

26 August 2010

## Strong Cashflows Support Dividend

NZOG (New Zealand Oil & Gas Ltd) has today released its financial results for a busy year in which the company continued with its strategy of maximising value from existing assets while pursuing growth.

In the past year this two-pronged approach saw the commissioning of the Kupe gas and oil field; continued good performance from the Tui area oil fields; enhancement of the existing investment in Pike River Coal Ltd; the drilling of four wells and expansion of the company's exploration acreage.

With good current and forecast cashflows from Kupe and Tui, and sufficient imputation credits available, the NZOG Board has resolved to pay a fully imputed dividend of 5 cents per ordinary share. This is the third year in succession that the company has declared an annual dividend.

For the 12 months ended 30 June 2010, NZOG recorded total operating revenue of \$99.4 million and a net loss after tax of \$3.3 million.

The gross profit from operating activities was \$67.6 million. Significant items affecting the bottom line result included; \$30.7 million of exploration costs expensed; unrealised exchange rate losses at 30 June 2010 of \$8.0 million; and an \$11.5 million share of associate company Pike River Coal's loss.

The Pike River result reflects the fact that the mine was under development and not operational for most of the year.

NZOG had a total cash balance at 30 June 2010 of \$142.4 million and a net cash position of \$79.6 million.

### Kupe

The Kupe gas and oil field off the south Taranaki coast began producing in December 2009. Following a commissioning period at the production plant near Hawera, Kupe went into permanent production in March 2010. By the end of the financial year, Kupe had produced 10 PJ of sales gas (NZOG's share 1.5 PJ), 1 million barrels of light oil (NZOG's share 150,000 barrels) and 32,000 tonnes of LPG (NZOG's share 4,800 tonnes).

Kupe provided NZOG with \$31.4 million in revenue in the second half of the financial year and will continue to be a significant income stream for the next 15 to 20 years.

During the year Kupe reserves were comprehensively remodelled, incorporating the latest information acquired during the development and start-up of the field. This resulted in a significant upgrade of the initial proved and probable (2P) reserves. Gas reserves were

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#### NZOG stock

symbols:  
NZX shares – NZO  
ASX shares – NZO

increased by 8%, LPG reserves by 5% and light oil reserves by 27%. The oil is the most valuable of the three products so this large increase in recoverable oil is particularly significant.

## **Tui**

The Tui area oil fields in the offshore Taranaki Basin have now produced more than 28 million barrels of oil – one million barrels more than the original estimate of the total recoverable oil over the full life of the fields.

Approximately 22 million barrels in proved and probable (2P) reserves remain – NZOG's share of the remaining recoverable oil being around 2.75 million barrels.

As expected, production rates from Tui are declining over time. Production for the financial year ended 30 June slightly exceeded the revised target, with 4.83 million barrels produced – NZOG's share 604,000 barrels. NZOG's sales revenue from Tui for the year was \$67.9m.

The Tui area oil fields have four producing wells – Tui 2-H, Tui 3-H, Amokura 2-H and Pateke 3-H. In June, production performance from Pateke 3-H declined and it was identified that repairs were needed to the artificial lift system. A workover using the Kan Tan IV drilling rig is currently underway to bring this well back into production.

## **Exploration**

Over the past year NZOG has actively pursued exploration opportunities, participating in the drilling of four wells and adding to its exploration acreage.

Unfortunately, none of the four wells drilled in offshore Taranaki – Albacore, Hoki, Tui Southwest or Kahu – made commercial discoveries.

Exploration has high risks. In New Zealand waters, the commercial success rate is typically around 1 in every 10 wells drilled. NZOG targets prospects with a higher likely success rate than this average, but significant risk is inherent in all exploration drilling. However, the rewards in a success case can be very large. NZOG's position in the NZX Top15 index has been achieved off the back of drilling success at Kupe and Tui, and the company remains committed to ongoing exploration as a key way of growing the company and replacing oil and gas reserves.

New Zealand remains an attractive investment destination. However, the available opportunities going forward may not provide sufficient depth and breadth for a company of our size to be confident we can meet our growth objectives from New Zealand alone.

Our business strategy includes the goal of establishing one or two new core areas, in addition to offshore Taranaki. During the past year NZOG assessed a range of potential offshore investments. These included corporate deals, asset purchases and exploration acreage. Our very thorough screening process rejected most of these opportunities, generally because the prize was too small, or the risk too great. However, several overseas investment opportunities remain under consideration and we remain hopeful of progressing one or more in the current year.

## **Pike River Coal**

Oil and gas exploration and production is the primary focus of the company. However, during the year, NZOG took steps to protect and enhance its investment stake in Pike River Coal Ltd. This West Coast South Island coking coal mine is now moving towards full production, which should see its full value realised.

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NZOG has previously stated that when it is judged to be in the best interests of NZOG shareholders, NZOG will look to divest itself of its holding in PRC and redeploy the capital in its core business in the oil and gas sector. At this point no decision to sell has been made.

### Dividend Details

The determination of entitlements for the dividend will be taken from the close of the share register on Friday 17 September 2010. The dividend will be paid on Friday 1 October 2010.

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.

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 17 September 2010 need to advise the share registry, Computershare on 0800 467 335 (NZ) or 1 800 501 366 (Aust).

| Financial Highlights (In NZ\$m)      | FY 2010         | FY 2009         | Change |
|--------------------------------------|-----------------|-----------------|--------|
| Revenue                              | 99.4            | 138.7           | -28%   |
| EBITDAX*                             | 64.5            | 83.0            | -22%   |
| Exploration Expenditure              | (30.7)          | (4.2)           |        |
| EBITDA                               | 33.8            | 78.8            | -57%   |
| EBIT                                 | 18.1            | 65.0            | -72%   |
| <b>Net Profit After Tax</b>          | <b>(3.3)</b>    | 53.2            | -106%  |
| <b>Normalised Profit After Tax**</b> | <b>13.8</b>     | 54.5            | -75%   |
| <b>Net Operating Cash Flow</b>       | <b>47.4</b>     | 93.0            | -49%   |
| Total Cash Balance at year end       | 142.4           | 174.8           | -19%   |
| Net Cash Balance at year end         | 79.6            | 174.8           | -54%   |
|                                      | <b>NZ Cents</b> | <b>NZ Cents</b> |        |
| Dividend per share (fully imputed)   | 5               | 5               |        |

\* Earnings Before Interest, Tax, Depreciation, Amortisation and Exploration.

\*\* Adjusting for forex losses (net of 30% tax) and share of Pike losses.

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