

23 February 2011

NZOG reports loss for half year

NZOG (New Zealand Oil & Gas Ltd) has today released its financial results for a six month period which was dominated by the tragic events at the Pike River coal mine.

For the 6 months ended 31 December 2010, NZOG recorded total operating revenue of \$40.5 million and a gross profit from operating activities of \$3.1 million.

Pike River Coal Ltd (PRCL) related impairment provisions of \$98.6 million and unrealised after tax foreign exchange losses of \$5.2 million contributed to NZOG reporting a net loss after tax for the six month period of \$99.0 million.

NZOG has taken impairment provisions against its PRCL shareholding and unsecured debt. No impairment has been taken against the secured PRCL debt as NZOG expects to recover this debt.

NZOG had a total cash balance at 31 December 2010 of \$111.8 million and a net cash position of \$48.8 million.

Pike River Coal Ltd

NZOG is a 29.4% shareholder in PRCL and a secured and unsecured debt holder.

At the time of the mine explosion on 19 November 2010, which led to the tragic loss of 29 lives and the cessation of all mining and trading activities, PRCL was in the process of implementing a \$70 million capital raising. At PRCL's request, NZOG had provided a short-term working capital facility so that PRCL could meet its operating costs pending the completion of that capital raising. By 19 November 2010, PRCL had drawn \$13 million under the facility.

On 26 November 2010, NZOG provided the balance of the short-term funding - \$12 million. Without that cash injection PRCL would have been insolvent and unable to continue with the day-to-day activities of the business, including the rescue and recovery efforts at the mine.

As the situation at the mine deteriorated with further explosions and no immediate prospect of re-entering the mine, the PRCL Board concluded that even with the funding support provided by NZOG, it could not avoid insolvency. At their request, NZOG acting in its capacity as a secured creditor put PRCL into receivership on 13 December 2010.

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NZOG stock symbols:

NZX shares – NZO
ASX shares – NZO

The focus of the receivership to date has included:

- Supporting efforts to stabilise the mine's atmosphere
- Understanding PRCL's financial position
- Securing and protecting PRCL's assets. The primary assets are:
 - o The coal mine, including below ground assets and substantial above ground assets and infrastructure
 - o The license to mine as well as resource consents for access to and use of land relevant to the mine
 - o Plant and equipment, including stores of consumables, equipment spares and various items of mobile plant and equipment
 - o Insurance policies, in particular addressing Business Interruption and Material Damage
 - o Cash on hand of \$10.9m as at 13 December, being the balance of the money advanced by NZOG
 - o Bonds lodged with the Department of Conservation and local authorities
 - o 5000 tonnes of stock-piled coal
- Restructuring operations, including the employment of staff and use of assets
- Paying preferential creditors
- Overseeing work on PRCL's various claims under its insurance policies
- Responding to and participating in the various enquiries

The receivers' from PricewaterhouseCoopers have stated that their intention is to stabilise the mine with a view to either restructuring PRCL or selling its assets.

NZOG is a secured creditor in respect of a US\$28.9 million convertible bond and the \$12 million funding advanced on 26 November. Under the terms of a Deed of Priority and a Pari Passu Deed, security interests granted in favour of BNZ and NZOG are equal first ranking (other than first ranking securities held by BNZ in respect of specific mining equipment) and any distribution of security proceeds must be on a pro rata basis.

NZOG is an unsecured creditor in respect of the \$13 million short-term funding advanced prior to 19 November 2010. These monies rank equally with other unsecured creditors. An impairment provision has been taken against all of the unsecured debt.

Likewise, NZOG's 29.4% shareholding in PRCL and holding of 2011 options, with a combined book value of \$77.1 million, ranks equally with other shareholders. An impairment provision has been taken against all of this equity value.

No impairment has been taken against the secured debt. While there is considerable uncertainty about the future for PRCL we expect to recover NZOG's secured debt and we are actively taking steps to maximise the value of our total PRCL investment.

Kupe

The Kupe gas and oil field off the south Taranaki coast is now firmly established as NZOG's largest revenue source.

Kupe provided NZOG with \$27.4 million in revenue in the six month period.

In November 2010, a comprehensive inspection of the production station near Hawera, required within the first 12 months of operation, was successfully completed. The inspection required a three-week production shutdown.

NZOG's share of production for the six months to the end of December 2010 was 1.2 PJ of sales gas; 5,800 tonnes of LPG; and almost 143,000 barrels of light oil.

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Tui

The Tui area oil fields in the offshore Taranaki Basin produced 1.36 million barrels in the six month period – NZOG's share 170,000 barrels.

For much of the period only three out of four wells were producing. In late June, it was identified that repairs were needed to the artificial lift system for the Pateke-3H well. These repairs were completed in October (at a net cost to NZOG of \$8.5 million) and the well resumed production. In November, there was a one week shutdown of the floating production storage and offtake (FPSO) vessel, the Umuroa, to allow for maintenance and planned process modifications.

NZOG's revenue from Tui for the six month period was \$13.1 million.

Exploration

NZOG remains committed to exploration as a key way of growing the company and replacing oil and gas reserves. We have been successful in adding to our New Zealand exploration acreage and in advancing prospect evaluation within existing holdings.

NZOG has built a dominant position in the relatively lightly explored northern offshore Taranaki Basin. We now have large holdings in three adjacent permits – Mangaa, Albacore and Parihaka – and are assessing the prospectivity of a number of undrilled structures.

In the southern offshore Taranaki basin, NZOG is looking to secure a rig for summer 2011/12 to drill the exciting Kaupokonui prospect, which has been assessed as having recoverable resources (un-risked) in excess of 200 million barrels of oil. Discussions with companies interested in joining the Kaupokonui joint venture are continuing.

We are also working closely with our joint venture partners at Tui and Kupe to firm up exploration drilling targets within those permits. There are eight identified un-drilled prospects at Tui. At Kupe, there is the possibility of drilling one or two exploration wells in conjunction with scheduled Central Field Area development drilling in 2012/13.

In the Canterbury Basin, NZOG is seeking to expand its presence by securing, as Operator, the Clipper permit. This lies immediately north of the Barque permit. NZOG has a 40% stake in both permits. Barque is a large gas-condensate prospect and NZOG has also identified another large structure which lies across both permits.

Future Outlook

New Zealand remains an attractive investment destination, but the number of available opportunities will always be limited. As a result we cannot be confident of meeting our growth objectives from New Zealand alone and our business strategy includes the goal of establishing one or two new core areas.

Since 2008 we have been carefully evaluating opportunities around the world. NZOG is now in the process of establishing a northern hemisphere presence. More details about the location and nature of the initial investment will be announced as soon as the final regulatory approval is granted for the exploration acreage that will underpin this new area of business.

Dividend

NZOG's dividend policy since 2008 has been to pay a reasonable portion of profits as an annual dividend. Given the substantial loss resulting from the Pike River Coal situation, the Board does not intend to pay a dividend for the 2010/11 financial year.

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Financial Summary	NZ\$Millions		
	Unaudited Half Year 31 December 2010	Unaudited Half Year 31 December 2009	Audited Full Year 30 June 2010
Revenue	40.5	37.7	99.4
EBITDAX*	15.4	22.6	64.5
Exploration write-offs	2.6	10.9	30.7
Depreciation and Amortisation	11.9	3.4	15.5
EBIT**	0.9	8.3	18.1
Net Profit/(Loss) After Tax	(99.0)	(6.5)	(3.3)
Add back Abnormal Items (note 1)	103.8	14.1	18.7
Normalised Profit After Tax***	4.8	7.6	15.4
Net Operating Cash Flow	23.1	8.3	47.4
Total Cash Balance at end of period	111.8	176.4	142.4
Net Cash Balance at end of period	48.8	118.6	79.6

* Earnings before interest, tax, depreciation, amortisation and exploration.

** Earnings before interest and tax.

*** Adjusting for forex losses (net of 30% tax) and PRCL associate earnings and impairment losses.

Abnormal Items (note 1)	NZ\$Millions		
	Unaudited Half Year 31 December 2010	Unaudited Half Year 31 December 2009	Audited Full Year 30 June 2010
Foreign Exchange Losses (net of tax)	5.2	9.6	5.6
Pike River Coal related:			
- Associate earnings	-	4.2	11.5
- Equity investment	77.1	-	-
- Net Fair value loss on Convertible Bonds	7.5	0.2	1.6
- Unsecured debt and interest	13.3	-	-
- Coal option	0.7	-	-
	98.6	4.4	13.1
Total Abnormal Items	103.8	14.1	18.7

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