THE EXPLORERS
NEW ZEALAND OIL & GAS

news release

29 February 2016

New Zealand Oil & Gas result for six months to 31 December 2015

- Loss of $45.2 million.
- Change in accounting policy for the treatment of exploration assets.
- Operating cashflow surplus of $31.7 million, up by $9.0 million.
- Corporate strategy adjusted to account for oil prices in $30 range.

New Zealand Oil & Gas has announced a loss for the six months to 31 December 2015 of NZD$45.2 million.

Asset revaluations caused by the lower oil price, and changes in the capitalised value of exploration assets as a result of a change to accounting policy, were the main factors in the interim financial results. The result compares with a loss of $7.7 million a year ago.

Cashflows into the business remain strong in the current financial year despite the loss, with a cash surplus from operations of $31.7 million, up by $9.0 million from a year ago.

During the half year the company upgraded reserves in the producing Kupe gas, LPG and light oil field by 34.7 per cent; Prospective resources of 530 million barrels were disclosed in the operated Barque prospect off the east coast of New Zealand's South Island (unrisked, New Zealand Oil & Gas share 265 million); and the Pateke-4H well in the Tui oil fields is continuing to produce ahead of operator estimates after coming into production in 2015.

On 16 February New Zealand Oil & Gas appointed a new chairman, Mr Rodger Finlay. He noted the company intends to make significant corporate cost savings in response to the current oil price environment as oil prices are now in the low $30 range, down from $50 oil when the company last reported.

"The Board is intensifying its focus on minimising cash burn. Corporate costs will be reduced.

"The Board intends to lead by example. The outgoing chairman will not be replaced on the Board and Directors' fees will be reduced, providing a cost reduction of around 30 per cent as a demonstration of the Board's determination to restructure corporate costs.

"Exploration costs have been minimised, with no intention to spend further on exploration beyond our contractual obligations.

"The company is looking to extract more value from existing assets and continues to screen opportunities actively to grow through acquisition. The Board intends to manage capital carefully and retain only capital needed for the company's strategy.

"Despite write downs of asset valuations the underlying business is performing well, and is cash positive with a strong balance sheet. I expect to see improved performance as costs are cut and growth through acquisition as assets come to market at value."

Mr Finlay paid tribute to outgoing chairman Peter Griffiths.

“The Board unanimously thanked Mr Griffiths for his long service and stewardship through a period of substantial strategic change in an extraordinary macroeconomic environment," Mr Finlay said.

Chief executive Andrew Knight said the first half of the financial year had seen consistent operational performance despite the lower oil price, and continues to produce enough cash to sustain it despite low oil prices.

“During the year the average oil price achieved was NZ$60 per barrel. At contracted gas prices the Kupe asset has positive cash flow even if oil and LPG prices were nil. Kupe gas revenues alone are more than double the operating cost of the asset,” Mr Knight said.

Operating costs were down by $0.9 million in the half year.

EBITDA (earnings before interest, tax, depreciation and amortisation) was a loss of $19.6 million, compared to a profit of $7.3 million in the comparable previous period.

Net group revenue was up by $11.3 million, including $28.5 million revenue contribution from Cue Energy and a $3.4 million gain on foreign exchange, offset by a negative oil price impact of $14.5 million and a negative $6.1 million from lower sales as shipments were deferred to exploit the potential for some recovery in prices.

The value of the 27.5 per cent New Zealand Oil & Gas interest in the Tui oil fields has been written down by $8.7 million owing to the lower global oil price. As a result of expected lower forward oil prices the company now forecasts the field’s economic life will end in the first quarter of 2018. Tui will then be abandoned, assuming current oil prices.

Exploration activity is now accounted for using the ‘successful efforts’ method, where exploration costs are expensed as they are incurred. In the past, exploration costs were carried as a capitalised asset and written down only at the point when the company considered there would be no prospect of success. Either accounting method is appropriate, and Directors believe the change provides an improved picture of the company’s position. Some costs will continue to be capitalised, including the cost of acquiring a permit, maintaining licences and successful drilling.

New Zealand Oil & Gas has restated prior interim comparative figures and 2015 full year results as a consequence of the change in accounting policy. Details of the restatement’s impact on specific lines are included in Note 2 of the financial statements.

All dollar amounts in NZD.

Further information is available in the condensed financial statements.

New Zealand Oil & Gas has more than 13,000 shareholders on the NZX and ASX. It has interests in three producing fields in New Zealand, and production in Indonesia and the United States. Its Clipper permit off New Zealand’s South Island East Coast contains New Zealand’s largest announced hydrocarbon prospect. More information can be found at nzog.com

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