Appraisal Report, and as follows:

- The Company proposes to make offers through NZX's order matching market to acquire up to 64 million shares in the Company under section 63 of the Act.
- Offers may be made in the period of forty-eight months following 28 August 2015, being the date of the Special Meeting.
- The Company will pay the prevailing market price for the shares at the time of purchase.

- Shares acquired under the Buyback will be cancelled.
- The Company is not obliged to make offers, and reserves the right to cease making offers at any time.
- Whether shares are bought back at all will depend on market conditions and other factors prevailing at the relevant time.
- The Company will regularly reassess the situation and seek to purchase shares at prices that in its view represent the best value for shareholders.
- The Company will disclose the number of shares, and the price at which it bought them, before 9.30am on the business day following the purchase being made.
- The Company will not purchase any shares while it possesses any information which is not generally available to the market, and which, if it were so available would have a material effect on the price of the Company's shares. If the Company acquires such sensitive information, it will cease acquiring shares until the information is publicly disclosed.

2. TAKEOVERS CODE ISSUES

Introduction

The Takeovers Code is relevant to buybacks by code companies [which includes the Company] because of the "fundamental rule" of the Code that, subject to certain exceptions, a person who together with their associates holds or controls 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company. This rule applies whether this occurs because the holder acquires more shares or because the company cancels other shares.

Shareholders who are [together with their associates] near to or over the 20% threshold may have their control percentage increased as a result of a buyback. Although they would not acquire any more shares, the total number of shares on issue would decrease. These shareholders could therefore potentially breach the fundamental rule [rule 6 of the Takeovers Code].

At this time the Zeta Associates together hold or control 66,942,296 ordinary shares in the Company, representing 19.80% of the total number of voting rights² in the Company. The Zeta Associates are the only shareholder near the 20% threshold and at risk of breaching the fundamental rule. The position Zeta finds itself in is dealt with under clauses 4 and 5 of the Takeovers Code [Class Exemptions] Notice [No. 2] 2001 [the **Exemption Notice**].

Under clause 4 of the Exemption Notice, a shareholder is permitted to retain its increased voting rights if the Buyback is approved by an Ordinary Resolution. This is subject to the

2. This number becomes 19.35% when the Zeta Associates' shareholdings are calculated as a percentage of all voting securities [that is, including both fully and partly paid shares]. Because partly paid shares carry voting rights that are proportionate to the amount paid up on the shares, the Zeta Associates' percentage of voting rights in the Company is slightly higher than their percentage of voting securities.

conditions in clause 4 and Schedule 1 of the Exemption Notice, including the provision of a report from an independent adviser and that certain information be provided in the Notice of Meeting sent to shareholders to approve the transaction. The Annexure provides this information.

In the absence of shareholder approval, clause 5 of the Exemption Notice provides that the shareholder must decrease its voting percentage within 6 months after the increase, to the percentage it had immediately before the increase.

The Board believes it is not appropriate for the Zeta Associates or other shareholders to be forced to sell down their existing shareholding as a result of the Buyback.

3. LISTING RULES REQUIREMENTS

The Buyback will involve acquisitions effected by offers made by the Company through NZX's order matching market, under Listing Rule 7.6.1[a]. Any shares of the Company acquired by the Company pursuant to the Buybacks will be shares bought on market, through a broker, from an undisclosed seller.

The Buyback also needs to comply with Listing Rule 7.5.1 which requires shareholders to approve a buyback where there is a significant likelihood that it will result in any shareholder holding more than 1% of a company's shares materially increasing its ability to exercise effective control.

Because the Zeta Associates currently hold or control 19.80% of the voting rights and may increase up to 24.42% if the maximum 64 million shares in the Company are bought back and the Zeta Associates do not participate in any Buyback, the Company considers that approval under Listing Rule 7.5.1 should be obtained.

This means the Buyback can only proceed if it has been approved by an Ordinary Resolution.

4. COMPANIES ACT REQUIREMENTS

As more than 5% of the shares of the Company may be acquired under the Buyback and the period in which this occurs may be less than 12 months (although it could be as long as 48 months), the Company must effect the Buybacks under section 63 of the Act. That section requires prior shareholder approval, which must be sought in any case, because of the requirements of the Takeovers Code and the Listing Rules in relation to the Zeta Associates' increase in voting rights.

The Buyback and the Special Meeting are also subject to the normal Companies Act requirements for the holding of meetings and certification of matters relating to buybacks.

5. WHY IS THE BOARD RECOMMENDING THE BUYBACK?

The Board (excluding the interested director Duncan Saville) is recommending the Buyback because:

- the Board believes that the Company's shares are currently undervalued;
- the Company's willingness to buy back shares when it considers that the shares are undervalued by the market is expected to be viewed positively by shareholders and share market analysis;
- the Board believes that the Buyback is a positive way of improving shareholder value for remaining shareholders;
- the Company currently has sufficient funds to meet its current commitments, and the Buyback can be completed over time, without unduly affecting future opportunities;
- the Board believes that the Buyback is fair to the Company and all shareholders.

The Board is proposing a 48 month [4 year] Buyback to avoid the time and expense of repeatedly obtaining NZX approvals, Takeovers Panel approvals and an independent adviser's report each year.

6. IS THERE AN INDEPENDENT REPORT ADVISING ON THE BUYBACK?

The Board has commissioned an independent report from Simmons Corporate Finance, which accompanies this notice of meeting. Section 2 of the report analyses the merits of the Buyback.

The Report concludes at section 2.2 that "after having regard to all relevant factors, the positive aspects of the Buyback outweigh the negative aspects of the Zeta Associates retaining any increase in their voting rights as a result of the Buyback from the perspective of the Non-associated Shareholders".

Section 2.3 concludes that "we are of the view that the rationale for the Buyback is sound. It is being undertaken primarily for shareholder value improvement purposes on the basis that the Directors consider NZO&G's shares to be undervalued from time to time".

In terms of evaluation of the fairness of the Buyback for the purposes of Listing Rule 1.7.2, the Report concludes in section 3.2 that "after having regard to all relevant factors, the consideration and the terms and conditions of the Buyback are fair to the Non-associated Shareholders".

Shareholders should consider the Report in full to understand the context and information relied upon when Simmons Corporate Finance had reached these conclusions.

7. WHAT ARE THE TAX IMPLICATIONS?

Shareholders' position

The following comments, which are based on current legislation and practice, summarise advice received by directors on the taxation position for shareholders resident in New Zealand and Australia for tax purposes. This comment is a guide only and is

not exhaustive. All shareholders, including shareholders outside of New Zealand are recommended to immediately obtain and rely upon independent advice from their own professional tax advisers as is applicable to their particular circumstances.

Any shares you sell under the Buyback will be treated as a disposal by you for taxation purposes in New Zealand and Australia.

New Zealand resident shareholders

The taxation position of shareholders who sell shares to the Company under the Buyback are the same as those which would apply if the shareholder sold their shares to any other party.

In general, any profit [or loss] realised on bought-back shares should be tax free if the shares are held on capital account. If the shares are held on revenue account, the profit [or loss] should be assessable income [or a deduction] to the recipient.

The amount of any taxes payable will vary depending on the tax profile of the shareholder [for example, individual, company, trustee, Portfolio Investment Entity].

The Company does not expect an adverse impact on its imputation credit balance as a result of the Buyback.

Australian resident shareholders

If held on revenue account, any profit [or loss] realised by an Australian resident shareholder in connection with the Company's Buyback and share cancellation should be assessable income [or a deduction].

The Buyback and cancellation of shares which are held on capital account and were acquired before 20 September 1985 should not be subject to the Australian capital gains tax rules and any gain or loss realised by a particular Australian resident shareholder should be disregarded.

The Buyback and cancellation of shares which were acquired on capital account after 20 September 1985 will be subject to the Australian capital gains tax rules. The capital proceeds received in respect of the share cancellation will likely be the amount received in consideration for the cancellation of the share. As an on market share buyback, the total Buyback price will be treated as capital proceeds and there will be no 'deemed dividend' component of the Buyback price to the particular Australian resident shareholder. A taxable capital gain will arise to shareholders to the extent that the capital proceeds received in consideration for the cancellation of a share exceed the capital gains tax cost base of the share.

Tax implications will depend on the circumstances of each shareholder, noting that the applicable tax rules will vary depending on the tax profile of the relevant shareholder [for example, individual, company, superannuation fund, etc]. Shareholders should seek their own professional taxation advice in relation to their personal tax position.

8. WHAT IS THE RECOMMENDATION OF THE BOARD?

The Board [excluding, due to his interest, Mr Saville] unanimously recommends the Buyback and encourages all shareholders to vote on the resolution to approve the Buyback. In the Board's view the Buyback is in the best interests of the Company and shareholders.

How do I make my views known?

You can make your views count by voting, either for or against the resolution. You may cast your vote in one of four ways:

- 1] by attending the Special Meeting on 28 August 2015;
- 2] by electronic voting;
- 3] by completing and mailing your postal vote to the Company;
- 4] by appointing a proxy to vote on your behalf at the Special Meeting.

If you do not attend the meeting, exercise your vote by postal vote, vote electronically or appoint a proxy, then no vote will be exercised in respect of your shareholding.

As the Buyback will not result in a "major transaction" for the Company, as defined by the Rules, no appraisal or minority buy-out rights will apply to shareholders who vote against the Buyback or otherwise.

Voting By Proxy

If you do not attend the meeting, you may appoint a proxy. The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose.

If you select a proxy to vote on your behalf [including the Chairman], and you either:

- a] confer on the proxy a discretion on the Voting Card; or
- b] do not provide any instructions on the Voting Card about how the proxy should vote,

you acknowledge that the proxy may exercise your right to vote at his or her discretion and may vote as he or she thinks fit or abstain from voting.

In so doing you acknowledge that the proxy may exercise your right to vote even if he or she has an interest in the outcome of the relevant resolution that does not disqualify him or her from voting under the Listing Rules.

If you appoint the Chairman as your proxy and you do not direct him how to vote on the resolution, the Chairman will exercise any discretionary votes in favour of the resolution.

If you appoint a proxy who is disqualified from voting on the resolution [such any of the Zeta Associates], your proxy may vote in accordance with your directions. However, if you do not give directions, that proxy may not exercise a discretionary vote in respect of the resolution.

ANNEXURE A

Takeovers Code (Class Exemption) Notice (No 2) 2001 disclosure in respect of acquisition of shares

1. IDENTITY OF THE PERSON

The persons who may increase their voting control above 20% following the Buyback are the Zeta Associates comprised of Zeta Resources Limited (**Zeta Resources**), Zeta Energy Pte Limited (**Zeta Energy**), Utilico Investments Limited (**Utilico**), Somers Limited (**Somers**), Bermuda Commercial Bank Limited (**BCBL**), ICM Limited (**ICM**), Permanent Investments Limited (**PIL**) and Duncan Saville.

Zeta Energy is a wholly owned subsidiary of ASX listed Zeta Resources [of whom Utilico is the controlling shareholder]. BCBL is a wholly owned subsidiary of Somers, an investment holding company specialising in the financial services sector. Somers is a Bermuda exempt company whose shares are traded on the Bermuda Stock Exchange. It is partly owned by Utilico, PIL and ICM. PIL is a wholly owned subsidiary of ICM.

In addition to the relationships between the Zeta Associates arising from the ownership interests described above, each of Utilico, Zeta Resources and Somers use ICM to provide investment advice.

ICM is a Bermuda based fund manager and corporate finance provider which is 100% owned by Duncan Saville.

2. PARTICULARS OF VOTING SECURITIES THAT MAY BE ACQUIRED BY THE COMPANY

The maximum number of voting securities that may be acquired in aggregate is 64 million. The percentage of all voting securities of the Company that the maximum number of voting securities that may be acquired represents is 19%.

There are currently 338,029,482 fully paid ordinary shares on issue and 7,835,000 partly paid shares. The partly paid shares are entitled to a vote in proportion to the amount paid up. The shares are currently paid up to \$0.01 per share and their weighted average issue price is \$1.03 per share. Accordingly, the 7,835,000 partly paid shares have the equivalent voting rights of 77,378 fully paid ordinary shares. This represents 0.02% of the total voting rights in the Company.

The potential maximum aggregate control percentage of the Zeta Associates if the maximum number of voting securities were acquired by the Company but the Zeta Associates do not participate, and there is no change to total number of voting securities currently on issue between today's date the end of the Buyback period other than as a result of the Buyback, is as follows:

	NUMBER OF FULLY PAID SHARES EACH ZETA ASSOCIATE CONTROLS	PRE-BUYBACK VOTING PERCENTAGE*	POST-BUYBACK VOTING PERCENTAGE*	PERCENTAGE INCREASE
Zeta Energy Pte Limited [8,971,860 held by Leveraged Equities Finance Limited and 45,235,693 held by New Zealand Central Securities Depository Limited]	54,207,553	15.67%	19.23%	3.56%
Zeta Resources Limited**	54,207,553**	15.67%**	19.23%**	3.56%**
Utilico Investments Limited [held by New Zealand Central Securities Depository Limited]	6,915,152	2.00%	2.45%	0.45%
Bermuda Commercial Bank Limited [held by New Zealand Central Securities Depository Limited]	5,819,591	1.68%	2.06%	0.38%
Somers Limited**	5,819,591	1.68%	2.06%	0.38%
Total	66,942,296***	19.35%	23.74%	4.39%

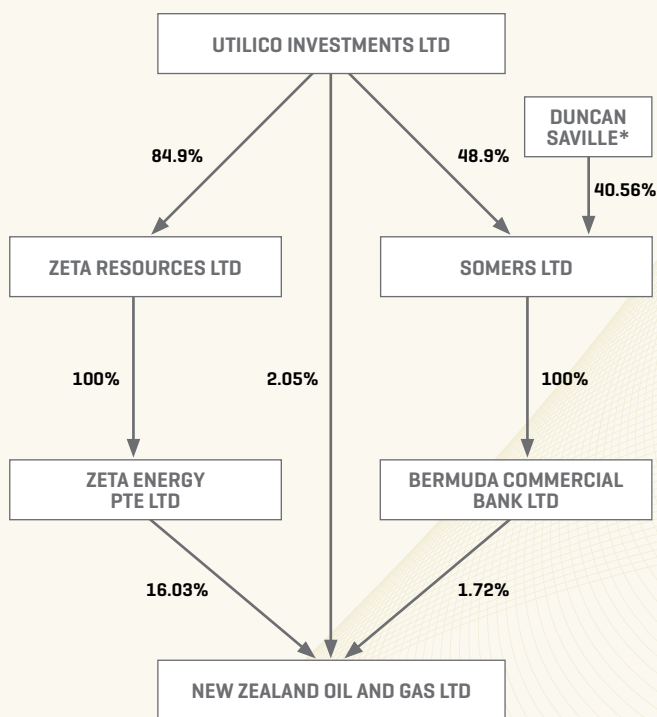
* The percentages in the above table are calculated as percentages of all voting securities in the Company, including both fully paid and partly paid shares (that is, as if the partly paid shares have full voting entitlements). However, because partly paid shares carry voting rights that are proportionate to the amount paid up on the shares, the percentage of voting rights in the Company that are held or controlled by the Zeta Associates are slightly higher than the percentages in the above table (the percentage of voting rights held or controlled by the Zeta Associates is 19.80% before the Buyback and 24.42% after the Buyback).

** The securities listed in the above table as controlled by each of Zeta Resources Limited and Somers Ltd are the same securities that are owned by Zeta Energy Pte Limited and Bermuda Commercial Bank Limited respectively. Zeta Resources Limited and Somers Limited are the respective controllers of those securities by virtue of being the respective parent companies of each of Zeta Energy Pte Limited and Bermuda Commercial Bank Limited.

***The Company is aware that Zeta Energy (and therefore Zeta Resources and Utilico) have a relevant interest in a further 1,454,691 shares in the Company that are held by Pan Pacific Petroleum NL (PPP), which is an ASX and NZX dual-listed energy company. The relevant interest arises under section 237(b) of the Financial Markets Conduct Act 2013 by virtue of the fact Zeta Energy holds 46.45% of PPP's voting securities. The Zeta Associates have advised that notwithstanding the relevant interest, the Zeta Associates do not have any control over the shares in the Company that are held by PPP, and that PPP is not currently an associate of any of the Zeta Associates.

The diagram below sets out the structure of the Zeta Associates and their voting percentages in the Company [all of which are held by professional custodians, as detailed below]:

Structure of the Zeta Associates



* held through ICM Limited Permanent Investments Limited and as further detailed on page 7*

There are no known associates of the Zeta Associates other than the professional custodians who hold shares on behalf of the Zeta Associates and upstream parties of those custodians who are themselves professional broking firms or custodians. Those persons are exempt from rule 6 of the Code by virtue of being brokers or nominee companies [sections 17 and 23 of the Takeovers Code [Class Exemptions] Notice [No 2] 2001]. Accordingly the potential maximum percentage of all voting securities that the Zeta Associates and their associates would hold or control if the maximum number of voting securities were acquired by the Company in aggregate is repeated as that set out in the table.

3. CONSIDERATION FOR AND REASONS FOR THE BUYBACK

The manner in which the consideration payable by the Company in respect of the Buyback is determined and the reasons for the Buyback are set out in the Explanatory Note.

4. EXCEPTION TO RULE 6 OF THE CODE

The increase in the Zeta Associates voting control resulting from the Buybacks, if approved, would be permitted as an exception to rule 6[1] of the Takeovers Code in reliance on the buyback exemption in clause 4 of the Takeovers Code [Class Exemptions] Notice No 2 2001.

5. INDEPENDENT ADVISER'S REPORT

An independent adviser's report discussing the merits of the Buyback and prepared by Simmons Corporate Finance Limited accompanies this Notice of Meeting.

6. DIRECTORS' STATEMENT

A statement by the directors of the Company is set out on page 3 of this Notice of Meeting.

New Zealand Oil & Gas Limited

Independent Adviser's Report and Appraisal Report

In Respect of the Share Buyback Program

July 2015

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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1. Introduction

1.1 Background

New Zealand Oil & Gas Limited (**NZO&G** or the **Company**) is a New Zealand based oil and gas exploration and production company. The Company primarily explores for crude oil, natural gas, liquefied petroleum gas and condensate or light oil. It holds a 27.5% interest in the Tui area oil fields and a 15% interest in the Kupe oil and gas field, both located in the offshore Taranaki basin. The Company holds a 48.11% shareholding in Australian Securities Exchange (**ASX**) listed Cue Energy Resources Limited (**Cue**). NZO&G acquired its initial 19.99% interest in Cue on 19 December 2014 and made an unconditional takeover offer for Cue on 27 February 2015.

NZO&G's shares were listed on the main equities security market (the **NZX Main Board**) operated by NZX Limited (**NZX**) in August 1981. It had a market capitalisation of \$174 million as at 23 July 2015.

NZO&G share capital currently consists of:

- 338,029,482 fully paid ordinary shares
- 7,835,000 partly paid shares.

The partly paid shares are entitled to a vote in proportion to the amount paid up. The shares are currently paid up to \$0.01 per share and their weighted average issue price is \$1.03 per share. Accordingly, the 7,835,000 partly paid shares have the equivalent voting rights of 77,378 fully paid ordinary shares. This represents 0.02% of the total voting rights in the Company.

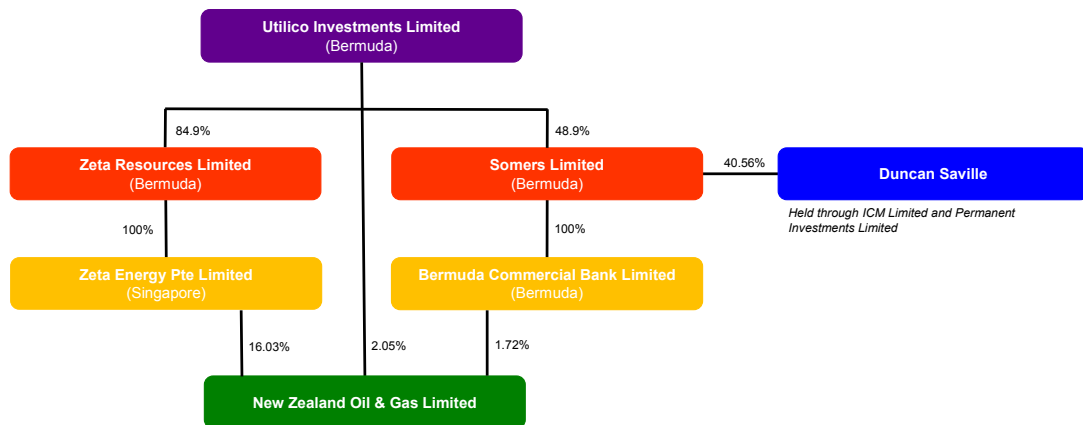
The Company completed a capital return on 16 February 2015, whereby one in every 5 ordinary shares were cancelled and shareholders received \$0.75 for each cancelled share (the **Capital Return**). The total amount returned to shareholders under the Capital Return was \$63.2 million, which equated to \$0.15 per share held prior to the Capital Return.

Zeta Resources Limited, Zeta Energy Pte Limited (**Zeta**), Utilico Investments Limited (**Utilico**), Somers Limited (**Somers**), Bermuda Commercial Bank Limited (**BCBL**), ICM Limited (**ICM**), Permanent Investments Limited (**PIL**) and Duncan Saville (collectively the **Zeta Associates**) between them hold or control 66,942,296 fully paid ordinary shares, representing 19.80% of the Company's fully paid ordinary shares and 19.80% of the Company's voting rights.

Zeta Associates Shareholding in NZO&G		
	No. of Shares Controlled	% of Voting Rights
Zeta	54,207,553	16.03%
Utilico	6,915,152	2.05%
BCBL	5,819,591	1.72%
Zeta Associates	<u>66,942,296</u>	<u>19.80%</u>

Source: NZO&G

The Zeta Associates' shareholdings in NZO&G are held on their behalf by New Zealand Central Securities Depository Limited (**NZCSD**) and Leveraged Equities Finance Limited (**LEF**).



Utilico is an exempted closed-end Bermuda incorporated investment company, established as a successor company to Utilico Investment Trust plc. Utilico's policy is to invest in undervalued investments in a wide range of sectors and markets. Utilico's shares are traded on the London Stock Exchange.

Zeta is a private oil and gas investment company based in Singapore, focussed on the South East Asian and Australasian regions. It is a wholly owned subsidiary of ASX listed Zeta Resources Limited (of whom Utilico is the controlling shareholder). In addition to its investment in NZO&G, Zeta has a 46.45% stake in ASX listed Pan Pacific Petroleum NL.

Somers is an investment holding company specialising in the financial services sector. Somers is a Bermuda exempt company whose shares are traded on the Bermuda Stock Exchange. It is partly owned by Utilico, ICM and PIL.

ICM is an international fund manager and corporate finance adviser with expertise in listed equity, private equity and fixed income bonds. It is headquartered in Bermuda.

Duncan Saville is a director of NZO&G. Mr Saville wholly owns ICM and PIL is a wholly owned subsidiary of ICM.

BCBL provides various banking products and services to commercial, corporate and high net worth clients in Bermuda. BCBL is a wholly owned subsidiary of Somers.

1.2 Share Buyback Program

On 17 December 2014, NZO&G announced that the Company intended to put in place arrangements allowing it to buy back its shares by way of offers made through NZX's order matching market (the **Share Buyback Program**).

NZO&G is seeking approval from shareholders to implement the Share Buyback Program for 4 years up to 28 August 2019:

- permitting the Company to buy back up to 64,000,000 shares on-market (representing up to 19.00% of the Company's fully paid ordinary shares on issue and voting rights)
- permitting the Zeta Associates to retain any increase in their voting rights in the Company as a result of the Share Buyback Program from 19.80% up to a maximum of 24.42% (an increase of up to 4.62%).

The shares purchased by NZO&G under the Share Buyback Program will be cancelled.

1.3 Regulatory Requirements

Takeovers Code

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights (together with its associates) beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

When a company buys back and cancels its shares, the percentage holding of any shareholder that does not participate in the buyback will increase. Consequently, if a company with a shareholder controlling in excess of 20% wishes to undertake a share buyback, it needs to rely upon an exemption to the Code.

The Takeovers Code (Class Exemptions) Notice (No 2) 2001, as amended by the Takeovers Code (Class Exemptions – Buybacks and Rule 16(b)) Amendment Notice 2010 (the **Buyback Exemptions**), sets out a general exemption for share buybacks.

Clause 4 of the Buyback Exemptions provides an exemption for a shareholder controlling (alone or with their associates) in excess of 20% of the voting rights in a code company to increase its voting control via a share buyback, provided the buyback has been approved by an ordinary resolution of shareholders (excluding shareholders who will rely on clause 4 of the Buyback Exemptions (and their associates)).

Clause 5 of the Buyback Exemptions provides an exemption that does not require shareholder approval, provided the shareholder reduces its percentage holding to pre-buyback levels within 6 months.

The Share Buyback Program may result in the Zeta Associates increasing the voting rights they hold or control from 19.80% to up to 24.42% if they do not participate in the Share Buyback Program.

Accordingly, the Company's shareholders who are not associated with the Zeta Associates (the **Non-associated Shareholders**) will vote on an ordinary resolution at the Company's special meeting on 28 August 2015 in respect of the Share Buyback Program and permitting the Zeta Associates to retain any increase in the voting rights in the Company that they hold or control as a result of the Share Buyback Program up to a maximum of 24.42% (the **Share Buyback Program Resolution**).

In accordance with Clause 2(2) of Schedule 1 of the Buyback Exemptions, the Zeta Associates and their associates are not permitted to vote on the Share Buyback Program Resolution.

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires that the notice of meeting containing the resolution in respect of the Share Buyback Program must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code.

NZX Main Board Listing Rules

Listing Rule 7.5 of the NZX Main Board Listing Rules (the **Listing Rules**) states that no acquisition of Securities shall be made by an Issuer if:

- there is a significant likelihood that the acquisition will result in any person or group of Associated Persons materially increasing their ability to exercise, or direct the exercise of effective control of that Issuer and
- that person or group of Associated Persons is entitled before the acquisition to exercise not less than 1% of the total votes attaching to the Securities of the Issuer

unless the precise terms and conditions of the acquisition have been approved by an ordinary resolution of the Issuer.

The Zeta Associates currently hold or control 19.80% of the Company's fully paid ordinary shares. The Share Buyback Program involves the acquisition of equity securities which may materially increase the Zeta Associates' ability to exercise, or direct the exercise of effective control of the Company.

Listing Rule 6.2.2 (a) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 7.5.

1.4 Purpose of the Report

The directors of NZO&G (the **Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Share Buyback Program and of the Zeta Associates retaining any increase in their voting rights in the Company.

Simmons Corporate Finance was approved by the Takeovers Panel on 22 December 2014 to prepare the Independent Adviser's Report.

The Directors have engaged Simmons Corporate Finance to prepare an Appraisal Report on the fairness of the Share Buyback Program and of the Zeta Associates retaining any increase in their voting rights in the Company in accordance with Listing Rule 6.2.2 (a).

Simmons Corporate Finance was approved by NZX Regulation on 23 December 2014 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Independent Adviser's Report and Appraisal Report to the Directors for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on voting on the Share Buyback Program Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Share Buyback Program and of the Zeta Associates retaining any increase in their voting rights in relation to each shareholder. Our advice and opinions are necessarily general in nature.

This Independent Adviser's Report and Appraisal Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Share Buyback Program

2.1 Basis of Evaluation

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires an evaluation of the merits of the Share Buyback Program and of the Zeta Associates retaining any increase in their voting rights in the Company, having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 3 March 2015
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the Share Buyback Program and of the Zeta Associates retaining any increase in their voting rights in the Company should focus on:

- the rationale for the Share Buyback Program
- the terms and conditions of the Share Buyback Program
- the financial impact of the Share Buyback Program
- the impact of the Share Buyback Program on the control of the Company
- the impact of the Share Buyback Program on NZO&G's share price
- the benefits and disadvantages to the Non-associated Shareholders of the Share Buyback Program
- the implications if the Share Buyback Program Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the Share Buyback Program

In our opinion, after having regard to all relevant factors, the positive aspects of the Share Buyback Program outweigh the negative aspects of the Zeta Associates retaining any increase in their voting rights as a result of the Share Buyback Program from the perspective of the Non-associated Shareholders.

Our evaluation of the merits is set out in detail in sections 2.3 to 2.9. In summary, the key factors leading to our opinion are:

- the rationale for the Share Buyback Program is sound. It is being undertaken to improve shareholder value for the Company's shareholders
- the terms of the Share Buyback Program are reasonable. The Share Buyback Program will be undertaken on-market and shares will be purchased at the prevailing market price at the date of purchase
- the financial impact of the Share Buyback Program is relatively minor. Based on the current share price of \$0.515 (as at 23 July 2015), total equity will reduce by approximately \$33 million if the maximum 64,000,000 shares are bought back, with a corresponding decrease in cash and cash equivalents
- the Share Buyback Program will not increase the Zeta Associates' ability to influence the outcome of shareholder voting to any significant degree. At most, their voting rights will increase by 4.62% to 24.42%
- the Share Buyback Program should provide support for NZO&G's share price
- the Share Buyback Program will improve the liquidity of the shares held by Non-associated Shareholders over the period of the Share Buyback Program but may reduce liquidity after the Share Buyback Program is completed
- the Share Buyback Program is unlikely to reduce the attraction of NZO&G as a takeover target
- if the Share Buyback Program Resolution is not approved, the Share Buyback Program will not proceed. The Directors could subsequently decide to implement the Share Buyback Program without seeking shareholder approval but the Zeta Associates would be required to sell down their shareholding to 20% within 6 months of the increase. This may place downward pressure on the Company's share price and / or may reduce the Company's inclination to undertake buybacks.

2.3 Rationale for the Share Buyback Program

Directors' Rationale

The Directors' key reasons for continuing the Share Buyback Program are:

- the Directors consider the Share Buyback Program to be a positive way of improving shareholder value for remaining shareholders in circumstances where the Company's shares can be purchased at levels substantially below their assessed long term value
- the Company's willingness to buy back shares when it considers that they are undervalued by the market would be viewed positively by shareholders and share market analysts.

Finance Theory

The benefits of share buybacks have long been the focus of academic research and practitioners' debate. It is generally accepted that share buybacks can affect value as follows:

- by supporting the share price
- by being an efficient use of capital
- by creating a more efficient capital structure.

In reality however the impacts can be difficult to quantify.

Supporting the Share Price

There is some evidence to suggest that a share buyback has a signalling effect to the market. A share buyback could indicate to the market that a company's management is so confident of the company's prospects that it believes the best investment the company can make is in its own shares. On the other hand, the announcement of a share buyback has in instances been deemed an admission that the company cannot identify any other value creating opportunities in which to invest its capital.

A share buyback can also act to support a company's share price by creating buy-side demand.

Efficient use of Capital

Companies often undertake share buybacks when they are of the view that the market is undervaluing their shares, therefore buying back those shares at the market price is an efficient use of the companies' capital.

Capital Structure

The share buyback is effectively an exchange of equity for debt, thereby increasing a company's leverage. In finance theory, increasing leverage can provide several benefits, such as:

- interest payments on debt are tax deductible, which means that the after-tax cost of debt is generally below shareholders' expected return on equity, hence reducing the company's average cost of capital
- debt supposedly serves as a discipline for a company's managers. Unlike equity, the need to pay cash to bondholders and banks prevents managers from investing in projects that earn returns below the company's cost of capital.

Conclusion

Having considered all of the above, we are of the view that the rationale for the Share Buyback Program is sound. It is being undertaken primarily for shareholder value improvement purposes on the basis that the Directors consider NZO&G's shares to be undervalued from time to time.

2.4 Terms of the Share Buyback Program

The key terms of the Share Buyback Program are:

- the Company proposes to acquire up to 64,000,000 shares on-market
- purchases may be made in the 4 year period following 28 August 2015
- the Company will pay the prevailing market price for the shares at the time of the purchase
- the shares acquired under the Share Buyback Program will be cancelled
- the Company is not obliged to make offers and reserves the right to cease making offers at any time.

The Company is not committing to buy back any shares. The Share Buyback Program simply provides the Directors with the ability to buy back shares should the price drop to levels below which the Directors believe a buyback would add value to all shareholders and is in the interests of the Company.

The Company will be required to disclose daily the number of shares purchased and the price paid.

2.5 Financial Impact of the Share Buyback Program

A summary of NZO&G's recent financial performance is set out below.

Summary of NZO&G Financial Performance				
	Year to 30 Jun 12 (Audited) \$m	Year to 30 Jun 13 (Audited) \$m	Year to 30 Jun 14 (Audited) \$m	6 Mths to 31 Dec 14 (Unaudited) \$m
Total income	117	109	115	55
EBITDAX	71	68	76	28
Operating profit / (loss)	52	40	27	(11)
Profit / (loss) before income tax and royalties	44	46	25	(8)
Profit / (loss) after tax	20	26	10	(10)
Dividends paid	8	36	24	12
EPS (\$)	\$0.050	\$0.065	\$0.024	(\$0.025)
DPS (\$)	\$0.02	\$0.09	\$0.06	\$0.03

EBITDAX: Earnings before interest, tax, depreciation, amortisation and exploration write-offs
EPS: Earnings per share
DPS: Dividend per share

Source: NZO&G audited financial statements and interim report 2015

A summary of NZO&G's recent financial position is set out below.

Summary of NZO&G Financial Position				
	As at 30 Jun 12 (Audited) \$m	As at 30 Jun 13 (Audited) \$m	As at 30 Jun 14 (Audited) \$m	As at 31 Dec 14 (Unaudited) \$m
Current assets	233	190	171	157
Non current assets	252	256	290	284
Total assets	485	446	461	441
Current liabilities	(37)	(20)	(33)	(20)
Non current liabilities	(93)	(68)	(86)	(92)
Total liabilities	(130)	(88)	(119)	(112)
Total equity	355	358	342	329
NTA per share (\$)	\$0.89	\$0.86	\$0.81	\$0.76

NTA: Net tangible assets

Source: NZO&G audited financial statements and interim report 2015

The illustrative financial impact of the Share Buyback Program on the Company's financial results for the year ended 30 June 2014 is set out below, based on the following assumptions:

- NZO&G repurchases the maximum 64,000,000 shares at a price of \$0.54 per share, being the one month volume weighted average share price (**VWAP**) to 23 July 2015, at a total cost of \$35 million
- the Share Buyback Program is funded from the Company's cash reserves. NZO&G held \$43 million of cash and cash equivalents as at 31 March 2015 following the return of \$63.2 million to shareholders in February 2015 under the Capital Return
- the buy back effectively occurred on 1 July 2013, so that NZO&G paid out the \$35 million of cash on that date and therefore received less interest income for the full year ended 30 June 2014
- an interest rate of 2.9% on the cash used, resulting in a decrease in annual interest received of \$1 million (post-tax).

Illustrative Financial Impact of Share Buyback Program			
	Year to 30 Jun 14 (Audited) \$m	Share Buyback Program \$m	Illustrative Post Share Buyback Program \$m
EBITDAX	76	-	76
Profit after tax	10	(1)	9
EPS ¹ (\$)	\$0.024		\$0.026
Total equity	342	(35)	307
NTA per share (\$)	\$0.81		\$0.85

¹ Prior to the Capital Return

The Share Buyback Program will have a relatively minor positive financial impact on NZO&G. The illustrative analysis shows:

- EPS would increase by 10% to \$0.027
- NTA per share would increase by 6% to \$0.85.

NZO&G does not have a formal dividend policy specifying a particular payout rate, so the Share Buyback Program is not expected to impact the level of future dividends.

2.6 Impact on Control

Capital Structure and Shareholders

Ordinary Shares

NZO&G currently has 338,029,482 fully paid ordinary shares on issue held by 13,308 shareholders.

The names, number of shares and percentage holding of the 10 largest fully paid ordinary shareholders as at 17 July 2015 are set out below.

NZO&G's 10 Largest Fully Paid Ordinary Shareholders		
Shareholder	No. of Shares Held	%
NZCSD	114,518,707	33.88%
LEF	8,971,860	2.65%
Resources Trust Limited	8,378,346	2.48%
Sik-On Chow	4,280,000	1.27%
Resource Nominees Limited	3,731,329	1.10%
FNZ Custodians Limited	3,704,100	1.10%
Citicorp Nominees Pty Limited	3,327,979	0.98%
Riuo Hauraki Limited	3,200,000	0.95%
Custodial Services Limited (A/c 16)	2,685,360	0.79%
Custodial Services Limited (A/c 3)	2,024,125	0.60%
Subtotal	154,821,806	45.80%
Others (13,298 shareholders)	183,207,676	54.20%
Total	338,029,482	100.00%

Source: NZX Company Research

The Zeta Associates filed a substantial security holder notice on 10 December 2014, disclosing that they held 83,678,288 fully paid ordinary shares in the Company (19.87%). Following the Capital Return, the Zeta Associates hold 66,942,296 fully paid ordinary shares (19.80%).

The Zeta Associates' shareholdings are held on their behalf by NZCSD and LEF.

Zeta Associates Shareholding in NZO&G			
Zeta Associates	Holder	No. of Shares	%
Zeta	NZCSD	45,235,693	13.38%
	LEF	8,971,860	2.65%
		54,207,553	16.03%
Utilico	NZCSD	6,915,152	2.05%
BCBL	NZCSD	5,819,591	1.72%
		66,942,296	19.80%

Source: NZO&G

Partly Paid Shares

The Company has issued 7,835,000 partly paid shares to 26 participants of the Company's employee share ownership plan.

The weighted average issue price of the partly paid shares is \$1.03 per share. The shares are paid by the participant to \$0.01 per share on issue. The partly paid shares are entitled to a vote in proportion to the amount paid up. Accordingly, the 7,835,000 partly paid shares have the equivalent voting rights of 77,378 fully paid ordinary shares. This represents 0.02% of the total voting rights in the Company.

Shareholder Voting

Any shareholder that does not participate in the Share Buyback Program will see an increase in their respective percentage of votes held or controlled, even though they will not increase the actual number of shares they hold.

On the basis that the Zeta Associates do not participate in the Share Buyback Program, the Share Buyback Program will result in the Zeta Associates holding or controlling between 19.80% and up to 24.42% of the voting rights, depending on the number of shares bought back and assuming no other shares are issued during this time.

The Zeta Associates' current level of voting rights of 19.80% does not enable them to block special resolutions (which require the approval of 75% of the votes cast by shareholders) or to singlehandedly pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

Following the Share Buyback Program, the Zeta Associates' ability to influence the outcome of shareholder voting will increase but not by a material level. Their increased level of voting rights of up to 24.42% will still not be able to singlehandedly block special resolutions in theory, nor pass or block ordinary resolutions.

We note that while a 24.42% interest is technically not sufficient to block a special resolution, in reality, it most likely is in a listed company with more than 13,300 shareholders (as NZO&G currently has). This is because a number of shareholders in listed companies tend not to vote on resolutions and hence the relative weight of the 24.42% interest increases. Having said that, it is possible that the Zeta Associates' current 19.80% level of voting rights already provides the ability to block a special resolution.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the Listing Rules and the Companies Act 1993.

Given the above, we are of the view that the Share Buyback Program will not significantly increase the Zeta Associates' ability to exert shareholder control over NZO&G.

In this vein, we do not view the Share Buyback Program as a means by which the Zeta Associates can obtain an increased control percentage without having to pay a premium for the level of control to be achieved.

Directors of Directors

The directors of NZO&G are:

- Dr Rosalind Archer – independent
- Rodger Finlay – independent
- Peter Griffiths – independent chair
- Andrew Knight – managing director and chief executive
- Rod Ritchie – independent
- Duncan Saville – associated with the Zeta Associates
- Mark Tume – independent.

We are advised by the Company that the Share Buyback Program will not have any impact on the composition of the Company’s board of directors.

Operations

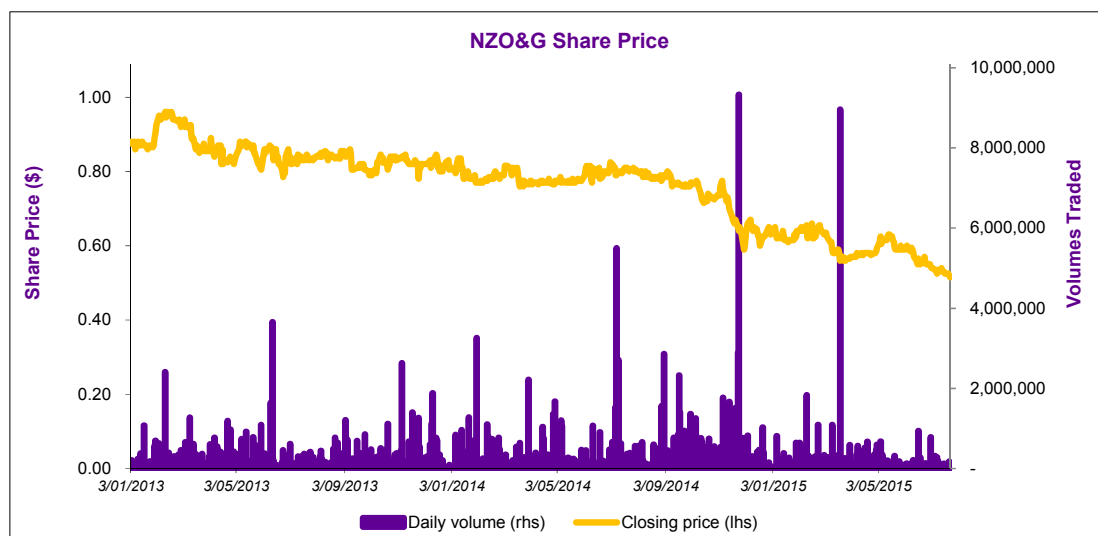
We are advised by the Company that the Share Buyback Program will not have any impact on the level of influence of the Zeta Associates over the Company’s operations.

2.7 Impact on Share Price and Liquidity

Share Price

On the basis that the Directors will undertake purchases when it considers the Company’s shares to be undervalued, we are of the view that the Share Buyback Program should provide support for the Company’s share price.

Set out below is a summary of NZO&G’s daily closing share price and daily volumes of shares traded from 3 January 2013 to 23 July 2015.



Source: NZX Company Research

During the period, NZO&G’s shares have traded between \$0.515 and \$0.96 at a VWAP of \$0.758.

Recent research papers by equity analysts have assessed target prices for NZO&G's shares ranging from \$0.74 to \$0.85. The average of the 3 most recent equity analysts' target prices of \$0.79 is 46% above NZO&G's one month VWAP to 23 July 2015.

Equity Analysts' Valuations			
Analyst	Date	Recommendation	Target Price
Woodward Partners	29 April 2015	Buy	\$0.78
Forsyth Barr	4 May 2015	Outperform	\$0.85
Deutsche Bank	14 May 2015	Buy	\$0.74
Consensus mean			<u>\$0.79</u>

Source: Equity analysts research reports

Liquidity

Trading in the Company's shares is relatively thin, reflecting that 19.80% of the shares are held by the Zeta Associates and the top 10 shareholders collectively hold 45.80% of the shares. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) is set out below.

NZO&G Share Trading					
Period	Low ¹ \$	High ¹ \$	VWAP ¹ \$	Volume Traded ¹ (000)	Liquidity ¹
1 month	0.52	0.57	0.54	3,395	1.0%
3 months	0.52	0.64	0.58	11,607	3.4%
6 months	0.52	0.66	0.59	38,982	11.5% ²
12 months	0.52	0.81	0.67	110,639	32.7% ²

¹ To 23 July 2015
² Based on the current number of shares on issue

Source: NZX Company Research

The Share Buyback Program will have a positive impact on the liquidity of the shares held by the Non-associated Shareholders over the period of the Share Buyback Program.

However, the Share Buyback Program will reduce the free float (ie those shares that are available to be freely traded) by up to 64,000,000 shares and therefore, in the longer term, the liquidity of NZO&G's shares may reduce to a degree.

2.8 Benefits and Disadvantages to Non-associated Shareholders

Key Benefits

The key benefits of the Share Buyback Program to the Non-associated Shareholders are:

- the Directors consider it is a positive way of improving shareholder value
- it will provide buy-side demand for the Company's shares, thereby improving liquidity over the 4 year term of the Share Buyback Program.

Main Disadvantage

The main disadvantage is that the Share Buyback Program may increase the Zeta Associates' voting rights from 19.80% to up to 24.42%, thereby marginally increasing their respective ability to control the outcome of shareholder voting. However, we do not consider the increased levels of control to be of any significance.

Unlikely to Change the Likelihood of a Takeover Offer from the Zeta Associates

We are not aware of any intention on the Zeta Associates' part to make a takeover offer. However, if they did have such intent, an increase in the Zeta Associates' voting rights from 19.80% to up to 24.42% is unlikely to change the likelihood of a takeover offer from them as the increase in their level of voting rights is not significant.

Likelihood of Other Takeover Offers Does not Change

Any bidder looking to fully take over the Company would need to ensure that the Zeta Associates would accept its offer. In addition, any bidder looking to make a partial takeover offer for (say) 50.1% of the Company would want the Zeta Associates to accept its offer to enhance the chances of success of the offer. We are of the view that the increase in the Zeta Associates' voting rights from 19.80% to up to 24.42% is unlikely to reduce the attraction of NZO&G as a takeover target to other parties.

2.9 Implications of the Share Buyback Program Resolution not Being Approved

If the Share Buyback Program Resolution is not approved, then the Share Buyback Program will not proceed. The Directors could decide to return capital to shareholders via alternative mechanisms (such as a special dividend or a return of capital such as the Capital Return) or decide at a later date to implement the Share Buyback Program without seeking shareholder approval, in which case the Zeta Associates would be required to sell down their shareholding to 20% within 6 months in accordance with clause 5 of the Buyback Exemptions.

The latter scenario is potentially disadvantageous to Non-associated Shareholders as:

- it may lead the Company to reconsider the degree to which it undertakes buybacks and hence reduce the ability for Non-associated Shareholders to sell their shares
- the forced sale of shares by the Zeta Associates may place downward pressure on the Company's share price.

2.10 Voting For or Against the Share Buyback Program Resolution

Voting for or against the Share Buyback Program Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Evaluation of the Fairness of the Share Buyback Program

3.1 Basis of Evaluation

Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the proposed acquisition of securities by the Company are *fair* to the Non-associated Shareholders.

There is no legal definition of the term *fair* in New Zealand in either the Listing Rules or in any statute dealing with securities or commercial law.

We are of the view that an assessment of the merits of a transaction is a broader test than the fairness of the transaction and encompasses a wider range of issues associated with the transaction. Our assessment of the merits of the Share Buyback Program is set out in section 2 and considers the fairness of the likely increase in effective control by the Zeta Associates in NZO&G as well as the fairness of the terms and conditions of the Share Buyback Program.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

3.2 Evaluation of the Fairness of the Share Buyback Program for the Purposes of Listing Rule 1.7.2

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the Share Buyback Program are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 2.3 to 2.9. In summary, the key factors leading to our opinion are:

- the rationale for the Share Buyback Program is sound. It is being undertaken to improve shareholder value for the Company's shareholders
- the terms of the Share Buyback Program are reasonable. The Share Buyback Program will be undertaken on-market and shares will be purchased at the prevailing market price at the date of purchase
- the financial impact of the Share Buyback Program is relatively minor. Based on the current share price of \$0.515 (as at 23 July 2015), total equity will reduce by approximately \$33 million if the maximum 64,000,000 shares are bought back, with a corresponding decrease in cash and cash equivalents
- the Share Buyback Program will not increase the Zeta Associates' ability to influence the outcome of shareholder voting to any significant degree. At most, their voting rights will increase by 4.62% to 24.42%
- the Share Buyback Program should provide support for NZO&G's share price
- the Share Buyback Program will improve the liquidity of the shares held by Non-associated Shareholders over the period of the Share Buyback Program but may reduce liquidity after the Share Buyback Program is completed
- the Share Buyback Program is unlikely to reduce the attraction of NZO&G as a takeover target

- if the Share Buyback Program Resolution is not approved, the Share Buyback Program will not proceed. The Directors could subsequently decide to implement the Share Buyback Program without seeking shareholder approval but the Zeta Associates would be required to sell down their shareholding to 20% within 6 months of the increase. This may place downward pressure on the Company's share price and / or may reduce the Company's inclination to undertake buybacks.

3.3 Voting For or Against the Share Buyback Program Resolution

Voting for or against the Share Buyback Program Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

4. Sources of Information, Reliance on Information, Disclaimer and Indemnity

4.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft NZO&G notice of special meeting
- the NZO&G annual reports for the years ended 30 June, 2012 to 2014
- the NZO&G interim report 2015
- the NZO&G quarterly report of consolidated cash flows for the quarter ended 31 March 2015
- NZO&G shareholder data from the Company and NZX Company Research
- NZO&G share price data from NZX Company Research
- equity analysts research reports in respect of NZO&G.

During the course of preparing this report, we have had discussions with and / or received information from the Directors and executive management of NZO&G and NZO&G's legal advisers.

The Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report and Appraisal Report with all information relevant to the Share Buyback Program that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report and Appraisal Report.

In our opinion, the information to be provided by NZO&G to the Non-associated Shareholders is sufficient to enable the Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Share Buyback Program.

4.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by NZO&G and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of NZO&G. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

4.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of NZO&G will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of NZO&G and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of special meeting issued by NZO&G and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

4.4 Indemnity

NZO&G has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. NZO&G has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

5. Qualifications and Expertise, Independence, Declarations and Consents

5.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

5.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with NZO&G or the Zeta Associates or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the transaction.

Simmons Corporate Finance has not had any part in the formulation of the Share Buyback Program or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Share Buyback Program. We will receive no other benefit from the preparation of this report.

5.3 Declarations

An advance draft of this report was provided to the Company and its legal advisers for their comments as to factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

5.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to NZO&G's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons
Director

Simmons Corporate Finance Limited
24 July 2015