



25 February 2009

## NZOG HALF YEAR RESULT

New Zealand Oil & Gas Ltd (NZOG) has today released its interim financial results, which reflect the continuing successful performance of the company.

NZOG has a strong balance sheet, positive operating cash flows and no debt, and is well positioned to secure new opportunities to further build shareholder value.

For the six months ended 31 December 2008, NZOG recorded total revenue of NZ\$103.2 million and a net profit of NZ\$54.0 million. Revenue was up 8% on the corresponding six month period a year earlier while net profit was up 30%.

The profit result includes recognition of a net foreign exchange gain of NZ\$19.4m. The net profit is after expenditure payable to the Crown of over NZ\$50m - NZ\$18.4m in royalties and NZ\$32.4m in corporate tax.

With the rapid fall in international oil prices and Tui production trending lower as expected, NZOG expects revenue to be lower in the second half of the financial year. However, the Kupe field is on schedule for full production from the 3<sup>rd</sup> quarter of 2009, which will result in a significant increase in NZOG's revenue later in this calendar year.

The Board intends to announce an annual dividend in August in conjunction with the annual results.

### **Tui Production**

The Tui area oil fields, in which NZOG holds a 12.5% stake, are an ongoing success story.

The fields are located 50kms off the coast of Taranaki. Production began on 30 July 2007 and in 2008 the proved and probable (2P) reserves were upgraded to 50.1 million barrels (mmbbls).

By 31 December 2008 total production had reached 19.8 mmbbls. For the six month period total production was approximately 5.6 mmbbls; NZOG's share being 700,000 barrels.

International oil prices and exchange rates were extremely volatile during the six month period. Tui oil is sold against the regional Tapis benchmark crude, which ranged from US\$152 to US\$40 a barrel. The NZ dollar/US dollar cross rate ranged from 0.77 to 0.57. NZOG achieved an average sales price of approximately NZ\$150 a barrel. Total production, freight and marketing costs were approximately NZ\$16 a barrel.

Tui is on track to meet or exceed the operator's production forecast for the full financial year of 9 mmbbls. The drilling rig Kan Tan IV has been secured for a drilling campaign in New Zealand waters in late 2009 and is expected to drill at least two exploration wells within the Tui permit area. Any new discoveries could be tied back into the existing facility.

## **Kupe Development**

NZOG is a 15% partner in the Kupe Project, which will produce gas, condensate (light oil) and LPGs from a field 30kms off the coast of south Taranaki. Kupe has made considerable progress during the period and up to the date of this release.

Overall the project is over 90% complete. The principal construction work remaining is installation of the final equipment at the Production Station near Hawera, and construction of two oil storage tanks at Omata, near New Plymouth. Commissioning of the production facilities is expected to begin mid year with commercial production underway in the 3<sup>rd</sup> quarter of 2009.

NZOG's Kupe gas is sold to Genesis Energy through a long-term take or pay contract, providing significant and stable cashflows. In November 2008 a long-term agreement was signed with Vector to purchase NZOG's share of the LPGs that will be produced from Kupe, while the light oil/condensate will be exported from Port Taranaki. With the three products Kupe will provide NZOG with a diversified and reliable revenue stream for the next 20 years.

## **Exploration**

In addition to the impending drilling at Tui, NZOG has been successful in broadening its exploration portfolio and important new data has been gathered on potential targets.

In October 2008 a 40% stake was acquired in Canterbury Basin permit PEP 38259, which contains the promising Barque prospect. A marine seismic survey was undertaken earlier this month.

In January 2009 NZOG was awarded 100% of a new Taranaki exploration permit PEP 51311, which lies to the west and south of Kupe. The permit area contains a fairway of structures that NZOG has labelled the Gamma prospects. A marine seismic survey is underway this week.

A marine seismic survey has also been carried out over another Taranaki permit, PMP 38483 (NZOG's share 18.9%).

After the information collected from the three permits is processed, interpretation of the data will be carried out over the next few months.

## **Investments**

In December 2008 NZOG acquired a 15% shareholding in Pan Pacific Petroleum, one of NZOG's partners in the Tui area oil fields. This is a strategic stake. NZOG identified a value creating opportunity and now has a cornerstone shareholding in a successful business, whose main asset is well understood by NZOG. NZOG has not taken any further action to this point but continues to keep the matter under review.

NZOG retains a significant shareholding in Pike River Coal Ltd (PRC), which operates a coking coal mine on the West Coast of the South Island. On 31 December 2008 3.3 million PRC convertible notes held by NZOG were converted to 3.6m shares. NZOG now has 85.4 million PRC shares, a 30.2% stake.

### **Chief Executive's Comment**

NZOG Chief Executive David Salisbury said the half year financial results reflect the performance of an established and successful New Zealand exploration and production company.

"Tui has been a stellar performer and continues to provide a reliable cash flow. Kupe will provide a significant new source of revenue later this calendar year. The planned exploration drilling at Tui provides the possibility of new reserves which could be quickly accessed through the existing facilities. Our exploration portfolio has been grown and we continue to consider further opportunities.

"The combination of a strong balance sheet, ongoing production revenue and a diverse portfolio places NZOG in a very strong position compared to many of its peers, who have been hit by the double whammy of falling oil prices and the global credit crunch. As a result, NZOG is being frequently approached with new business opportunities. These cover the full range from exploration activity, to asset sales, to corporate acquisitions.

"The best of these opportunities are being fully assessed against technical and commercial parameters. We make no apologies for taking our time to ensure this assessment is carried out thoroughly. We are determined to build further value for our shareholders and we will not be taking undue risk or overpaying for any investment.

"The last 18 months have been very successful for NZOG and we intend to continue on a considered and strategic growth path," David Salisbury said.

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### **FOR FURTHER INFORMATION PLEASE CONTACT:**

David Salisbury  
CEO and Managing Director

or

Chris Roberts  
Public Affairs Manager

Telephone: (04) 495 2424      Toll free 0800 000 594

NZOG stock symbols: NZX shares - NZO  
ASX shares – NZO