

24 August 2011

NZOG FY11 results

NZOG (New Zealand Oil & Gas Ltd) has today released its financial results for the year ended 30 June 2011.

NZOG earned total operating revenue of \$106.5 million and recorded a gross profit from operating activities of \$52.7 million.

A net loss after tax of \$75.9 million was reported for the full year. This was an improvement on the position at half year when the net loss stood at \$99.0 million.

The bottom line result was severely impacted by the tragic events at the Pike River coal mine. The accounts include Pike River Coal Ltd (PRCL) related provisions and losses of \$98.8 million. There were also unrealised after tax foreign exchange losses of \$7.7 million.

Excluding these two items, the normalised net profit for the year was \$30.6 million. The comparable result a year earlier was \$14.7 million.

NZOG's total cash balance at 30 June 2011 was the equivalent of \$149.4 million and the net cash position was \$86.1 million.

A fully imputed annual dividend of 2 cents per ordinary share will be paid.

Kupe

The financial year under review saw the Kupe gas and oil field off the south Taranaki coast firmly cement its place as NZOG's largest revenue source. Kupe provided NZOG with \$66.33 million in revenue for the year.

NZOG's share of production for the year was 2.63 PJ of sales gas, 11,200 tonnes of LPG and 276,000 barrels of light oil.

NZOG estimates that its share of Kupe production in the current financial year will be approximately 3 PJ of sales gas, 12,800 tonnes of LPG and 320,000 barrels of oil.

The Kupe proved and probable (2P) reserves were increased in July 2010. These 2P reserve estimates were left unchanged following a reserves review completed in June 2011.

Tui

The Tui Area Oil Fields in the offshore Taranaki Basin produced 2.81 million barrels (mmbbls) of oil in the financial year – NZOG's share 350,000 barrels.

NZOG's revenue from Tui for the year was \$40.14 million.

In July 2011, the Tui Operator, AWE, announced a likely reduction in its estimate of the initial developed proved and probable (2P) reserves, to between 40 and 42 mmbbls of oil.

An independent review of AWE's evaluation is still being undertaken but it is clear that there will be a reduction from the previous 2P estimate of 50.5 mmbbls.

Estimates of recoverable reserves for any field will be adjusted – up or down - over time as new information becomes available. When the Tui development was sanctioned in 2005, recoverable reserves were estimated to be 26.8 mmbbls, with oil prices at the time around US\$50 a barrel. Tui's production and financial performance has greatly exceeded those initial expectations. Further work is being done on accessing possible additional volumes of oil with new or sidetracked wells into the existing Tui and Pateke fields and exploration targets adjacent to the fields also remain under evaluation.

NZOG estimates that its share of Tui production in the current financial year will be 270,000 barrels.

New Zealand Exploration

NZOG remains committed to exploration in New Zealand as a key way of growing the company and replacing oil and gas reserves. We continued to work our holdings of New Zealand exploration permits during the year.

NZOG is involved in one permit in the Canterbury Basin and has a strong presence in the northern region of the offshore Taranaki Basin. The prospectivity of these permits continues to be assessed. There is also further exploration potential within the Tui and Kupe permits. However, the most advanced opportunity lies in our permit in the southern offshore Taranaki basin, where we have a prospect which we are looking to drill this summer.

In permit PEP 51311 NZOG has identified a stacked series of Miocene coastal sands, with estimates of mean prospective resources in excess of 200 mmbbls of oil. New seismic modelling has identified a possible gas cap on the main postulated oil column, thereby upgrading the estimated chance of success.

Australian listed resource company, Raisama Ltd, has come in as a joint venture partner. Raisama will get a 10% stake in the permit in return for paying 20% of the cost (subject to a cap) of the first well. Other companies are reviewing detailed data as NZOG looks for an additional joint venture partner.

The 'drill or drop' commitment deadline for this permit has been extended by the Government to January 2012. However, NZOG is keen to drill this summer if a suitable rig can be secured and is currently assessing possible drilling rig options.

Expanded Horizons

New Zealand remains an attractive investment destination, but the number of available opportunities will always be limited. Since 2009, the Board approved strategic goal for NZOG has been to establish one or two new core areas outside of New Zealand, while maximising value from existing assets and continuing to screen opportunities in New Zealand.

Two overseas areas of interest have now been established – Tunisia and Indonesia. Initial investment steps have been taken and we are working to build a portfolio of assets in both locations.

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NZOG stock symbols:

NZX shares – NZO
ASX shares – NZO

Tunisia

We were attracted to Tunisia due to its combination of good prospectivity, established exploration and production activity, reasonable fiscal terms, and relative ease of doing business. The move towards more open democracy in Tunisia enhances its attractiveness as a place to invest.

Through our networks we were able to identify available acreage in a productive basin. The Diodore permit that we acquired in June 2011 is surrounded by discovered and producing oil and gas fields. From the existing data we have already identified a sizeable prospect within the permit. We are currently negotiating a contract to secure a seismic vessel to conduct a 2D survey before the end of 2011 and we intend to work the prospect up to drillable status rapidly thereafter.

Diodore is just the first step. We have relocated a senior explorationist to Tunis and we are actively pursuing further opportunities.

Indonesia

Indonesia has a long oil and gas history but remains underexplored by western standards. In recent years the contract terms and business climate have improved considerably. However, to succeed in Indonesia it is useful to have good local knowledge and contacts, so as part of our activities NZOG has established a strategic relationship with Bukit Energy, a new company put together by experienced oil industry professionals with a deep understanding of Indonesia.

A large portfolio of opportunities has been identified and reviewed, most of them in onshore Sumatra. This highly productive region offers a variety of opportunities, including open acreage, regular bid rounds and farm-in possibilities.

The first opportunity has now been secured. Last week a Joint Study Agreement (JSA) was awarded by the Indonesian authorities for an area of almost 5000 sq km in northern Sumatra. The block is in close proximity to a number of large oil and gas fields. Following a 6 month study period to complete a thorough review of the prospectivity of the block, the JSA provides a right of first refusal for any subsequent allocation of an exploration permit.

Two farm-in offers in Sumatra are also being negotiated and other opportunities are under active assessment.

NZOG intends to build a substantial portfolio in both Tunisia and Indonesia to complement its New Zealand holdings.

Pike River Coal Ltd (in Receivership)

NZOG is a 29% shareholder in PRCL (in Receivership) and a secured and unsecured debt holder.

A six monthly report from PRCL's Receivers for the period to 13 June 2011 was recently issued. It shows secured creditors were owed over \$75 million, the owners of leased and rented equipment almost \$11 million and unsecured creditors \$34 million. The total creditor claims amount to just under \$120 million.

NZOG's annual accounts as at 30 June 2011 record its total secured PRCL debt as \$51.5 million and its total unsecured PRCL debt as \$14.6 million.

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The Receivers are continuing with the mine stabilisation, the sales process and insurance claims. NZOG has concluded that it can reasonably expect to recover the secured debt and no impairment has been taken against this secured debt. Recovery of the unsecured debt is also possible, but less certain. Therefore an impairment has been taken against this unsecured debt and also against NZOG's shareholding, which has a book value of \$77.1 million.

Returns for Shareholders

The Board and management are very disappointed with the decline in the share price in the past year, which is largely due to factors outside of NZOG's control – the Pike River tragedy, the Tui reserves review, and global sharemarket nervousness.

NZOG notes that market analysts covering NZOG put the company's core value at between 96c and \$1.10 a share, plus exploration upside potential.

NZOG's dividend policy since 2008 has been to pay a reasonable portion of profits as an annual dividend. Given the substantial loss incurred in the first half of the financial year, the Board had determined in February that there would be no dividend for the 2011 financial year.

However, the underlying performance of the business has been very sound, especially in the second half of the year, and continues to be so, reflecting the benefit of having two producing oil and gas fields providing steady cash flows.

In light of this underlying performance and the positive outlook, the Board has therefore decided to pay a fully imputed final dividend of 2 cents per ordinary share. The determination of entitlements for the dividend will be taken from the close of the share register on Friday 16 September 2011. The dividend will be paid on Friday 30 September 2011.

A Dividend Reinvestment Plan (DRP) is available to New Zealand and Australian resident shareholders who want to take all or part of their dividend in additional shares. New shares issued under the DRP do not incur brokerage charges and are offered at a discount. The number of shares will be calculated at a 2.5% discount to the weighted average sale price for shares sold on each of the first five business days immediately following the dividend record date (16 September 2011).

Approximately one third of NZOG shareholders are currently enrolled in the DRP. Shareholders wishing to join or leave the Plan before the record date of 16 September 2011 need to advise the share registry, Computershare on 0800 467 335 (NZ) or 1 800 501 366 (Aust).

Conclusion

NZOG is committed to carrying the current growth strategy forward aggressively. The company continues to maintain a strong balance sheet to fund capital expenditure for on-going initiatives. The fundamentals of NZOG's business remain strong and we remain focussed on delivering results and enhancing value significantly.

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Financial Summary	NZ\$Millions			
	1HY11	2HY11	Full Year 30 June 2011	Full Year 30 June 2010
Revenue	40.5	66.0	106.5	99.4
EBITDAX*	15.4	43.1	58.5	64.5
Exploration write-offs	2.6	0.8	3.4	30.7
Depreciation and Amortisation	11.9	10.5	22.4	15.7#
EBIT**	0.9	31.7	32.6	18.2#
Net Profit/(Loss) After Tax	(99.0)	23.1	(75.9)	(3.9)#
Add back Abnormal Items (note 1)	103.8	2.7	106.5	18.7
Normalised Profit After Tax***	4.8	25.8	30.6	14.7#

Net Operating Cash Flow	68.6	47.4
Total Cash Balance at end of period	149.4	142.4
Net Cash Balance at end of period	86.1	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.

Restated due to accounting policy change.

Abnormal Items (note 1)	NZ\$Millions			
	1HY11	2HY11	Full Year 30 June 2011	Full Year 30 June 2010
Foreign Exchange Losses (net of tax)	5.2	2.5	7.7	5.6
Pike River Coal related:				
Associate earnings	-	-	-	11.5
Equity investment	77.1	-	77.1	-
Net Fair value loss on Bonds	7.5	(1.1)	6.4	1.6
Unsecured debt and interest	13.3	1.3	14.6	-
Coal option	<u>0.7</u>	-	<u>0.7</u>	-
	98.6	0.2	98.8	13.1
Total Abnormal items	103.8	2.7	106.5	18.7

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