

**24 February 2010**

## **NZOG Interim Results**

NZOG (New Zealand Oil & Gas Ltd) has released its interim financial results for the six months ended 31 December 2009.

Operating revenue for the period was NZ\$37.7 million with a net loss after tax of NZ\$6.5 million.

All of the revenue was generated from NZOG's 12.5% share in the highly successful Tui area oil fields off the Taranaki coast. The net profit result reflects the following key factors:

- Slowly reducing production (as expected) from Tui
- Lower average international oil prices
- Exploration write-off of NZ\$10.9 million from the Albacore well
- NZ\$4.2 million as an apportioned share of Pike River Coal's reported loss
- NZ\$14.0 million in unrealised foreign exchange losses
- No revenue recognised from the Kupe field.

The unrealised foreign exchange losses arise from NZOG's large US dollar cash balance and the fluctuating exchange rate. If the NZD/USD cross rate remains below 72c it is likely that NZOG will report foreign exchange gains in the second half.

Earnings from the Kupe oil and gas field will be treated as revenue from 1 January 2010. Up until 31 December 2009, Kupe earnings were capitalised.

CEO David Salisbury says the commencement of production from Kupe in early December 2009 was the major milestone achieved during the period.

"Once in permanent production, and dependent on exchange rates and international oil prices, Kupe is expected to provide NZOG with a long term annual revenue stream of ca. NZ\$60-65 million. Along with ongoing, albeit reducing production from Tui, this will provide the strong cash flows that will support the company's growth strategies.

"The reported loss does not reflect the underlying health of the company's balance sheet and expanding petroleum production."

### **Production**

In the six months ended 31 December 2009, Tui produced over 2.7 million barrels of oil (mmbbls) – NZOG's share 340,000 barrels.

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**NZOG stock symbols:**

NZX shares – NZO  
ASX shares – NZO

Reservoir performance continues to be good. However, overall production performance has been slightly impacted by adverse weather conditions and the need to make some technical modifications to the facilities to maximise oil recovery rates. Production for the full year is now expected to be around 4.8 mmbbls.

For the six month period, NZOG received an average sales price of approximately NZ\$104 per barrel. Total production, freight and marketing costs were under budget at approximately NZ\$17 per barrel. Shell Australia has contracted to take all of Tui's production in the 2010 calendar year at a premium to the regional Tapis benchmark crude.

Kupe is still in a commissioning period but is producing substantial quantities of sales gas, LPG and light oil. To date, NZOG's share of production has been 0.5 PJ of gas, 840 tonnes of LPG and 52,000 barrels of light oil.

NZOG's production in the second half of 2010, on a barrel of oil equivalent basis, is expected to be approximately double that of the first half, as a result of the contribution from Kupe.

### **Exploration and Appraisal Drilling**

NZOG is participating in the drilling of at least four exploration and appraisal wells in offshore Taranaki over the 2009/2010 summer/autumn period.

The first well to be drilled, by the jack-up rig ENSCO-107, was the Albacore-1 well in the northern Taranaki Basin. Non-commercial traces of hydrocarbons were found. The results are being evaluated and will add to our knowledge and understanding of the other leads and prospects in NZOG's acreage in the northern region of the Taranaki Basin.

The semi-submersible rig Kan Tan IV is now under tow from Australia to New Zealand. The first well in its offshore Taranaki programme, Hoki-1, is expected to spud in early March. Hoki will be followed in April/May by at least two wells in the Tui permit.

Hoki-1 is a relatively high risk prospect targeting a potentially large oil structure. It is further from shore than any previous offshore Taranaki well, in water depth of over 300 metres.

The drilling at Tui is of a different nature. There are at least half a dozen potential drilling targets around the existing oil fields. NZOG and its joint venture partners have devoted considerable resources to evaluating the various possibilities. Following the reprocessing of 3D seismic and new mapping and interpretations, the joint venture has decided to drill Tui South West-1, followed by Kahu-1. Further activity will be influenced by the results of these two wells.

NZOG has 100% of an exploration permit which lies to the west and south of Kupe. New and newly re-processed seismic data has been interpreted and a number of attractive leads and prospects have been mapped. NZOG has re-named the primary prospect Kaupokonui (formerly Gamma). NZOG has commenced a process to farm down its interest in the permit.

NZOG is also seeking to farm down some of its 40% interest in the Barque exploration permit in the Canterbury Basin. Mapping and prospect evaluation is largely completed ahead of a drilling commitment required by August 2010.

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## Investments

NZOG has moved to enhance its investment in Pike River Coal through a funding package announced today. Subject to various conditions and approvals, NZOG will participate in a new rights issue, provide short-term funding of up to NZ\$15 million and subscribe to new convertible bonds for US\$28.9 million. Pike will grant a two year option to NZOG to purchase Pike coking coal at market prices to be negotiated annually.

“This package enhances our investment and is value creating for NZOG shareholders. At the same time, with a supportive investor providing the funding it requires, Pike will be able to focus on ramping up to full production,” David Salisbury said.

There was no change during the six month period to the 14.9% shareholding in Pan Pacific Petroleum that NZOG acquired in December 2008.

## Looking Ahead

David Salisbury says the second half of the 2010 financial year will see higher operating revenues from the combined production of Kupe and Tui; opportunities for exploration drilling success at Hoki and Tui; the implementation of the Pike funding arrangements; and the possibility of new investments.

“We continue to target opportunities to build our core businesses of oil and gas exploration and production, while sensibly managing our existing portfolio to ensure shareholder value is maximised,” David Salisbury said.

ENDS.

<b>Financial Summary</b>	NZ\$ millions	<i>Unless stated otherwise</i>	
	<b>Unaudited Half Year 31 December 2009</b>	Unaudited Half Year 31 December 2008	Audited Full Year 30 June 2009
Tui Production (millions of barrels of oil)	<b>0.34 mmbo</b>	0.70 mmbo	1.14 mmbo
Average Oil Price (NZ\$ per barrel)	<b>\$104</b>	\$150	\$122
Revenue	<b>37.7</b>	103.2	138.7
EBITDAX* (Earnings before interest, tax, depreciation, amortisation and exploration)	<b>22.6</b>	65.0	83.0
EBIT* (Earnings before interest and tax)	<b>8.3</b>	51.7	65.0
NPAT (Net Profit (Loss) After Tax)	<b>(6.5)</b>	54.0	53.2
“Normalised NPAT”**	<b>14.5</b>	33.5	n/a
Closing Net Cash Balance***	<b>118.6</b>	211.9	174.8
	NZ cents		
Net Tangible Assets per Share	<b>119</b>	124	128
Diluted Earnings per Share	<b>(1.7)</b>	13.9	13.7

\* After royalties expense.

\*\* After adjusting for the after-tax impact of exploration and evaluation costs (\$10.9m), net exchange gain/loss on foreign currency balances (\$14.0m), net fair value gain/loss on derivatives (\$0.2m), and share of loss from Pike River Coal associates (\$4.2m).

\*\*\* Cash at hand on 31 December 2009 of \$176.4m and debt of \$57.8m.

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