

10 March 2017

## SCHEME OF ARRANGEMENT – FINANCIAL INFORMATION

On 8 March New Zealand Oil & Gas announced its intention to seek a court-approved scheme of arrangement to return \$100 million of capital to shareholders.

New Zealand Oil & Gas will today file an application in the High Court for initial orders to begin the process implementing the scheme.

As part of its filing, New Zealand Oil & Gas is presenting the High Court with some key financial information. This information shows the impact of the Kupe and Tui sale transactions on New Zealand Oil & Gas' 31 December 2016 financial position. It also shows the impact of the \$100 million return of capital on this adjusted position.

The relevant financial information is included in the schedule to this announcement, and should be read subject to all the notes and qualifications stated.

As previously advised, the implementation of the scheme will be conditional on:

- approval by shareholders at a special meeting,
- a binding ruling from Inland Revenue that the return of capital under the scheme is not in lieu of a dividend, and
- final court approval.

A shareholders' meeting is expected in April to consider the scheme.

If shareholders approve the scheme, and the binding ruling is provided by Inland Revenue, final court orders will be sought to implement the scheme. Subject to receipt of this court approval, the scheme should become effective in late May. Any update to this timetable will be announced to NZX.

## SCHEDULE

### FINANCIAL IMPACT OF PROPOSED SCHEME OF ARRANGEMENT

(Unaudited pro-forma summary financial information.)

This schedule presents unaudited pro-forma summary financial information which is provided to assist in understanding the financial position of New Zealand Oil & Gas and its subsidiaries (**New Zealand Oil & Gas Group** or **Group**) post the Kupe sale transaction, the Tui sale transaction, and the proposed NZ\$100 million return of capital.

In relation to the transactions just referred to:

- The Kupe sale transaction was the sale of the Group's interests in the Kupe gas field to Genesis Energy at a price of NZ\$168 million. The transaction was completed on 1 January 2017. Further detail on this transaction is available in the notice of meeting for shareholder approval of this transaction released to NZX on 1 December 2016.
- The Tui sale transaction was the sale of the company holding the Group's 27.5 per cent interest in the Tui area oil fields (off Taranaki) to Tamarind, a Malaysian company, for US\$750,000. The transaction had an economic effective date of 1 January 2017. Further detail on this transaction is available in the announcement released to NZX on 14 February 2017.

The unaudited condensed interim financial statements of the Group for 31 December 2016 (the end of the most recent financial half year of the Group) have been used to present the pro-forma summary financial information.

The presentation gives an indication of what the Group's financial position, number of shares on issue and net asset value per share would be had the Kupe and Tui sale transactions as well as the NZ\$100 million return of capital been completed on 31 December 2016. The actual results and financial position may differ from these provisional estimates. Although this represents an historical pro-forma position, it provides a useful indication of the impact on the Group of these events.

<b>Group as at 31 December 2016 (unaudited)</b>			
<b>\$ thousands</b>			
	<b>As reported</b>	<b>Pro-forma (i)</b>	<b>Pro-forma (ii)</b>
	<b>Published financial statements</b>	<b>Provisional financial information reflecting the Kupe and Tui sale transactions</b>	<b>Further adjusted to show the effect of the NZ\$100 million return of capital</b>
Current Assets	232,003	248,826	148,826
Non-Current Assets	72,058	49,918	49,918
Total Assets	304,061	298,744	198,744
Current Liabilities	74,711	9,066	9,066
Non-Current Liabilities	56,445	21,320	21,320
Total Liabilities	131,156	30,386	30,386
Net Assets	172,905	268,358	168,358
Share Capital	308,636	308,636	208,636
Reserves/ retained earnings	(141,240)	(45,787)	(45,787)
Non-Controlling Interest in subsidiaries	5,509	5,509	5,509
Total Equity	172,905	268,358	168,358
Number of shares	326,275	327,275	167,848
Net asset value per share <sup>1</sup> (in \$ dollars)	0.53	0.82	1.00
Pro-forma Net asset value per share (attributable to shareholders of the Group) <sup>2,3</sup> (in \$ dollars)	0.48	0.77	0.91

- The net asset value per share has been calculated based on the total net assets of the Group, which include a non-controlling interest in Cue Energy Resources Limited (**Cue**). In other words the assets and

liabilities of Cue have been included in total net assets at 100%, even though the Group only owned 49.96% of Cue as at 31 December 2016.

2. The pro-forma net asset value per share (attributable to shareholders of the Group) has been calculated and presented to exclude the assets attributable to the non-controlling interest in Cue. In other words the assets and liabilities of Cue have only been included in the calculation at the 49.96% of Cue owned by the Group as at 31 December 2016.
3. The pro-forma net asset value per share (attributable to shareholders of the Group) has not been previously reported in the published financial statements.

## **EFFECT ON SHAREHOLDERS' EQUITY AND NAV**

The net financial effect of the Scheme will be to reduce New Zealand Oil & Gas Group shareholders' equity (and net assets) by NZ\$100 million to approximately NZ\$168 million.

Based on the 31 December 2016 Financial Statements adjusted for the effect of Kupe and Tui sale transactions as above, the net asset value per share will change from NZ\$0.82 to NZ\$1.00 as a result of implementation of the Scheme.

We note that the shareholders' equity and net asset value per share is indicative only as the actual financial information of the Group will differ to reflect the financial information at the time of completion of the Scheme.

Net asset value per share is defined as Total Assets less Total Liabilities divided by the total number of shares on issue. The total number of shares on issue includes ordinary shares and part-paid shares.

For information purposes we have included a net asset value per share that excludes the Cue Energy Resources Limited non-controlling interest in net assets which are fully consolidated for accounting purposes. The adjusted net asset value per share only includes the 49.96%<sup>1</sup> in Cue Energy Resources Limited which was attributable to shareholders of the Group as at 31 December 2016. On this basis, the adjusted net asset value per share would change from NZ\$0.77 to NZ\$0.91 as a result of implementation of the Scheme.

## **NOTES TO THE UNAUDITED PRO-FORMA SUMMARY FINANCIAL INFORMATION**

1. Basis of presentation of unaudited and pro-forma summary financial information:

The published financial statements are summary financial information extracted from the Group's unaudited condensed interim financial statements as at 31 December 2016.

The unaudited consolidated 'Pro-forma (i)' summary financial information reflects the Group as if the Kupe and Tui sale transactions had occurred as at 31 December 2016.

The unaudited consolidated 'Pro-forma (ii)' summary financial information reflects the Group as if the NZ\$100 million return of capital had occurred as at 31 December 2016.

The unaudited consolidated Pro-forma summary financial information of the Group is presented in New Zealand dollars rounded to the nearest thousand unless otherwise stated and has been prepared in accordance with the accounting policies of the Company which are set out in the Company's Annual Report for the year ended 30 June 2016, available on its website at:

<http://www.nzog.com/investorinformation/company-reports/annual-reports/>

2. Notes to the pro-forma adjustments made in preparing the unaudited pro-forma balance sheet

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<sup>1</sup> 50.01% of Cue Energy Resources Limited was owned by the Group as at 8 March 2017.

- (i) The pro-forma adjustments disclose the provisional de-recognition of assets and liabilities associated with Kupe and Tui and include:
- a. Deduction of working capital balances (cash, receivables, prepayments, inventories, other financial assets and payables) arising from the New Zealand Oil & Gas Group's interest in the Kupe and Tui joint ventures which are transferred on sale.
  - b. Elimination of the carrying value of the Kupe and Tui oil and gas assets (recorded at cost) and the associated rehabilitation provisions and deferred tax balances.
  - c. The current tax obligations within Kupe and Tui are presented net of New Zealand Oil & Gas Group tax losses.
  - d. The pro-forma adjustments in presenting the cash consideration and indicative gain on sale present the receipt of cash from the sales of the Kupe and Tui and an indicative resulting net gain on sale. The gain on sale presented above is an illustration only of what the gain on sale would have been had the sale been completed on 31 December 2016. It also assumes an estimate of transaction costs of NZ\$0.6 million. The final gain on sale recorded on the Kupe and Tui sale transactions will differ from the example presented as it is dependent on the net carrying value of the Kupe and Tui assets at the date of the transaction, working capital adjustments and the actual transaction costs incurred.
  - e. Post 31 December 2016 the Company issued 1.0 million shares under its existing Employee Share Ownership Plan. The share issue increased the total number of shares from 326.275 million to 327.275 million shares. The pro-forma net asset value per share calculations are based on the adjusted pro-forma shares on issue.
- (ii) The pro-forma adjustments disclose the impact of the proposed return of capital of NZ\$100 million. The adjustment presents a reduction of the cash balance and a reduction in share capital of NZ\$100 million.

No other adjustments have been made in the pro-forma financial information that may arise as part of the disposal of the Kupe and Tui.