



CHAIRMAN'S ADDRESS

11 November 2009

Update on Company's Activities

Talisman deal

We are entering a new and exciting phase in the development of New Guinea Energy. Recently, the Company sold a part interest in two of its Papua New Guinea licences to Talisman Energy Inc for US\$5.4M in cash and up to US\$101M carry of future work. The consideration received and the attraction of a company of the size and resources of Talisman is an outstanding result.

The groundwork of course took some time with the search for a suitable farm-in partner beginning over 18 months ago.

Talisman Energy Inc. is a global, diversified, upstream oil and gas company, headquartered in Canada and listed on the Toronto and New York Stock Exchanges. It has three main operating areas - North America, the North Sea and Southeast Asia. It also has a portfolio of international exploration opportunities. Talisman is committed to conducting business safely, in a socially environmentally responsible manner and is included in the Dow Jones Sustainability (North America) Index.

Talisman's others interests in Papua New Guinea include a 100% interest in PPLs 235 and 261 in the Foreland Basin of PNG and a 50% interest in PRLs 4 and 5 which it recently acquired from Horizon Oil. Talisman also has working interests in two offshore blocks.

The deal with Talisman allows a high value to be implied for the Company's Papua New Guinea assets and has introduced a strong and experienced joint venture partner expanding the Company's technical capability. The Technical Support Agreement between the Company and Talisman also improves the Company's ability to limit future operational costs.

The Talisman deal also brings the Company secure funding for work programs going forward and allows recovery of significant past expenditures for the Company.

Your Board believes that farm-outs are an appropriate mechanism by which to secure the timely exploration and exploitation of the Company's licences for the benefit of both shareholders and the people of PNG. We believe the terms of these recent farm-in agreements reflect this and we look forward to commencing the work programs, currently in the planning stage, with our new farm-in partner.

new guinea energy ltd

abn 31 112 618 238

level 22 gold fields house 1 alfred street sydney nsw 2000 t 612 9250 1800 f 612 9250 1838 www.ngenergy.com.au
po box 592 port moresby national capital district t (675) 321 1785 f (675) 321 1782

Approval of variations

In June, the Company submitted variation applications to the authorities in PNG in respect of PPLs 266, 267, 268 and 269.

Last month, the Company was pleased to receive approvals from the PNG Minister for Petroleum and Energy in respect of all four variation applications.

The approval of the variation applications means that NGE will commit at least US\$47 million on seismic testing and drilling activities on these four 100 per cent owned licences over the remaining term of these licences.

Under the terms of the variations, NGE will be required to drill at least five exploration wells and undertake geological, geophysical and engineering studies across the four licences during the course of the next two years.

Horizon Deal

The level of international interest in the oil and gas prospectivity of Papua New Guinea has been reinforced in recent months with Talisman not only entering a deal with our Company but also entering into a US\$188M acquisition of Rift Oil PLC and a substantial farm-in deal with our neighbour Horizon Oil Limited.

Share price/reducing costs

At our Annual General Meeting, I mentioned that it had been a difficult year in the financial markets and that the oil and gas industry had not escaped unscathed with volatile movements in share prices across the entire sector. New Guinea Energy's share price has recovered significantly since the commencement of 2009. At the start of the year, the share price was trading around \$0.04. It is now trading around \$0.20.

New Guinea Energy has continued to uphold responsible fiscal management, further trimming costs wherever possible. We have reduced our burn rate from \$350,000 per month at the start of 2009 to now being below \$250,000 per month.

Drilling Program

Notwithstanding our pursuit of farm-in partners, planning for a drilling program to test the Panakawa prospect is well underway and subject to the availability of a suitable rig and confirmation of funding, we are still endeavouring to commit to a rig clot by the end of the year. Assuming that commitment, a well should commence late first quarter/early second quarter in 2010. A successful drill test of this prospect will mean a re-rating of not only the Company itself

but the whole PNG province. A result that will be of benefit not only to our shareholders, but also to the people of Papua New Guinea.

I'd like to extend my gratitude to those shareholders who have supported, and continue to support us and would also like to thank our dedicated team of staff whose efforts have contributed greatly to the development of the Company.

Matters for consideration at today's meeting

Increase in number of shares able to be issued without prior approval

The Board is seeking your approval for the issue and allotment of 100,000,000 fully paid ordinary shares. This will allow us to seek additional funding and to confidently negotiate and close a deal, should we believe it to be in the best interests of the Company, without having to delay negotiations in order to seek shareholder approval.

A similar authority was requested and approved at the Annual General Meeting but expired, unused on 28 August 2009. Your Board considered that with the impending finalisation of the arrangements with Talisman, a better price could be achieved after that announcement.

I indicated earlier that under the terms of the approved variations to four of our licences, NGE is required to drill at least five exploration wells and undertake geological, geophysical and engineering studies across the four licences during the course of the next two years. Drilling and carrying out studies is expensive. The Company must ensure that it has access to sufficient working capital to fund these activities which are critical to the successful development of the Company.

Share price movements and other financial pressures can present themselves in the intervening waiting period and can affect the quality of the deal and the ultimate benefit to shareholders.

Increase in Maximum Aggregate Remuneration for Non Executive Directors

The Company's shareholders approved the current aggregate remuneration limit of \$250,000 at the 2005 Annual General Meeting. We are now seeking shareholder approval to increase this limit to \$500,000. We are seeking this increase to ensure that the fee pool can accommodate the payment of additional directors' fees if and when the need for an additional Board member arises and a suitable candidate becomes available.

Increasing the fee pool will also ensure that the pool can accommodate increases in directors fees in line with increases in market rates. It is important that the Company be able to pay directors' fees at market rates, to ensure it is able to attract and retain suitably qualified non-executive directors.

I wish to make clear that the Board sought external independent advice from remuneration consultants to advise on the appropriate level of individual non – executive directors' fees. The Company's external advisor recommended that the fee pool be set at the amount proposed.

Proposed issue of incentive options and rights to the Directors

The Company aims to grow shareholder wealth while minimising costs and monthly cash expenditure as much as possible. As part of this strategy, the Company has maintained low employee numbers and relies heavily upon the skills and expertise of the Executive Chairman and each of the Company's Non-Executive Directors.

Sir Michael Bromley has extensive commercial experience in Papua New Guinea and is on the board of a number of companies operating in PNG.

Mr Andrew Kent is an experienced business manager and corporate advisor with over 40 years experience in international equities and media.

Andrew Martin has operated his own business in the services and supplies sector of the resources industry and has 15 years experience as an elected representative in National and Queensland agricultural industry politics. Andrew is the longest serving of the current directors and is an important link to the Company's past activities.

I myself have advised clients in the resource and oil and gas industry for the last 20 years. I was a Partner of Deacons until 2007 and am on the Board of a number of public and private companies.

The decision to seek approval for the issue of Incentive Options and Incentive Rights to Directors was made in order to recognise the important contributions of the Directors to the development of the Company and to align their long term interests with those of the Company by providing an incentive to remain with the Company, implement the activities of the Company successfully and in a timely manner and increase long term shareholder value.

Any increase in the share price of the Company has a positive effect on shareholder wealth. The issue of both the incentive options and incentive rights, if approved by the shareholders, will link the Company's share price performance with the rewarding of the directors. The incentive options vest immediately but are exercisable at an exercise price of \$0.45.

As regards the rights, they are not capable of being exercised until 1 July 2012, which is in more than two years time. After that there are a number of share price hurdles which must be achieved before the rights vest. To obtain the first 25% of the rights, the share price must reach \$0.40. To obtain 50% of the rights, the share price must reach \$0.60 and to obtain 100% of the rights, the share price must reach \$1.00. Unless the Company's share price exceeds the share price hurdles set by the Board, the rights will not vest and they cannot be exercised before 1 July 2012 in any event.

The Future

Your Board looks forward to a very busy 2010 and 2011 with the drilling of up to 6 wells expected during that period.

Michael Arnett

Executive Chairman